

April 23, 2021

**1Q21 Results Update**

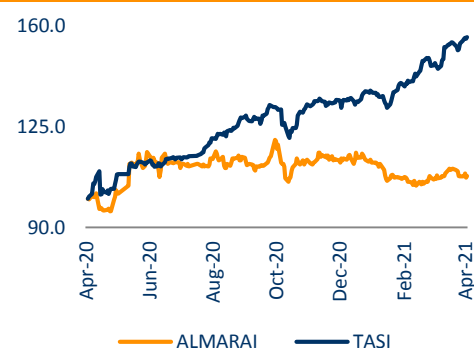
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	52.0
Target Price (SAR)	53.0
Upside/Downside (%)	1.9%

As of April 22, 2021

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	52.0
52-Wk High (SAR)	58.4
52-Wk Low (SAR)	42.1
Total Outstanding Shares (in mn)	1,000
Free Float (%)	24.6%

**ALMARAI vs. TASI (Rebased)**

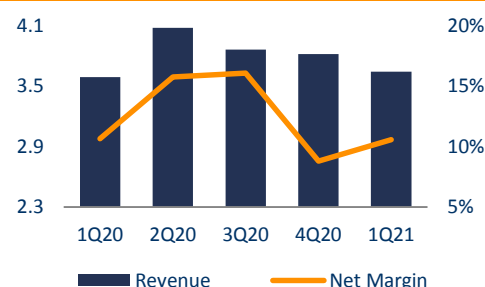


Price Performance (%)	Absolute	Relative
1m	0.8%	(5.4%)
6m	(9.1%)	(28.4%)
12m	7.9%	(48.1%)

**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 April 22, 2021

**Higher revenue from Dairy segment aids top-line growth in 1Q21**

Almarai's revenue increased 1.5% YoY to SAR 3.6bn in 1Q21 due to steady growth in the Dairy segment. Gross profit was down 1.4% YoY to SAR 1.2bn, while gross margin shrank 99.9 bps to 33.9%. Operating profit fell 2.0% YoY to SAR 502.4mn due to a rise in other operating expenses, while operating margin narrowed 49.2 bps to 13.8% in 1Q21. Lower financing expense led to a 0.8% YoY rise in net profit (attributable to shareholders) to SAR 385.9mn in 1Q21. However, net margin contracted 7.3 bps to 10.6% in 1Q21.

Almarai recorded measured growth in performance in 1Q21 due to the impact of COVID-19 pandemic, but continued to hold the leadership position in majority of the categories through which it operates across KSA. The company's 1Q21 sales were mainly driven by the Dairy & Juice (+2.4% YoY to SAR 2.6bn) segment on steady growth in the Fresh Dairy and Long-Life Dairy sub-segments. However, the Bakery segment posted a drop in sales volume as closure of schools during the period led to lower sales of single-serve products. The company reported solid fundamentals with a steady free cash flow on account of lower capex and improvement in working capital management in 1Q21. Moreover, Almarai pared its debt during the quarter, bringing down its net-debt-to-EBITDA ratio to 2.6x and debt-to-equity ratio to 0.7x, respectively, in 1Q21#. Though gradual recovery in economic activity could support the company's operations in the near term, reduced subsidies and rising feed costs, along with a further exodus of expatriates, could dent Almarai's profitability. Therefore, we maintain a "Neutral" rating on the stock.

- Revenue grew 1.5% YoY to SAR 3.6bn in 1Q21, primarily supported by strong growth in the Dairy segment. The Fresh Dairy and Long-Life Dairy sub-segments recorded 3% YoY and 10% YoY growth in revenue, respectively, during the quarter.
- In terms of sales channel, Food Service and Exports channels reported 8% YoY and 41% YoY growth, respectively, in 1Q21.
- Geographically, Egypt and Jordan contributed the most to revenue growth in 1Q21. KSA remained Almarai's key market, accounting for 67% of the company's total revenue in 1Q21.
- Gross profit declined 1.4% YoY to SAR 1.2bn as reduced subsidies and higher feed costs resulted in a 3.0% YoY increase in cost of sales to SAR 2.4bn. Consequently, gross margin shrank to 33.9% from 34.9% in 1Q20.
- Lower gross profit, combined with an increase in other operating expenses, offset the drop in SG&A expense and led to a 2.0% YoY dip in operating income to SAR 502.4mn in 1Q21. As a result, operating margin tightened to 13.8% from 14.3% in 1Q20.
- Lower finance charges offset higher tax expenses and resulted in a 0.8% YoY rise in net profit to SAR 385.9mn in 1Q21. However, net margin contracted to 10.6% from 10.7% in 1Q20.
- On March 4, Almarai announced the appointment of Abdullah Nasser Al Bader as CEO of the company, effective from March 7, 2021.
- On March 15, Almarai announced it had entered into a sale and purchase agreement with the shareholders of Bakemart UAE and Bakemart Bahrain to purchase 100% stake in these companies for an enterprise value of AED 93.5mn (SAR 95.5mn). The acquisition will be financed through Almarai's cash flows and help expand its product offering in the Bakery segment.
- On April 14, Almarai's Board recommended a cash dividend of SAR 1.0 per share for FY20, equivalent to SAR 1.0bn or 10% of the company's share capital.

**Valuation:** We revise our target price upward to a fair value of SAR 53.0 per share and maintain our "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	%YoY
Revenues (SAR bn)	3.6	3.6	1.5%	15.8	15.4	3.2%
Gross Profit (SAR bn)	1.2	1.3	(1.4%)	5.9	5.5	6.1%
EBITDA (SAR bn)	1.0	1.0	1.9%	4.7	4.5	3.3%
Net Profit (SAR bn)*	0.4	0.4	0.8%	2.1	2.0	4.8%
EPS Basic (SAR)*	0.39	0.39	0.8%	2.12	2.02	4.8%
Gross Margin (%)	33.9%	34.9%	(1.0%)	37.0%	36.0%	1.0%
EBITDA Margin (%)	27.9%	27.8%	0.1%	29.5%	29.5%	0.0%
Net Profit Margin (%)*	10.6%	10.7%	(0.1%)	13.1%	12.9%	0.2%

Source: Company Financials, FALCOM Research; \*attributable to shareholders; #TTM 1Q21

1Q21 Results Update

April 23, 2021

## 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.

## FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

## Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.