ALJAZIRA CAPITAL الجزيرة للأسواق المالية

August 2024

AlMunajem Foods Co.

Leveraging Growing Market, Capacity Expansions,and Vertical Integration Towards Robust Financial Performance

Initiation Report | August 2024

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Expansions in value-added segments, higher reliance on local poultry supply to drive earnings growth & reduce supply-chain disruption risk

Food & Beverage (F&B) sector of Saudi Arabia is expected to grow by over 4% CAGR in the medium term, due to increasing population (expat and local), growing women participation in work force and the rise in tourism activities. Almunajem is a direct beneficiary of the aforementioned growth. The company is expanding its processing capacity by 32,000MT to 50,000MT, this would increase the share of value added products in the product mix. Despite the expansions/investments, we expect strong dividend yield to continue, supported by a debt free balance sheet. The company is in the process of increasing investment in Balady poultry Co. this will increase reliance on the local fresh chicken supply and reduce risk of supply chain disruption. Other key strategic initiatives undertaken by the company are the launch of B2B online platform to meet demand for online shopping and plans to expand 3rd party logistics services. Overall, we expect the company to deliver net income CAGR of 12.1% over 2023-28. At 2024E PE of 16.0x we initiate coverage on Almunajem with "Overweight" rating with a TP of SAR 114.1/share.

Favorable demographics and macroeconomic environment to drive demand for Food and beverage sector: Food and Beverage (F&B) sector of Saudi Arabia is expected to grow by over 4% CAGR in the medium term. Almunajem being a key player in Kingdom's F&B sector will be direct beneficiary of this growth. Key drivers of the aforementioned growth are favorable macroeconomic environment and demographics such as large young population (63% of Saudis are under 30 years old), high GDP per capita of USD 34,454, increasing tourism both religious (Hajj and Umrah) and leisure, growing expatriate population due to heightened demand driven by Vision 2030 initiatives, more women in workforce (creating demand for ready-to-cook and processed foods) and strong growth in Hoteling, restaurants and cafes. Overall, consumer outlook in Saudi is promising, as shown by the increasing POS spending (up 10.7% Y/Y in 5M-24).

Expanding processing food capacity by 32,000MT to 50,000MT; earnings to grow at a CAGR of 12.1% over 2023-28: Almunajem's two-pronged strategy includes increasing localization (domestic purchasing of goods) and improving share of high margin valued added products in the total mix. In this regard, Almunajem is expanding its processing capacity by 32,000MT to 50,000MT, this line will produce items such as frozen minced meat, tenderized breast, nuggets, chicken strips and seafood. According to our understanding margin on processed meat and frozen fruits & vegetables is higher than whole chicken. The company has started co-packing a major volume of DARI locally, moreover the company has chosen to co-pack canned vegetables, Dairy and Seafood with its partners in the kingdom. In 2023 company added new items to frozen pastry range, super foods range (Cranberry, Acai and Edamame) and natural cheese range and introduced new products such as ice-cream. Almunajem has delivered a revenue CAGR of 9.3% over the 2020-23, over the same period it delivered net income CAGR of 7.1%. We expect the company to deliver topline CAGR of 7.1% over 2023-28, and a corresponding income CAGR of 12.1%. We expect gross margins for the company to expand by 29bps over the 2023-28, the improvement is driven by higher mix of local products and increase in value added products in the overall product mix.

Almunajem's investment in Balady to increase reliance on local higher margin fresh chicken and reduce the operational risk from regional geopolitics: Almunajem acquired 17% of Balady poultry for SAR 134mn and is in the process of increasing shareholding to 40% by the purchase of 1.51mn shares at a value of SAR 181.3mn; binding share purchase agreement has been signed by both companies, however approval from Authorities and General Authority for Competition is awaited. The transaction is mostly planned to be financed by internal cash. Balady currently has a capacity to produce 200,000 birds per day, and plans to increase capacity to 500,000 birds per day. This backward integration into poultry production has multiple benefits for Almunajem, most importantly it is in line with the kingdoms goal of increasing self-sufficiency of basic food items, secondly it reduces risks related to supply chain disruptions as a result of regional geopolitics, and finally fresh poultry offers better margin than frozen products. Balady benefits from having access to one of the largest distribution networks in the Kingdom. Almunajem is presenting income from Balady as share of profit from Associate in its income statement. We expect Balady to post net income of SAR 125.1mn in 2024 and SAR 128.2mn in 2025. We expect Almunajem's share in Balady to increase to 40% by 4Q-24.

