

Almarai Co. (ALMARAI)

Target Price: SAR 64.9/share

Upside: 3.1%

Recommendation

Hold

Current Market Price (SAR)	63.0
52wk High / Low (SAR)	71.0/52.4
Mkt. Cap. (USD/SAR Mn)	16,790/63,000
Shares Outstanding (mn)	1,000.0
Free Float (%)	63.5%
3m Average Vol. (000)	796.1
3m Avg Daily Turnover (SAR'000)	45,320
Dividend Yield '24e (%)	1.9%
P/E'24e (x)	25.2
EV/EBITDA'24e (x)	12.5

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Revenue	15,850	18,722	19,817	21,480
Gross profit	5,059	5,624	6,084	6,723
GPM	32%	30%	31%	31%
EBIT	2,015	2,276	2,730	3,152
EBIT margin	13%	12%	14%	15%
EBITDA	4,050	4,556	5,064	5,572
EBITDA margin	26%	24%	26%	26%
Net Income	1,564	1,760	2,070	2,495
Net margin	10%	9%	10%	12%
EPS	1.56	1.76	2.07	2.50
RoE	10%	10%	12%	13%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Savola Group Company	34.52%
Sultan Holding Company	23.70%
Saudi Agricultural and Livestock Investment Co.	16.32%

Source: Bloomberg, Yaqeen Capital

Improved OPM contributed to bottom-line growth

- ALMARAI net income grew 5.0% YoY to SAR 486mn (-12.7% QoQ) in 3Q2023. The growth was primarily fueled by higher net pricing, however, the increase in the cost of goods sold, net finance charges, and Zakat & taxes constrained the overall gains at the bottom-line level for the quarter.
- For 3Q2023, net margin improved by 43bps YoY to 10.1%. The segment-wise margins for Bakery, Poultry, and Dairy & Juice were recorded at 18% (consistent with 3Q2022), 13% (vs. 12%), and 9% (vs. 12%), respectively, for the quarter.
- Revenues remained relatively stable at SAR 4,797mn (+0.6% YoY, +0.1% QoQ) in 3Q2023. The growth in core GCC markets, particularly led by KSA (~67% of sales, +6% YoY), was counterbalanced by a decline in performance in Egypt (8%, -10% YoY), Jordan (3%, -10% YoY) and other markets (3%, -49% YoY).
- Notably, Fresh Dairy (~36% of sales, +10% YoY) and Poultry (18%, +13% YoY) segments made positive contributions to the overall growth. However, sluggishness in Fresh Juice (9%, -15% YoY), Long Life Dairy (9%, -20 YoY), and other categories (3%, -43% YoY) limited the overall revenue expansion.
- Gross profit declined by 1.3% YoY to SAR 1,469mn (-6.2% QoQ) and margin dropped by 58bps YoY (207bps QoQ) to 30.6% in 3Q2023.
- Operating income was up by 11.2% to SAR 644mn in 3Q2023 aided by a steep decline in net other expenses with corresponding margin improved by 129bps YoY (-157bps QoQ) to 13.4%.
- For 9M2023, net income increased by 19.5% YoY to SAR 1,678mn driven by increased price realizations, the impact of which was partially offset by higher cost of goods sold. Poultry segment posted highest earnings growth (+48% YoY) followed by Bakery (+13% YoY) and Dairy & Juice (5% YoY) in 9M2023. Meanwhile, overall net margin improved to 11.5% compared to 10.1% in 9M2022.

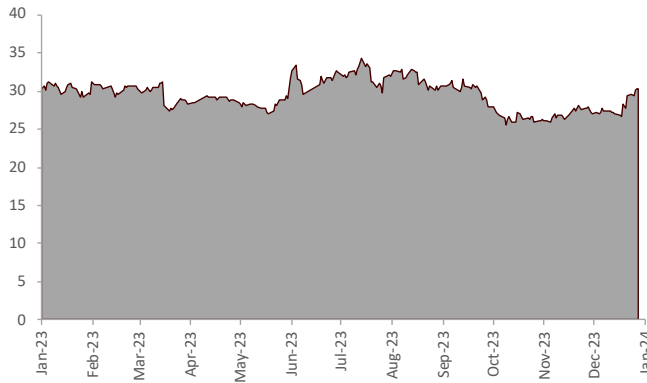
Outlook & Valuation: We maintain an optimistic outlook on ALMARAI, anticipating a robust earnings performance driven by price increases, an expanding share in higher-margin segments, decreasing key raw material prices, and capacity additions. Additionally, we foresee a positive impact on the company's growth prospects from an expected improvement in the macroeconomic scenario, characterized by easing inflation, potential interest rate cuts, and a rise in tourism. Currently trading at a P/E of 25.2x (based on FY2024e EPS), it appears that the market has already priced in most positives. Based on equal weighted valuation using DCF and P/E methodologies, we arrive at a fair value of SAR 64.9/share, offering a limited upside of 3.1% from the current level. Hence, we recommend a Hold rating on the stock.

Financial Summary

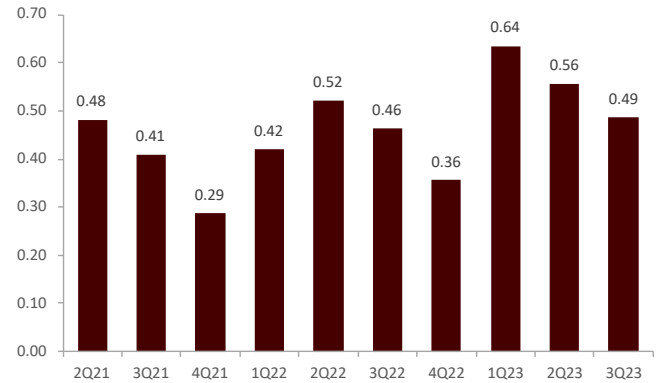
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	4,797	4,769	1%	4,792	0%
Gross profit	1,469	1,489	-1%	1,567	-6%
GPM	31%	31%		33%	
EBIT	644	579	11%	719	-10%
EBIT margin	13%	12%		15%	
EBITDA	1,236	1,102	12%	1,286	-4%
EBITDA margin	26%	23%		27%	
Net Income	486	463	5%	557	-13%
Net margin	10%	10%		12%	
EPS	0.49	0.46	5%	0.56	-13%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

Disclaimer

Research report has been prepared by Yaqeen Capital, Riyadh, Saudi Arabia. It has been prepared for the general use of Yaqeen Capital's clients and may not be altered, redistributed, retransmitted, or disclosed, in whole or in part, or in any form or manner, without the express written consent of Yaqeen Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Yaqeen Capital. The information contained was obtained from various public sources believed to be reliable, and Yaqeen Capital makes no representations or warranties (express or implied) regarding the data and information provided and does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only, but we do not intend to provide personal investment advice and did not constitute an offer or an invitation to make an offer, to buy/ sell/ hold any securities or other investment products, and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed in this document and should understand that statements regarding future prospects may not be realized. Investors should note that the securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Yaqeen Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking Group of Yaqeen Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. Yaqeen officers (including research analysts) or Board of directors may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, or other financial instruments. Yaqeen Capital and employees shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this report.

Yaqeen Capital is a closed joint stock company licensed by the Saudi Arabian Capital Market Authority, License No (06020-37) to provide services in Dealing, Custody, Managing, Arranging and Advising.