

Q2 FY19 Results Update

July 16, 2019

Recommendation Neutral

Previous Recommendation	Neutral
Current Price (SAR)	52.0
Target Price (SAR)	55.0
Upside/Downside (%)	5.7%

As of July 15th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	51.4
52-Wk High (SAR)	61.0
52-Wk Low (SAR)	40.8
Total Outstanding Shares (in mn)	988
Free Float (%)	22.2%

ALMARAI vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(6.1%)	(6.7%)
6m	1.0%	(8.4%)
12m	(8.3%)	(19.9%)

Major Shareholders (%)

Savola Group Company	34.5%
Prince Sultan M.S. Al Saud	23.7%
Public Investment Fund	16.3%

Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of July 15th 2019

Almarai's net income slips on continued weakness in Juice market

Almarai's net profit declined 11.9% YoY but recovered 73.4% QoQ to SAR 583mn even as weakness persisted in the Juice market. The company reported its best quarterly revenues since 2Q16. Almarai's core business markets stabilized as the Bakery and Dairy categories steadied, following VAT imposition in 1Q18. Meanwhile, the Poultry segment continued its double-digit growth. In addition, growth was broad based as revenue grew across all countries, except in the export business. Improvements in the top line were offset by the rising feed cost, primarily alfalfa, as well as higher marketing and labor costs. Thus, operating profit shrank 3.3% YoY to SAR 739mn.

The company's revenues for the quarter continued to grow as the market conditions improved. With the exception of the Juice, all the other categories pitched in with positive revenue growth overall in 1H19. Poultry maintained its double-digit growth, whereas the Bakery and Dairy categories contributed with a single-digit rise. However, concerns remain regarding the performance of the Fruit Juice category, which constituted almost 9% of total revenue for 1H19 at SAR 663mn, down 10% YoY. Furthermore, the segment continues to reel under higher feed, labor, and funding costs and largely offsets positive contributions from the other segments. In addition, the larger funding costs increased by SAR 41.2mn mainly due to higher interest-bearing debt after repayment of perpetual sukuk last year, a greater interest rate resulting from higher SIBOR, and lower capitalization of the funding cost for qualified capital projects.

- Sales increased 2.6% YoY to SAR 3,767mn in 2Q19, led by double-digit sales growth from the Poultry category, followed by the Dairy and Bakery categories. The Poultry segment benefitted from HORECA channel expansion, whereas the Bakery segment improved its volume growth. The general weakness in the Juice category, however, pulled down the company's growth for the quarter.
- Gross profit improved 1.3% YoY to SAR 1,467mn in 2Q19 despite higher input costs, primarily alfalfa and feed costs. However, the gross margin for the quarter dropped to 38.9% in 2Q19 from 39.4% in 2Q18.
- Operating income fell 3.3% YoY to SAR 739mn in 2Q19 (2Q18: SAR 764mn), driven by increased selling and distribution expenses and higher losses from the sale of a dairy herd.
- Almarai's net profit declined 11.9% YoY to SAR 583mn in 2Q19 owing to the reasons mentioned above. Except the Poultry segment, the Dairy and Juice, and Bakery segments recorded a fall in net profit for 1H19.
- The company's capex continues to decline as its previous investment cycle comes to an end. The remaining capex mostly comprises maintenance capex.
- On May 27, 2019, Almarai acquired a 100% stake in Premier Foods LLC, which serves meat and poultry products to the catering and food services sectors in the Middle East.
- On July 7, 2019, Almarai named Georges Schorderet as the new Chief Executive Officer (CEO), replacing Alois Hofbauer. Schorderet had earlier served as the Chief Operating Officer and is currently an advisor to the Board of Directors.
- A new board, along with four subcommittees for executive, remuneration and nomination, audit, and risk, has been successfully nominated.

Valuation: We revised our target price slightly downward to SAR 55.0 per share as concerns around the performance of the Juice category persists. We maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	3,767	3,672	2.6%	14,079	13,723	2.6%
Gross Profit (SAR mn)	1,467	1,448	1.3%	5,573	5,445	2.3%
EBITDA (SAR mn)	1,247	1,311	(4.9%)	4,703	4,507	4.4%
Net Profit (SAR mn)	583	661	(11.9%)	2,139	2,009	6.5%
EPS basic (SAR)	0.59	0.65	(9.1%)	2.2	2.0	9.5%
Gross Margin (%)	38.9%	39.4%	(0.5%)	39.6%	39.7%	(0.1%)
EBITDA Margin (%)	33.1%	35.7%	(2.6%)	33.4%	32.8%	0.6%
Net Profit Margin (%)	15.5%	18%	(2.5%)	15.2%	14.6%	0.6%

Source: Company Financials, FALCOM Research

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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