

Almarai Company

One-off gain, Ramadan advancement & strong revenue momentum boosted profit

1Q23 Net Profit higher than our estimate

Almarai's (ALMARAI/ the Company) net profit rose significantly 51.0% YOY to SAR 635 Mn in 1Q23, higher than our estimate of SAR 571 Mn. The increase in net profit is mainly attributable to adjustments in consumption patterns owing to the advancement of Ramadan by 10 days in 1Q23, one-off subsidy receipt related to food security measures, controlled overhead cost, and strong revenue growth partially offset by higher finance costs.

P&L highlights

Almarai's recorded a healthy revenue growth of 12.5% YOY to SAR 5,067 Mn in 1Q23 mainly due to growth across all countries, products, and channels at the local currency level. The advancement of Ramadan by 10 days in 1Q23 contributed to 4% growth in the revenue and remaining was contributed due to the underlying growth. Revenue from the Dairy and Juice business rose 10.7% YOY to SAR 3,449 Mn in 1Q23 due to advancement of Ramadan and strong growth momentum continued in 2023. Similarly, revenue from the Bakery business 8.9% YOY to SAR 622 Mn in 1Q23 driven by resilient growth in the bread and single-serve products barely affected by Ramadan phasing. The Poultry segment recorded the highest revenue growth of 28.6% to SAR 848 Mn in 1Q23 attributable to higher volumes owing to capacity expansion along with strong cost control efforts taken at the farm and operation level. Overall revenue growth was partially offset by a marginal 5.6% YOY decline in revenue from other activities to SAR 148 Mn. On the other hand, cost of sales rose 8.7% YOY to SAR 3,449 Mn in 1Q23 due to the higher inventory cover. Thus, gross profit rose 21.5% YOY to SAR 1,618 Mn in 1Q23 with an improvement in gross margin by 236 bps YOY to 31.9%. Selling and distribution expenses moderated marginally 4.9% YOY to SAR 679 Mn in 1Q23 while G&A expenses rose 8.0% YOY to SAR 113 Mn driven by better cost control methods used by the company. As a result, Almarai's operating profit rose 42.5% YOY to SAR 826 Mn in 1Q23. Finance cost rose 34.6% YOY to SAR 120 Mn in 1Q23 driven by higher benchmark rates. Zakat expense increased 19.8% YOY to SAR 27 Mn in 1Q23 while income tax expense grew 57.6% YOY to SAR 18 Mn. In addition, the one-off benefits amounted to SAR 149 Mn in 1Q23.

Balance Sheet highlights

Almarai's working capital rose from SAR 3.2 Bn in 1Q22 to SAR 4.2 Bn in 1Q23 whereas the company's free cash flow turned positive to SAR 269 Mn in 1Q23 from a negative free cash flow of SAR 22 Mn in 1Q22. The company's capex rose 58.2% YOY to SAR 522 Mn in 1Q23. Almarai's net debt rose marginally from SAR 9.05 Bn in 2022 to SAR 9.17 Bn in 1Q23 with a net debt to EBITDA ratio of 2.2x in 1Q23 as compared to 2.3x in 2022.

Rating : HOLD

First Look Note – 1Q23

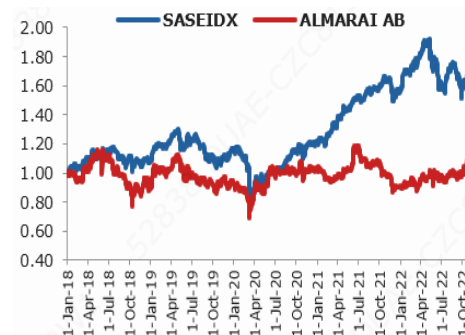
Sector: Food & Beverage

Recommendation

Current Price (10-Apr-23)	57.20
Target Price (SAR)	56.00
Upside/Downside (%)	-2%

Stock Information

Market Cap (mm)	57,200.00
Paid Up Capital (mm)	10,000.00
52 Week High	59.10
52 Week Low	49.00
3M Avg. daily value (SAR)	13,059,770



Financial Ratios

Dividend Yield (12m)	1.75
Dividend Pay-out (%)	56.82
Price-Earnings Ratio (x)	28.43
Price-to-Book Ratio (x)	3.32
Book Value (SAR)	17.24
Return-on Equity (%)	11.77
Earning Per Share (SAR)	2.01
Beta	0.59

