

**Earnings beats estimates; however, growth would normalize in coming quarters due to less Ramadan days & EGP devaluation; At 2024E PE of 24.7 we are “Neutral”**

Almarai posted net income of SAR 692mn in Q1-24, up 9.0% Y/Y and 86.7% Q/Q, respectively. Earnings outperformed our and market consensus due to above expected revenue growth on account of 12 additional days of Ramadan and price increases made in Egypt in anticipation of Egyptian pound devaluation. The 7.7% Y/Y revenue growth seen in Q1-24, is expected to slowdown in coming quarters and full year growth is projected at 3.8% in 2024. Moreover, we forecast the company to record net income growth of 11.5% Y/Y in 2024. In the long run, we estimate the company to post 2023-28E revenue CAGR of 6.5% and net income CAGR of 15.4%, the aforementioned growth would be driven by company's SAR 18bn mega investment plan. We revise down 2024/25 earnings estimates by 7.4/6.4% respectively to SAR 2,287/2,534mn, due to slower than estimated margin recovery. At 2024E PE of 24.7x we remain “Neutral” on Almarai with a revised down TP of SAR 62.0/share.

**Q1-24 earnings beat market estimates, due to additional 12 days of Ramadan and price increases in Egypt:** Almarai posted net income of SAR 692mn in Q1-24, up 9.0% Y/Y and 86.7% Q/Q, respectively. Earnings outperformed our and market consensus by 11.9% and 8.5% respectively. The deviation primarily came from above expected revenue growth due to additional 12 days of Ramadan and price increases made in Egypt in anticipation of EGP devaluation. Dairy and juice segment saw the strongest increase in revenues of 10.0% Y/Y, followed by poultry at 8.6% Y/Y. Gross margins witnessed a 63bps Y/Y contraction in Q1-24, however, excluding the impact of SAR 77mn subsidy received last year, margins are up 89bps Y/Y. The improvement in margins reflects winding down of expensive inventory. The increase in freights did not have a material adverse impact on margins, due to efficient cost controls. Dairy and juice segment experienced a ~1% improvement in margins, due to strict cost controls and Ramadan, while poultry saw ~1% margin contraction due to absence of one-off subsidies received in same quarter last year. Operating margins improved by 52bps Y/Y to 15.92%, despite increase in diesel prices, due to effective overhead cost controls.

**Major capex planned in poultry and core product lines; investments to be mostly financed through internal cash generation:** Almarai plans on investing SAR 18bn in poultry, dairy, juices and bakery segment over the next 5 years (2024-28). The largest investment of SAR 7bn will be made in the poultry segment which would add annual 70-100mn birds to existing capacity of 260-270mn birds, by the end of 2025. Moreover, SAR 5bn will be invested in dairy, juice and bakery products, and SAR 4bn will be invested in developing supply chains and sales capabilities. SAR 1bn each will be invested in tapping new food segments and technology development and innovation investment. These investments would increase presence in GCC, Egypt, Jordan and other regional countries. Moreover, these investments would be mostly funded by companies operating cash flows.

<b>Recommendation</b>	<b>Neutral</b>
<b>Target Price (SAR)</b>	<b>62.0</b>
<b>Upside / (Downside)*</b>	<b>9.9%</b>

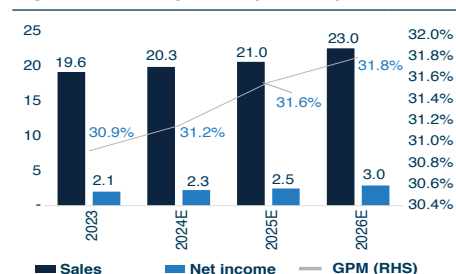
Source: Tadawul \*prices as of 28<sup>th</sup> of April 2024

#### Key Financials

SARmn (unless specified)	FY23	FY24E	FY25E	FY26E
Revenue	19,576	20,315	21,050	23,027
Growth %	4.6%	3.8%	3.6%	9.4%
Net Profit	2,052	2,287	2,534	2,966
Growth %	16.6%	11.5%	10.8%	17.0%
EPS	2.05	2.29	2.53	2.97

Source: Company reports, Aljazira Capital

**Fig 1: Profitability trend (SAR bn)**



Source: Company reports, Aljazira Capital

#### Key Ratios

	FY23	FY24E	FY25E	FY26E
GP Margin	30.9%	31.2%	31.6%	31.8%
Net Margin	10.5%	11.3%	12.0%	12.9%
P/E (x)	27.19	24.66	22.26	19.02
P/B (x)	3.14	2.96	2.74	2.50
EV/EBITDA (x)	13.04	13.75	13.29	12.01
Dividend Yield	1.8%	1.8%	1.8%	1.8%