Recommendation	**Overweight**
Target Price (SAR)	**114.1**
Upside / (Downside)*	**23.3%**

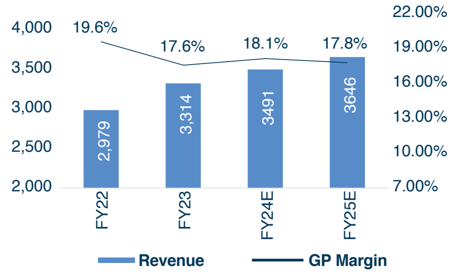
Source: Tadawul *prices as of 5th August 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenue	2,979	3,314	3,491	3,646
Growth %	15.58%	11.28%	5.33%	4.43%
Gross Profit	583	582	633	648
Net Income	290	282	346	371
Growth %	74.7%	-2.8%	22.6%	7.4%
EPS	4.84	4.70	5.77	6.19
DPS	2.25	3.25	3.50	3.75

Source: Company reports, AlJazira Capital

Revenue (SAR mn) and GP Margin



Source: Company reports, AlJazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	19.58%	17.57%	18.13%	17.78%
Net Margin	9.74%	8.51%	9.91%	10.19%
PE (x)	10.7	15.7	16.0	14.9
PB (x)	3.5	4.8	5.2	4.6
EV/EBITDA (x)	8.8	12.6	13.8	12.4
Div Yield (%)	4.3%	4.4%	3.8%	4.1%

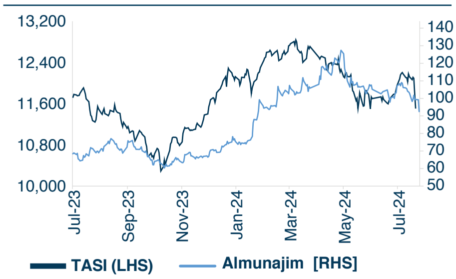
Source: Company reports, AlJazira Capital

Key Market Data

Market Cap (SAR bn)	5.9
YTD %	29.37
52-week (High)/(Low)	128.2/59.4
Share Outstanding (mn)	60.0

Source: Company reports, AlJazira Capital

Price Performance



Source: Bloomberg, AlJazira Capital

The company recently launched its online B2B platform and plans to expand 3rd party logistics services: Amongst other key strategic initiatives undertaken by the company are the launch of B2B online platform to meet demand for online shopping and plans to expand 3rd party logistics services to provide end-to-end logistics support to its clients in the fields of medicine, food and others. It is noteworthy that the company has a distribution vehicle fleet of more than 1000 vehicles (equipped with GPS and temperature tracking systems) and 12 warehouses; Almunajem's distribution network reaches 12500+ retail outlets, 1000+ wholesale outlets and 9100 service outlets.

Strong dividend yields to continue supported by debt free balance sheet; however, cannot rule out more acquisitions/expansion through debt: Almunajem has a debt free balance sheet which enables strong dividend payouts (2023 DY 4.4%). The company is expected to generate cash flow from operations of SAR 390mn (SAR 6.5 per share) in 2024, hence we estimate company to payout SAR 3.5 per share dividend in 2024, which corresponds to dividend yield of 3.8%. That said, since the company is in the process of localization of supply, we do not rule out a possible investment/acquisition through debt in the future.

Investment thesis and valuation: Almunajem is set to benefit from favorable demographics of large young population, increasing tourism, growing expatriate population and more women in workforce. The company is following a two pronged strategy, 1) the company is in the process of increasing reliance on domestic suppliers (especially in poultry segment) to protect against supply chain disruption risk, and 2) it is expanding its processing capacity to increase share of high margin value added products. In this backdrop, we expect the company to deliver topline CAGR of 7.1% over 2023-28, and a net income CAGR of 12.1%. Healthy cash generation and debt free balance sheet should enable the company to maintain healthy dividend yield of 3.8%.

We value Almunajem assigning 50% weight to DCF (2.5% terminal growth and 9.8% WACC), while we assign 50% weight to PE (19.0x – premium to historical PE due to expansion into higher margin products, based on FY25E EPS). We initiate coverage on Almunajem with an "**Overweight**" rating a target price of **SAR 114.1/share**, implying 23.3% upside, in addition to the dividend yield of 3.8%.

