

2Q20 Results Update

July 21, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	54.1
Target Price (SAR)	49.0
Upside/Downside (%)	(9.4%)

As of July 13th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	54.1
52-Wk High (SAR)	56.1
52-Wk Low (SAR)	36.5
Total Outstanding Shares (in mn)	1,000
Free Float (%)	41.8%

ALMARAI vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.3%	(0.5%)
6m	13.4%	23.1%
12m	5.8%	21.8%

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 July 13th 2020

Higher revenues and lower financial costs boost Almarai's net profit in 2Q20

Almarai's revenues grew 8.3% to SAR 4.1bn in 2Q20 owing to strong growth in the food, long life dairy, and poultry segments. Operating profit rose 2.3% YoY to SAR 759.2mn on higher selling, distribution, and general administrative expenses. Net profit grew at 10.5% YoY to SAR 643.9mn, benefitting from the factors mentioned above, along with lower finance costs and a higher profit share from associates.

Almarai continues to lead the market in most of the categories it operates in and is likely maintain stable market share. The company continues to perform well amid the ongoing COVID-19 crisis as its long-life product segment, including poultry, is recording high growth. Its fresh products are also witnessing steady market growth. Three of Almarai's four business divisions are leading with significant growth in net profit, a key indicator of their underlying performance. The company has a strong balance sheet, with a declining leverage ratio, and capex is also expected to reduce. Its free cash flow continues to improve on higher EBITDA and lower capex. Almarai aims to narrow its net debt/EBITDA to between 2.5x and 2.7x in the next 12 months from 3.1x at the end of FY19. We anticipate pressure on gross profit and the rise in COVID-related costs to be partially offset by the positive change in the product and channel mix. The poultry segment is likely to contribute significantly to profit growth. The food service channel is showing signs of stress, whereas the food channel is rebounding. We maintain a Neutral rating on the stock.

- Sales were up 8.3% YoY to SAR 4.1bn in 2Q20, with all three product categories – food, long life dairy, and poultry – posting double-digit growth. The juice segment registered a fall due to a general decline in the juice market and introduction of sugar tax in late 2019. The poultry segment remained the best performer with a 50.9% increase in profit, driven by revenue growth of 16.6% YoY. The bakery segment's net profit was up 46.4% YoY.
- In terms of the sales channel, the retail channel recorded double-digit growth, whereas the food services channel was on the decline, mainly due to the COVID-19 impact. In terms of geographical growth, KSA was in the lead, followed by Egypt and Jordan.
- Gross profit grew at 4.7% YoY to SAR 1.5bn, slower than revenue due to higher input costs for juice category ingredients as well as feed and labor costs. The gross profit margin, however, shrank to 37.6% from 38.9% a year ago.
- Operating income was up 2.3% YoY to SAR 759.2mn. Selling and distribution expenses rose 8.0% YoY owing to a surge in labor costs, revenue expansion in the retail channel, and higher distribution cost in line with the revenue increase. G&A expenses rose 5.3% YoY to SAR 105.1mn, slower than the revenue growth rate due to management cost-cutting initiatives.
- During the quarter, the company recorded higher impairment of financial assets compared to last year's figures. This was ascribed to greater-than-expected credit losses on increased debt in line with growth in the modern trade channel, following the impact of COVID-19.

Valuation: We maintain our target price at SAR 49.0 per share with a "Neutral" rating on the stock.

	2Q'20	2Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	4,082	3,767	8.3%	14,857	14,351	3.5%
Gross Profit (SAR mn)	1,535	1,466	4.7%	5,556	5,367	3.5%
EBITDA (SAR mn)	1,283	1,251	2.6%	4,584	4,546	0.8%
Net Profit (SAR mn)	644	583	10.5%	1,909	1,812	5.3%
EPS basic (SAR)*	0.66	0.59	11.2%	1.9	1.8	5.3%
Gross Margin (%)	37.6%	38.9%	(1.3%)	37.4%	37.4%	0.0%
EBITDA Margin (%)	31.4%	33.2%	(1.8%)	30.9%	31.7%	(0.8%)
Net Profit Margin (%)	15.8%	15.5%	0.3%	12.8%	12.6%	0.2%

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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