



1Q 2018 Results Update

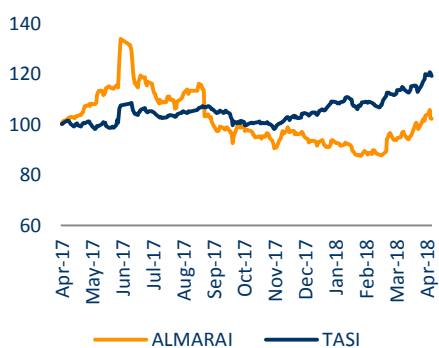
April 26, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	58.1
Target Price (SAR)	54.6
Upside/Downside (%)	(6.0%)
<i>As of April 25th, 2018</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	57.6
52 Wk High (SAR)	78.6
52 Wk Low (SAR)	50.0
Total Outstanding shares (in mn)	991.0
Free Float (%)	21.9%

ALMARAI vs. TASI (Rebased)

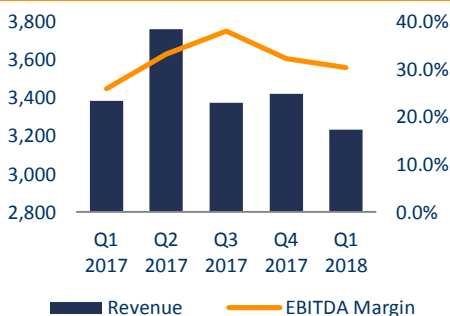


Price Performance (%)	Absolute	Relative
1m	7.7%	2.7%
6m	4.4%	(14.8%)
12m	2.0%	(17.0%)

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 25th April 2018

Almarai's bottom line expands on cost optimization, improvement in poultry segment

Almarai's quarterly revenue declined 5.5% QoQ and 4.5% YoY to SAR 3,232mn in Q1 2018, driven by factors such as seasonality, implementation of VAT, low consumer confidence, and shrinkage in export markets. Gross profit for the period increased 6.4% YoY to SAR 1,253mn, while the operating income came in at SAR 481mn (+14.1% YoY), led by the company's cost optimization program. Consequently, the gross and operating margins expanded 4bps and 3bps from the same quarter a year ago to 39% and 15%, respectively. The net profit ascribed to shareholders was SAR 344mn vis-à-vis SAR 310mn in Q1 2017, an 11.2% YoY increase.

Despite countervailing factors such as VAT introduction and uncertainty in the macro environment, Almarai's bottom line expanded YoY, led by the company's stringent cost savings program and an improvement in long-life dairy (+5% YoY) and poultry sales (+18% YoY). Furthermore, Almarai achieved breakeven in the infant nutrition segment. We expect the company's 2018 results to be influenced by the improvement in the poultry and long-life dairy segments, coupled with sales growth in Egypt. In addition, it is forecasted that Almarai would save up to SAR 200mn in 2018 under its cost optimization program, which would boost the bottom line. However, considering the loss of business in Qatar, economic uncertainty, and loss of consumer spending power due to subsidy removal, we maintain a single-digit growth outlook for the company.

- Almarai's sales dropped 4.5% YoY to SAR 3,232mn due to the weakness in the fresh dairy (-11% YoY) and bakery segments (-11% YoY). Geographically, the company's sales in Qatar, which totalled SAR 172mn in Q1 2017, stopped completely after Saudi Arabia broke ties with the country. Almarai's domestic sales were affected by the introduction of fresh taxes, intense competition, and lower consumer spending power.
- Gross profit edged up 6.4% YoY to SAR 1,253mn due to a 10.3% YoY decline in the cost of sales resulting from the company's conservative cost savings policy. Almarai aims to save SAR 200mn in costs during 2018.
- Operating income grew 14.1% YoY to SAR 481mn (Q1 2017: SAR 421mn). Subsequently, the operating margin improved 3bps YoY to 15% in Q1 2018. Despite operating in a high-cost business environment, Almarai prevented margin erosion by managing costs and introducing innovative offerings across categories.
- Almarai's EBITDA for the quarter stood at SAR 981mn compared to SAR 875mn in Q1 2017, a 12.2% YoY rise due to additional cost savings and higher operational efficiencies. The EBITDA margin improved 5bps to 30% during the quarter.
- Almarai's net profit for the year rose 5.4% YoY to SAR 340mn, driven by tightening of expenses, higher sales in poultry and long-life dairy products, and lower finance cost. Net profit margin, as of Q1 2018, stood at 11% compared to 10% in Q1 2017.
- Almarai reported a positive free cash flow of SAR 60mn for the period versus a negative free cash flow of SAR 290mn for Q1 2017 due to the reduction in capital investments in line with the company's long-term strategy, 'Almarai 2025'.
- Almarai's Q1 2018 results were influenced by factors such as growth in the poultry and infant nutrition business and higher efficiencies achieved due to cost optimization. However, considering macroeconomic uncertainty, the shutdown of operations in Qatar, and introduction of expat levy and VAT, we remain neutral toward the company's outlook.

Valuation: We revised our target price upward with a fair value of SAR 54.6 per share in accordance with the company's positive performance. We have maintained our "Neutral" rating for the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	3,232.2	3,383.5	(4.5%)	14,390.6	13,935.5	3.3%
Gross Profit (SAR mn)	1,252.8	1,177.4	6.4%	5,768.4	5,583.6	3.3%
EBITDA (SAR mn)	981.2	874.6	12.2%	4,629.2	4,503.0	2.8%
Net Profit (SAR mn)	339.7	322.2	5.4%	2,466.5	2,160.0	14.2%
EPS basic (SAR)	0.35	0.39	(10.9%)	2.49	2.20	13.0%
Gross Margin (%)	38.8%	34.8%	4.0%	40.1%	40.1%	0.0%
EBITDA Margin (%)	30.4%	25.8%	4.6%	32.2%	32.3%	(0.1%)
Net Profit Margin (%)	10.5%	9.5%	1.0%	17.1%	15.5%	1.6%

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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