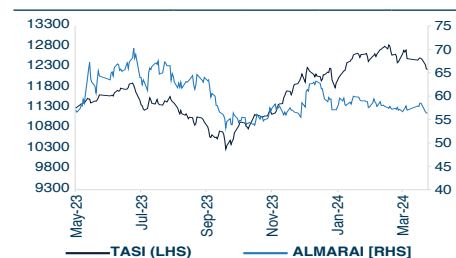
Source: Company reports, Aljazira Capital

#### Key Market Data

Market Cap (SAR bn)	<b>56.4</b>
YTD%	<b>1.08%</b>
52 weeks (High)/(Low)	<b>71/53.2</b>
Share Outstanding (mn)	<b>1000.0</b>

Source: Company reports, Aljazira Capital

#### Price Performance



Source: Bloomberg, Aljazira Capital

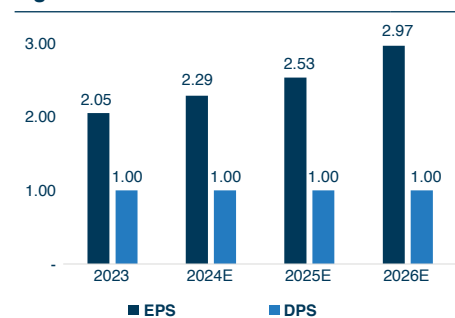
Fahad Qureshi, CFA  
+966 11 2256315  
f.iran@aljaziracapital.com.sa

**Estimates revised down due to slower margin recovery, revenue growth to gradually decrease as we move ahead in 2024:** We revise down 2024/25 earnings estimates for Almarai by 7.4/6.4% respectively to SAR 2,287/2,53mn, due to slower than estimated margin recovery. This downwards adjustment in margins results in 8% reduction in price target to SAR 62 per share. Overall, we estimate the company to post 2023-28E topline CAGR of 6.5% and net income CAGR of 15.4%. We forecast gross/operating margins to improve by 24/65bps respectively in 2024, and by 322/384 bps over the next five years. The 7.7% revenue growth and 9.0% growth in net income experienced in Q1-24, due to 12 additional days of Ramadan and price increases made in anticipation of devaluation in Egypt, would slow down in coming quarters and full year growth is projected slowdown to 3.8% in 2024. Note that Egypt central bank allowed Egyptian pound to devalue in March-24, along with other IMF requirements such as hiking interest rates and slowing infrastructure spending.

**AJC view and valuation:** Almarai Q1-24 earnings exceeded consensus estimates, due to higher number of Ramadan days and price increases made in Egypt in anticipation of devaluations. We see earnings and topline growth to normalize in the coming quarters due to less Ramadan days and EGP devaluation. In the long run, we estimate the company to post 2023-28E revenue CAGR of 6.5% and net income CAGR of 15.4%, the aforementioned growth would be driven by company's SAR 18bn mega investment plan. However, at 2024E PE of 24.7x we maintain our **"Neutral"** rating on the stock.

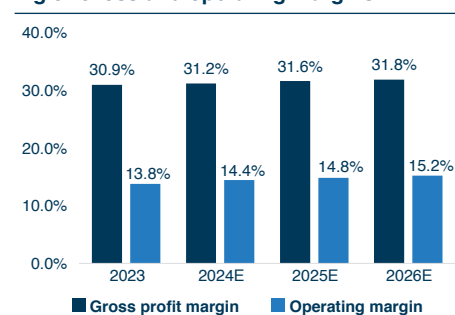
We have valued Almarai based on blended DCF (50% weight), PE (25% weight) and EV/EBITDA (25% weight) to arrive at price target of **SAR 62.0/share**. Using DCF we arrive at a target price of SAR 65.1/share; assuming WACC of 7.0%, terminal growth of 2.5%. We have assumed long term PE and EV/EBITDA ratio of 25x and 14.5x.

