

Almarai Co. (Almarai)

Flat top & bottom-line growth in Q12021 as the COVID-19 impact persists

12 April 2021

Almarai Co. saw gradual improvement in margins compared to Q4 2020, while revenue growth was limited Y-o-Y due to the second wave of COVID-19 in the GCC. We expect demand to remain limited due to the high rate of expat exodus, however, the company's vigilant management shows promise in terms of business continuity FY2021e.

In line with our expectations, Almarai results for Q1 2021 were flat as the impact of the COVID-19 ramifications further unfolds. During Q1 2021, the company reported revenues of SAR3,645mn, representing a growth of only ~1.5% (-4.6% Q-o-Q) compared to SAR3,592mn reported in Q1 2020. During the quarter, the company saw a general market weakness in the GCC area led by the UAE on the back of the second wave of COVID-19, however, the growth was led by improved sales across all product categories in Jordan and Egypt (+43% and +31%, respectively). The growth in revenue was also led by improved LLD sales during the quarter (+10%), meanwhile bakery sales dropped by 10% during Q1 2021.

COGS increased by 3.0% (-6.9% Q-o-Q) Y-o-Y, which was due to lower dairy feed subsidy, driven by no subsidy on corn and soybean in 2021, in addition to lower poultry subsidy Y-o-Y. That being said, gross profit reached SAR1,235mn in Q1 2021, representing a drop of 1.4% Y-o-Y (+0.3%), gross profit margin reached 33.9% in Q1 2021. While the gross profit margin dropped Y-o-Y compared to 34.9% reported Q1 2020, yet it's an improvement Q-o-Q from the record low gross profit margin reported in Q4 2020 that stood at 32.3%.

Almarai showed immense effort to control operational costs during the pandemic, despite one-off costs triggered by the pandemic. That being said, SG&A dropped slightly by 1.5% Y-o-Y (-4.6% Q-o-Q), mainly assisted by non-recurring COVID-19 costs recorded in Q1 2020, in addition to one-off restructuring costs in Egypt that were reported in H1 2020. Nevertheless, the company reported operating income of SAR503mn, representing a 1.9% Y-o-Y (+0.3% Q-o-Q) compared to SAR513mn reported in Q1 2020. EBIT margin stood at 13.8% for Q1 2021, compared to 14.3% reported in Q1 2020.

During Q1 2021, the company's finance costs dropped significantly by 28.7% Y-o-Y (-32.9% Q-o-Q), leading to an increase of 6.9% Y-o-Y (12.4% Q-o-Q) in income before Zakat, ultimately resulting in a slight improvement in net income for Q1 2021 by 0.8% Y-o-Y (14.9% Q-o-Q). Net income margin for Q1 2021 stood at 10.6%, representing a flat growth compared to 10.7% Q1 2020 (8.8% in Q4 2020)

The company announced the distribution of 10% cash dividends for the year 2020 (SAR1 per share), while purchasing up to 10 million of its own shares to be allocated to the company's employees within the employee stock program.

While Almarai's performance Y-o-Y is relatively flat, the company's improved performance on quarterly basis reflects the company's resilience and gradual recovery from the ramifications of the pandemic. Almarai locked down manufacturing and farming sites to reduce the risk of infection, however as of March 28, 30% of production and farming workers received their 1st vaccination dose. The company's strong cost management measures, coupled with the vigilant crisis management, strong market standing, and rigid CAPEX cash spend and strong cash position are bound to ensure business continuity and gradual recovery FY2021e.

Going forward, we expect the lower subsidies and lower demand due to expat exodus will continue to pressure the company's profitability on the short term, however, margins are expected to normalize FY2021e, due to the company's cost efficiencies coupled with the economy pick up as vaccine rollouts increase across the region.

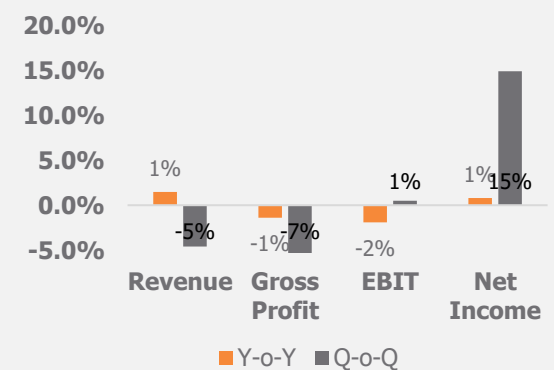
We maintain our 52 weeks target price SAR54.1/share with a NEUTRAL recommendation.

