

## Saudia Dairy and Foodstuff Co. (SADAFCO) - 2QFY24 Result Review

Analyst: Neetika Gupta

**Previous Recommendation:** Accumulate **Target Price (SAR):** 385.00  
**Previous TP & Date:** TP: SAR 385.00 on 24 Aug 2023 **Upside / (Downside):** 28%

**Date:** 10/30/2023



### SADAFCO posts in-line revenue growth in its second quarter, with all the product segments chipping in

SADAFCO registered 7.2% YoY revenue growth during 2Q FY 2023-24 (ended Sep 2023), coming in line with our estimate (-2.4% variation). Despite the company's Polish subsidiary, Mlekoma posting lower sales YoY due to a decrease in Skimmed Milk Powder (SMP) and Anhydrous Milk Fat (AMF) prices, overall group sales increased driven by various initiatives such as the re-launch of the Saudia brand, back-to-school season, tapping of new sales routes with better efficiencies, continued introduction of innovative products in ice creams, etc. Among the broader product segments, ice cream recorded the highest growth rate of 22% YoY, followed by tomato paste (+10% YoY), and milk (+8% YoY).

### Profitability improves, in line with our expectations, aided by lower raw material costs

Gross profit rose at a significantly faster pace (+26.4% YoY) as compared to revenue, largely matching our estimate (+4.2% variance), driven by sales of higher margin SKUs, lower raw material expenses, improved efficiencies at the factories, and increased use of more profitable sales channels. This boosted operating profit by 20.8% YoY, in line with our estimate (+2.4% variance), offsetting an increase in sales & distribution expense to 15.0% of sales (vs. 12.4% in the same quarter last year and 13.2% our estimate). As a result, SADAFCO's bottom line jumped 31.0% YoY to SAR 112.8mn, though it missed our estimate slightly by around 6%.

### Maintain target price

SADAFCO has maintained its leading market share during the last quarter in Milk (64.1%), Tomato Paste (55.7%), and Ice Cream (31.0%). Two new depots in Makkah and Yanbu are nearing completion, which can lead to improved logistics efficiencies for the company, thus supporting further margin improvement. Also, considering the largely in-line earnings performance, we maintain our SAR 385.00 target price on the stock.

### Valuation

At the current market price, the stock is trading at 20.7x P/E and 14.5x EV/EBITDA, based on our FY'24 estimates, above its 3-year daily average forward P/E of 19.3x and forward EV/EBITDA of 12.5x.

Income Statement												
(SAR mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY24e	YoY (%)	QoQ (%)	Var (%)	1H FY23	1H FY24	YoY (%)
Sales/Revenue	694.5	654.0	668.2	679.2	744.4	762.7	7.2%	9.6%	-2.4%	1,325.8	1,423.6	7.4%
Gross Profit (Loss)	223.3	196.0	201.3	235.4	282.3	270.9	26.4%	19.9%	4.2%	425.5	517.7	21.7%
Operating Profit (Loss)	114.5	75.0	91.5	105.0	138.4	135.1	20.8%	31.9%	2.4%	204.4	243.4	19.1%
<b>Net Profit (Loss) after Zakat and tax</b>	<b>86.1</b>	<b>78.4</b>	<b>90.4</b>	<b>107.6</b>	<b>112.8</b>	<b>120.3</b>	<b>31.0%</b>	<b>4.8%</b>	<b>-6.3%</b>	<b>142.4</b>	<b>220.5</b>	<b>54.8%</b>
Balance Sheet												
(SAR mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY24e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	1,581.8	1,663.1	1,653.2	1,763.0	1,802.5	1,763.0	14.0%	2.2%	2.2%			
Key Ratios												
	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY24e						
Gross Profit Margin	32.2%	30.0%	30.1%	34.7%	37.9%	35.5%						
Operating Profit Margin	16.5%	11.5%	13.7%	15.5%	18.6%	17.7%						
Net Profit Margin	12.4%	12.0%	13.5%	15.8%	15.2%	15.8%						
Return on Equity (RoE)	21.8%	18.9%	21.9%	24.4%	25.0%	27.3%						
Annualized EPS (SAR)	10.69	7.56	10.69	10.69	13.89	7.56						
BVPS (SAR)					55.46	54.25						
TTM P/E (x)					25.0							
Current P/BV (x)					5.4							

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report on the sector, please [click here](#).

