



Earnings meet forecasts; however, we cut estimates to build in higher energy prices & heightened competition in poultry.

Despite higher energy costs & reduction in poultry prices, Almarai posted net income growth of 5.6% Y/Y in Q1-25, due to strong revenue growth, improved operating efficiencies & higher capitalization of interest costs. Earnings were in line with expectations, however gross margins came in sizably lower than expectations. We expect competition in poultry business to likely remain elevated for an extended period as industry undergoes rapid capacity expansions; leading us to revise down margin assumptions. We see gross/operating margins to stand at 31.6/14.1% and 31.3/13.9% in 2025 and 2026, respectively, as compared to our previous assumptions of 31.6/14.8% and 31.8/15.2%. Overall we reduce our 2025/26 net income estimates by 1.8/11.4% to SAR 2,486/2,617mn. We expect the SAR 18bn mega capex planned in poultry and core product lines to drive 7.1% revenue and 10.4% net income CAGR over 2024-28. However, trading at 2025E PE of 21.6x we maintain our "Neutral" rating on the stock with revised price target of SAR 57.5 per share.

Despite higher energy cost & price cuts, Almarai posted income growth of 5.6% Y/Y, due to strong revenue growth, operating efficiencies & higher capitalization of interest costs: Almarai posted net income of SAR 731mn in Q1-25, up 5.6% Y/Y and up 69.3% Q/Q, respectively. Net income was in line with AJC estimate of SAR 721mn (+ 1.4% deviation) and consensus expectation of SAR 735mn (-0.6% deviation). The Y/Y improvement in bottom-line is owed to 5.7% Y/Y growth in sales and higher capitalization of interest cost owed to higher planned capital investments. Dairy and juice category saw an increase in profitability due to Ramadan season. Bakery segment's net earnings expanded in line with volume and revenue growth. Poultry segment witnessed an increase in profits on account of strong volume growth, increased efficiencies and lower finance costs. Company's revenues increased by 5.7% Y/Y to SAR 5,767mn, in line with our estimate of SAR 5,726mn (deviation of +0.7%). Revenue growth was driven by strong volume growth across most products and countries, and improved Ramadan performance led by Fresh dairy, juice and poultry categories. Note that Egyptian pound devaluation offset the growth by 1%. The gross profit was reported at SAR 1,768mn (+3.5% Y/Y, 11.7% Q/Q), 3.4% below our estimate of SAR 1,831mn. The GP margin stood at 30.7% in Q1-25, a contraction of 63bps Y/Y and 3bps Q/Q, and 131bps below our estimate of 32.0%. The decline is due to increase in energy costs, higher input costs, and drop in poultry prices. Operating profit stood at SAR 874mn, a rise of 0.6% Y/Y (an increase of 47.9% Q/Q), due to higher sales and cost controls. Operating margins declined by 76bps Y/Y to 15.2% in Q1-25 (+370bps Q/Q); -38bps lower than our estimate. Operating expenses as percentage of sales increased to 15.5% as compared to 15.4% in same quarter last year (AJC estimate 16.4%).

Competition in poultry business to likely remain elevated for an extended period as industry undergoes rapid capacity expansions; prompting us to trim margin assumptions: A sizable increase in imported frozen chicken inventory and expansions by large local players has resulted in oversupply of poultry in the Saudi market. Almarai and other major poultry producers are doubling capacities in a bid to capture market share of imports. There is an intensification in competition which is resulting in amplified pressure on poultry prices. The pressure from imports might be temporary, however the large capacity additions announced by major local chicken producers can have an extended impact on the sector. The management in its Q1-25 investor presentation disclosed a negative SAR 48mn impact of net pricing, this is mostly related to poultry segment. Other major listed players have seen sizable compression in margins over the last few quarters. Overall, in this backdrop we have trimmed our margin assumptions, whereby we see gross/operating margins to stand at 31.6/14.1% and 31.3/13.9% in 2025 and 2026, respectively, as compared to our previous assumptions of 31.6/14.8% and 31.8/15.2%. Downwards margin revision also reflects the impact of increase in energy costs (due to diesel prices that were increased by 44% in Jan 2025) and prices of certain key dairy inputs like butter. Overall we reduce our 2025/26 net income estimates by 1.8/11.4% to SAR 2,486/2,617mn.