Stock Performance

5 Days	-1.21%
1 Months	4.57%
3 Months	4.57%
6 Months	2.33%
1 Year	11.50%
Month to Date (MTD)	1.42%
Quarter to Date (QTD)	1.42%
Year to Date (YTD)	6.92%

Target price and rating

We maintain our HOLD rating on Almarai with an unchanged target price of SAR 56.00. Almarai maintained its Numero Uno position in the dairy, bakery, and poultry category. The company reported strong growth in net profit during 1Q23 driven by the advancement of Ramadan by 10 days in 1Q23, one-off gains related to food subsidies and strong advancement in growth momentum. The company maintained strong cost control measures across its segments leading to a lower growth in cost as compared to top line, however, higher inventory cover led to higher cost of sales in 1Q23. The reopening of schools and the capacity expansion of poultry drove Almarai's revenue supported by Ramadan phasing. The risks related to dairy and feed commodities prices started to show signs of stability in recent quarters in addition, the company continues to carry out hedging activities and leverage stock cover to mitigate the commodity price inflation. Furthermore, Almarai also plans to expand its product offering by entering into the seafood category. The company incurred a capex of SAR 522 Mn in 1Q23 as compared to SAR 349 Mn in 1Q22 whereas the intensity of capex is will be reduced by the company to maintain positive cash flows. Moreover, the board proposed a dividend of SAR 1,000 which is subject to the shareholder's approval. Thus, based on our analysis, we assign a HOLD rating on the stock.

Almarai - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE(X)	28.23	31.35	28.62	36.33	32.28	26.51
PB(X)	4.09	3.88	3.62	3.52	3.41	3.30
EV/EBITDA	16.77	17.15	17.03	19.17	16.39	15.05
Dividend yield	1.5%	1.5%	1.8%	1.8%	1.8%	1.8%

FABS Estimates & Co Data

Almarai - P&L

SAR mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Sales	4,503	4,839	5,067	4,835	4.8%	12.5%	4.7%	18,722	19,698	5.2%
Cost of Sales	-3,172	-3,505	-3,449	-3,312	4.1%	8.7%	-1.6%	-13,098	-13,584	3.7%
Gross profit	1,332	1,334	1,618	1,523	6.2%	21.5%	21.3%	5,624	6,114	8.7%
S&D Expenses	-647	-686	-679	-687	-1.1%	4.9%	-1.0%	-2,710	-2,831	4.5%
G&A expenses	-105	-147	-113	-116	-2.4%	8.0%	-23.2%	-459	-473	3.1%
EBITDA	949	1,138	1,115	1,064	4.8%	17.5%	-2.1%	4,031	4,378	8.6%
Operating profit	580	501	826	720	14.6%	42.5%	65.0%	2,456	2,811	14.4%
Investment & other inc	-23	4	-14	-15	-4.4%	-38.9%	NM	-153	-75	-50.9%
Financial costs (net)	-90	-131	-120	-102	18.7%	34.6%	-8.0%	-428	-474	10.7%
Impairment	-10	1	-10	0	NM	NM	NM	-26	0	NM
Profit before zakat	457	374	681	604	12.8%	49.2%	82.1%	1,849	2,262	22.3%
Zakat	-23	-31	-27	-23	17.6%	19.8%	-11.7%	-63	-81	30.1%
Income Tax	-11	11	-18	-15	19.8%	57.6%	-262.2%	-8	-16	93.3%
Profit before NCI	423	355	636	566	12.4%	50.5%	79.3%	1,778	2,165	21.7%
NCI	-2	1	-1	6	NM	-56.7%	NM	-18	-22	18.1%
Profit attributable	420	356	635	571	11.1%	51.0%	78.5%	1,760	2,143	21.8%

FABS estimate & Co Data

Almarai - Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	29.6%	27.6%	31.9%	236	437	30.0%	31.0%	100
EBITDA	21.1%	23.5%	22.0%	93	-152	21.5%	22.2%	69
Operating Profit	12.9%	10.3%	16.3%	343	595	13.1%	14.3%	115
Net Profit	9.3%	7.4%	12.5%	320	518	9.4%	10.9%	148

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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