



# Saudia Dairy and Foodstuff Co (SADAFCO)

## Flat margins by SADAFCO FY2021 despite resilient top-line performance

19 May 2021

Saudia Dairy and Foodstuff Co (SADAFCO) was able to maintain revenue growth momentum despite a challenging fiscal year, with revenue growth reaching 8.3% Q-o-Q for Q4 2021 and 2.4% annually FY2021. However, margins were under pressure due to the challenging economic climate that resulted in non-recurring costs during the year. Going forward, the company's resilience & strong market standing are expected to support its recovery to pre-COVID levels FY2022e, despite further drop in demand

We update our 52 weeks target price **SAR181.0/share** while maintaining our **Neutral** recommendation.

SADAFCO managed to increase its revenues to SAR522mn for Q4 2021 representing an 8.3% increase compared to Q3 2021, as the price competition in the kingdom eased up in the 3M period ended on March 31<sup>st</sup>, however revenues still dropped Y-o-Y by 7.0% compared to Q4 2020. The annual drop is likely attributed to the VAT increase coupled with the drop in demand compared to the stockpiling that took place in the first 3M of 2020 due to the COVID-19 pandemic. COGS for Q4 2021 reached SAR349mn an drop of -8.5% Y-o-Y (8.7% Q-o-Q). The change in COGS is directly proportionate to the change in sales on both yearly and quarterly basis.

Gross profit for the period reached SAR173mn (-3.9% Y-o-Y, 7.5% Q-o-Q), while gross profit margin slightly improved Y-o-Y from 32.0% in Q4 2020 to 33.1% in Q4 2021 (33.4% in Q3 2021).

During Q4 2021, SADAFCO reported SG&A amounting to SAR107mn, representing a 7.2% increase Y-o-Y (+11.0% Q-o-). The increase in SG&A is attributable to the donations that took place during the Fiscal year 2021 and were accounted for throughout the year.

Operating income for Q4 2021 reached SAR65mn, representing a drop of 17.9% Y-o-Y compared to SAR80mn in Q4 2020 (+2.1% Q-o-Q). Meanwhile, operating income margin stood at only 12.5%, a drop compared to 14.2% achieved in Q4 2020 and 13.3% achieved in Q3 2021.

In Q3 2020, the company gained other income due to the sale of scarp reaching a total of SAR4.2mn, which explains the Q-o-Q drop in other income by 79.1%, meanwhile other income for Q4 2020 was SAR-1.4mn. Moreover, finance cost for Q4 2021 reached SAR1.5mn compared to almost SAR0mn in both Q4 2020 and Q3 2021 due to lease charges, while zakat for the period reached a record-high SAR8.8mn. That being said, net income dropped by 23.7% Y-o-Y, while it dropped by 12.8% Q-o-Q to reached SAR56mn in Q4 2020.

Net income margin stood at 10.7% in Q4 2021, a drop compared to 13.1% in Q4 2020 and 13.3% in Q3 2021.

It is worth noting that on May 1<sup>st</sup>, SADAFCO announced a 30% cash dividend for H1 FY2020/2021, amounting to SAR96mn (SAR3 per share)

Despite the underwhelming bottom-line performance during Q4 2021, we believe that the company being able to achieve a revenue increase Q-o-Q despite the impact of the VAT and price competition, shows resilience and portrays the strength of SADAFCO's market position; especially that the drop in bottom line is mainly due to one-of costs that were accounted for during the quarter.

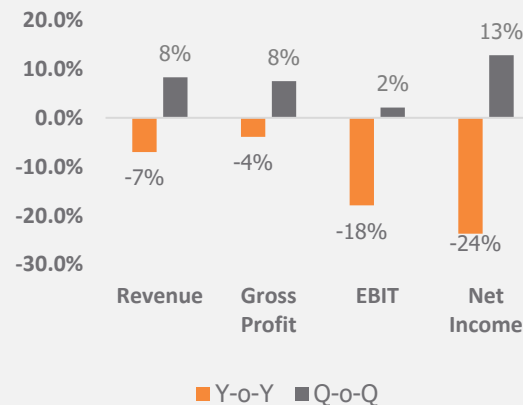
### Recommendation **Neutral**

Previous Recommendation	Neutral
Current Price (18-05-2021)	SAR172.40
<b>Target Price (52 Weeks)</b>	<b>SAR181.0</b>
Upside/ (Downside)	5.0%
Shariah Compliance	Pass

