

## Almarai Company

Higher Cost of Sales and overheads reduced the profit

### 4Q21 profit lower than our estimate

Almarai reported a decline in Net Profit by 14.7% YOY to SAR286.5 Mn in 4Q21, down from SAR336 Mn in 4Q20, missing our estimate by 20.9%. This decrease is mainly due to an increase in both Cost of Sales and overheads.

### P&L highlights

Sales has increased by 11.5% YOY to SAR4,257 Mn in 4Q21, up from SAR3,820 Mn in 4Q20. Whereas the Cost of Sales increased by 18.5% YOY reaching SAR3,065 Mn in 4Q21, as compared to SAR2,587 Mn in 4Q20. Resultantly, the Gross Profit declined by 3.2% YOY to SAR1,193 Mn in 4Q21, down from SAR1,232 Mn in 4Q20, with a Gross margin (GPM) equal to 28% in 4Q21. Selling & Distribution Expenses increased by 5.4% YOY to SAR774 Mn in 4Q21, up from SAR735 Mn in 4Q20. Depreciation has increased by 55.1% YOY to SAR573 Mn in 4Q21 from SAR369 Mn in 4Q20. Therefore, EBITDA has increased by 14.3% YOY to SAR991 Mn in 4Q21, up from SAR867 Mn in 4Q20. Thus, the Operating Profit has decreased by 15.9% YOY to SAR418 Mn, as compared to SAR498 Mn in 4Q20, with an OPM equal to 9.8% in 4Q21 from 13% in 4Q20. Investment & Other Income increased by 91% YOY to SAR14 Mn in 4Q21. The Finance Cost declined by 40.3% YOY reaching SAR79 Mn in 4Q21, down from SAR133 Mn in 4Q20. Impairment Cost recorded SAR11 Mn in 4Q21 as compared to a positive of SAR10 Mn in 4Q20.

### Balance sheet highlights

Total Assets have decreased by 1.8% YOY to SAR31.8 Bn in 4Q21, down from SAR32.3 Bn in 4Q20. Similarly, the Total Liabilities have declined by 6.1% YOY to SAR15.1 Bn in 4Q21, as compared to SAR16.1 Bn in 4Q20. While the Total Equity increased by 2.4% YOY to SAR16.6 Bn in 4Q21, up from SAR16.2 Bn in 4Q20.

### Target price and rating

We assign an ACCUMULATE rating on Almarai Company, with a target price of SAR56.00. Almarai has maintained its market leadership across most segments throughout 2021. The Sales improved by 11.5% YOY to SAR4,257 Mn in 4Q21, up from SAR3,820 Mn in 4Q20. The increase was mainly supported by increase in Volume and Prices of the goods. The Company has operations in KSA and other GCC countries. KSA accounts for 64% of the Total Revenue and the Other GCC for 20%. The KSA region witnessed a strong 10% YOY growth, whereas the Other GCC grew by 8%. The balance Other segment grew by 21% YOY. The Fresh Dairy accounts for the highest share (36%) of

**Rating : ACCUMULATE**

### First Look Note – 4Q21

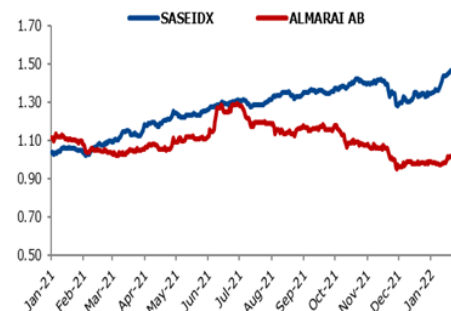
**Sector: Food & Beverage**

#### Recommendation

Current Price (28-Jan)	48.85
Target Price	56.00
Upside/Downside (%)	+14.6%

#### Stock Information

Market Cap (mm)	48,850.00
Paid Up Capital (mm)	10,000.00
52 Week High	64.90
52 Week Low	46.25
3M Avg. daily value (SAR)	21,541,570



#### Financial Ratios

Dividend Yield (12m)	2.05
Dividend Pay-out (%)	63.96
Price-Earnings Ratio (x)	30.69
Price-to-Book Ratio (x)	3.03
Book Value (SAR)	16.12
Return-on Equity (%)	9.83
Earning Per Share (SAR)	1.59
Beta	0.73

#### Stock Performance

5 Days	-2.30%
1 Months	0.51%
3 Months	-7.66%
6 Months	-16.50%
1 Year	-9.54%
Month to Date (MTD)	0.21%
Quarter to Date (QTD)	0.21%
Year to Date (YTD)	0.21%