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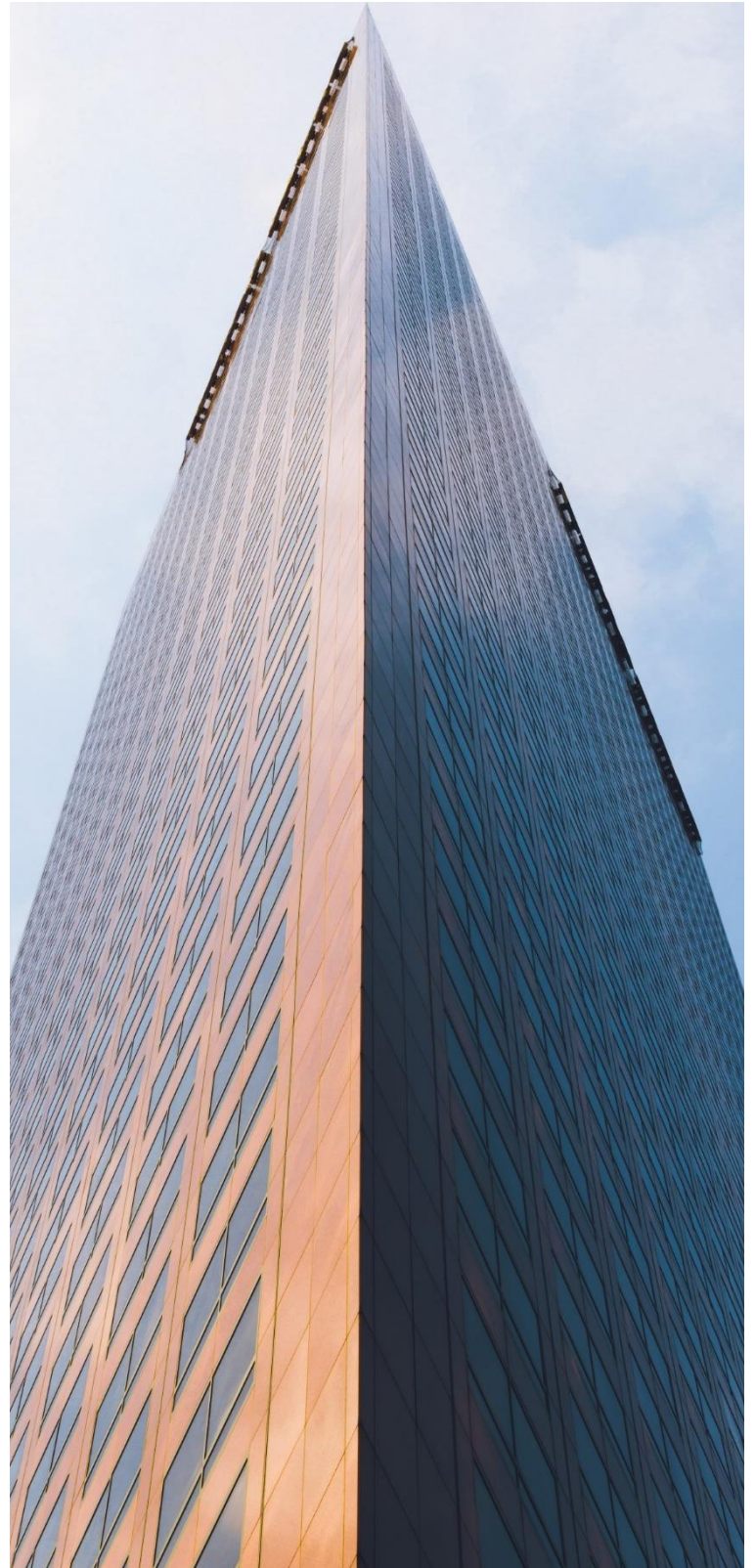
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# Disclaimer

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## Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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