

3Q20 Results Update

November 01, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	54.6
Target Price (SAR)	51.0
Upside/Downside (%)	(6.6%)

As of October 13, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	54.6
52-Wk High (SAR)	56.6
52-Wk Low (SAR)	36.5
Total Outstanding Shares (in mn)	1,000
Free Float (%)	25.5%

ALMARAI vs. TASI (Rebased)

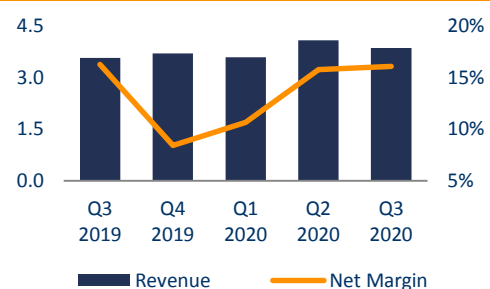


Price Performance (%)	Absolute	Relative
1m	(0.7%)	(5.6%)
6m	15.6%	(10.8%)
12m	17.2%	4.5%

Major Shareholders (%)

Savola Group Company	34.52%
Prince Sultan M.S. Al Saud	23.69%
Public Investment Fund	16.32%

Quarterly Sales (SAR bn) and Net Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of October 13, 2020

Stable top line in 3Q20 owing to robust Dairy & Juice segment performance

Almarai's revenues grew 8.1% to SAR 3.9bn in 3Q20 owing to strong growth in Foods and Long-Life Dairy segments. Cost of sales rose due to higher input and labor costs. Operating profit rose marginally to SAR 0.8bn on higher SG&A expenses. Due to lower financing and zakat expenses, the net profit (attributable to shareholders) increased 6.9% YoY to SAR 0.6bn during the quarter. The company's margins shrank in 3Q20, with net margin narrowing to 16.1% from 16.3% in 3Q19.

Almarai continued to be the market leader across most of the product categories in KSA in 3Q20 and is likely to retain its strong market share going forward. Despite COVID-19-related issues, the company registered growth across most of its segments. Almarai's Dairy & Juice and Poultry segments recorded stable growth in revenue and bottom line in 3Q20; however, the Bakery segment failed to register growth due to a decline in sales volume in the single-serve range. Relaxation of the restrictions and reopening of restaurants are key tailwinds and are likely to boost the top line in the upcoming quarters. The company generated stable free cash flow owing to higher EBITDA and lower capex, which offset high working capital driven by increase in credit sales and inventory buildup. Almarai aims to reduce its net debt-to-EBITDA ratio to between 2.5x and 2.75x in the forthcoming six months. However, rising feed and labor costs and possible resumption in expat exodus after easing of travel restrictions pose key challenges to the company. Therefore, we maintain our "Neutral" rating on the stock.

- Revenue grew 8.1% YoY to SAR 3.9bn in 3Q20, primarily supported by strong growth in the Dairy & Juice segment. All sub-segments, except Bakery, registered growth in sales during the quarter. Foods and Long-Life Dairy sub-segments remained the most noteworthy performers, recording 15% YoY and 21% YoY growth, respectively.
- In terms of sales channel, the retail channel and exports contributed the most to revenue growth during the period. Although the food service channel reported 2% YoY decline in sales in 3Q20, it recovered sharply from the 27% YoY decline in 2Q20.
- In terms of geography, KSA remained the key market for Almarai and accounted for SAR 115mn of the total revenue growth of SAR 290mn. This was followed by Egypt (SAR 51mn) and Kuwait (SAR 25mn).
- Gross profit (up 4.9% YoY to SAR 1.5bn) grew slower than revenue due to higher input costs for juice category ingredients as well as feed and labor costs. Gross profit margin shrank to 39.2% from 40.4% in 3Q19.
- Selling and distribution expenses rose 8.1% YoY to SAR 642.0mn owing to a surge in labor and distribution costs during the quarter. G&A expenses rose 5.6% YoY to SAR 84.0mn due to cost control initiatives. Due to these factors, operating income increased marginally to SAR 0.8bn in 3Q20. Operating margin fell to 19.4% from 20.9% in 3Q19.
- Lower interest cost capitalization from Almarai's foreign subsidiaries was offset by reduced debt and interest rates in the quarter, resulting in a decline in financing charges. In addition to this, a reduction in zakat expense led to a 6.9% YoY rise in the net profit (attributable to shareholders) to SAR 0.6bn in 3Q20. However, net margin contracted to 16.1% from 16.3% in 3Q19.

Valuation: We revise our target price upward to a fair value of SAR 51.0 per share and maintain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	3.9	3.6	8.1%	15.2	14.4	6.0%
Gross Profit (SAR bn)	1.5	1.4	4.9%	5.6	5.4	4.9%
EBITDA (SAR bn)	1.3	1.3	1.9%	4.6	4.5	2.1%
Net Profit (SAR bn)*	0.6	0.6	6.9%	2.0	1.8	9.1%
EPS Basic (SAR)*	0.63	0.59	7.6%	2.00	1.83	9.1%
Gross Margin (%)	39.2%	40.4%	(1.2%)	37.0%	37.4%	(0.4%)
EBITDA Margin (%)	33.7%	35.8%	(2.1%)	30.5%	31.7%	(1.2%)
Net Profit Margin (%)*	16.1%	16.3%	(0.2%)	13.0%	12.6%	0.4%

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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