

Q3 FY19 Results Update

October 22, 2019

| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 49.2 |
| Target Price (SAR) | 48.0 |
| Upside/Downside (%) | (0.4%) |

As of October 22nd, 2019

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 49.2 |
| 52-Wk High (SAR) | 61.0 |
| 52-Wk Low (SAR) | 44.9 |
| Total Outstanding Shares (in mn) | 1,000 |
| Free Float (%) | 22.6% |

ALMARAI vs. TASI (Rebased)



| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | (6.9%) | (3.6%) |
| 6m | (20.8%) | (3.3%) |
| 12m | 2.9% | 3.8% |

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 October 22nd 2019

Weakness in Juice segment and higher input costs weighed down Almarai's bottom line

Almarai's net profit declined 8.5% YoY to SAR581.2mn, mainly due to weakness in the Juice segment. Meanwhile, the Bakery and Poultry segments recorded double-digit profit growth on an annual basis because of higher volumes. The Poultry segment's performance was largely supported by the HORECA segment and significant profit growth was aided by consistent lower mortality and improved cost control. In addition, revenue grew across all countries, except in Bahrain, where VAT was implemented earlier this year. Increased revenue was offset by rising feed cost, primarily of Alfalfa, as well as higher marketing and labor costs. Thus, operating profit slid 1.5% YoY to SAR 746mn.

The Poultry segment maintained its double-digit growth driven by HORECA channel and increased its stake in Pure Breed Poultry Co. to strengthen its market hold. In addition, the dairy and bakery segments too performed well. The company remains focused on reducing capex and maximizing free cash flow, a trend witnessed in this quarter and expected to continue for the rest of the year. However, even as core markets in KSA continue to stabilize, the performance of the Juice segment remains a concern as its contribution to the overall company revenue continues to shrink. Besides, operating margins continue to remain under pressure due to change in feed ration and higher input costs. The finance costs too increased due to a change in debt profile, resulting in the interest rate being driven by a higher SIBOR. Thus in view of the countervailing factors we maintain a Neutral rating on the stock.

- Sales increased 7.7% YoY to SAR 3,573.3mn in 3Q19 as the poultry segment continued to grow, benefitted by higher volumes through the HORECA channel expansion followed by the bakery segment. However, weakness in the juice segment impacted sales growth due to adverse market conditions, higher inputs, and funding cost. Meanwhile, sales in Bahrain were under pressure due to VAT implementation.
- Gross profit improved 3.2% YoY to SAR 1,443.7mn in 3Q19, despite higher input costs for alfalfa and feed costs. However, the gross margin for the quarter dropped to 40.4% in 3Q19 from 42.2% in 3Q18.
- Operating income fell 1.5% YoY to SAR 746.1mn in 3Q19 (3Q18: SAR 757.4mn) driven by increased selling and distribution expenses.
- Almarai's bottom line declined 8.5% YoY to SAR 581.2mn in 3Q19 owing to an increase in impairment of financial assets as well as higher financing costs.
- On August 5, 2019, Almarai acquired an additional 37.6% stake in its subsidiary, Pure Breed Poultry Co., for a consideration of SAR 52.9mn, bringing its total ownership in the company to 93.5% in a bid to strengthen its position in the poultry industry.
- On August 21, 2019, Almarai announced the completion of the Al Kharj Solar Project worth SAR 44.4mn, making it the largest ground-mounted solar photovoltaic (PV) installation operating in the kingdom.
- The company has appointed Mr. Saad bin Abdulmohsen AlFadly as an audit committee member following the resignation of Mr. Sultan bin Abdulmalek Al Alsheik.

Valuation: We revised our target price downward to SAR 48.0 per share as concerns about the performance of the juice segment persist along with worries around higher input costs. We maintain our "Neutral" rating on the stock.

| | 3Q'19 | 3Q'18 | % YoY | FY19E | FY18 | % YoY |
|-----------------------|-------|-------|--------|--------|--------|--------|
| Revenues (SAR mn) | 3,573 | 3,317 | 7.7% | 14,153 | 13,723 | 3.1% |
| Gross Profit (SAR mn) | 1,444 | 1,399 | 3.2% | 5,616 | 5,445 | 3.1% |
| EBITDA (SAR mn) | 1,279 | 1,235 | 3.6% | 4,987 | 4,507 | 10.7% |
| Net Profit (SAR mn) | 581 | 635 | (8.5%) | 2,059 | 2,009 | 2.5% |
| EPS basic (SAR)* | 0.59 | 0.62 | (5.4%) | 2.1 | 2.0 | 5.4% |
| Gross Margin (%) | 40.4% | 42.2% | (1.8%) | 39.7% | 39.7% | 0.0% |
| EBITDA Margin (%) | 35.8% | 37.2% | (1.4%) | 35.2% | 32.8% | 2.4% |
| Net Profit Margin (%) | 16.3% | 19.1% | (2.9%) | 14.5% | 14.6% | (0.1%) |

Source: Company Financials, FALCOM Research;* calculated on income attributable to shareholders

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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