



Saudia Dairy and Foodstuff Co (SADAFSCO)

Resilient performance by SADAFSCO despite current challenges

7 May 2020

For the year 2020, SADAFSCO was able to maintain growth momentum, delivering 13.4% and 22.7% top-line and bottom-line growth, respectively. The strong topline performance was mainly derived by an increase in net milk sales by 14%, in addition to an increase of 15% and 6% in ice-cream and tomato paste sales, respectively. SADAFSCO reported net income margin of 12.9% for the year 2020. We adjust our Overweight recommendation for SADAFSCO to Neutral with a target price of SAR157.5/share.

SADAFSCO's strong top-line performance can be attributed to the spike in volumes sold, as a result of the pandemic-induced panic purchasing, combined with the lower discounts that were seen in the sector. Moreover, during the year, the company was able to increase its sales in Poland by 35.1% Y-o-Y, from SAR146.2mn in 2019 to SAR197.5mn in 2020, weighing a total of 10.0% of SADAFSCO's total revenues in 2020 compared to 8.0% in 2019.

During the third and fourth quarters, the sector witnessed a general increase in the cost of raw materials. SADAFSCO's cost of revenue increased by 10.9% from SAR1,232.6mn in 2019 to SAR1,366.9mn in 2020, however, the company was able to maintain profit margin improvements due to the advantage of obtaining raw materials from its Polish sister company Mlekoma. The company's gross profit margin reached 32.0% in Q42020 compared to 34.8% in Q42019, however, it reported 33.5% gross profit margin for the year 2020 compared to 32.0% in 2019.

Workforce costs increased as we previously expected, in line with the increase in sales and the adoption of Saudization. Selling and Distribution expenses increased by 13% Y-o-Y, from SAR266.0mn in 2019 to SAR300.6mn in 2020. The increase is also attributable to higher depreciation due to the increase in the number of distribution cars and ice-cream refrigerators distributed in the market, as well as, the company's investment in the brand. It is worth mentioning that, during the third quarter, the company purchased a facility with the intention to convert it into a new ice-cream factory to support the medium and long-term growth plans, as well as, launch new products.

In response to the current economic situation and the spread of Covid-19 in the 4th quarter, the company increased its allowance for impairment of trade receivables by SAR12.7mn (impairments increased from SAR1.5mn in 2019 to SAR14.2mn in 2020), consequently, the allowance for impairment of trade receivables reached SAR32.9mn in 2020, compared to SAR21.7mn in 2019.

As a producer of dairy products respective Governments have permitted SADAFSCO to operate within guidelines, essentially as normal. Additionally, given that the products offered by the company are essential for the most part, the demand is not expected to decrease during the pandemic. Based on these factors, we believe that the pandemic has no material effect on the company's performance. However, we expect volumes sold to return to normal, as panic-purchasing eases, towards the second half of the year 2020 (which will correspond with the company's Q3 & Q4 2021)

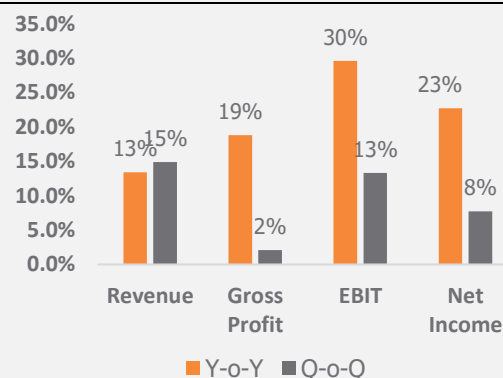
The company declared SAR2.5 dividends for the half year ended 31/03/2020. (H2 2020)

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (07-05-2020)	SAR149.8
Target Price (52 Weeks)	SAR157.5
Upside/ (Downside)	5.1%
Shariah Compliance	Pass