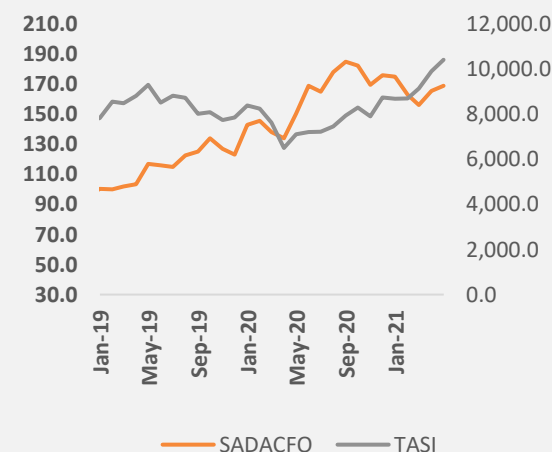
### Key Financial Ratios

Ratio	Q4 2021	Q3 2021	Q4 2020
Revenue Growth	8.3%	-10.0%	14.9%
Gross Margin	33.1%	33.4%	32.0%
EBIT Margin	12.5%	13.3%	14.2%
Net Margin	10.7%	13.1%	13.1%

### Key Financial Results (Q4 2021)



### Share Price Performance



# Financial Overview

## 2021A Overview & Outlook

**SADAFCO' branded business grew by 5% despite not being able to capitalize on the surge of demand during the pandemic; as its fiscal year 2021 started 3 months post the pandemic.** SADAFCO's Q2 2021 started on April 1<sup>st</sup>, which was the peak of the company's top and bottom-line performance FY2021 as people were still in lockdown and maintaining high demand on groceries. However, by Q2 2021 demand started to slow down as movement restrictions eased by and restaurants were open again with limitations. By Q3 2021, SADAFCO's performance top-line performance has bottomed down due to intense price competition for the last 3 months of the year 2020, coupled with high rate of expat exodus and 15% VAT. Finally in Q4 2021, the company's revenues gradually started to normalize as price competition eased and SADAFCO was able to benefit from market consolidation. FY2021, SADAFCO's revenue reached SAR2,105mn, representing growth of 2.4% compared to SAR2,056mn in FY2020. Milk sales grew by ~2.0% despite irrational discounting by competitors during Q3 2021, ice-cream sales grew by ~10.0% while tomato paste grew by ~15.0%, an overall growth ~5.0% in SADAFCO's branded business.

**Pressure on SADAFCO's margins was seen FY2021, mainly due to non-recurring costs, yet the impact was lightly offset due to one-off gains during the year.** During the fiscal year 2021, the company's gross profit margin was almost flat, sitting at 33.0% for Q4 2021. The adverse effect was mainly due to SAR15mn COVID-19 related costs, however the impact of the slightly offset by favorable product mix. Moreover, General and administration expenses as a percentage of sales increased during the FY2021 to reach 2.5 compared to 4.9% FY2020, mainly driven by the donations that amounted to SAR8.7mn during the year. Similarly, finance cost FY2021 grew from SAR3.8mn in FY2020, to reach SAR7.7mn FY2021, which is mainly due to lease and put options of non-controlling liabilities. On the other hand, impairment losses on financial assets dropped by SAR12.1mn, to reach only SAR2.1mn FY2020. Moreover, Other income for the year reached SAR8.9mn, which comprises the profit on sale of scrap. Despite the many non-recurring costs endured by the company during the year, net income dropped by only 1.6%, reaching SAR261mn FY2021, thanks to the maintained sales momentum that hindered the impact of the challenging year.

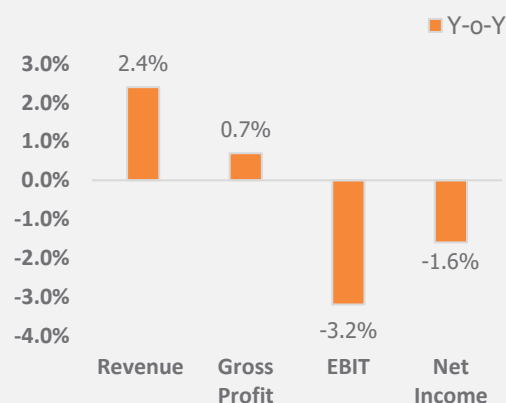
**SADAFCO's strong market standing remains a key catalyst in the company's future.** Despite the challenging economic year, SADAFCO showed resilience in maintaining growth momentum and market share. Moreover, SADAFCO was able to continue new ice-cream factory plans amid the pandemic, which should smooth the road of recovery for the company in the near and medium future.

**Going forward,** we expect the company's margins to gradually improve, reaching pre-COVID levels FY2022e, while revenue growth is expected to continue as the company benefits from further market consolidation despite a potential drop in demand on the back of the high rate of expat exodus during the year 2020.

