

# Almarai Co. (Almarai)

## Accelerated Recovery by Almarai Q1 2022, Despite Pressure on Margins

14 April 2022

**Almarai Co. 's bakery segment growth of 41% during Q1 2022 was a main driver for the company's highest quarterly revenue of 5 years. The company benefited from the resumption of economic activity, despite the normalization of demand. However, higher feed costs pressured margins compared to Q1 2021.**

Almarai posted revenues of SAR4,503mn for Q1 2022, highest revenue in the past 5 years. The revenue was a 23.6% Y-o-Y increase compared to SAR3,645mn posted in Q1 2021 (+5.8% Q-o-Q). The strong recovery in revenues was significantly driven by the reopening of educational institutions to normal opening times, which resulted in 46.0% Y-o-Y growth in Almarai's bakery segment. Moreover, the general opening of economy led to higher tourism (religious and general), coupled with Ramadan phasing, resulted in a universal growth across all categories (+21.0% Dairy & Juice, +20% Poultry).

On the other hand, COGS grew by ~33% Y-o-Y (+3.5% Q-o-Q), due to higher feed costs coupled with higher transportation costs. Consequently, gross margin dropped from 33.9% in Q1 2021 to 29.6% in Q1 2022.

During Q1 2022, Almarai reported SG&A of SAR752mn, a 7.3% increase compared to SAR735mn in Q1 2021. The increase in SG&A came in line with the company's topline growth, suggesting that the company's strong cost control is still intact. Operating margin for Q1 2022 stood at 12.1%, slightly lower than 13.8% in Q1 2021.

Despite lower debt, the company's finance cost remained flat Y-o-Y due to higher funding rate, meanwhile, strong performance in Jordan offset devaluation impact on EGP during Q1 2022. Zakat charges increased by 41.7% Y-o-Y; however, net income grew by 8.9% Y-o-Y from SAR386mn in Q1 2021 to SAR420mn in Q1 2022. Net income margin stood at 9.3%, a drop compared to 10.6% Q1 2021.

In January 2021, Almarai concluded the sale and purchase agreement with the shareholders of Bakemart to acquire 100% of Bakemart UAE and Bahrain for AED93.5mn (SAR95.5mn). Furthermore, Almarai's subsidiary, Western Bakeries, acquired an additional stake of 25% in Modern Food Industries (MFI) – an affiliate - for SAR250mn, which was fully financed from Almarai's operating cash flows. The impact of the MFI minority interest purchase was reflected in the company's investing cash flow for Q1 2022 (SAR-1.9bn), however it is worth noting that the company's CAPEX continued to decline inline of the company's 5-year plan.

In more recent news, on April 12, Almarai approved 10% dividend (SAR1/ share) FY2021, buyback of 10mn shares. The purchased shares are to be allocated within the Employee Stock Purchase Plan, which will be financed by the company's own resources.

Almarai showed significant efforts to maintain growth as demand normalizes in a post-COVID era, supported by the opening of the economy and resumption of normal economic activity. Margins are expected to remain under pressure as costs continue to increase, however, going forward, we expect Almarai to continue growing its topline numbers, especially as new acquisitions enhance the company's presence in the industry.

**We update our 52 weeks target price SAR52.1/share with a **NEUTRAL** recommendation.**

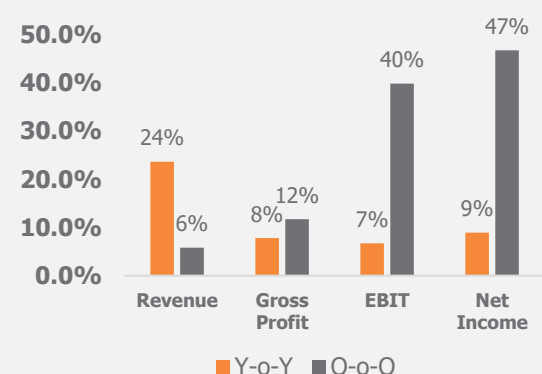
### Recommendation **Neutral**

Previous Recommendation	Neutral
Current Price (14-04-2022)	SAR52.1
<b>Target Price (52 Weeks)</b>	<b>SAR53.5</b>
Upside/ (Downside)	2.7%
Shariah Compliance	Pass

