

Q1 FY19 Results Update

April 15, 2019

Recommendation Neutral

Previous Recommendation	Neutral
Current Price (SAR)	58.6
Target Price (SAR)	56.4
Upside/Downside (%)	-3.8%

As of April 14<sup>th</sup>, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	57.9
52 Wk High (SAR)	62.8
52 Wk Low (SAR)	40.8
Total Outstanding shares (in mn)	988
Free Float (%)	21.7%

ALMARAI vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	8.8%	2.1%
6m	27.3%	(12.7%)
12m	0.8%	(12.8%)

Major Shareholders (%)

Savola Group Company	34.52%
Prince Sultan M.S. Al Saud	23.69%
Public Investment Fund	16.32%

Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 14<sup>th</sup> April 2019

Almarai's 1Q19 net profit dips on persistent market weakness in Dairy and Juice categories

Almarai's net profit declined for the third consecutive quarter, to SAR 336mn in 1Q19, down 2.6% YoY compared with the previous year on rising alfalfa and feed costs, selling expenses and financial charges. Robust performance from the Poultry and Bakery categories was insufficient to raise overall profits, which were adversely impacted by poor performance from the Dairy and Juice categories. Meanwhile, the company's core markets continued to stabilize whereas Egypt performed well in the dairy segment.

Dairy and Juice categories constitute the most important segment for Almarai. Profit from this category declined 4.2% YoY due to weak market conditions and higher Alfalfa costs, coupled with discounting and promotions specifically in long-life milk. Besides, the Others category reported SAR 25.1mn in loss for the current quarter, compared with SAR 1.8mn in loss for the corresponding quarter in the previous year, mainly due to the timing difference for crop rotation in Fondomonte (USA) and lower planted hectares due to the rationalization of rental operations in Argentina. Revenues from KSA, the most important market for the company, increased 4.3% YoY. Although export revenues and the Poultry and Bakery categories have shown positive growth, their impact on overall earnings was less significant. We believe progress in the Poultry and Infant Nutrition segments, along with improvement in operational efficiency, would remain key positives for the stock.

- Sales increased 3.8% YoY to SAR 3,354mn in 1Q19 on higher sales from the Poultry, Bakery, and Food segments. Weakness in the dairy and juice market reflected in the company's results for the quarter. The Poultry Category sales volumes increased following the acquisition of Premier Foods. Bakery category continues to recover whereas the Fresh Milk market share stabilized between 65% and 70%. Sales in KSA increased while revenues from GCC remained flat.
- Gross profit contracted 3.6% YoY to SAR 1,210mn owing to higher input costs, primarily Alfalfa and feed costs. The gross margin for the quarter fell 275 bps on an annual basis to 36.1%.
- Operating income fell 0.9% YoY to SAR 481mn (1Q17: SAR 485mn). One-off gains from disposal of assets were offset by higher selling and distribution expenses. Admin expenses declined 1.4% YoY owing to the cost savings program implemented by the company.
- Almarai's net profit fell 2.6% YoY to SAR 336mn in 1Q19, in line with the reasons mentioned above. Finance costs increased 27.4% YoY and 8.7% QoQ to SAR 130mn. On a YoY basis, the Dairy and Juice Categories profit declined 4.2% to SAR 270mn. The Bakery and Poultry segments recorded a net profit rise of 23.1% and 67.5% to SAR 49mn and SAR 42mn, respectively. The net profit margin declined to 10.0% in 1Q19, compared with 10.7% in 1Q18.
- The company's capex continues to decline as its previous investment cycle comes to an end.
- On April 8, 2019, directors approved a dividend of SAR 0.85 per share, for its one billion existing shareholders, amounting to SAR 850mn.
- In February 2019, Almarai completed the issuance of fixed-rate RegS Senior unsecured sukuk worth USD 500mn at a par value of USD 200,000. The five year 2,500 Islamic bonds bear a return of 4.311%. The sukuk would be fully redeemed on the maturity date.

**Valuation:** We revised our target price slightly upwards to SAR 56.4 per share on expected performance improvements over the coming quarters. We maintain our "Neutral" rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	3,354	3,232	3.8%	14,097	13,723	2.7%
Gross Profit (SAR mn)	1,210	1,254	(3.6%)	5,580	5,445	2.5%
EBITDA (SAR mn)	994	1,007	(1.3%)	4,706	4,507	4.4%
Net Profit (SAR mn)*	336	345	(2.6%)	2,151	1,953	10.1%
EPS basic (SAR)	0.3	0.3	(2.4%)	2.2	2.0	10.1%
Gross Margin (%)	36.1%	38.8%	(2.7%)	39.6%	39.7%	(0.1%)
EBITDA Margin (%)	29.6%	31.2%	(1.5%)	33.4%	32.8%	0.5%
Net Profit Margin (%)	10.0%	10.7%	(0.7%)	15.3%	14.2%	1.0%

Source: Company Financials, FALCOM Research\* Net profit attributable to equity holders

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FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

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

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

**To be Revised:** No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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