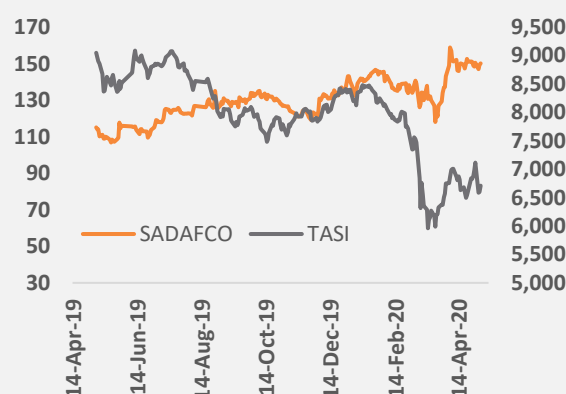
Key Financial Ratios

Ratio	A 2020	A 2019	Q4 2020
Revenue Growth	13.4%	7.1%	21.1%
Gross Margin	33.5%	32.0%	32.0%
EBIT Margin	14.0%	12.2%	14.2%
Net Margin	12.9%	11.9%	13.1%

Key Financial Results (A 2020)



Share Price Performance





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DCF Valuation

	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F
EBITDA	388	388	411	435	461	488
Operating CF	301	349	381	404	427	449
Capex	(75)	(129)	(135)	(142)	(149)	(156)
FCFF	226	220	246	262	279	293
Stub Period (FCF to be discounted)	-	220	246	262	279	293
PV (FCFF)	-	203	209	205	201	195
WACC	8.48%					
Perpetuity Growth	3.00%					
PV-FCFF	1,013					
PV-TV	3,661					
Net Debt	(69)					
Less: End of services benefits	(113)					
Less: NCI	(20)					
Intrinsic Values	5,117					
Shares Outstanding	32.5					
Equity value per share	157.5					
CMP (7-05-2020)	149.80					
Upside / (Downside%)	5.1%					

We have valued SADAFCO using DCF approach, considering a WACC is equal to 8.5% (based on a risk-free rate of 4.4%, market risk premium 7.3%, Beta of 0.32). Based on the DCF valuation, the fair price of SADAFCO share price is SAR157.5, which is higher than the traded value by 5.1%.

All values are in SARmn

Regional Peers	Country	Code	Market Price (SAR)	Market Cap (SARmn)	P/E	Sales (SARmn)
SADAFCO	KSA	2270	149.8	4,869	18.3	2,056
Almarai	KSA	2280	46.2	46,200	25.2	14,637.6
Savola	KSA	2050	38.2	20,398	27.8	22,975.2
Halwani Bros.	KSA	6001	48.6	1,527	56.1	946.6
Nadec	KSA	6010	23.58	1,997	(273.8)	2,225.3
Agthia Group PJSC	UAE	AGTHIA	3.0192	1,811.5	13.0	2,080.1
Juhayna Food Industries SAE	Egypt	JUFO.CA	1.728	1,627	16.7	1,817.6
Obourland for Food Industries	Egypt	OLFI.CA	1.2024	481.0	6.5	622.7



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Financial Ratios

	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F
Return on Average Assets (%)	12.96%	12.46%	12.54%	12.62%	12.70%	12.67%
Return on Average Equity (%)	18.71%	18.19%	18.05%	17.97%	17.90%	17.71%
Earnings Before Zakat Margin (%)	13.80%	13.87%	14.15%	14.43%	14.70%	14.96%
Net Income Margin (%)	13.15%	17.04%	15.37%	11.92%	12.89%	12.96%
Revenue Growth (%)	4.77%	4.78%	4.80%	4.82%	0.00%	0.00%
EPS	8.16	8.59	9.18	9.81	10.47	10.74
DPS	4.43	5.00	5.50	6.00	6.50	6.79

Income Statement

	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F
Revenues	2,056	2,154	2,257	2,365	2,478	2,598
Cost of revenues	(1,367)	(1,439)	(1,500)	(1,567)	(1,637)	(1,710)
Gross Profit	689	715	756	797	841	888
SG&A	(401)	(428)	(449)	(470)	(492)	(515)
Zakat	(19)	(20)	(21)	(22)	(24)	(29)
Net Income	265	279	298	319	340	360

Balance Sheet

	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F
Current Assets	1,273	1,375	1,489	1,606	1,726	1,848
Non-Current Assets	901	931	962	996	1,034	1,074
Total Assets	2,174	2,306	2,451	2,602	2,760	2,922
Current Liabilities	498	518	541	564	589	615
Non-Current Liabilities	200	195	198	201	205	208
Total Equity	698	713	739	766	794	823
Total Liabilities and Equity	2,174	2,306	2,451	2,602	2,760	2,922

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of it value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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