

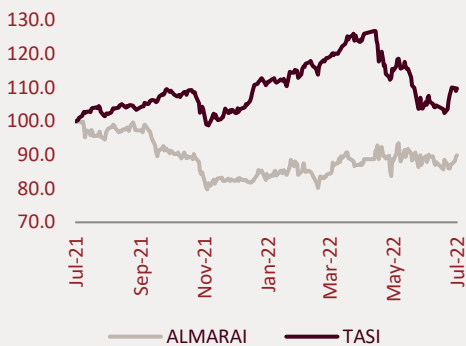
2Q22 Results Update

July 27, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	52.7
Target Price (SAR)	55.3
Upside/Downside (%)	5.0%
As of July 26, 2022	
Key Data (Source: Bloomberg)	

Market Cap (SAR bn)	52.7
52-wk High (SAR)	59.2
52-wk Low (SAR)	46.3
Total Outstanding shares (in mn)	1,000
Free Float (%)	40.9%

ALMARAI vs. TASI (Rebased)

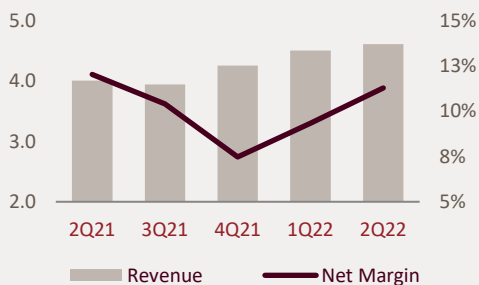


Price Performance (%)	Absolute	Relative
1m	0.4%	(3.5%)
6m	7.4%	9.2%
12m	(10.1%)	(19.9%)

Major Shareholders (%)

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

Revenue (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of July 26, 2022

Improved trading conditions drive topline in 2Q22

Almarai's revenue surged 15.1% YoY to SAR 4.6bn in 2Q22, as Dairy and Juice segment grew 8.3% YoY to SAR 3.1bn, Bakery segment rose 41.6% YoY to SAR 567.5mn, and Poultry segment increased 30.1% YoY to SAR 736.3mn during the quarter. Despite an 18.5% YoY rise in cost of sales, gross profit climbed 8.4% YoY to SAR 1.5bn in 2Q22. However, gross margin narrowed 197bps to 31.9% during the quarter. The rise in selling, general and administrative, and other expenses was offset by a higher top line as the company's operating profit soared 7.4% YoY to SAR 646.3mn. Nevertheless, operating margin contracted 100bps to 14.0% in 2Q22. Despite higher finance expenses and zakat, Almarai's net profit (ascribed to shareholders) grew 8.0% YoY to SAR 520.4mn in 2Q22. Nonetheless, the company's net margin declined 75bps to 11.3% in 2Q22.

Almarai reported strong performance in 2Q22 on improved trading conditions as pandemic-related restrictions eased. A 15.1% YoY rise in the top line reflected the improved performance supported by improved contribution across all countries, segments, and channels. Revenue contribution from KSA surged 15.8% YoY, from other GCC countries grew by 13.4% YoY, while that from non-GCC countries increased by 14.2% YoY during the quarter. Increase in top line was also supported by higher volumes driven by strong performance during Ramadan, reversion of educational institutions to in-class presence, and the opening of the economy leading to a rise in tourism. However, rise in prices of corn, soya, and dairy commodities, mainly butter and alfalfa, and inflated transportation charges translated into higher input costs and resulted in Almarai's gross margin declining 197bps to 31.9% in 2Q22. Strong overhead cost control resulted in overhead growth in line with volume growth. Selling and distribution expenses rose in line with volume growth due to increased sales activity. The company's operating profit grew at a slower pace than the top line, leading to a narrowing of the operating margin. The company remained fundamentally strong as leverage continued to marginally improve (debt-to-equity ratio of 0.69x in 2Q22 as against 0.72x in 2Q21) during the quarter. The company expects to continue its positive momentum, but at a slower rate, in the upcoming quarters owing to normalized trading pattern in 2H22. However, rising cost inflation for dairy and feed commodities remains a key risk for Almarai, one that could continue to affect margins, going forward. Due to the mentioned factors, we maintain a "Neutral" rating on the stock.

- Revenue increased 15.1% YoY to SAR 4.6bn in 2Q22, ascribed to higher revenue contribution from the Dairy and Juice, Bakery, Poultry, and other activities segments during the quarter.
- Gross profit grew at a slower pace than the top line (up 8.4% YoY to SAR 1.5bn) in 2Q22 due to higher input costs driven by rising corn, soya, and dairy commodities costs, mainly butter and alfalfa. Additionally, increased global transportation charges further amplified cost inflation. Gross margin shrank to 31.9% in 2Q22 from 33.8% in 2Q21.
- The higher top line countervailed the rise in SG&A and other expenses, resulting in a 7.4% YoY rise in operating income to SAR 646.3mn during the quarter. However, operating margin contracted to 14.0% from 15.0% in 2Q21.
- Higher operating income offset the rise in finance and zakat expenses and led to an 8.0% YoY rise in net profit to SAR 520.4bn. However, net margin narrowed to 11.3% from 12.0% in 2Q21.
- On June 13, 2022, the company announced its plan to invest SAR 153mn to secure the supply of poultry parent birds. Additionally, it also announced a plan to enter the seafood market with an initial investment of SAR 252mn, intending to offer consumers high-quality seafood and expand its product portfolio.

Valuation: We maintain our target price of a fair value of SAR 55.3 per share and retain our "Neutral" rating on the stock.

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR bn)	4.6	4.0	15.1%	18.0	15.8	13.4%
Gross Profit (SAR bn)	1.5	1.4	8.4%	5.7	5.1	12.6%
EBIT (SAR bn)	0.6	0.6	7.4%	2.2	2.0	11.0%
Net Profit (SAR bn)*	0.5	0.5	8.0%	1.7	1.6	11.7%
EPS Basic (SAR)*	0.53	0.49	8.0%	1.78	1.59	11.7%
Gross Margin (%)	31.9%	33.8%	(2.0%)	31.7%	31.9%	(0.2%)
EBIT Margin (%)	14.0%	15.0%	(1.0%)	12.4%	12.7%	(0.3%)
Net Profit Margin (%)*	11.3%	12.0%	(0.7%)	9.7%	9.9%	(0.1%)

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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