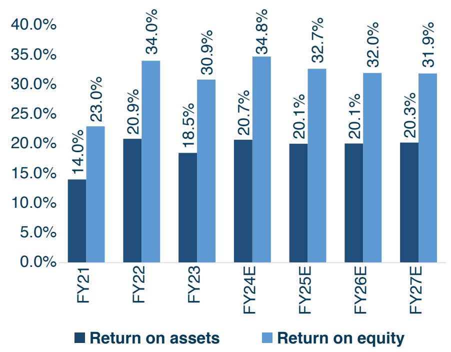
Downside Risk to the valuation

- Increased competition in poultry segment due to major upcoming capacities
- Supply chain disruption due to red sea crisis
- Further increase in diesel prices can impact margins
- Tariffs on key import items

Upside Risk to valuation

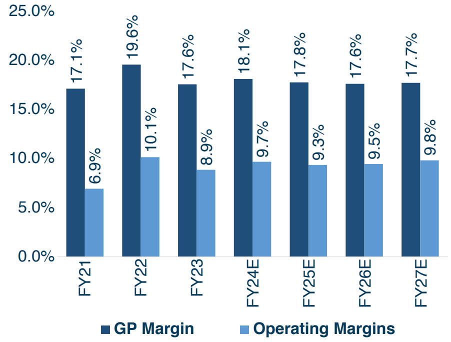
- Further expansion of processing facilities
- More increase in share in Balady and/or other domestic poultry producers
- Higher than expected improvement in the gross margin due to increased exposure on locally sourced poultry supply.
- New launches in frozen fruit and vegetables segment or other smaller segments

ROA and ROE



Source: Bloomberg, AlJazira Capital

Gross and operating margin trend



Source: Bloomberg, AlJazira Capital

Company Overview

Almunajem Foods Company (AFC) has transformed from a sole proprietorship into one of KSA's leading food companies, involved in importation, marketing, distribution, and production of frozen, chilled, and dry food items. Starting with just 2 brands, AFC expanded to 40+ brands, a mix of owned and distributed, which are well-regarded by consumers. It offers 800+ SKUs across 5 daily consumed product categories: red and white meats, frozen fruits and vegetables, dairy products, olives and olive oil, and other products. With 70+ years in KSA, AFC has built strong customer relationships through its extensive network of stores, supported by a fleet of over 1,000 vehicles and 14 branches across the Kingdom. AFC commands a leading retail market share across its well-recognized owned and distributed brands and has consistently maintained one of the top-3 positions.

1950
Formation of sole proprietorship

1962
First cold store

1982
Sole proprietorship to Abdullah Ali Almunajem sons

1992
Meat processing facility in Jeddah

2007
Limited liability company formed 'almunajem cold stores'

2021
Transformed to closed joint stock company 'Almunajem Foods'

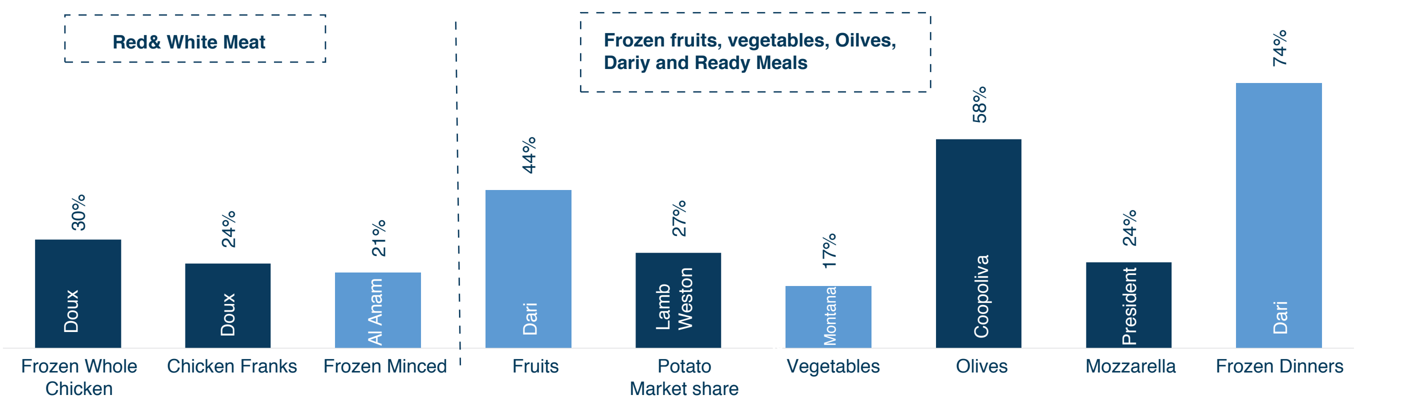
2021
Meat processing plant expansion

2021
Began trading on TASI

2022
Meat processing expansion 2

2024
Plans food plant expansion Jeddah

Fig 1. Leadership position evident from the retail brand wise market share (Q1-24)



