

1Q20 Results Update

April 23, 2020

Recommendation Neutral

Previous Recommendation	Neutral
Current Price (SAR)	47.6
Target Price (SAR)	49.0
Upside/Downside (%)	2.9%

As of April 21<sup>st</sup>, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	47.6
52-Wk High (SAR)	61.0
52-Wk Low (SAR)	36.5
Total Outstanding Shares (in mn)	1,000
Free Float (%)	41.8%

ALMARAI vs. TASI (Rebased)

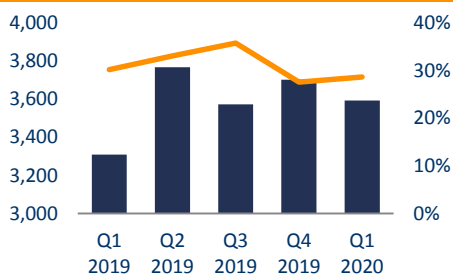


Price Performance (%)	Absolute	Relative
1m	18.9%	7.6%
6m	2.7%	14.5%
12m	(17.9%)	9.5%

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 April 21<sup>st</sup> 2020

Higher revenues bolster Almarai's net profit in 1Q20

Almarai's revenues for the quarter were up 8.6% YoY to SAR 3.6bn, aided by double-digit growth in the food, dairy, and poultry segments. The revenue rise was further supported by growth in the Modern Trade and Food Services channels. The company's operating profit rose slower than revenues at 5.4% YoY to SAR 512.8mn, given the increased input costs as well as higher selling and distribution expense. Almarai's net profit increased at 14.0% YoY to SAR 383.0mn, benefitting from the factors mentioned above, lower other expenses, and stable finance costs.

Almarai continues to be the market leader in most of the categories it operates in and is likely maintain a stable market share. The company started the new year on a strong note, with three of its four business divisions leading with robust performance, which are key to improving the underlying profit margins. The company has a strong balance sheet with a declining leverage ratio and the capex is also expected to reduce. The company's free cash flow continues to improve on higher EBITDA and lower capex. Almarai paid SAR 1.1bn to lower its gross debt. Almarai aims to bring down its net debt/EBITDA in the range of 2.5–2.7x in the short term from 3.1x at the end of FY19. In view of the COVID-19 crisis, we expect the company to balance out the underperformance of some of its categories with the improved demand from most product categories. Moreover, the company's dairy segment may be impacted by the subsidy removal on non-green fodder, with the financial impact seen in the subsequent years after 2020. We maintain a Neutral rating on the stock.

- Sales were up 8.6% YoY to SAR 3.6bn in 1Q20, driven by significant growth in the food, long-life dairy, and poultry categories. Furthermore, growth in the fresh products market was stable, while the long-life product market, including poultry, witnessed high growth in the aftermath of COVID-19. Geographically, revenues from all the countries in which it operates reported growth, except Oman.
- Gross profit grew at 7.7% YOY to SAR 1.3bn, slower than revenues due to the higher input costs for the juice category, alfalfa cost, and labor cost. The gross profit margin, however, declined to 34.9% from 35.2% a year ago.
- Operating income was up 5.4% to SAR 512.8mn. Selling and distribution expenses increased due to higher labor costs, increased promotions, and trade support cost to support sales development in various channels, particularly Modern Trade. On the other hand, other expenses decreased SAR 15.9mn, mainly due to losses from the sale of dairy herd.
- Lower finance cost was driven by lower rates and lower debt, which led to a 14.0% YoY rise in net profit to SAR 383mn in addition to the above-mentioned factors.
- In April 2020, the company approved a dividend of 8.5% for FY19 at SAR 0.85 per share, totaling SAR 850mn for its one billion shareholders.
- In April 2020, the company approved an investment of SAR 275mn to expand the existing processing facilities in the poultry segment, along with the development of the grandparent farming and production facilities.
- Almarai appointed Mr. Danko Maras as the new Chief Financial Officer.

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

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	3,592	3,309	8.6%	14,857	14,351	3.5%
Gross Profit (SAR mn)	1,253	1,164	7.7%	5,556	5,367	3.5%
EBITDA (SAR mn)	1,030	1,000	3.0%	4,584	4,546	0.8%
Net Profit (SAR mn)	383	336	14.0%	1,909	1,812	5.3%
EPS basic (SAR)*	0.39	0.34	14.7%	1.9	1.8	5.3%
Gross Margin (%)	34.9%	35.2%	(0.3%)	37.4%	37.4%	0.0%
EBITDA Margin (%)	28.7%	30.2%	(1.5%)	30.9%	31.7%	(0.8%)
Net Profit Margin (%)	10.7%	10.2%	0.5%	12.8%	12.6%	0.2%

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

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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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