Fig 2: EPS and DPS



Source: Company reports, AlJazira Capital

Fig 3: Gross and operating margins



Source: Company's report, AlJazira Capital

Blended Valuation	Weights	TP
DCF	50%	32.53
EV/EBITDA	25%	15.01
PE	25%	14.29
Weighted average 12M PT		62.0
Upside		9.9%

Source: AJC research



## Key Financial Data

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
<b>Income statement</b>								
Sales revenue	15,850	18,722	19,576	20,315	21,050	23,027	24,772	26,779
<b>Y/Y sales revenue growth</b>	<b>3.2%</b>	<b>18.1%</b>	<b>4.6%</b>	<b>3.8%</b>	<b>3.6%</b>	<b>9.4%</b>	<b>7.6%</b>	<b>8.1%</b>
Cost of sales	(10,790)	(13,098)	(13,524)	(13,987)	(14,408)	(15,707)	(16,645)	(17,640)
<b>Gross profit</b>	<b>5,059</b>	<b>5,624</b>	<b>6,051</b>	<b>6,328</b>	<b>6,642</b>	<b>7,320</b>	<b>8,127</b>	<b>9,139</b>
Selling & marketing expenses	(2,519)	(2,710)	(2,790)	(2,818)	(2,920)	(3,195)	(3,437)	(3,715)
General & administration expenses	(428)	(459)	(469)	(486)	(503)	(528)	(568)	(614)
Other income /(Expenses)	(97)	(180)	(99)	(98)	(98)	(98)	(98)	(98)
<b>Operating profit</b>	<b>2,015</b>	<b>2,276</b>	<b>2,694</b>	<b>2,927</b>	<b>3,121</b>	<b>3,499</b>	<b>4,025</b>	<b>4,713</b>
<b>Y/Y operating profit growth</b>	<b>-20.1%</b>	<b>13.0%</b>	<b>18.3%</b>	<b>8.6%</b>	<b>6.6%</b>	<b>12.1%</b>	<b>15.0%</b>	<b>17.1%</b>
Bank charges	(346)	(428)	(527)	(527)	(463)	(388)	(361)	(311)
<b>Income from main &amp; continuing operation</b>	<b>1,668</b>	<b>1,849</b>	<b>2,166</b>	<b>2,396</b>	<b>2,655</b>	<b>3,107</b>	<b>3,660</b>	<b>4,398</b>
Zakat	(88)	(71)	(114)	(111)	(123)	(143)	(169)	(203)
Minority interest	(15.9)	(18.3)	2.4	2.1	2.1	2.1	2.0	2.0
<b>Net income</b>	<b>1,564</b>	<b>1,760</b>	<b>2,052</b>	<b>2,287</b>	<b>2,534</b>	<b>2,966</b>	<b>3,493</b>	<b>4,197</b>
<b>Y/Y net income growth</b>	<b>-21.2%</b>	<b>12.6%</b>	<b>16.6%</b>	<b>11.5%</b>	<b>10.8%</b>	<b>17.0%</b>	<b>17.8%</b>	<b>20.1%</b>
<b>EPS</b>	<b>1.56</b>	<b>1.76</b>	<b>2.05</b>	<b>2.29</b>	<b>2.53</b>	<b>2.97</b>	<b>3.49</b>	<b>4.20</b>
<b>DPS</b>	<b>0.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.50</b>
<b>Balance sheet</b>								
Cash & cash equivalents	581	547	666	420	602	897	1,534	2,408
Receivables & prepayments	1,991	2,156	2,565	2,783	2,770	2,915	3,021	3,266
Inventories	4,354	5,237	6,148	5,683	5,850	6,324	6,756	7,216
<b>Total current assets</b>	<b>7,102</b>	<b>8,126</b>	<b>11,455</b>	<b>9,227</b>	<b>9,375</b>	<b>10,302</b>	<b>11,489</b>	<b>13,081</b>
Property, plants and equipment	20,873	20,115	20,808	22,448	25,339	28,474	28,149	27,869
Biological assets	1,469	1,565	1,742	1,698	1,759	1,925	2,071	2,238
Intangible assets - Goodwill	1,129	1,146	1,124	1,124	1,124	1,124	1,124	1,124
<b>Total non-current assets</b>	<b>24,652</b>	<b>23,948</b>	<b>24,739</b>	<b>26,372</b>	<b>29,391</b>	<b>32,762</b>	<b>32,576</b>	<b>32,457</b>
<b>Total assets</b>	<b>31,754</b>	<b>32,074</b>	<b>36,194</b>	<b>35,599</b>	<b>38,766</b>	<b>43,064</b>	<b>44,065</b>	<b>45,538</b>
Short-term loans	2,791	1,227	3,611	1,912	2,199	2,573	2,239	1,903
Payables & accruals	3,339	3,656	4,246	4,859	5,001	5,406	5,776	6,169