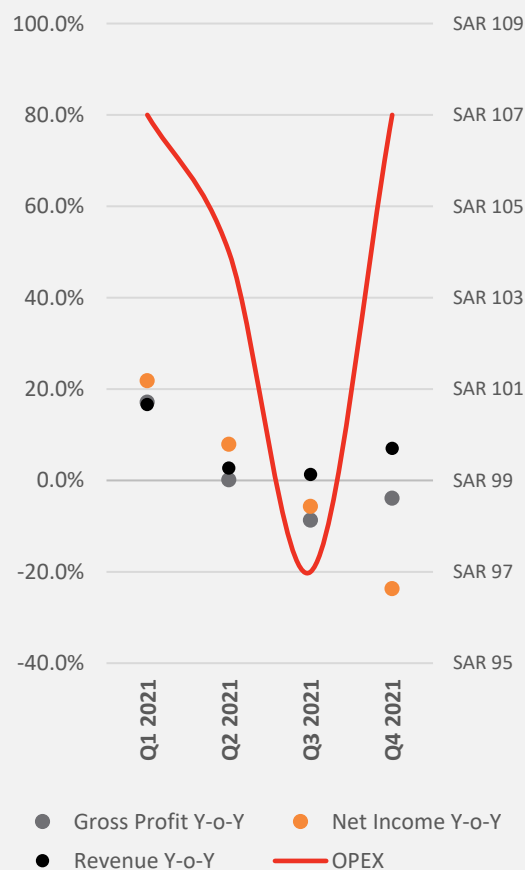
### Key Financial Ratios

Ratio	FY2021	FY2020
Revenue Growth	2.4%	13.4%
Gross Margin	33.0%	33.5%
EBIT Margin	13.2%	14.0%
Net Margin	12.4%	12.9%

### Key Financial Results (2021A)



### Quarterly Performance



# Financial Projection

## DCF Valuation

	2021 A	2022 F	2023 F	2024 F	2025 F	2026 F
EBITDA	383	381	411	432	447	461
Operating CF	398	286	414	393	406	431
Capex	(161)	(209)	(194)	(178)	(158)	(136)
FCFF	236	77	220	215	248	295
Stub Period (FCF to be discounted)	0	77	220	215	248	295
PV (FCFF)	0	72	190	172	185	204
WACC	7.6%					
Perpetuity Growth	3.0%					
PV-FCFF	823					
PV-TV	4,554					
Net Debt	(66)					
Less: End of services benefits	(119)					
Add: Cash and equivalents	691					
Intrinsic Value	5,883					
Shares Outstanding (mn shares)	33					
Equity value per share	181.0					
CMP (18-05-2021)	172.4					
Upside / (Downside%)	5.0%					

We have valued SADAFCO using DCF approach, considering a WACC is equal to 7.6% (based on a risk-free rate of 2.7%, market risk premium 7.0%, Beta of 0.36).

Based on the DCF valuation, the fair price of SADAFCO share price is SAR181.0, which is higher than the traded value by 5.0%.

All values are in SARmn

## Financial Ratios

	2020 A	2021 A	2022 F	2023 F	2024 F	2025 F	2026 F
Return on Average Assets (%)	13.0%	11.8%	11.9%	11.9%	11.7%	11.4%	11.3%
Return on Average Equity (%)	18.7%	17.2%	16.9%	16.8%	16.4%	15.6%	15.1%
Earnings Before Zakat Margin (%)	13.8%	13.5%	13.1%	13.5%	13.6%	13.7%	13.9%
Net Income Margin (%)	12.9%	12.4%	12.3%	12.6%	12.7%	12.7%	12.9%
Revenue Growth (%)	13.4%	2.4%	6.0%	5.0%	5.0%	3.4%	3.0%
EPS	8.2	8.0	8.4	9.1	9.6	9.6	9.8

## Income Statement

	2020 A	2021 A	2022 F	2023 F	2024 F	2025 F	2026 F
Revenues	2,056	2,105	2,232	2,343	2,461	2,543	2,619
Cost of Revenues	(1,367)	(1,412)	(1,523)	(1,590)	(1,668)	(1,723)	(1,772)
<b>Gross Profit</b>	<b>689</b>	<b>694</b>	<b>709</b>	<b>754</b>	<b>793</b>	<b>820</b>	<b>847</b>
SG&A	(401)	(415)	(433)	(455)	(478)	(493)	(506)
Zakat	(19)	(23)	(19)	(21)	(22)	(26)	(27)
<b>Net Income</b>	<b>265</b>	<b>261</b>	<b>274</b>	<b>295</b>	<b>312</b>	<b>322</b>	<b>337</b>

## Balance Sheet

	2020 A	2021 A	2022 F	2023 F	2024 F	2025 F	2026 F
Current Assets	1,273	1,278	1,324	1,439	1,538	1,663	1,828
Non-Current Assets	901	951	1,055	1,137	1,199	1,237	1,253
<b>Total Assets</b>	<b>2,174</b>	<b>2,229</b>	<b>2,379</b>	<b>2,576</b>	<b>2,737</b>	<b>2,900</b>	<b>3,081</b>
Current Liabilities	498	474	499	550	565	572	582
Non-Current Liabilities	200	200	197	194	191	187	184
<b>Total Equity</b>	<b>1,476</b>	<b>1,555</b>	<b>1,682</b>	<b>1,831</b>	<b>1,980</b>	<b>2,140</b>	<b>2,315</b>
<b>Total Liabilities and Equity</b>	<b>2,174</b>	<b>2,229</b>	<b>2,379</b>	<b>2,576</b>	<b>2,737</b>	<b>2,899</b>	<b>3,080</b>

All values are in SARmn

# Guide to Ratings and Disclaimer

## Guide to Ratings

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

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