

# Almarai Co.

## The Strong Momentum continues in Q3 2020, while Future Concerns Remain

11 October 2020

**In line with our expectations for Q3 2020, Almarai was able to achieve an 8% Y-o-Y increase in revenue despite the tripling of the VAT last July. Moreover, EBIT margin remained relatively flat despite COVID-19 related expenses in addition to alfalfa costs and Juice expenses. The growth in food service channels following the easing of restrictions, provided Almarai with some relief during the quarter, allowing the company to maintain its strong momentum in Q3 2020.**

During Q3 2020, Almarai's revenues grew by around 8% Y-o-Y from SAR3,573mn in Q3 2019 to SAR3,863mn in Q3 2020. Despite the increase in the VAT from 5% to 15% on July, the company's revenue increased during the quarter on the back of Dairy & Juice sales that increased Y-o-Y by 9%, mainly through higher food and LLD exports sales (From SAR2,553mn in Q3 2019 to SAR2,770mn in Q3 2020). It is worth mentioning that during the quarter, food sales recorded a +15% Y-o-Y, while LLD sales grew by +21% Y-o-Y. Moreover, line with our previous expectation, Poultry sales also increased in by +7% Y-o-Y from SAR489mn in Q3 2019 to SAR524mn in Q3 2020 as a result of the reopening of restaurants which boosted food services channel growth. On the other hand, Bakery sales dropped by -8% Y-o-Y during the quarter due to single-serve impact.

Similar revenue, COGS increased during the quarter by 10% Y-o-Y from SAR2,129mn in Q3 2019 to SAR2,348mn in Q3 2020. Nevertheless, Almarai's gross margin remained almost flat Y-o-Y, posting 39% in Q3 2020.

SG&A increased during the quarter by 8% Y-o-Y from SAR674mn Q3 2019 to SAR726mn in Q3 2020 in line with revenue and volume growth in addition to higher labor costs due to the pandemic. Moreover, EBIT was slightly impacted by the increase in operating costs, which was mainly due to higher juice ingredients (sugar free recipe), feed (imported alfalfa) and labor (due to COVID-19) costs, in addition to, higher depreciation and losses in the Dairy and Juice segment. However, EBIT margin remained flat Y-o-Y, sitting at 19% in Q3 2020.

Finance charges decreased by 10% Y-o-Y, from SAR131mn in Q3 2019 to SAR91mn in Q3 2020, which is mainly attributed to lower interest rates as well as lower debt levels.

Consequently, net income for the period increased by around 7% from SAR582mn in Q3 2019 to SAR621mn in Q3 2020, meanwhile, net income margin remained flat at 16% in Q3 2020.

Almarai's is still maintaining their strict Capex spend in line with their current capacity, limiting their Capex budget to maintenance. Moreover, the company's cash in hand is SAR591mn for Q3 2020, with no additional funding required until the end of the year.

It is undoubtedly that Almarai showed resilience in the time of the pandemic, as it maintained 1<sup>st</sup> rank across all product categories except UHT milk, however, the challenge remains in the limited growth potential. Moreover, the company will have to go through price adjustments and product realization post VAT, which might negatively impact demand, especially coupled with the expat exodus and the significant decline in the consumers' disposable income. Finally, higher operational costs, including high depreciation and overheads in Egypt continue to pressure the company's margins.

While the pandemic seems to have had a minimal impact on Almarai, the concern remains in the anticipated market shift post the pandemic and how this shift will materialize.

**We remaining our 52 weeks target price SAR49/share while maintaining our NEUTRAL recommendation.**

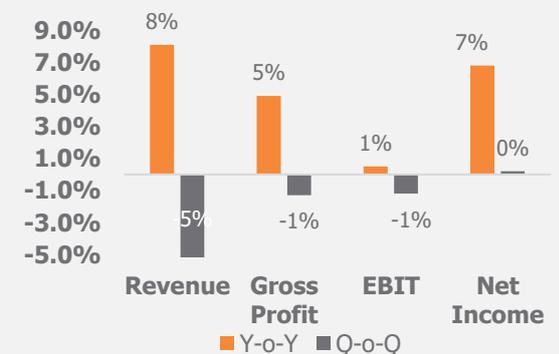
### Recommendation **Neutral**

Previous Recommendation	Neutral
Current Price (11-10-2020)	SAR54.1
<b>Target Price (52 Weeks)</b>	<b>SAR49.0</b>
Upside/ (Downside)	(9.5%)
Shariah Compliance	Pass

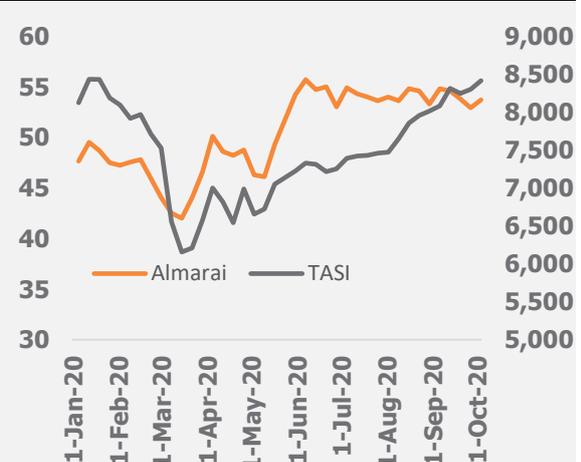
### Key Financial Ratios

Ratio	Q3 2020	Q2 2020	Q3 2019
Revenue Growth	-5.4%	8.4%	-5.1%
Gross Margin	39.2%	37.6%	40.4%
EBIT Margin	19.4%	18.6%	20.9%
Net Margin	16.1%	15.2%	16.3%

### Key Financial Results (Q3 2020)



### Share Price Performance



# Financial Projection

## Guide to Ratings

<b>Buy</b>	An upside potential of more than 20% in 52-week period
<b>Overweight</b>	An upside Potential of more than 10% in 52-week period
<b>Neutral</b>	Will stay in the range of it value (up/down 10%) in a 52-week period
<b>Underweight</b>	A downside potential of more than 10% in 52-week period
<b>Sell</b>	A downside potential of more than 20% in 52-week period

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