

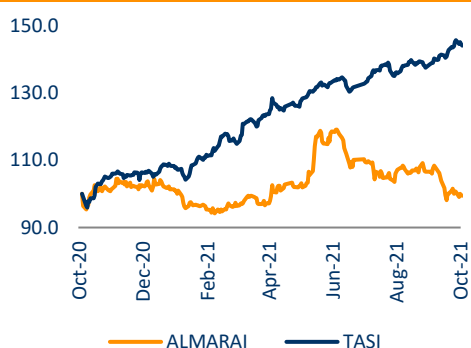
**3Q21 Results Update**

**October 28, 2021**

<b>Recommendation</b>	<b>Neutral</b>
Previous Recommendation	Neutral
Current Price (SAR)	53.1
Target Price (SAR)	52.0
Upside/Downside (%)	(2.3%)
<i>As of October 27, 2021</i>	

<b>Key Data (Source: Bloomberg)</b>	
Market Cap (SAR bn)	53.2
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)**

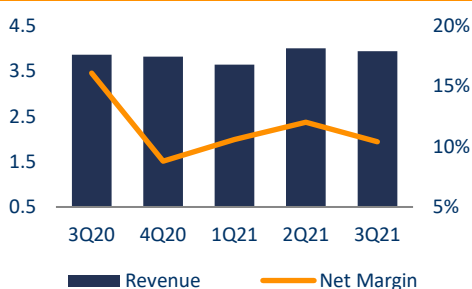


Price Performance (%)	Absolute	Relative
1m	(6.7%)	(10.5%)
6m	0.2%	(14.8%)
12m	(0.6%)	(44.6%)

**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 27, 2021

**Lower subsidies and higher feed costs impacted margins in 3Q21**

Almarai's revenue climbed 2.0% YoY to SAR 3.9bn in 3Q21, primarily driven by a 11.5% and 42.5% rise in the bakery and other activities segments, slightly offset by a 1.8% fall in the dairy and juice segment to SAR 2.7bn. A 13.5% increase in cost of sales resulted in the company's gross profit to shrink 15.8% YoY to SAR 1.3bn, while gross margin contracted 685bps to 32.4% in 3Q21. Operating profit dropped 30.9% YoY to SAR 518.6mn, while operating margin narrowed by 626 bps to 13.2% in 3Q21. Lower margins led to a 34.2% YoY plunge in net profit (ascribed to shareholders) to SAR 409.1mn in 3Q21. Consequently, net margin declined by 571bps to 10.4% in 3Q21.

Almarai's top line marginally improved in 3Q21. Rise in sales revenue was largely ascribed to improved performance in Egypt (up 31% YoY), Jordan (up 49% YoY), and other countries (up 24% YoY). Core product revenue declined 3% YoY on average, mainly driven by lower food sales due to base effect of higher purchases of longer shelf products last year, partially offset by growth in bakery sales due to partial opening of educational institutions. Operating profit plummeted in 3Q21, as subsidies on corn and soyabean were lifted in 2021 and feed cost increased due to 100% imported alfalfa and higher commodities cost. The company implemented several cost control initiatives in the quarter, which led to steady SG&A expenses and lower finance costs. The company remained fundamentally strong with steady cash flows and marginally improved leverage (debt-to-equity ratio of 0.7x as against 0.8x in 3Q20) during the quarter. The company's performance is expected to further improve in the last quarter, driven by gradual recovery in economic activity due to the global vaccination drive. However, reduced subsidies and rising feed costs due to high commodity prices could dent Almarai's margins. Due to the abovementioned factors, we maintain a "Neutral" rating on the stock.

- Revenue rose 2.0% YoY to SAR 3.9bn in 3Q21, primarily driven by increased revenue from the bakery and other activities segments in the quarter.
- Despite continued commercial normalization following COVID-19 restrictions, core product revenue dropped 3% within GCC countries. However, the group recorded strong performance in Egypt, Jordan, and export market across products.
- Gross profit fell 15.8% YoY to SAR 1.3bn due to structural adjustments related to subsidy reduction, driven by no subsidy on corn and soyabean in 2021 and without the benefit of subsidy overlap in poultry in 2020. Consequently, gross margin shrank to 32.4% in 3Q21 from 39.2% in 3Q20.
- Lower gross profit coupled with higher Selling & Distribution and General & Administration expenses resulted in a 30.9% YoY drop in operating income to SAR 518.6mn in 3Q21, leading to contraction in operating margin to 13.2% from 19.4% in 3Q20.
- Lower margins offset the decline in finance and tax expenses and led to a 34.2% YoY fall in net profit to SAR 409.1mn. Subsequently, net margin tightened to 10.4% from 16.1% in 3Q20.
- Almarai Co. sold 5.6mn shares of its holding in Mobile Telecommunication Company Saudi Arabia (Zain KSA) for a total cash value of SAR 81.1mn during the third quarter of 2021. The company is planning to disinvest its remaining stake (3.9 million shares) in the company within the next 12 months.

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

	3Q21	3Q20	% YoY	FY21E	FY20	%YoY
Revenues (SAR bn)	3.9	3.9	2.0%	15.6	15.4	1.6%
Gross Profit (SAR bn)	1.3	1.5	(15.8%)	5.2	5.5	(6.2%)
EBITDA (SAR bn)	1.0	1.3	(21.7%)	4.2	4.5	(6.2%)
Net Profit (SAR bn)*	0.4	0.6	(34.2%)	1.7	2.0	(14.2%)
EPS Basic (SAR)*	0.42	0.63	(34.1%)	1.74	2.02	(14.2%)
Gross Margin (%)	32.4%	39.2%	(6.8%)	33.3%	36.0%	(2.8%)
EBITDA Margin (%)	25.9%	33.7%	(7.8%)	27.2%	29.5%	(2.3%)
Net Profit Margin (%)*	10.4%	16.1%	(5.7%)	10.9%	12.9%	(2.0%)

Source: Company Financials, FALCOM Research; \*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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