Source: Company Presentation, AlJazira Capital research. Note: Bar charts highlighted in grey are key own brands, while the bar charts highlighted in blue are key international brands

Product Categories

AFC primarily operates in 5 product categories, offering a broad range of branded and own-brand food SKUs through its distribution channels.

- **Red and White Meat:** The most significant category for AFC, accounted for 58% of revenues in FY20, we forecast its share to increase to 61% of revenues by 2027, due to increase in processing capacity to ~50,000 tons from current ~15,000 tons. This segment began in the 1960s with the distribution of a few hundred MT per month and is expected to grow to ~14,800 MT per month by 2027. Poultry, Meat and Seafood form the sub-categories which include 24 brands, sourced from 27 local and international suppliers.

- **Frozen Fruits & Vegetables:** The second most significant category, accounted for 17% of FY20 revenues and is expected to expand to 18% of revenues by 2027 and includes sub-categories such as fruit pulp, quick frozen products, leafy vegetables, dry can products, and potato cuts. Initiated in the 1970s, this category reached a production volume of ~6,000 MT per month in FY20 we expect it to grow to 8,277 MT per month by 2027. AFC sells 5 brands within this category, sourced from 11 suppliers
- **Dairy:** Accounted for 14% of FY20 revenues and is expected to drop to 12% of 2027 revenues, this category includes various types of cheese, animal fat, butter, labneh, mozzarella, and cream. AFC began sales in the 1980s and reached a production volume of ~2,000 MT per month in 2020; we forecast sales to grow to ~2,800 MT per month by 2027. It currently sells 6 brands sourced from 9 suppliers.
- **Olives & Oil:** Accounting for 10% of FY20 revenues, and is likely to lose share by 2% to 8% by 2027, this category's sales started in 1970s with a production volume of 2 containers per month and has since grown to ~2,555 MT per month in 2021; we expect sales to average around 2,800 MT per month by 2027. It currently sells 5 brands sourced from 2 suppliers.
- **Other products:** Within this category, AFC sells rice, dry herbs, cooking oil, condiments, and sesame tahini. The company operates with 7 brands and relies on 11 suppliers. This segment has a share of 1% and is likely to maintain its share going forward.

Business Model

1. **Sourcing, Manufacturing and Warehousing:**

AFC sources ~300,000 MT per annum of frozen, chilled and dry food products from a diverse group of local and international suppliers. It currently engages with 70+ active suppliers, with 84% of them being international and 16% being local suppliers. AFC's manufacturing facility in Jeddah operates 3 production lines producing 18 SKUS, adding up to a total manufacturing capacity of 15,000 MT. To increase localization and reduce the risks of probable import tariffs, AFC vertically integrated its sourcing of poultry products by acquiring a 17% stake in Balady Poultry. The sourced products are stored in AFC's 12 warehouses which are spread across the Kingdom. These warehouses are equipped with automatic mobile tracking systems which enhances storage capacity and increases efficiency. The storage capacity ranges from 2,000 MT to 16,000 MT and the total capacity of these warehouses add up to 58,000 MT.

