

Rating **Neutral**
12- Month Target Price **SAR 54.00**

ALMARAI COMPANY
3Q2017 First Look

Superb Margins Swell Profits

Almarai reported a 3Q net income of SAR 667 million, much ahead of the market expectations (SAR 599 million) as well as our forecast (SAR 596 million). Revenue growth continues to be a concern as top line declined -5% Y/Y and -10% Q/Q to SAR 3.4 billion. Within the dairy & juice segment; juice, cheese and ghista are facing the brunt of the economic slowdown. However, Almarai has been able to lower cost of sales, although alfalfa costs have risen, on better efficiencies and cost management. As a result, gross margins are just shy of 45%, one of Almarai's best performances. Similarly, operating expenses were down SAR (40) million Y/Y. Target price has been adjusted to SAR 54.00, adjusting for the 25% bonus issue. The stock continues to trade at elevated valuations of 25.4x 2017E earnings. We recommend Neutral.

Revenues drop again

Revenue has declined for the second consecutive quarter by -5% Y/Y and -10% Q/Q to SAR 3.4 billion. Within the dairy and juice segment, juice is down -17% Y/Y YTD while fresh dairy has also come off by -3%. Similarly, sales at the bakery segment are down -3% Y/Y. Poultry has been the star with sales rising +11% Y/Y in 2017 to date. Geographically, KSA (66% of total sales) has experienced low single digit growth at +2% but decline in sales in Qatar has plummeted GCC sales by -4%. Egypt has suffered from currency devaluation.

Gross margins tease 45%

Almarai has more than compensated for the decline in revenues by lower cost of sales on the back of better cost management and efficiencies and lower commodity costs, although alfalfa costs have risen. Resultantly, gross margins have soared to 45% as gross profit increased +2% Y/Y to SAR 1.5 billion. Fruits of cost control are now evident in terms of better margins. The Company has also managed to decrease selling, distribution and admin expenses by SAR 40 million over last year through cost efficiencies. Finance costs are in line with expectations and the slight Y/Y rise can be attributed to higher SAIBOR.

Poultry is the silver lining

For the second quarter in a row, the Poultry segment was able to achieve EBIT breakeven and net losses for 3Q were just SAR (7) million as lower mortality and higher sales have helped create a silver lining for Almarai. Despite introduction of new products, growth at the bakery segment has come down. We reiterate the need for Almarai to improve market share here.

Net margins at 19.8%

Net income at SAR 667 million (+0.4% Y/Y, -1.1% Q/Q) exceeded both our and market estimates comprehensively on the back of a surge in margins although revenues were lackluster. Net margins at 19.8% are one of the best for Almarai to date, expanding 170 bps Y/Y. Target price has been adjusted to SAR 54.00 to reflect the 25% bonus share issue. Trading at a 2017E P/E of 25.4x as compared to TASI's 14.0x and near our target price, we recommend a Neutral.

Expected Total Return

Price as on Oct-22, 2017	SAR 57.24
Upside to Target Price	-5.7%
Expected Dividend Yield	3.1%
Expected Total Return	-2.5%

Market Data

52 Week H/L	SAR 78.60/44.00
Market Capitalization	SAR 57,240 million
Shares Outstanding	1,000 million
Free Float	38.23%
12-Month ADTV	1,005,375
Bloomberg Code	ALMARAI AB

1-Year Price Performance



Source: Bloomberg

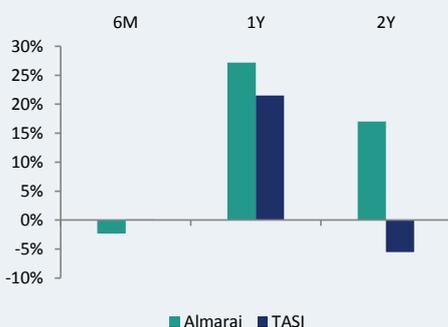


Fig in SAR mln	RC Est.	Actuals
Sales	3,432	3,373
Gross Profit	1,493	1,516
Net Income	596	667
EPS (SAR)	0.60	0.67

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Sales	14,699	13,954	14,931
EBITDA	4,441	3,890	3,909
Net Profit	2,081	2,251	2,203
EPS (SAR)	2.60	2.25	2.20
DPS (SAR)	0.90	1.80	0.80

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS	13.04	14.71	16.11
ROAE	16.6%	16.2%	14.3%
ROAA	7.4%	6.8%	5.8%
EV/EBITDA	15.1x	17.2x	17.2x
P/E	27.5x	25.4x	26.0x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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