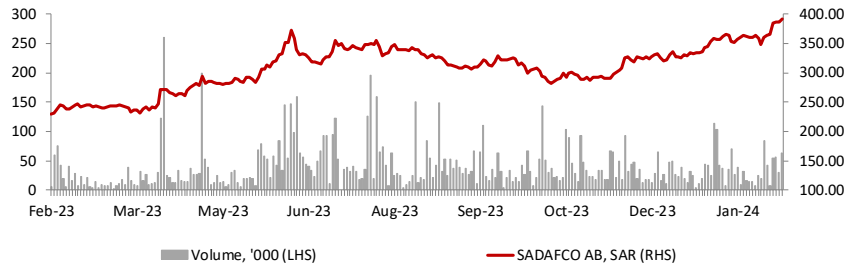


Saudia Dairy and Foodstuff Co. (SADAFCO) - 3QFY24 Result Review

Analyst: Neetika Gupta

Previous Recommendation:	Accumulate	Target Price (SAR):	385.00
Previous TP & Date:	TP: SAR 385.00 on 30 Oct 2023	Upside / (Downside):	-2%
			Date: 8-Feb-2024

Bloomberg Ticker	SADAFCO AB
Current Market Price (SAR)	392.00
52wk High / Low (SAR)	407/229.2
12m Average Vol. ('000)	39.5
Mkt. Cap. (USD/SAR mn)	3,397/12,740
Shares Outstanding (mn)	32.5
Free Float (%)	60%
3m Avg Daily Turnover ('000)	11,550.7
6m Avg Daily Turnover ('000)	12,216.9
P/E'24e (x)	26.4
P/BV'24e (x)	6.5
Dividend Yield '24e (%)	1.8%
Price Perf. (1m/3m) (%)	8.1/36.7



SADAFCO's 3QFY24 top line comes in line with U Capital's estimates

SADAFCO's top line during 3QFY24 (ended Dec'23) matched our estimate (-1.9% variation). Driven by a 14.9% YoY revenue increase of the frozen category, supported by focused marketing and distribution efforts, and partly offset by lower sales of Mlekoma Group, its Polish subsidiary, owing to a decrease in Skimmed Milk Powder (SMP) and Anhydrous Milk Fat (AMF) prices globally, overall group top line grew 5.2% YoY in the last quarter to SAR 687.9mn.

Operating and net profit outshine top-line growth, but come below U Capital's estimates

SADAFCO's gross and operating profit overshadowed revenue growth, climbing 18.9% and 27.9% YoY, respectively, supported by reduced raw material costs, a profitable mix of categories/channels, and improved production efficiencies. Yet, they missed our estimates primarily owing to slightly higher than expected direct costs (reported: ~SAR 455mn; our estimate: ~SAR 440mn), and impairment loss on financial assets (reported: SAR 8.4mn; our estimate: NIL). Consequently, the company's net profit also came in slightly below our estimate (-5.6% miss), though it registered a healthy growth of ~33% YoY.

Maintain target price

Although SADAFCO's earnings in the Dec'23 quarter missed our expectations, we remain optimistic about its prospects, given its leading market share which has been consistently rising (Milk: 64.4% in the Dec'23 quarter vs. 64.1% in Sep'23 and 61.5% in Dec'22; Tomato Paste: 56.3% in Dec'23 quarter vs. 55.7% in Sep'23 and 53.9% in Dec'22; Ice Cream: 31.4% in Dec'23 quarter vs. 31.0% in Sep'23 and 29.5% in Dec'22). The company said it is witnessing a gradual reversal in the unfavorable market conditions in Poland, and with stable commodity prices, as well as its continued efforts to optimize operations and invest in brand building, we believe SADAFCO will continue to witness healthy earnings growth going forward. However, the company could face pressure from a 51% increase in diesel prices and the disruptions in the movements of ships in the Red Sea. Hence, we maintain our SAR 385.00 target price on the stock as of now and may come up with a revision, post a detailed analysis.

Valuation

At the current market price, the stock is trading at 26.4x P/E and 18.7x EV/EBITDA, based on our FY'24 estimates, above its 3-year daily average forward P/E of 19.9x and forward EV/EBITDA of 13.0x.