2. **Distribution to key customers:**

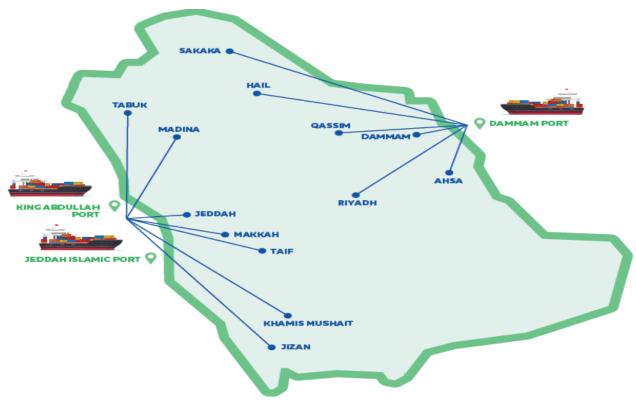
AFC's extensive distribution network spans over 12.5K + retail outlets, 1K+ wholesale stores and ~9.1K service outlets across all regions of KSA. This network facilitates the efficient delivery of around 300,000 MT of products annually to ~22.6K outlets. AFC has strategically located its 14 branches across major regions, enabling receipt of imported products through three key ports in KSA. AFC's fleet of 1K+ vehicles ensure timely product delivery to key customers, namely: Al Othaim, Panda, Carrefour, Al Danube, Lulu, Al Tamimi and BinDawood, as well as chains of prominent HORECA outlets such as Kudu, AlBaik, Burgerizzr.

The company's value chain begins with sales forecasting for each category, followed by submitting purchase orders to suppliers to procure the necessary quantities. Upon arrival at the port and clearance by Saudi customs, AFC engages third-party transport companies to deliver containers either directly to cold storage facilities or to its meat factory, where products are then transferred to cold storage. The final step involves fulfilling customer orders from inventory stored in cold storage

Fig 2. Value chain graph

Source: Company Prospectus, AlJazira Capital research

Fig 3. Cold storage strategically located



Source: Company Prospectus, AlJazira Capital research

Competitive Advantages

1. **70+ years of presence in a defensive sector and wider product assortments drives product acceptance, benefitting AFC with leadership position for most of its portfolio brands**

AFC operates in a dynamic and defensive sector which typically demonstrates resilience during economic downturns. Its presence in KSA's F&B market for over 70 years, coupled with wider product assortments has given its 40+ brands a first-mover advantage and broader household acceptance. AFC has been the partner of choice for many key customers due to its unmatched and diverse product offering of over 800 SKUs, robust distribution capabilities covering all regions around the Kingdom and seamless order placement and delivery within 24 hours. Its ability to continually evolve its product offerings to meet customer needs has resulted in leadership positions for most of its brand, which is evident from its consistency in maintaining one of the top-3 positions by market share in retail channels.

Fig 4. AFC's owned and international brands having top-3 positions by market share in the retail channels

Product Category	Sub-category	Brands	Type of Brand	Ranking
Red & White Meat	Frozen Whole Chicken	Doux	International	2
	Frozen Minced	Al Anam	Owned	1
	Frozen Breasts	Dari	Owned	2
Frozen Fruit & Vegetables	Fruits	Montana	Owned	2
	Vegetables	Dari	Owned	3
	Potato	Lamb Weston	International	1
Olives & Oil	Olives	Coopoliva	International	1
Dairy	Mozzarella	President	International	1
	Labneh	President	International	2
Ready Meals	Frozen Dinners	Dari	Owned	1

Source: Company Presentation, AlJazira Capital research.

2. **Long-standing relations with diverse supplier base mitigate supply disruptions, while an efficient logistical network reduces lead times and enhances customer satisfaction**

Over the years, AFC has established robust connections with 70+ international and local suppliers, fulfilling annual orders exceeding 300K MT, which are distributed through ~18K customer outlets across the kingdom. With more than five decades of relationships with key suppliers, AFC benefits from a well-diversified supplier base, allowing it to adapt its product portfolio to changing customer needs and mitigate supply disruptions. Further its acquisition of a stake in Balady Poultry benefits it through backward integration and increasing localization in terms of sourcing. The company's distribution is enhanced with its 14 branches strategically covering the entire kingdom. It's efficient supply chain process driven by close coordination between various teams has helped it reduce lead times and enhance customer satisfaction.

3. **Asset light business model allows more avenues to allocate resources and enhance flexibility**

The company operates on an asset-light business model with a historical annual capex ranging from 0.5% to 1.2% of revenue. Furthermore, its zero-debt position and a cash balance of SAR 182mn as on Q1-24 allows the business to allocate resources more efficiently and enhance flexibility.

