

FY21 Results Update

February 14, 2022

Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	49.3
Target Price (SAR)	52.0
Upside/Downside (%)	5.5%

As of February 13, 2022

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	49.3
52-wk High (SAR)	64.9
52-wk Low (SAR)	46.3
Total Outstanding shares (in mn)	1,000
Free Float (%)	40.9%

ALMARAI vs. TASI (Rebased)

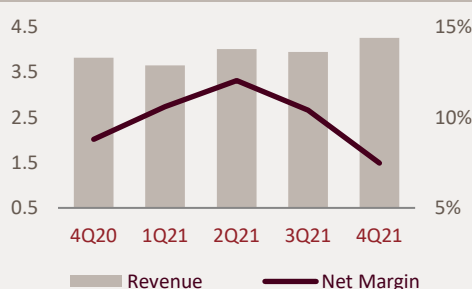


Price Performance (%)	Absolute	Relative
1m	1.5%	2.0%
6m	(12.0%)	(18.2%)
12m	(4.8%)	(39.3%)

Major Shareholders (%)

Savola Group Company	34.52%
Public Investment Fund	16.32%
Prince Sultan M.S. Al Saud	14.71%
Sultan holding company	8.98%

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



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of February 13, 2022

Higher feed costs, lower subsidies impacted margins in FY21

Almarai's revenue climbed 3.2% YoY to SAR15.8bn in FY21, primarily driven by 2.0% and 44.2% rise in the Dairy & Juice and other activities segments. Cost of sales rose 9.9% YoY, which resulted in the company's gross profit to decline 8.6% YoY to SAR5.1bn, while gross margin narrowed 413bps to 31.9% in FY21. Operating profit dropped 20.1% YoY to SAR2.0bn, while operating margin contracted 371bps to 12.7% in FY21. Consequently, Almarai's net profit plummeted 21.2% YoY (ascribed to shareholders) to SAR1.6bn in FY21, while net margin declined by 306bps to 9.9% in FY21. Almarai faced a testing year in 2021 owing to base-year effect of COVID-19 and VAT rate change related to purchases. However, the company reported slightly improved performance in FY21 as top line rose. Rise in sales revenue was attributable to improved performance in Egypt (up 29% YoY), Jordan (up 39% YoY), and other countries (up 39% YoY). Increase in product revenue was mainly driven by higher contribution from fresh dairies, LLD and other sales (infant nutrition export and crop sales), while food sales slipped 8% YoY due to de-stocking effect of higher sales in FY20. Operating profit plummeted in FY21, as subsidies on corn and soyabean were lifted in 2021 and feed cost increased due to 100% imported alfalfa, higher commodities cost and unfavourable revenue mix. The company's cost control measures 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 0.6x in FY21 as against 0.7x in FY20) during the year. Capex continued to decline, in line with their current 5-year plan. The company's performance is expected to further improve in FY22, driven by gradual recovery in economic activity, fading effect of VAT rate increase in FY2020 and steady improvement in the export market. However, the management has indicated that commodity price outlook will remain challenging in FY22, which could dent Almarai's margins. Due to the abovementioned factors, we maintain a "Neutral" rating on the stock.

- Revenue increased 3.2% YoY to SAR15.8bn in FY21, primarily driven by higher revenue contribution from the Dairy & Juice and other activities segments in the year.
- Gross profit declined 8.6% YoY to SAR5.1bn in FY21 due to cost inflation for farm and dairy commodities and 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 31.9% in FY21 from 36.0% in FY20.
- Higher Selling & Distribution, General & Administration expenses and other expenses resulted in 20.1% YoY fall in operating income to SAR2.0bn in FY21, leading to contraction in operating margin to 12.7% from 16.4% in FY20.
- Lower operating margins offset the fall in finance and tax expenses and led to 21.2% YoY fall in net profit to SAR1.6bn. Subsequently, net margin narrowed to 9.9% from 12.9% in FY20.
- On 14th December 2022, Almarai's board of directors recommended 10% cash dividend for FY21, at SAR1 per share, amounting SAR1bn.
- Almarai Co. completed the sale and purchase agreement with the shareholders of Bakemart to acquire 100% of Bakemart UAE and Bahrain for SAR95.5mn.
- The company announced that one of its subsidiaries (Western Bakeries Company) has completed the acquisition of an additional 25.0% stake in Modern Food Industry LLC, for SAR250mn.

Valuation: We revise our target price to a fair value of SAR52.0 per share and maintain our "Neutral" rating on the stock.

	4Q21	4Q20	% YoY	FY22E	FY21	%YoY
Revenues (SAR bn)	4.3	3.8	11.5%	16.5	15.8	4.2%
Gross Profit (SAR bn)	1.2	1.2	(3.2%)	5.6	5.1	10.8%
EBITDA (SAR bn)	0.9	0.9	1.4%	4.6	4.1	13.6%
Net Profit (SAR bn)*	0.3	0.3	(5.2%)	1.9	1.6	19.5%
EPS Basic (SAR)*	0.32	0.34	(5.3%)	1.90	1.59	19.5%
Gross Margin (%)	28.0%	32.3%	(4.3%)	33.9%	31.9%	2.0%
EBITDA Margin (%)	21.7%	23.9%	(2.1%)	27.9%	25.6%	2.3%
Net Profit Margin (%)*	7.5%	8.8%	(1.3%)	11.3%	9.9%	1.4%

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.

Yaqeen Capital

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@yaqeen.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, Yaqeen Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Yaqeen Capital 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. Yaqeen Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and Yaqeen Capital shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent Yaqeen Capital 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.

Yaqeen Capital 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.