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (11-04-2021)	SAR53.0
Target Price (52 Weeks)	SAR54.1
Upside/ (Downside)	2.0%
Shariah Compliance	Pass

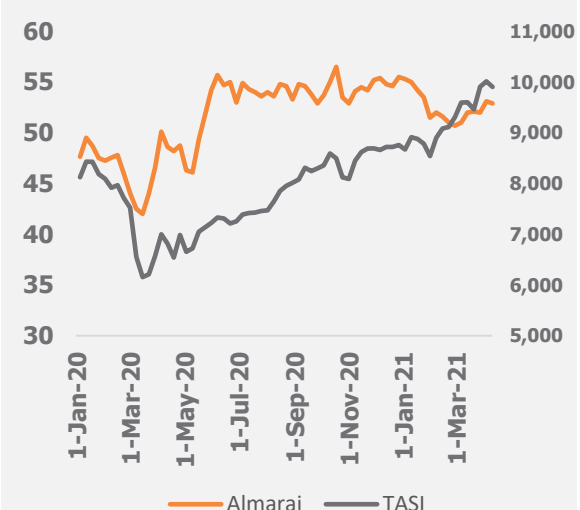
Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2019
Revenue Growth	-4.6%	-1.1%	-3.0%
Gross Margin	33.9%	32.3%	34.9%
EBIT Margin	13.8%	13.1%	14.3%
Net Margin	10.6%	8.8%	10.7%

Key Financial Results (Q1 2021)



Share Price Performance



Financial Projection

DCF Valuation

	2021F	2022F	2023F	2024F	2025F	2026F
EBITDA	4,766	5,079	5,410	5,735	6,068	6,395
Operating CF	4,631	4,899	5,193	5,465	5,764	6,086
Capex	(1,451)	(1,520)	(1,592)	(1,662)	(1,732)	(1,799)
FCFF	3,180	3,379	3,601	3,802	4,032	4,287
Stub Period (FCF to be discounted)	2,396	3,379	3,601	3,802	4,032	4,287
PV (FCFF)	2,262	2,937	2,874	2,753	2,660	2,570
WACC	7.9%					
Perpetuity Growth	3.0%					
PV-FCFF	16,055					
PV-TV	49,372					
Net Debt	(10,729)					
Less: End of services benefits	(919)					
Add: Investments	284					
Less: Minority Interest	0					
Intrinsic Values	54,063					
Shares Outstanding	1,000					
Equity value per share	54.1					
CMP (11-04-2021)	53.0					
Upside / (Downside%)	2.0%					

We have valued Almarai using DCF approach, considering a WACC is equal to 7.9% (based on a risk-free rate of 2.7%, market risk premium 7.0%, Beta of 0.72).

Based on the DCF valuation, the fair price Almarai share price is SAR4.1, which is higher than the traded value by 2.0%.

Financial Ratios

	2019A	2020E	2021F	2022F	2023F	2024F	2025F	2026F
Return on Average Assets (%)	5.5%	5.9%	6.5%	7.9%	9.1%	10.3%	11.5%	12.0%
Return on Average Equity (%)	12.1%	12.3%	12.6%	14.0%	14.9%	15.6%	16.1%	16.3%
Earnings Before Zakat Margin (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income Margin (%)	12.6%	12.6%	13.1%	14.7%	16.1%	17.2%	18.3%	19.0%
Revenue Growth (%)	5.9%	7.0%	5.2%	6.2%	6.1%	5.6%	5.3%	4.9%
EPS	1.8	1.9	2.1	2.5	2.9	3.3	3.7	4.0

Income Statement

	2019A	2020E	2021F	2022F	2023F	2024F	2025F	2026F
Revenues	14,351	15,357	16,156	17,160	18,215	19,244	20,260	21,245
Cost of Revenues	(8,985)	(9,821)	(10,335)	(10,827)	(11,350)	(11,862)	(12,361)	(12,844)
Gross Profit	5,367	5,536	5,821	6,333	6,865	7,381	7,900	8,401
SG&A	(2,777)	(2,910)	(3,222)	(3,399)	(3,586)	(3,768)	(3,949)	(4,126)
Zakat	(121)	(92)	(94)	(78)	(91)	(103)	(114)	(125)
Net Income	1,802	1,936	2,113	2,529	2,927	3,314	3,700	4,042

Balance Sheet

	2019A	2020E	2021F	2022F	2023F	2024F	2025F	2026F
Current Assets	7,325	7,289	8,250	7,978	9,186	8,981	10,525	12,294
Non-Current Assets	25,823	25,054	24,347	23,716	23,180	22,720	22,334	22,013
Total Assets	33,148	32,344	32,596	31,695	32,366	31,701	32,859	34,308
Current Liabilities	5,725	4,675	6,558	5,175	7,201	5,514	5,777	5,942
Non-Current Liabilities	12,164	11,435	8,692	7,645	4,863	4,070	3,265	2,506
Total Equity	15,259	16,233	17,346	18,875	20,302	22,116	23,816	25,859
Total Liabilities and Equity	33,148	32,344	32,596	31,694	32,365	31,701	32,859	34,308

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of it value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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