



EVENT FLASH

Record high 3Q profit supported by margin expansion

Almarai reported a better than expected set of 3Q17 results, with a record high 3Q net income of SR667mn (+0.4% YoY). This compares with the NCBC and consensus estimates of SR618mn. We believe the better than expected result is attributed to margin expansion, which offset the impact of declining sales. A key positive from the results is the break-even of the poultry segment, slightly earlier than the year-end target.

- **NCBC view on the results:** Almarai announced a better than expected set of 3Q17 results, with net income coming flat YoY at SR667mn. This is the highest 3Q net income and compares to the NCBC and consensus estimates of SR618mn and SR598mn, respectively. With revenues down -4.5% YoY, we believe the better than expected results are mainly attributed to strong margin expansion from lower commodity prices and Opex efficiencies.
- Sales declined -4.5% YoY to SR3,373mn, coming in-line with our estimates. We believe the YoY decline in sales is mainly attributed to a weakness in the Dairy & Juice and Bakery segments due to the holiday season. We believe demand for discretionary products in the dairy segment, such as jar cheese, gishta and cheese slides, remain weak. Moreover, we believe the depreciation of the EGP negatively impacted the results.
- Poultry reported EBIT profits, as sales grew +15.8% YoY to c.SR330mn and coming in-line with our expectations. Moreover, losses declined to only SR6.6mn in 3Q17 from SR71.9mn in 3Q16, supported by better market conditions and lower mortality rates. Custom duties on imported poultry increased to 20% vs 5% previously and Brazilian poultry imports are banned.
- Gross margins of Almarai expanded +287bps YoY to 44.9%. This is the highest margin since 3Q09 and compares with our estimates of 44.2%. We believe this margin expansion is attributed to favourable commodity prices and effective cost management, which offset the impact of increased alfalfa costs. Opex remained broadly unchanged at SR740.5mn, as lower SG&A expenses were offset by increased other expense related to bull calves.
- We are currently Neutral on the stock, with at PT of SR42.2. We believe a key highlight of the results is the improvement of the poultry operations, ahead of the management targets. However, declining profits from the other segments may negatively weigh on earnings going forward. The stock trades at a 2018E P/E of 24.2x vs. sector P/E of 24.3x, which we believe is fair.

3Q17 Results Summary

SR mn	3Q17A	3Q16A	% YoY	3Q17E	%Var^	% QoQ
Revenues	3,373	3,530**	(4.5)%	3,485	(3.2)%	(10.3)%
Gross income	1,516	1,485**	2.1%	1,540	(1.6)%	(2.5)%
EBIT	776	752**	3.1%	711	9.1%	(1.6)%
Net income	667	664**	0.4%	618	8.0%	(1.1)%
EPS (SR)*	0.67	0.66	0.4%	0.62	8.0%	(1.1)%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts; **Restated; * based on 1,000mn shares

NEUTRAL

Target price (SR) 42.2

Current price (SR) 57.0

STOCK DETAILS

M52-week range H/L (SR)	77/45
Market cap (\$mn)	15,220
Shares outstanding (mn)	1,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.7)	(15.2)	27.3
Rel. to market	0.9	(12.2)	0.4

Avg daily turnover (mn)	SR	US\$
3M	51.2	13.7
12M	55.4	14.8

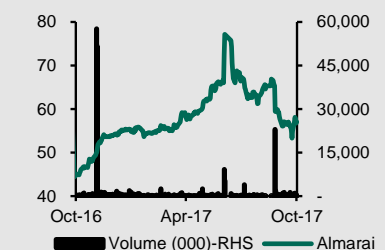
Reuters code	2280.SE
Bloomberg code	ALMARAI AB
	www.almarai.com

VALUATION MULTIPLES

	16A	17E	18E
Reported P/E (x)	26.4	27.3	24.2
Adjusted P/E (x)	26.0	26.8	23.7
P/B (x)	3.6	3.4	3.1
EV/EBITDA (x)	17.4	17.3	15.7
Div Yield (%)	1.5	1.5	1.6

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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