Recommendation	Neutral
Target Price (SAR)	57.5
Upside / (Downside)*	6.9%

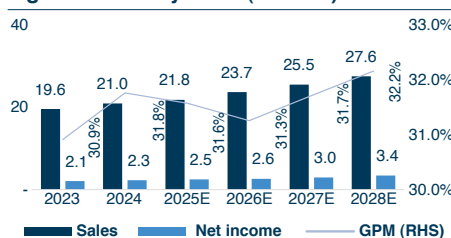
Source: Tadawul *prices as of 24th of April 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenues	20,980	21,803	23,724	25,517
Growth %	7.2%	3.9%	8.8%	7.6%
Gross profit	6,664	6,884	7,416	8,092
EBIT	2,995	3,082	3,306	3,678
EBITDA	4,684	5,014	5,514	5,887
Net Income	2,314	2,486	2,617	2,986
Growth %	12.8%	7.4%	5.3%	14.1%
EPS	2.31	2.49	2.62	2.99
DPS	1.00	1.00	1.00	1.25

Source: Company reports, Aljazira Capital Research

Fig 1: Profitability trend (SAR bn)



Source: Company reports, Aljazira Capital Research

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	31.8%	31.6%	31.3%	31.7%
EBIT margin	14.3%	14.1%	13.9%	14.4%
EBITDA margin	22.3%	23.0%	23.2%	23.1%
Net Margin	11.0%	11.4%	11.0%	11.7%
P/E	24.63	21.64	20.56	18.02
P/B	3.03	2.65	2.46	2.28
EV/EBITDA (x)	13.19	12.15	11.35	10.40
Dividend Yield	1.7%	1.9%	1.9%	2.3%

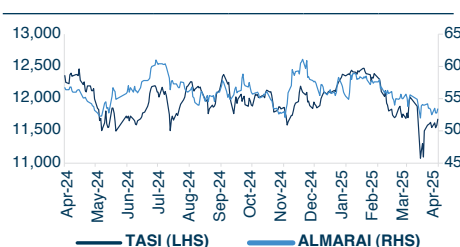
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (bn)	53.8
YTD%	-6.64%
52 weeks (High)/(Low)	61.5/50.6
Share Outstanding (mn)	1000.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Bloomberg, Aljazira Capital Research

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	Gross margin			Operating margin		
	old	revised	Chg	old	revised	Chg
2025E	31.6%	31.6%	-3	14.8%	14.1%	-66
2026E	31.8%	31.3%	-54	15.2%	13.9%	-126
2027E	32.8%	31.7%	-109	16.2%	14.4%	-179

Source: Aljazira Capital Research

SAR 18bn mega capex planned in poultry and core product lines to drive 7.1% revenue and 10.7% net income CAGR over 2024-28: Almarai's medium term revenue growth, margin and earnings outlook remains positive, driven by its SAR 18bn (mostly internally financed) mega capex plan, that aims at doubling its poultry capacity, expanding dairy, juice & bakery product line and developing supply chain and sales capabilities. Overall, we estimate the company to post 2024-28E topline CAGR of 7.1% and net income CAGR of 10.4%. We forecast gross/operating margins to expand by 40/60bps over the same period to 32.2/14.9%, respectively. Improvement in margins over the medium term would be driven mainly by reduction in commodity prices, improved product mix and better operating efficiencies. On the flip side likely upwards adjustments in diesel prices and heightened competition in protein segment will act as major headwinds on the margin front. Below the operating levels, improvement will also come from reduction in finance costs as interest rates come down, we estimate an annualized SAR 100mn (SAR positive impact of each 100bps decline in SAIBOR).

