

1Q22 Results Update

June 1, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	54.8
Target Price (SAR)	52.0
Upside/Downside (%)	(5.1%)
<i>As of May 31, 2022</i>	

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	54.8
52-wk High (SAR)	64.9
52-wk Low (SAR)	46.3
Total Outstanding shares (in mn)	1,000
Free Float (%)	43.0%

ALMARAI vs. TASI (Rebased)

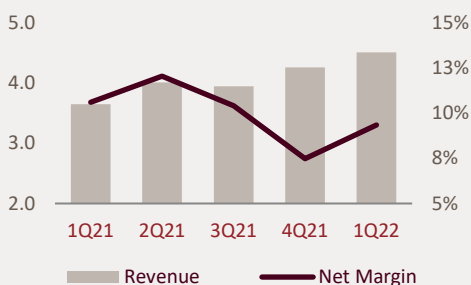


Price Performance (%)	Absolute	Relative
1m	5.4%	11.3%
6m	14.5%	(5.5%)
12m	(0.9%)	(22.8%)

Major Shareholders (%)

Savola Group Company	34.52%
Sultan holding Company	23.70%
Public Investment Fund	16.32%

Quarterly Sales (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of May 31, 2022

Improved volume growth drives topline in 1Q22

Almarai's revenue increased 23.6% YoY to SAR 4.5bn in 1Q22, primarily driven by 20.7%, 46.1% and 29.7% rise in Dairy and Juice, Bakery, and other activities segments, respectively. Cost of sales grew 31.6% YoY, which led to a 7.8% YoY increase in the company's gross profit to SAR 1.3bn, while gross margin narrowed 431bps to 29.6% during the quarter. Despite higher selling, general and administrative expenses, the company's operating profit climbed 8.9% YoY to SAR 547.1mn. However, operating margin contracted 163bps to 12.1% in 1Q22. Almarai's net profit (ascribed to shareholders) grew 8.9% YoY to SAR 420.5mn in 1Q22. Nonetheless, the company's net margin declined 125bps to 9.3% in 1Q22.

Almarai reported strong performance in 1Q22 on improved trading conditions post COVID-19 movement restrictions during the period. Improved performance was reflected in a 23.6% YoY rise in the topline, its strongest growth in the last five years, driven by improved revenue contribution from the KSA (up 22.7% YoY), other GCC (up 24.7% YoY), and other countries (up 27.2% YoY). Increase in topline was also attributable to the opening of educational institutions and higher number of visitors in the region following the removal of travel restrictions in the Kingdom. Despite the rise in topline, Almarai's gross margin narrowed during the quarter on higher input cost, driven by increase in the prices of corn, soya, and dairy commodities and inflated transportation charges. However, strong cost control resulted in overhead growth in line with volume growth. Lower losses from the sale of dairy herd offset the rise in SG&A expenses due to higher activity and pre-loading of Ramadan products, leading to the company's operating profit rising in 1Q22. The company's cost control measures led to steady SG&A expenses and lower finance costs. The company remained fundamentally strong as leverage continued to marginally improve (debt-to-equity ratio of 0.6x in 1Q22 as against 0.7x in 1Q21) during the quarter. Capex spending is in line with its current five-year plan. The company's performance is expected to continue to improve in the upcoming quarters, driven by normalized economic activity, reopening of educational institutions, and steady improvement in the export market. However, the management indicates the outlook for commodity price outlook remains challenging for the rest of FY22, which could dent Almarai's margins. Due to the abovementioned factors, we maintain a "Neutral" rating on the stock.

- Revenue increased 23.6% YoY to SAR 4.5bn in 1Q22, primarily driven by higher revenue contribution from the Dairy and Juice Bakery and other activities segments during the year.
- Gross profit grew 7.8% YoY to SAR 1.3bn in 1Q22 owing to higher input costs driven by higher corn, soya, and dairy commodities. Additionally, increase in transportation charges amplified the cost inflation. Gross margin shrank to 29.6% in 1Q22 from 33.9% in 1Q21.
- Higher topline countervailed the rise in SG&A expenses and resulted in an 8.9% YoY rise in operating income to SAR 547.1mn in 1Q22. However, operating margin contracted to 12.1% from 13.8% in 1Q22.
- Higher operating income offset the rise in finance and zakat expenses and led to an 8.9% YoY rise in net profit to SAR 420.5bn. However, net margin narrowed to 9.3% from 10.6% in 1Q22.

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

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR bn)	4.5	3.6	23.6%	16.9	15.8	6.8%
Gross Profit (SAR bn)	1.3	1.2	7.8%	5.4	5.1	7.6%
EBIT (SAR bn)	0.5	0.5	8.9%	2.2	2.0	8.7%
Net Profit (SAR bn)*	0.4	0.4	8.9%	1.7	1.6	9.0%
EPS Basic (SAR)*	0.43	0.39	8.9%	1.74	1.59	9.0%
Gross Margin (%)	29.6%	33.9%	(4.3%)	32.2%	31.9%	0.3%
EBIT Margin (%)	12.1%	13.8%	(1.6%)	12.9%	12.7%	0.2%
Net Profit Margin (%)*	9.3%	10.6%	(1.3%)	10.1%	9.9%	0.2%

Source: Company Financials, Yaqeen Capital *attributable to shareholders

Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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