Income Statement												
(SAR mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24e	YoY (%)	QoQ (%)	Var (%)	9M FY23	9M FY24	YoY (%)
Sales/Revenue	654.0	668.2	679.2	744.4	687.9	701.4	5.2%	-7.6%	-1.9%	1,979.8	2,111.5	6.7%
Gross Profit (Loss)	196.0	201.3	235.4	282.3	232.9	261.5	18.9%	-17.5%	-10.9%	621.5	750.7	20.8%
Operating Profit (Loss)	75.0	91.5	105.0	138.4	96.0	129.2	27.9%	-30.7%	-25.7%	279.9	339.3	21.2%
Net Profit (Loss) after Zakat and tax	78.4	90.4	108.5	112.8	104.5	110.7	33.2%	-7.4%	-5.6%	220.7	325.0	47.2%
Balance Sheet												
(SAR mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	1,663.1	1,653.2	1,763.0	1,802.5	1,901.5	1,763.0	14.3%	5.5%	7.9%			
Key Ratios												
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	3QFY24e						
Gross Profit Margin	30.0%	30.1%	34.7%	37.9%	33.9%	37.3%						
Operating Profit Margin	11.5%	13.7%	15.5%	18.6%	14.0%	18.4%						
Net Profit Margin	12.0%	13.5%	16.0%	15.2%	15.2%	15.8%						
Return on Equity (RoE)	18.9%	21.9%	24.6%	25.0%	22.0%	25.1%						
Annualized EPS (SAR)	10.69	7.56	10.69	10.69	12.86	7.56						
BVPS (SAR)					58.51	54.25						
TTM P/E (x)					30.6							
Current P/BV (x)					6.7							

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


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

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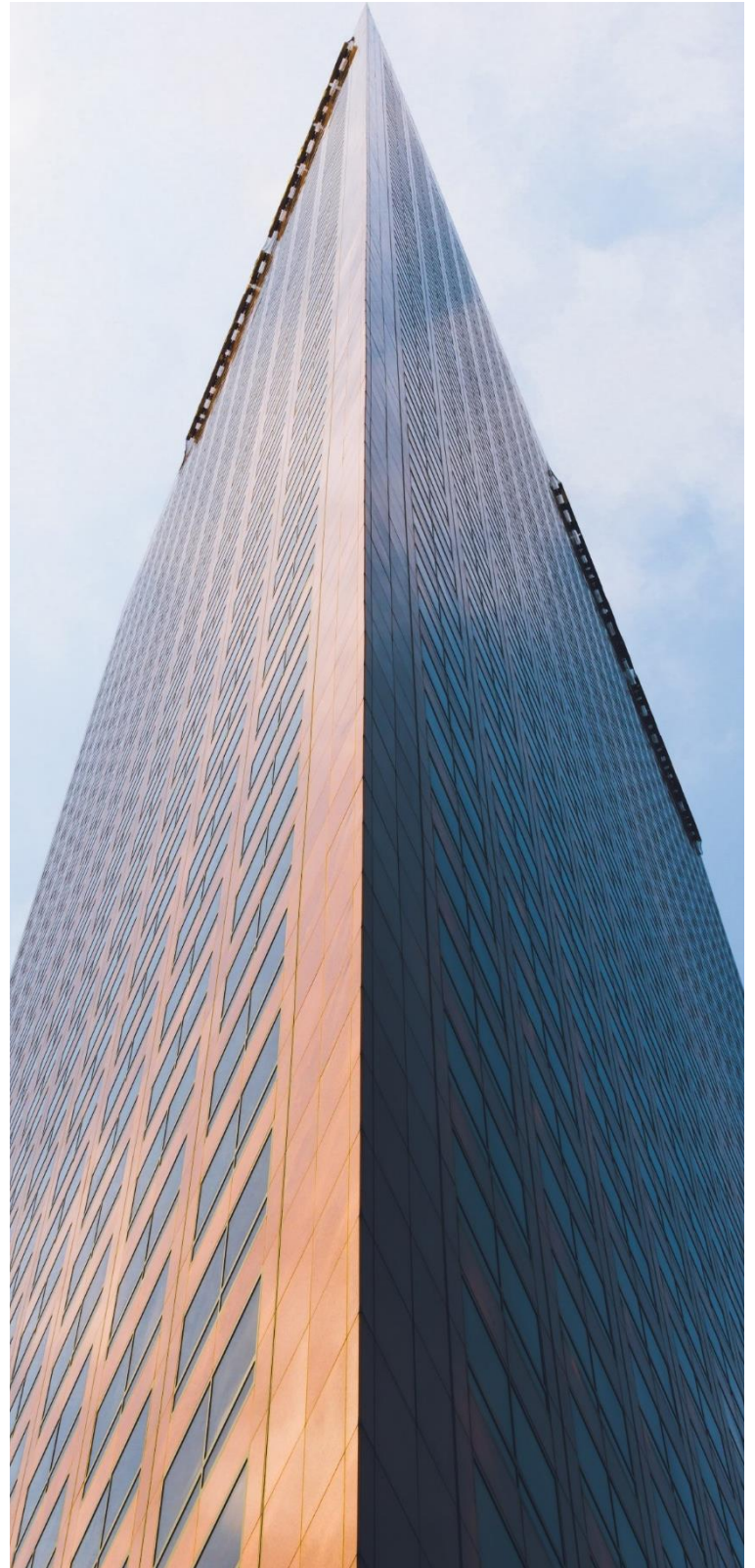
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Disclaimer

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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