Total Revenue and grew by 12% YOY. The Bakery segment accounts for 22% of the Total Revenue and witnessed the highest growth of 22% YOY. The LLD segment grew by 12% YOY and comprises of 10% of the Total Revenue. Similarly, the Traditional Trade channel accounts for 52% of the Total Revenue and grew by 1% YOY in 4Q21. The Food service channel that comprises of 16% of the Total Revenue grew by 33% YOY in 4Q21. Lastly, the Other / Exports segment grew by 75% YOY in 4Q21. The Operating Profit declined by 15.9% YOY to SAR418 Mn in 4Q21, down from SAR498 Mn in 4Q20. It was mainly due to high feed and commodity costs. As a result, the Net Income contracted by 14.7% YOY to SAR287 Mn in 4Q21, down from SAR336 Mn in 4Q20. The NCI results for Egypt and Jordan positively impacted the results in 4Q21. The Company has maintained robust financial management with Working capital at SAR2.6 Bn in 2021, down from SAR3.2 Bn in 2020. The Capex has increased to SAR1.36 Bn in 2021, up from SAR969 Mn in 2020. As a result, the Free cash flow has improved to SAR3.1 Bn in 2021, up from SAR2.8 Bn in 2020. The Working capital as a % of Revenue declined to 16% in 2021, down from 21% in 2020. The Capital investment is on a declining trend but increased to 9% of Total Revenue in 2021, up from 6% in 2020. The Company plans to reduce Cash capex over the next 5 years. The Free cash flow stood at SAR3.1 Bn in 2021, mainly driven by strong Operating cash flow of SAR4.3 Bn and favorable Working capital changes. However, it was driven down by SAR1.8 Bn for Capex mainly due to PPE and Bio Assets. The Free cash flow as a % of Revenue is on a increasing trend and stands at 20% in 2021, up from 18% in 2020. The Net Debt to EBITDA stood at 2.6x in 2021, down from 2.7x in 2020. The EBITDA and EBIT margins have declined to 22% and 13%, respectively, mainly due to higher overheads. The Company has announced SAR1 Bn in cash dividends that are subject to AGM approval in 2021. The payout ratio has increased from 50% in 2020, to 60% in 2021. Therefore, we assign a ACCUMULATE rating on the stock.

**Almarai - Relative Valuation**

(at CMP)	2017	2018	2019	2020	2021
PER (x)	22.9	24.7	26.7	24.2	30.7
P/BV (x)	3.4	3.5	3.3	3.1	3.0
Dividend yield	1.5%	1.7%	1.7%	2.0%	2.0%

*FABs Estimate & Co Data*
**Almarai - P&L**

SAR mm	4Q20	3Q21	4Q21	4Q21F	Var.	YOY Ch	QOQ Ch	2020	2021	Change
Sales	3,820	3,942	4,257	3,920	8.6%	11.5%	8.0%	15,357	15,850	3.2%
Cost of Sales	-2,587	-2,666	-3,065	-2,735	12.1%	18.5%	15.0%	-9,821	-10,790	9.9%
<b>Gross profit</b>	<b>1,232</b>	<b>1,276</b>	<b>1,193</b>	<b>1,185</b>	<b>0.7%</b>	<b>-3.2%</b>	<b>-6.5%</b>	<b>5,536</b>	<b>5,059</b>	<b>-8.6%</b>
Selling & overhead expenses	-735	-732	-774	-709	9.2%	5.4%	5.8%	-2,910	-2,947	1.3%
<b>EBITDA</b>	<b>1,406</b>	<b>1,071</b>	<b>991</b>	<b>1,019</b>	<b>-2.7%</b>	<b>14.3%</b>	<b>NM</b>	<b>4,575</b>	<b>2,112</b>	<b>-53.8%</b>
Depreciation & Amortization	909	527	573	543	5.5%	55.1%	NM	1,950	0	NM
<b>Operating profit</b>	<b>498</b>	<b>544</b>	<b>418</b>	<b>476</b>	<b>-12.0%</b>	<b>-15.9%</b>	<b>-23.1%</b>	<b>2,625</b>	<b>2,112</b>	<b>-19.5%</b>
Investment & other income	-7	-20	-14	-17	-17.0%	91.0%	-28.7%	-77	-87	12.3%
Financial costs (net)	-133	-85	-79	-83	-4.4%	-40.3%	-6.2%	-496	-346	-30.2%
Impairment	10	-6	-11	11	NM	NM	74.5%	-24	-12	-51.6%
<b>Profit before zakat</b>	<b>367</b>	<b>433</b>	<b>314</b>	<b>387</b>	<b>-18.8%</b>	<b>-14.5%</b>	<b>-27.6%</b>	<b>2,028</b>	<b>1,668</b>	<b>-17.8%</b>
Zakat	-34	-23	-24	-23	7.0%	-29.1%	6.4%	-92	-88	-4.2%
<b>Profit before N-C interests</b>	<b>333</b>	<b>411</b>	<b>290</b>	<b>364</b>	<b>-20.4%</b>	<b>-13.0%</b>	<b>-29.4%</b>	<b>1,936</b>	<b>1,579</b>	<b>-18.4%</b>
Non-controlling interests	3	-2	-3	-2	90.1%	NM	89.1%	49	-16	NM
<b>Profit attributable</b>	<b>336</b>	<b>409</b>	<b>287</b>	<b>362</b>	<b>-20.9%</b>	<b>-14.7%</b>	<b>-30.0%</b>	<b>1,984</b>	<b>1,564</b>	<b>-21.2%</b>

*FABs estimate & Co Data*

**Almarai - Margins**

SAR mm	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
Gross margin	32.3%	32.4%	28.0%	-425	-435	36.0%	31.9%	-413
Operating margin	13.0%	13.8%	9.8%	-320	-398	17.1%	13.3%	-377
Net margin	8.8%	10.4%	6.7%	-206	-365	12.9%	9.9%	-306

*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%

**FAB Securities Contacts:**

**Research Analysts**

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

**Sales & Execution**

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)  
 +971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

**DISCLAIMER**

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

**FAB Securities Awards**



Best Brokerage House  
in UAE 2016 & 2017  
by "Banker Middle East"



Best Brokerage House in UAE  
2016, 2017, 2019 and 2020  
by "IFA"



Best Brokerage in the UAE  
2016 By "Global Investor/  
ISF ME Awards"



Best Research House  
in UAE 2016 and 2020  
by "IFA"



Best New Mobile Application  
in UAE 2016  
by "IFA"



Best Equity Finance Company  
in UAE 2016  
by "IFA"