

FY 2018 Results Update

January 23 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	54.0
Target Price (SAR)	52.0
Upside/Downside (%)	-3.8%

As of January 22nd, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	53.4
52 Wk High (SAR)	62.8
52 Wk Low (SAR)	40.8
Total Outstanding shares (in mn)	989
Free Float (%)	21.7%

ALMARAI vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	11.3%	3.0%
6m	(1.8%)	(1.0%)
12m	1.3%	(11.0%)

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 22nd January 2019

Almarai's 4Q18 bottom line shrinks further on higher cost

Almarai's net profit continued to decline for the second straight quarter, falling -25.3% YoY to SAR 369.6mn in 4Q18. For FY18, net profit declined 7.5% YoY to SAR 1,953mn on rising labor and energy cost, general contraction in the market, and one-time cost of SAR 90.2mn. Additionally, other macroeconomic conditions, such as the introduction of VAT and exodus of expatriates impacted the company's performance. A robust performance from the Poultry segment was not enough to raise overall revenues, which were adversely impacted by the Dairy & Juice and Bakery segments faring poorly.

To counter decline in the KSA food market and rising cost, Almarai completed its cost efficiency program to save SAR 500mn over FY17-18. The Infant Nutrition segment achieved breakeven for the first time at the EBIT level on a normalized basis during the year. The company further implemented select price increases (4-8%) on Fresh milk and Laban, partially offsetting a drop in volumes. Moreover, Almarai continued its strong performance in Egypt, maintaining a dominant position in Juice. However, these measures fell short of scripting a turnaround for the company, which struggled to maintain profitability in FY18. Although, we maintain a low single-digit growth outlook, we believe the progress in the Poultry and Infant nutrition segments and improvement in operational efficiency will remain key positives for the stock.

- Almarai's sales dropped -1.5% YoY to SAR 13,723mn on changing demographics, lower export sales, increase in product promotions, and general contraction in the market. Robust revenue growth of 23.5% YoY from the Poultry segment was overshadowed by decrease of -5.1% and -3.9% in the Dairy & Juice and Bakery segments, respectively. For 4Q18, revenues fell -0.9% YoY, but improved 0.5% sequentially to SAR 3,389 mn.
- Gross profit contracted -2.5% YoY to SAR 5,445mn as efforts to better cost management and improve product efficiencies were offset by higher alfalfa cost, increased promotions, labor and depreciation cost. The gross margin also fell 40 bps to 39.7% for the year driven by slow fourth quarter performance.
- Operating income fell -4.7% YoY to SAR 2,461mn (FY17: SAR 2,583mn). Better efficiencies in route to market, trade operations, and back-office functions were offset by higher labor cost and other expenses.
- Almarai's net profit plunged -7.5% YoY to SAR 1,953mn, in line with the aforesaid factors. Exchange gains were offset by loss from associates and higher finance expenses. The Bakery segment's net profit declined -34.3% YoY, followed by Dairy & Juice (-15.4%); the Poultry segment reported net profit of SAR 182.8mn, against loss of SAR 29.2mn in the previous year. Profit declined -25.3% YoY for the quarter, largely weighed by higher funding costs.
- Capex declined 28% to SAR 2,460mn in FY18, in line with the revised five-year business plan. The FCF for FY18 stood at SAR 1,217mn, down SAR 86mn from a year ago. Net debt/ Equity rose to 87% in FY18 from 73% last year, and net debt / EBITDA grew to 3.0x, against 2.8x in FY17.
- On December 10, 2018, the directors recommended a dividend of SAR 0.85 per share for one billion existing shares, amounting to SAR 850mn.
- On December 31 2018, Almarai completed the sale of its shares in United Farmers Holding Company (UFHC), representing 33.0% of paid-up capital, to Saudi Agricultural and Livestock Investment Company (SALIC) for SAR 105mn, while the proceeds will be used for business and investments.

Valuation: We revised our target price slightly upwards to SAR 52.0 per share on expected performance improvements over the coming quarters. We maintain our "Neutral" rating on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	3,389	3,419	-0.9%	13,972	13,723	1.8%
Gross Profit (SAR mn)	1,235	1,335	-7.5%	5,558	5,445	2.1%
EBITDA (SAR mn)	965	1,100	-12.3%	4,808	4,507	6.7%
Net Profit (SAR mn)*	369.6	494.9	-25.3%	2,160	1,953	10.6%
EPS basic (SAR)	0.37	0.50	-25.2%	2.18	1.97	10.6%
Gross Margin (%)	36.4%	39.1%	-2.7%	39.8%	39.7%	0.1%
EBITDA Margin (%)	28.5%	32.2%	-3.7%	34.4%	32.8%	1.6%
Net Profit Margin (%)	10.9%	14.5%	-3.6%	15.5%	14.2%	1.3%

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

FALCOM Rating Methodology

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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