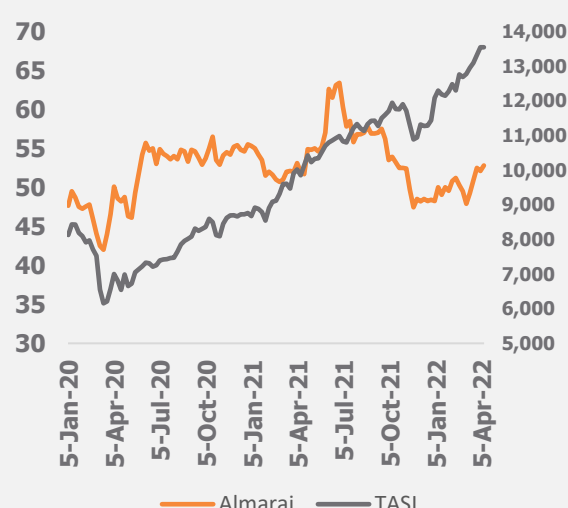
### Key Financial Ratios

Ratio	Q1 2022	Q1 2021	Q4 2021
Revenue Growth	5.8%	-4.6%	8.0%
Gross Margin	29.6%	33.9%	28.0%
EBIT Margin	12.1%	13.8%	9.2%
Net Margin	9.3%	10.6%	6.7%

### Key Financial Results (Q1 2022)



### Share Price Performance



# Financial Projection

## DCF Valuation

	2022E	2023F	2024F	2025F	2026F
EBITDA	4,468	4,799	5,132	5,692	5,995
Operating CF	4,278	4,592	4,919	5,311	5,749
Capex	(1,858)	(1,869)	(1,879)	(1,897)	(1,919)
FCFF	2,420	2,723	3,040	3,413	3,830
Stub Period (FCF to be discounted)	1,823	2,723	3,040	3,413	3,830
PV (FCFF)	1,721	2,376	2,429	2,503	2,571
WACC	7.7%				
Perpetuity Growth	3.0%				
PV-FCFF	11,600				
PV-TV	52,587				
Net Debt	(9,948)				
Less: End of services benefits	(987)				
Add: Investments	232				
Less: Minority Interest	0				
Intrinsic Values	53,485				
Shares Outstanding	1,000				
<b>Equity value per share</b>	<b>53.5</b>				
<b>CMP (14-07-2021)</b>	<b>52.1</b>				
<b>Upside / (Downside%)</b>	<b>2.7%</b>				

We have valued Almarai using DCF approach, considering a WACC is equal to 7.7% (based on a risk-free rate of 2.7%, market risk premium 7.0%, Beta of 0.67).

Based on the DCF valuation, the fair price Almarai share price is SAR52.1, which is lower than the traded value by 2.7%.

## Financial Ratios

	2020A	2021A	2022E	2023F	2024F	2025F	2026F
Return on Average Assets (%)	5.9%	4.9%	6.1%	7.1%	8.1%	9.8%	10.3%
Return on Average Equity (%)	12.3%	9.5%	11.2%	12.4%	13.2%	14.8%	15.1%
Earnings Before Zakat Margin (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income Margin (%)	12.6%	9.9%	11.3%	12.4%	13.4%	14.8%	15.5%
Revenue Growth (%)	7.0%	3.2%	6.8%	6.8%	6.3%	10.3%	4.7%
EPS	1.9	1.6	1.9	2.2	2.6	3.1	3.4

## Income Statement

	2020A	2021A	2022E	2023F	2024F	2025F	2026F
Revenues	15,357	15,850	16,931	18,082	19,227	21,207	22,212
Cost of Revenues	(9,821)	(10,790)	(11,493)	(12,126)	(12,753)	(13,845)	(14,385)
<b>Gross Profit</b>	<b>5,536</b>	<b>5,060</b>	<b>5,438</b>	<b>5,956</b>	<b>6,474</b>	<b>7,363</b>	<b>7,828</b>
SG&A	(2,910)	(2,947)	(3,221)	(3,415)	(3,608)	(3,943)	(4,113)
Zakat	(92)	(88)	(93)	(109)	(125)	(152)	(166)
<b>Net Income</b>	<b>1,936</b>	<b>1,564</b>	<b>1,912</b>	<b>2,242</b>	<b>2,584</b>	<b>3,143</b>	<b>3,436</b>

## Balance Sheet

	2020A	2021A	2022E	2023F	2024F	2025F	2026F
Current Assets	7,289	7,102	7,018	8,367	7,962	9,827	11,201
Non-Current Assets	25,056	24,652	24,273	23,876	23,493	23,116	22,756
<b>Total Assets</b>	<b>32,345</b>	<b>31,754</b>	<b>31,291</b>	<b>32,243</b>	<b>31,455</b>	<b>32,943</b>	<b>33,957</b>
Current Liabilities	4,675	6,624	5,211	7,446	5,854	6,210	6,292
Non-Current Liabilities	11,435	8,512	8,550	6,024	5,244	4,735	4,230
<b>Total Equity</b>	<b>16,233</b>	<b>16,618</b>	<b>17,531</b>	<b>18,773</b>	<b>20,356</b>	<b>21,999</b>	<b>23,435</b>
<b>Total Liabilities and Equity</b>	<b>32,344</b>	<b>31,754</b>	<b>31,291</b>	<b>32,243</b>	<b>31,455</b>	<b>32,944</b>	<b>33,957</b>

# Guide to Ratings and Disclaimer

## 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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