<b>Total current liabilities</b>	<b>6,624</b>	<b>5,083</b>	<b>8,187</b>	<b>7,101</b>	<b>7,530</b>	<b>8,309</b>	<b>8,344</b>	<b>8,401</b>
Long-term loans	7,072	8,449	8,499	7,649	8,797	10,292	8,954	7,611
Employees' termination benefits	952	1,057	1,226	1,256	1,288	1,320	1,353	1,387
Deferred tax liability	478	482	461	484	508	534	561	589
<b>Total non-current liabilities</b>	<b>8,512</b>	<b>10,008</b>	<b>10,199</b>	<b>9,402</b>	<b>10,606</b>	<b>12,159</b>	<b>10,881</b>	<b>9,599</b>
<b>Total liabilities</b>	<b>15,136</b>	<b>15,091</b>	<b>18,385</b>	<b>16,503</b>	<b>18,135</b>	<b>20,468</b>	<b>19,225</b>	<b>18,001</b>
Share capital	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Statutory reserves	2,585	2,761	2,966	3,095	3,248	3,445	3,557	3,557
Other reserves	(622)	(809)	(957)	(957)	(957)	(957)	(957)	(957)
Treasury shares	(875)	(867)	(615)	(615)	(615)	(615)	(615)	(615)
Retained earnings	5,032	5,586	6,403	7,562	8,942	10,712	12,843	15,540
<b>Total shareholders' equity</b>	<b>16,119</b>	<b>16,671</b>	<b>17,798</b>	<b>19,085</b>	<b>20,619</b>	<b>22,585</b>	<b>24,828</b>	<b>27,525</b>
Minority interest	499	312	11	11	11	12	12	12
<b>Total equity</b>	<b>16,618</b>	<b>16,983</b>	<b>17,809</b>	<b>19,096</b>	<b>20,630</b>	<b>22,596</b>	<b>24,840</b>	<b>27,537</b>
<b>Total liabilities &amp; owners' equity</b>	<b>31,754</b>	<b>32,074</b>	<b>36,194</b>	<b>35,599</b>	<b>38,766</b>	<b>43,064</b>	<b>44,065</b>	<b>45,538</b>
<b>Key fundamental ratios</b>								
<b>Liquidity ratios</b>								
Current ratio (x)	1.1	1.6	1.4	1.3	1.2	1.2	1.4	1.6
Cash ratio (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3
<b>Profitability ratios</b>								
Gross profit margin	31.9%	30.0%	30.9%	31.2%	31.6%	31.8%	32.8%	34.1%
Operating margin	12.7%	12.2%	13.8%	14.4%	14.8%	15.2%	16.2%	17.6%
Net Profit margin	9.9%	9.4%	10.5%	11.3%	12.0%	12.9%	14.1%	15.7%
EBITDA margin	23.9%	22.3%	26.3%	23.5%	23.9%	24.7%	25.2%	25.9%
Return on average assets	4.9%	5.5%	6.0%	6.4%	6.8%	7.2%	8.0%	9.4%
Return on average equity	9.5%	10.5%	11.8%	12.4%	12.8%	13.7%	14.7%	16.0%
<b>Leverage ratio</b>								
Debt / equity (x)	0.59	0.57	0.68	0.50	0.53	0.57	0.45	0.35
Interest coverage (x)	5.82	5.32	5.11	5.55	6.75	9.02	11.15	15.17
<b>Market/valuation ratios</b>								
EV/sales (x)	3.71	3.18	3.44	3.23	3.17	2.97	2.67	2.37
EV/EBITDA (x)	15.49	14.24	13.04	13.75	13.29	12.01	10.60	9.16
EPS (SAR)	1.56	1.76	2.05	2.29	2.53	2.97	3.49	4.20
BVPS (SAR)	16.12	16.67	17.80	19.08	20.62	22.58	24.83	27.52
Market price (SAR) *	49.5	50.4	55.8	56.4	56.4	56.4	56.4	56.4
Market-Cap (SAR mn)	49,450	50,400	55,800	56,400	56,400	56,400	56,400	56,400
Dividend yield	2.0%	1.9%	1.8%	1.8%	1.8%	1.8%	2.2%	2.7%
P/E ratio (x)	31.63	28.64	27.19	24.66	22.26	19.02	16.14	13.44
P/BV ratio (x)	3.07	3.02	3.14	2.96	2.74	2.50	2.27	2.05

Source: Company's report, AlJazira capital





RESEARCH DIVISION

Head of Sell-Side Research - AGM  
Jassim Al-Jubran  
+966 11 2256248  
j.aljabran@aljaziracapital.com.sa

RESEARCH  
DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING  
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.

## Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Investment Banking | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068