3Q22 Results Update

November 14, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	56.8
Target Price (SAR)	55.6
Upside/Downside (%)	(2.2%)

As of November 13, 2022

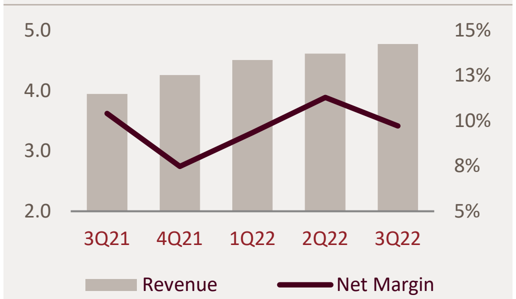
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	56.8
52-wk High (SAR)	58.0
52-wk Low (SAR)	46.3
Total Outstanding shares (in mn)	1,000
Free Float (%)	40.9%

ALMARAI vs. TASI (Rebased)

Price Performance (%)	Absolute	Relative
1m	3.8%	5.4%
6m	9.2%	21.6%
12m	8.6%	14.1%

Major Shareholders (%)	
Savola Group Company	34.52%
Sultan holding Company	23.70%
Saudi Company for Agricultural Investment and Production	16.32%

Revenue (SAR bn) and Net Margin (%)



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

Top line advanced on improved revenue contribution across all segments

Almarai's revenue advanced 21.0% YoY to SAR 4.8bn in 3Q22, driven by a 15.4% YoY rise in the dairy and juice segment to SAR 3.1bn, 31.8% YoY increase in the bakery segment to SAR 615.9mn, 43.2% YoY rise in the poultry segment to SAR 775.8mn, and 12.6% YoY increase in other activities to SAR 238.7mn. Gross profit climbed 16.7% YoY to SAR 1.5bn in 3Q22. However, gross margin narrowed 115bps to 31.2% mainly due to a 23.0% YoY rise in the cost of sales. The company's operating profit surged 11.6% YoY to SAR 578.9mn as improved top line offset the rise in selling, general and administrative (SG&A), and other expenses. Nevertheless, operating margin contracted 102bps to 12.1% in 3Q22. Despite high finance expenses, Almarai's net profit (ascribed to shareholders) grew 13.2% YoY to SAR 463.2mn in 3Q22. However, the company's net margin declined 67bps to 9.7%.

Almarai reported a robust performance in 3Q22 on improved trading conditions following ease in the pandemic-related restrictions, opening of educational institutions and higher number of visitors in the region. A 21.0% YoY increase in the top line reflected the improved performance supported by contribution across all countries, segments, and channels. Revenue contribution from the KSA advanced 22.2% YoY, from other GCC countries grew 16.3% YoY, while that from non-GCC countries increased 21.6% YoY during the quarter. Sales volumes continued to increase owing to food service expansion and return to school activities, which also supported the top line growth. However, the company's gross margin narrowed in 3Q22 due to high input cost, following the rise in prices of corn, soya, and a general increase in dairy commodities (mainly butter) as well as inflated transportation and packaging charges. Strong overhead cost control resulted in overhead growth keeping pace with volume growth. Despite controlled costs, operating expenses rose during the quarter due to a one-off charge related to overseas farming investment. Consequently, the company's operating profit grew slower than the top line, narrowing the operating margin. Almarai's net profit rose in 3Q22 as rise in finance expenses was offset by general reduction in zakat provisions. The company remained fundamentally strong as leverage continued to marginally improve (debt-to-equity ratio of 0.63x in 3Q22 compared with 0.66x in 3Q21) during the quarter. Rising cost inflation for dairy and feed commodities remains a key risk for the company as global supply chain remaining under stress. The company expects to continue its positive momentum, but at a slower rate in the future. Due to the mentioned factors, we maintain our "Neutral" rating on the stock.

- Revenue rose 21.0% YoY to SAR 4.8bn in 3Q22, driven by high revenue contribution from the dairy and juice, bakery, poultry, and other activities segments.
- Cost of sales rose 23.0% YoY to SAR 3.3bn during the quarter owing to increase in transportation and packaging costs. Consequently, gross profit grew slower than the top line (up 16.7% YoY to SAR 1.5bn) during the quarter, while gross margin contracted to 31.2% in 3Q22 from 32.4% in 3Q21.
- The rise in SG&A and other expenses was countervailed by high top line, resulting in an 11.6% YoY rise in operating income to SAR 578.9mn during the quarter. However, operating margin shrank to 12.1% from 13.2% in 3Q21.
- High operating income offset the rise in finance expenses and led to a 13.2% YoY rise in net profit to SAR 463.2mn. However, net margin narrowed to 9.7% from 10.4% in 3Q21.

Valuation: We revise our target price upwards to a fair value of SAR 55.6 per share but retain our "Neutral" rating on the stock.

	3Q22	3Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR bn)	4.8	3.9	21.0%	18.4	15.8	15.8%
Gross Profit (SAR bn)	1.5	1.3	16.7%	5.8	5.1	14.9%
EBIT (SAR bn)	0.6	0.5	11.6%	2.4	2.0	17.4%
Net Profit (SAR bn)*	0.5	0.4	13.2%	1.9	1.6	19.5%
EPS Basic (SAR)*	0.47	0.42	13.2%	1.91	1.59	19.5%
Gross Margin (%)	31.2%	32.4%	(1.1%)	31.7%	31.9%	(0.2%)
EBIT Margin (%)	12.1%	13.2%	(1.0%)	12.9%	12.7%	0.2%
Net Profit Margin (%)*	9.7%	10.4%	(0.7%)	10.2%	9.9%	0.3%

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 ≥ 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 ≥ 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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