AJC view and valuation: Despite pressure from higher energy prices, drop in poultry prices and effect of Egyptian pound devaluation, Almarai posted a strong set of result (net income up 5.6% Y/Y) on account of robust revenue growth (driven by Ramadan), improvement in operating efficiencies and higher capitalization of interest costs. In the long run, we estimate the company to post 2024-28E revenue CAGR of 7.1% (driven by the increase in fresh dairy sales and expansion in poultry segment) and net income CAGR of 10.4% (boosted by declining finance costs), the aforementioned growth would be driven by company's SAR 18bn mega investment plan.

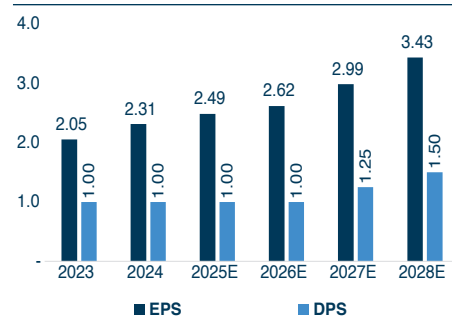
We have valued Almarai based on 50% weight to DCF (assuming WACC of 8.3%, terminal growth of 2.5%), 25% weight to 2025E PE (24x), and 25% weight to 2025E EV/EBITDA (14.5x) to arrive at revised price target of **SAR 57.5/share**, implying an upside of 6.9%. Hence, we maintain our **"Neutral"** rating on the stock.

Blended valuation summary

	Weight	Value per share	Weighted TP
DCF	50%	53.7	26.86
EV/EBITDA	25%	63.1	15.78
PE	25%	59.7	14.92
Blended TP			57.5
Up/Downside (%)			6.9%

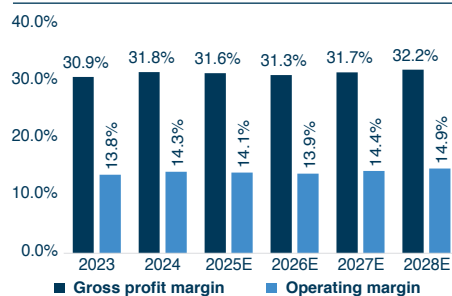
Source: Company's report, Aljazira Capital Research, price as of 24th April 2025

