

FY19 Results Update

February 02, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	47.1
Target Price (SAR)	49.0
Upside/Downside (%)	4.1%

As of January 27th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	47.1
52-Wk High (SAR)	61.0
52-Wk Low (SAR)	45.6
Total Outstanding Shares (in mn)	1,000
Free Float (%)	23.4%

ALMARAI vs. TASI (Rebased)

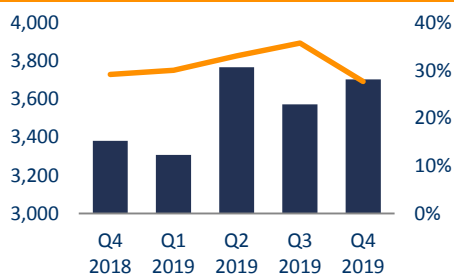


Price Performance (%)	Absolute	Relative
1m	(6.6%)	(4.6%)
6m	(6.1%)	1.2%
12m	(15.7%)	(11.8%)

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 January 27th 2020

Almarai's bottom line shrinks in FY19 as problems in Juice segment persist

Almarai's net profit declined 10.0% YoY to SAR 1.8bn in FY19 due to a sharp fall in net profit in the Dairy and Juice segment that offset the significant growth in net income growth in the Bakery (up 22.5% YoY) and Poultry (up 44.5% YoY) segments. Net profit was further impacted by increased funding expenses due to higher SAIBOR and increase in debt following capital restructuring. The company's revenues for the year rose 5.9% YoY to SAR 14.4bn, aided by growth in revenues across its product categories, except fruit juice. Operating profit declined 1.9% YoY to SAR 2.5bn in FY19 due to higher feed costs, increased labor expenses and several one-off expense items.

Barring Fruit Juice category, the company recorded growth in revenues across product categories that led to overall rise in the revenues; the consumer market in Saudi Arabia returning to growth also contributed to the gain in total revenues. Operating profit declined on higher feed costs related to imported alfalfa, increased marketing expenditure in the Bakery segment and rise in labor costs. Business restructuring and write-off of arable assets in overseas entities, horticulture activities led to losses in the Other category. On the other hand, the company's capex continues to decline with its current investment cycle coming to an end. The company's cash flow more than doubled compared to FY18 primarily due to improvement in operating cash flow. Almarai is also focusing on reducing its gross debt and targets to bring down its Net Debt/EBITDA in the range of 2.5–2.7x over the next two to three years from 3.1x at the end of FY19. Having said this, the performance of its Fruit Juice category remains a concern, with a loss in Dairy and Juice segment negating margin expansion in the Bakery and Poultry segments. We maintain a Neutral rating on the stock.

- Sales increased 5.9% YoY to SAR 14.4bn in FY19 with most of the revenue growth coming in the second half of the year. Despite a decline in the Fruit Juice category, the company maintained its leadership position in the Dairy and Juice segment and managed to grow revenue overall. Volumes in the Bakery and Poultry segments improved which reflected in their higher contribution to revenue. Performance of the infant nutrition business was impacted by removal of subsidy. Geographically, all areas recorded growth in revenues except Bahrain. Besides, dairy products from the KSA were allowed in Kuwait for the first time in 2019 which benefitted the Dairy segment.
- Gross profit rose a marginal 0.7% YoY to SAR 5.4bn in FY19 due to higher feed cost on account of alfalfa imports. Consequently, gross margin for the year dropped to 37.4% in FY19 from 39.3% in FY18. On a quarterly basis, gross profit was impacted by an unfavorable product mix and inventory adjustments for Infant Nutrition and horticulture businesses.
- Operating income fell 1.9% YoY to SAR 2.5bn in FY19 due to higher marketing expenditure, especially in the Bakery segment, and increased labor expenses.
- Almarai's bottom line declined 10.0% YoY to SAR 1.8n in FY19 owing to an increase in financing costs due to rising SAIBOR and debt restructuring.
- The company announced a dividend of 8.5% in FY19 at SAR 0.85 per share, totaling SAR 850mn for its 1 billion shareholders.

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

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	3,704	3,381	9.5%	15,132	14,351	5.4%
Gross Profit (SAR mn)	1,294	1,263	2.4%	5,659	5,367	5.4%
EBITDA (SAR mn)	1,026	989	3.8%	4,633	4,546	1.9%
Net Profit (SAR mn)	312	371	(15.9%)	1,953	1,812	7.8%
EPS basic (SAR)*	0.32	0.37	(15.7%)	2.0	1.8	7.8%
Gross Margin (%)	34.9%	37.4%	(2.4%)	37.4%	37.4%	0.0%
EBITDA Margin (%)	27.7%	29.2%	(1.5%)	30.6%	31.7%	(1.1%)
Net Profit Margin (%)	8.4%	11.0%	(2.5%)	12.9%	12.6%	0.3%

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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