

2Q21 Results Update

July 28, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	58.5
Target Price (SAR)	55.0
Upside/Downside (%)	(6.0%)

As of July 27, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	58.5
52-Wk High (SAR)	64.9
52-Wk Low (SAR)	50.0
Total Outstanding Shares (in mn)	1,000
Free Float (%)	40.9%

ALMARAI vs. TASI (Rebased)

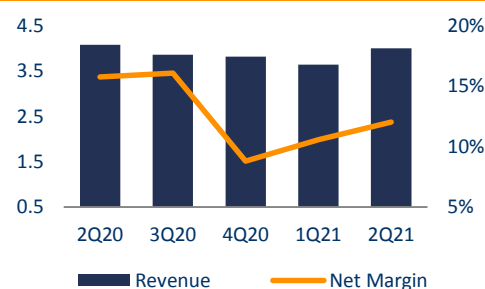


Price Performance (%)	Absolute	Relative
1m	(7.6%)	(7.1%)
6m	9.3%	(14.9%)
12m	8.3%	(38.5%)

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 July 27, 2021

Lower top line and higher feed costs weigh on bottom line in 2Q21

Almarai's revenue decreased by 1.9% YoY to SAR 4.0bn in 2Q21 due to a decline in revenue across all three segments, namely dairy & juice, bakery, and poultry. Its gross profit was down 11.7% YoY to SAR 1.4bn on higher cost of sales, while gross margin shrank by 376 bps to 33.8%. Operating profit fell by 20.8% YoY to SAR 601.6mn, while operating margin narrowed by 358 bps to 15.0% in 2Q21. Lower margins led to a 25.2% YoY plunge in net profit (attributable to shareholders) to SAR 482.0mn in 2Q21. Consequently, net margin declined by 374 bps to 12.0% in 2Q21.

Almarai recorded a dip in its performance in 1H21 as top line and bottom line fell during the period. Sales volume was high in 1H20 as consumers shifted to pantry loading amid the pandemic and before the tripling of VAT rate kicked in; this hurt YoY sales growth in 1H21. The decline in the company's 1H21 sales was mainly due to the bakery (down 7.6% YoY to SAR 792.0mn) and poultry (down 4.7% YoY to SAR 1.1bn) segments. The bakery segment posted a drop in sales and profit due to the closure of schools and high supply chain fixed costs, while the poultry segment's revenue and bottom line were impacted by an unfavorable channel mix and lower subsidy. The company implemented several cost control initiatives in 2Q21 which led to steady SG&A expense and lower finance costs. The company also remained fundamentally strong with steady cash flows and leverage (debt-to-equity ratio of 0.7x) during the quarter. We anticipate a gradual recovery in economic activity would support the company's operations in the coming quarters, but reduced subsidies and rising feed costs due to high commodity prices could dent Almarai's margins. We expect an increase in product prices to ease the contraction in margins. However, we maintain a "Neutral" rating on the stock due to the countervailing factors mentioned above.

- Revenue dipped by 1.9% YoY to SAR 4.0bn in 2Q21, primarily due to a decline in revenue in the food, poultry, and bakery sub-segments. However, fresh dairy, long-life dairy, and fruit juice sub-segments recorded growth in revenue during the quarter.
- In terms of sales channel, food service and exports channels reported sharp YoY growth in 2Q21, but were offset by a decline in revenue from the retail channel.
- Gross profit fell by 11.7% YoY to SAR 1.4bn as reduced subsidies and higher feed costs led to a 4.1% YoY increase in cost of sales to SAR 2.6bn. Consequently, gross margin shrank to 33.8% from 37.6% in 2Q20.
- Lower gross profit resulted in a 20.8% YoY drop in operating income to SAR 601.6mn in 2Q21, leading to contraction in operating margin to 15.0% from 18.6% in 2Q20.
- Lower margins offset the decline in finance and tax expenses, and led to a 25.2% YoY fall in net profit to SAR 482.0mn. Subsequently, net margin tightened to 12.0% from 15.8% in 1Q20.
- On May 2, Almarai's Board approved the SAR 6.6bn capital investment to double its market share in the KSA's poultry market. The expansion will be funded through operating cash flows and is expected to be completed in 5 years.
- On May 9, Almarai's subsidiary Western Bakeries Co. acquired an additional 15% stake (total stake of 75%) in Modern Food Industries LLC (MFI) from Olayan Financing Co. for SAR 150mn.
- On June 1, Almarai entered into an agreement to purchase Bingham Beverages Manufacturing LLC's production facility in the UAE for AED 215mn (SAR 219.5mn).
- On July 8, Almarai announced that it had received the approval from the General Authority for Competition to complete the acquisition of the entire business of Bakemart bakery.

Valuation: We revise our target price upward to a fair value of SAR 55.0 per share and maintain our "Neutral" rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	%YoY
Revenues (SAR bn)	4.0	4.1	(1.9%)	15.8	15.4	3.2%
Gross Profit (SAR bn)	1.4	1.5	(11.7%)	5.5	5.5	0.2%
EBITDA (SAR bn)	1.1	1.3	(17.3%)	4.5	4.5	(0.7%)
Net Profit (SAR bn)*	0.5	0.6	(25.2%)	1.9	2.0	(2.5%)
EPS Basic (SAR)*	0.49	0.66	(25.1%)	1.97	2.02	(2.5%)
Gross Margin (%)	33.8%	37.6%	(3.8%)	35.0%	36.0%	(1.0%)
EBITDA Margin (%)	27.1%	32.2%	(5.1%)	28.4%	29.5%	(1.1%)
Net Profit Margin (%)*	12.0%	15.8%	(3.7%)	12.2%	12.9%	(0.7%)

Source: Company Financials, FALCOM Research; *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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