

Saudia Dairy and Foodstuff Co. (SADAFCO) - 1QFY24 Result Review

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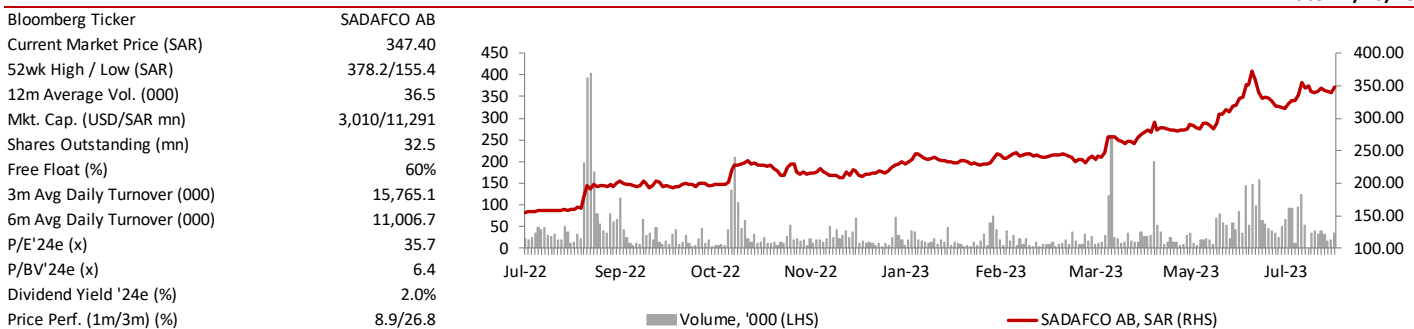
Previous Recommendation: **UR**

Target Price (SAR): **UR**

Previous Reco. & Date: -

Upside / (Downside): -

Date: 7/26/2023



SADAFCO's revenue growth in 1Q FY 2023-24 was constrained by Mlekoma, largely in line with our estimate

SADAFCO's overall revenue during 1Q FY 2023-24 (ended June 2023) increased 8% YoY, coming largely in line with our estimate (+4% variation). High commodity prices boosted sales of its Poland-based subsidiary Mlekoma in the same quarter last year. However, with the commodity prices easing, Mlekoma has registered a 50% YoY decline in its revenue during 1Q FY 2023-24, which partially offset the 17.1% YoY revenue growth of SADAFCO (excluding Mlekoma).

Operating and net profit beat our estimates on better-than-expected cost efficiency, higher finance income

Gross and operating profit outpaced revenue growth, driven by cost rationalization efforts, exceeding our estimate by 15% and 28%, respectively. While S&D expense as % of sales rose to 14.7% from 12.8% during 1Q FY 2022-23, G&A expense decreased to 4.6% of sales (1Q FY 2022-23: 5.1%, our estimate: 4.7%). In addition, the company posted an increase in finance income on the back of higher rates on Murabaha deposits and a decrease in finance cost by SAR 27.4mn (both better than our expectations), which boosted net profit by 98% YoY to SAR 107.6mn, beating our estimate by a wide margin.

We place the stock 'Under Review'

SADAFCO has performed significantly better than our expectations during the quarter, despite largely meeting our revenue estimates, which is commendable. We place the stock Under Review as of now and hope to come up with a revised rating and target price soon.

Valuation

At the current market price, the stock is trading at 35.7x P/E and 20.4x EV/EBITDA, based on our FY'24 estimates, well above its 3-year daily average forward P/E of 18.7x and forward EV/EBITDA of 12.1x.

Income Statement												
(SAR mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	1QFY24e	YoY (%)	QoQ (%)	Var (%)	FY21-22	FY22-23	YoY (%)
Sales/Revenue	631.3	694.5	654.0	668.2	679.2	652.5	8%	2%	4%	2,170.3	2,648.0	22.0%
Gross Profit (Loss)	202.2	223.3	196.0	201.3	235.4	205.4	16%	17%	15%	656.6	822.7	25.3%
Operating Profit (Loss)	89.9	114.5	75.0	91.6	105.0	82.2	17%	15%	28%	236.2	371.0	57.1%
Net Profit (Loss) after Zakat and tax	54.3	85.6	78.4	90.4	107.6	61.4	98%	19%	75%	209.1	310.5	48.5%
Balance Sheet												
(SAR mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	1QFY24e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	1,498.4	1,581.8	1,663.1	1,653.2	1,763.0	1,714.5	18%	7%	3%			
Key Ratios												
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	1QFY24e						
Gross Profit Margin	32.0%	32.2%	30.0%	30.1%	34.7%	31.5%						
Operating Profit Margin	14.2%	16.5%	11.5%	13.7%	15.5%	12.6%						
Net Profit Margin	8.6%	12.3%	12.0%	13.5%	15.8%	9.4%						
Return on Equity (RoE)	14.5%	21.6%	18.9%	21.9%	24.4%	14.3%						
Annualized EPS (SAR)	10.69	7.56	10.69	10.69	13.25	7.56						
BVPS (SAR)					54.25	52.75						
TTM P/E (x)					31.2							
Current P/BV (x)					6.4							

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

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

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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