



**US\$12.62bn** Market cap  
**36%** Free float  
**US\$4.60mn** Avg. daily volume

**Target price** 50.00 6.0% over current  
**Current price** 47.00 as at 5/2/2020

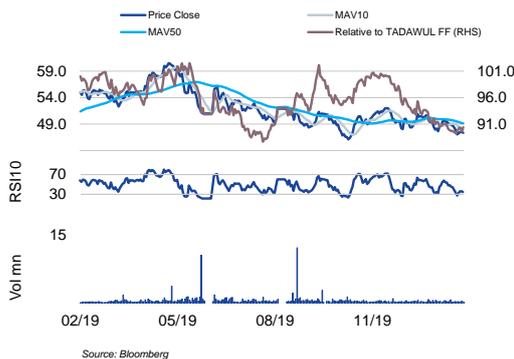
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**Existing rating**

**Underweight** **Neutral** **Overweight**

**Performance**



**Earnings**

Period End (SAR)	12/18A	12/19A	12/20E	12/21E
Revenue (mn)	13,558	14,351	15,385	16,443
Revenue growth	-3%	6%	7%	7%
Gross Profit	5,327	5,367	5,693	6,084
Gross Profit Margin	39%	37%	37%	37%
EBIT (mn)	2,521	2,473	2,464	2,636
EBIT growth	-2%	-2%	0%	7%
EBIT Margin	19%	17%	16%	16%
Net Profit	2,009	1,802	1,889	2,109
Net Profit Margin	15%	13%	12%	13%
EPS	1.98	1.83	1.92	2.15
DPS	0.85	0.85	0.87	0.97

Source: Company data, Al Rajhi Capital

# Almarai

## Missed Estimates; Rising input costs remains a key concern

Almarai's earnings continue to decline amidst rising input cost. The top-line was SAR3.7bn almost in-line with our estimates of SAR3.6bn. The bottom-line came in at SAR311mn thus missing our estimates of SAR556mn significantly mainly due to rising input cost, labour cost as well as higher SG&A cost. The overall gross margin for Q4 2019 fell to almost six year low of 34% mainly due to rising alfalfa prices, other feeds and increasing labour cost due to Saudization. The SG&A increased by ~125mn due to higher marketing expenses, increase in salaries and other restructuring programs. Rising interest cost and lower capitalization of funding costs for qualified projects also impacted the net profits negatively by SAR25mn. Going forward we expect the top-line to grow by 7% y-o-y driven by stable growth in dairy and juice segment and double digit growth in poultry segment. Gross margin is expected to remain around 37% due to rising input feed prices and increasing expat levy in 2020e. The overall consumer sentiments have picked up for the second half of 2019 and should continue to remain positive in 2020e. Some recent developments such as change in sugar formula for fruit juice, launching of long life juices and price rationalisation in juice segments should bring much needed respite in the juice segment growth. For dairy we don't expect any price increase in near term unless the company decides to pass on the impact of subsidy removal on non-green fodders to the consumers. The poultry business is doing well and re-opening of Saudi poultry by Kuwait should further ensure the double digit growth in this segment. We revise our forecast for Almarai and reduce the TP to SAR50/sh from SAR 51/sh and remain "neutral" on the stock.

**Segment wise profits:** The Dairy and Juice segment's bottom-line declined 43% y-o-y due to continued weakness in the juice market, coupled with higher alfalfa cost, and increased financial costs. The Bakery segment's profit increased sharply by 164% y-o-y to reach SAR69mn. The Poultry segment's earnings also improved ~104% y-o-y, aided by higher top-line along with cost optimization efforts and lower mortality rate.

**Figure 2 Almarai Q4 results**

	Q4 2018	Q3 2019	Q4 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	3336	3573	3657	10%	2%	3632
Gross Profit	1225	1444	1246	2%	-14%	1422
Gross profit margin (%)	36.7%	40.4%	34.1%	-7%	-16%	39.2%
Operating profit	514	746	508	-1%	-32%	716
Net profit	364	593	288	-21%	-51%	556

Source: Company data, Al Rajhi Capital



**Valuation:** We continue to value Almarai on equal weights for DCF (2.2% terminal growth, 35% debt in capital structure and 8.2% WACC) and relative valuation (24x FY20e EPS), yielding the target price of SAR50/sh which implies an upside of 6% from the CMP of SAR47/sh. The stock is currently trading at a P/E of 25x based on our 2020e expected EPS, higher than its 3-year average forward P/E of 23.9x. We remain neutral on the stock.

**Risks:** Downside risks include (a) increase in raw material prices, and (b) significant decline in market size amid expat exodus and stagnant population. Upside risks include (a) gains in market size despite increase in product prices, (b) increase in export revenues amid economic recovery in GCC countries, and (c) significant improvement in the consumer sentiments amid various reforms in the Kingdom.



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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.

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