Fig 2: EPS and DPS



Source: Company's report, Aljazira Capital Research

Fig 3: Gross & operating margins



Source: Company's report, Aljazira Capital Research





Key Financials

Amount in USD mn, unless otherwise specified	2023	2024	2025E	2026E	2027E	2028E	2029E
Income statement							
Sales revenue	19,576	20,980	21,803	23,724	25,517	27,568	28,247
YoY sales revenue growth	4.6%	7.2%	3.9%	8.8%	7.6%	8.0%	2.5%
Cost of sales	(13,524)	(14,315)	(14,919)	(16,308)	(17,425)	(18,702)	(19,050)
Gross profit	6,051	6,664	6,884	7,416	8,092	8,866	9,197
Gross profit margin	30.9%	31.8%	31.6%	31.3%	31.7%	32.2%	32.6%
Selling & marketing expenses	(2,790)	(2,994)	(3,147)	(3,425)	(3,682)	(3,978)	(4,076)
General & administration expenses	(469)	(508)	(529)	(552)	(593)	(641)	(656)
Other income /(Expenses)	(99)	(167)	(127)	(133)	(140)	(147)	(154)
Operating profit	2,694	2,995	3,082	3,306	3,678	4,102	4,311
Operating profit margin	13.8%	14.3%	14.1%	13.9%	14.4%	14.9%	15.3%
EBITDA	4,406	4,684	5,014	5,514	5,887	6,313	6,483
EBITDA margin	22.5%	22.3%	23.0%	23.2%	23.1%	22.9%	23.0%
Bank charges	(527)	(530)	(425)	(509)	(487)	(431)	(416)
Income from main & continuing operation	2,166	2,463	2,654	2,794	3,187	3,666	3,891
Zakat	(114)	(150)	(169)	(178)	(202)	(233)	(248)
Net income	2,052	2,314	2,486	2,617	2,986	3,435	3,645
YoY net income growth	16.6%	12.8%	7.4%	5.3%	14.1%	15.0%	6.1%
EPS	2.05	2.31	2.49	2.62	2.99	3.43	3.64
DPS	1.00	1.00	1.00	1.00	1.25	1.50	1.50
Balance sheet							
Cash & cash equivalents	666	528	573	658	847	1,106	1,279
Receivables & prepayments	2,565	2,422	3,537	3,787	4,010	4,332	4,439
Inventories	6,148	5,684	5,155	5,589	6,043	6,562	6,723
Total current assets	11,455	8,784	9,421	10,204	11,080	12,194	12,639
Property, plants and equipment	20,808	22,750	25,630	28,735	28,412	28,134	27,002
Biological assets	1,742	1,838	1,822	1,983	2,133	2,304	2,361
Total non-current assets	24,739	26,784	29,711	33,046	32,865	32,752	31,652
Total assets	36,194	35,568	39,133	43,249	43,946	44,947	44,291
Short-term loans	3,611	1,370	1,949	2,290	2,038	1,794	1,291
Payables & accruals	4,246	4,049	4,643	5,034	5,443	5,911	6,055
Total current liabilities	8,187	5,839	7,012	7,744	7,901	8,124	7,767
Long-term loans	8,499	8,900	9,746	11,451	10,192	8,969	6,457
Employees' termination benefits	1,226	1,397	1,431	1,467	1,504	1,542	1,580
Total non-current liabilities	10,199	10,938	11,843	13,611	12,415	11,258	8,815
Total liabilities	18,385	16,777	18,855	21,355	20,316	19,382	16,582
Share capital	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Retained earnings	6,403	7,674	9,011	10,467	12,116	14,050	16,195
Total equity	17,809	18,791	20,277	21,894	23,630	25,564	27,709
Total liabilities & owners' equity	36,194	35,568	39,133	43,249	43,946	44,947	44,291
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.4	1.5	1.3	1.3	1.4	1.5	1.6
Cash ratio (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Profitability ratios							
Gross profit margin	30.9%	31.8%	31.6%	31.3%	31.7%	32.2%	32.6%
Operating margin	13.8%	14.3%	14.1%	13.9%	14.4%	14.9%	15.3%
Net Profit margin	10.5%	11.0%	11.4%	11.0%	11.7%	12.5%	12.9%
EBITDA margin	22.5%	22.3%	23.0%	23.2%	23.1%	22.9%	23.0%
Return on average assets	6.0%	6.4%	6.7%	6.4%	6.8%	7.7%	8.2%
Return on average equity	11.8%	12.6%	12.7%	12.4%	13.1%	14.0%	13.7%
Leverage ratio							
Debt / equity (x)	0.68	0.55	0.58	0.63	0.52	0.42	0.28
Interest coverage (x)	5.11	5.65	7.25	6.50	7.55	9.51	10.37
Market/valuation ratios							
EV/sales (x)	3.44	3.18	2.98	2.82	2.55	2.30	2.13
EV/EBITDA (x)	13.98	13.19	12.15	11.35	10.40	9.48	8.79
EPS (SAR)	2.05	2.31	2.49	2.62	2.99	3.43	3.64
BVPS (SAR)	17.80	18.79	20.28	21.89	23.63	25.56	27.71
Market price (SAR)	55.8	57.0	53.8	53.8	53.8	53.8	53.8
Market-Cap (SAR mn)	55,800	57,000	53,800	53,800	53,800	53,800	53,800
Dividend yield	1.8%	1.7%	1.9%	1.9%	2.3%	2.8%	2.8%
P/E ratio (x)	27.19	24.63	21.64	20.56	18.02	15.66	14.76
P/BV ratio (x)	3.14	3.03	2.65	2.46	2.28	2.10	1.94

Source: Company's report, Aljazira Capital Research





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RESEARCH
DIVISION

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TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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