

Saudi Dairy & Foodstuff Co

Food-Diversified – Industrial

SADAFCO AB: Saudi Arabia

09 September 2021

الراجحي المالية
Al Rajhi Capital



US\$1.470bn Market cap
58% Free float
US\$1.374mn Avg. daily volume

Target price **170.0** +2% over current
Current price **167.0** as at 9/9/2021

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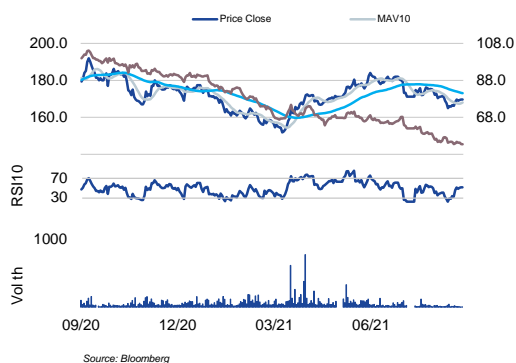
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR mn)	12/21A	12/22E	12/23E
Revenue	2,105	2,134	2,250
Revenue growth	2.40%	1.35%	5.47%
Gross Profit	694	640	731
Gross Profit Margi	1%	-8%	14%
EBIT	285	246	307
EBIT growth	3%	-14%	25%
EBIT Margin	14%	12%	14%
Net Profit	261	226	284
Net Profit Margin	12%	11%	13%
EPS	8.15	7.07	8.87

Source: Company data, Al Rajhi Capital

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Macro headwinds to persist; Maintain Neutral

SADAFCO Q1 FY 2022 net income missed our estimates of SAR62mn by huge margin. The miss was mainly due to several macro headwinds such as irrational discounting, decline in consumer spending power, lower consumer base due to decline in expat population and rising raw material prices due to higher freight cost. The gross margins declined ~180bps y-o-y due to reasons mentioned above. The overall revenue declined 13% y-o-y from a high base driven by a decline in milk and tomato paste segment however ice-cream segment which grew 27% y-o-y. Overall SADAFCO's numbers were lower than consensus estimates and ours. The macro headwinds mentioned above is likely to persist in short term; however, school re-opening and rise in religious tourism as well as starting of new ice cream factory later during the year (the company updated that the new ice-cream factory is now in the final stages of construction ~90% completed) should support top-line growth in our view. We revise our revenue and gross margins forecast downwards for FY 2022e and accordingly reduce our fair value from SAR177/sh to SAR170/Sh but remain "Neutral" on SADAFCO.

Figure 1 Summary of Q1 2022 Results

(SAR mn)	1Q 2022	1Q 2021	Y-o-Y	4Q 2020	Q-o-Q	ARC est	vs ARC
Revenue	492	566	-13%	522	-6%	527	-7%
Gross profit	150	183	-18%	173	-13%	169	-11%
Gross margin	31%	32%		33%		32%	
Operating profit	44	77	-43%	66	-33%	67	-34%
Operating margin	9%	14%		13%		13%	
Net profit	38	71	-46%	56	-32%	62	-39%
Net margin	8%	12%		11%		12%	

Source: Company data, Al Rajhi Capital

Q1 FY 2022 earnings summary: Revenue declined 13% y-o-y to SAR492mn mainly due to ~23% y-o-y drop in milk and ~32% y-o-y decline in tomato paste segment. Ice cream segment on the contrary grew 27% y-o-y. The gross margins declined by 180bps and reached 30.6% in Q1 2022. S&D declined SAR3.6mn y-o-y due to higher advertisement and promotional activities while G&A decline net SAR4.1mn (declined SAR8.7mn due to one off donation last year while increased SAR4.6mn due to employee training and development leading to a net decline of SAR3.6mn y-o-y). Accordingly, the net profit decreased 46% y-o-y to SAR38mn due to lower revenue and margins.

Valuation: We value SADAFCO using equal weight of DCF and PE based relative valuation. Our DCF based target price based on 2% terminal growth and 8.17% WACC comes to SAR171/sh, and P/E based relative valuation based on 25x FY22e EPS gives us a target price of SAR169/sh thus equal weighted target price stands at SAR170/sh which implies an upside of +2% from current market price of SAR167. We remain "Neutral" on SADAFCO as the stock is valued in our view.



Key upside risks to our valuation: If the freight cost goes down over the next few quarters, then it will have a positive impact on the margins and will have an upside risk to our valuations.

Key downside risks to our valuation: Oversupply of milk and further pricing discounts will affect the revenue and margins, which in turn poses a downside risk to our valuation.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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