

FY20 Results Update

February 3, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	51.5
Target Price (SAR)	52.0
Upside/Downside (%)	1.0%

As of February 3, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	51.5
52-Wk High (SAR)	58.4
52-Wk Low (SAR)	36.5
Total Outstanding Shares (in mn)	1,000
Free Float (%)	41.8%

ALMARAI vs. TASI (Rebased)

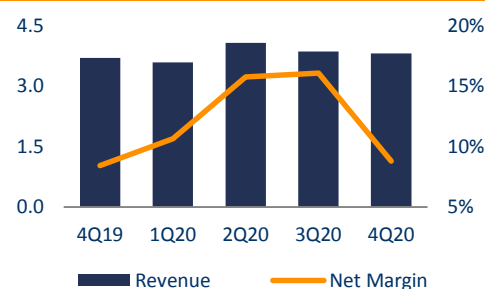


Price Performance (%)	Absolute	Relative
1m	(4.6%)	(3.8%)
6m	(3.9%)	(18.4%)
12m	9.2%	3.9%

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 February 3, 2020

Steady growth in Dairy & Juice and Poultry segments supports FY20 topline

Almarai's revenue grew 7.0% to SAR 15.4bn in FY20 due to strong growth seen in the Foods and Long-Life Dairy sub-segments. Gross profit inched up 3.1% YoY to SAR 5.5bn, but gross margin contracted by 135 bps to 36.0%. Operating profit rose 2.0% YoY to SAR 2.5bn due to a higher top line and less other expense and impairment charges. Due to lower financing and zakat expenses, the net profit (attributable to shareholders) increased 9.5% YoY to SAR 2.0bn during the year. Simultaneously, net margin widened in FY20 to 12.9% from 12.6% in FY19.

Almarai maintained its leadership position in the majority of categories it operates in across KSA during FY20; we anticipate it would retain its market share in the near term. The company's Dairy & Juice and Poultry segments registered robust growth in FY20 sales and profit. The Poultry segment is expected to register stable growth as the company reaps the benefits of capacity expansion in the segment. However, the Bakery segment posted a decline in sales volume as schools remained closed in 2H20, which weighed on the sales of the single-serve range. The company recorded solid fundamentals with a steady free cash flow on account of lower capex in FY20. Moreover, Almarai pared its debt in the period, bringing down its net-debt-to-EBITDA ratio to 2.7x and its net-debt-to-equity ratio to 0.7x, from 3.0x and 0.8x in FY19, respectively. A gradual recovery in economic activities and a rebound in consumer demand to pre-COVID-19 levels are anticipated to support the company's profitability in the upcoming quarters. However, rising feed and labor costs and a resumption of the expat exodus on easing of travel restrictions pose key challenges to the company's operations. Therefore, we maintain our "Neutral" rating on the stock.

- Revenue grew 7.0% YoY to SAR 15.4bn in FY20, primarily supported by strong growth in the Dairy & Juice and Poultry segments. The Foods and Long-Life Dairy sub-segments recorded 15% YoY and 18% YoY growth in revenue, respectively, during the period.
- In terms of sales channel, the retail channel and exports contributed the most to revenue growth during the period. The food service channel reported a 3% YoY decline in sales in FY20.
- KSA remained Almarai's key market, accounting for 67% of the company's total revenue generated in FY20. This was followed by the UAE (9%) and Egypt (6%).
- Gross profit (up 3.1% YoY to SAR 5.5bn) grew slower than revenue as higher costs of juice ingredients, feed and labor increased the cost of sales. Consequently, gross margin shrank to 36.0% from 37.4% in FY19.
- Higher gross profit combined with lower other expense and impairments offset the increase in SG&A expenses. This led to a 2.0% YoY rise in operating income to SAR 2.5bn in FY20. However, operating margin fell to 16.4% from 17.2% in FY19.
- Lower finance charges and zakat expense resulted in a 9.5% YoY rise in net profit to SAR 2.0bn in FY20. Subsequently, net margin expanded to 12.9% in the year from 12.6% in FY19.
- On November 17, Almarai appointed Bader Abdullah Al Issa as the Managing Director (MD) of the company, following the resignation of Majed Mazen Nofal from the position of CEO. Almarai's Board of Directors (BoD) stated that the new MD will manage the company's operations until a new CEO is appointed.
- On December 15, Almarai's BoD recommended a cash dividend of SAR 1.0 per share, equivalent to 10% of the company's share capital for FY20.

Valuation: We revise our target price upward to a fair value of SAR 52.0 per share and maintain our "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	%YoY
Revenues (SAR bn)	3.8	3.7	3.1%	15.8	15.4	3.2%
Gross Profit (SAR bn)	1.2	1.3	(4.7%)	5.9	5.5	6.1%
EBITDA (SAR bn)	0.9	1.0	(10.2%)	4.7	4.5	3.3%
Net Profit (SAR bn)*	0.3	0.3	7.7%	2.1	2.0	4.8%
EPS Basic (SAR)*	0.34	0.32	8.4%	2.12	2.02	4.8%
Gross Margin (%)	32.3%	34.9%	(2.7%)	37.0%	36.0%	1.0%
EBITDA Margin (%)	23.9%	27.4%	(3.6%)	29.5%	29.5%	0.0%
Net Profit Margin (%)*	8.8%	8.4%	0.4%	13.1%	12.9%	0.2%

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

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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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