Industry Overview

KSA food & beverage market is pegged at SAR 230bn in 2023 with meat and poultry being the largest component, which is the core business of AFC. KSA's food market is poised to grow over 4% over FY23-28E underpinned by several macroeconomic factors as well as consumption and demand trends as outlined below:

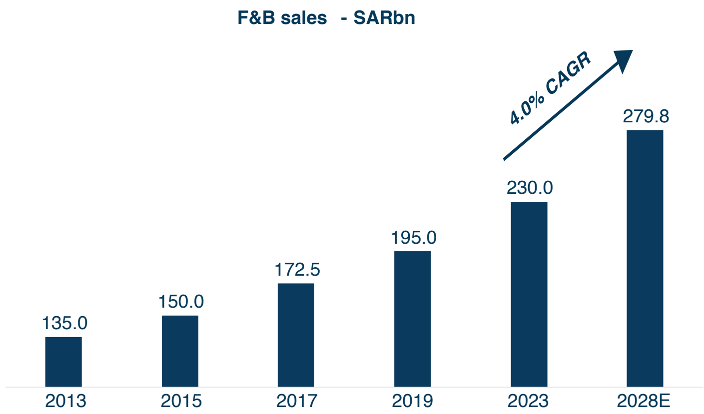
Macroeconomic factors:

- **Huge young population:** 63% of the Saudi population is under 30-year-old as the population ages it will contribute to the growth of the overall F&B market.
- **Rising disposable per capita income:** KSA's disposable income is expected to rise given there has been an increase in working women and other macro factors. This rise in income will result in growth of consumer expenses on food.
- **Influx of international tourists:** Government's continuous efforts to develop the tourism industry through Vision 2030, is expected to drive 20.3% growth over FY22-30e in international tourists, which will fuel the consumption narrative. Kingdom has set a target of welcoming 150 million tourists by 2030.

Consumption factors:

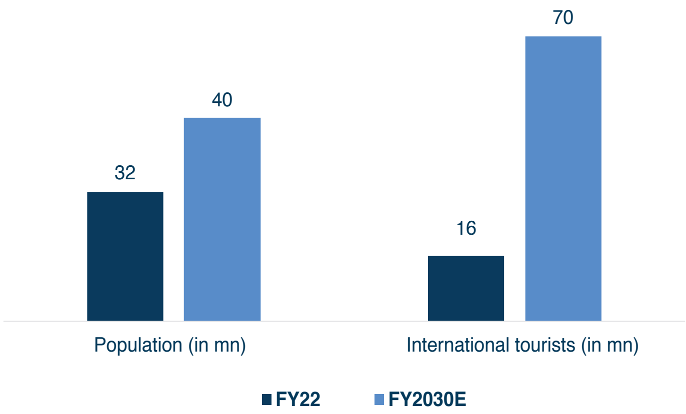
- **Rising preference for healthy products:** Consumers interest in healthier foods is rising inspired due to healthy lifestyle being promoted by the KSA government under its Vision 2030 initiative. This bodes well for AFC which largely deals in products rich in proteins and vitamins.
- **Consumption of ready-to-eat food on the rise:** Increasing participation of women in the labor force is resulting in growing demand for convenience based ready-to-eat meal

Fig 5. KSA F&B market to grow at 4% CAGR over FY23-28



Source: Saudi Food Show, AlJazira Capital research.

Fig 6. Rise in population, tourists and other consumption patterns to be key growth drivers



Source: GASTAT, Ministry of Tourism, AlJazira Capital research.

Meat and poultry products account for the largest share of KSA's F&B market as KSA is one of the world's highest consumers of poultry products. However local production is currently not able to satisfy the local demand, with the shortfall being covered by imports. In order to mitigate the potential shortage of meat products, KSA is increasingly investing in development of local production capabilities. Over the years, KSA has developed strong local dairy production capabilities. The importance of meat and poultry will grow over the next five years, driven by increasing international tourism, rising health-consciousness post-COVID, and greater female labor force participation. Saudi households are expected to opt for ready-to-eat or ready-to-cook poultry and meat products which can be purchased in large quantities and stored for an extended period.

Overall, the F&B industry in the Kingdom is poised to grow at 4%+ CAGR over FY23-28e. The F&B sector and especially the Frozen & Chilled categories in which AFC operates, has higher entry barriers due to elevated capital investments required in distribution & storage infrastructure. Moreover, the sector is strongly influenced by consumers' trust towards the food brands suggesting that well-positioned brands with long history have a strong advantage over other players. AFC is well-positioned to maintain its strong performance in the future. With more than 70-year track record, AFC's presence is deeply rooted in the market and is a common and trusted brand within Saudi households.

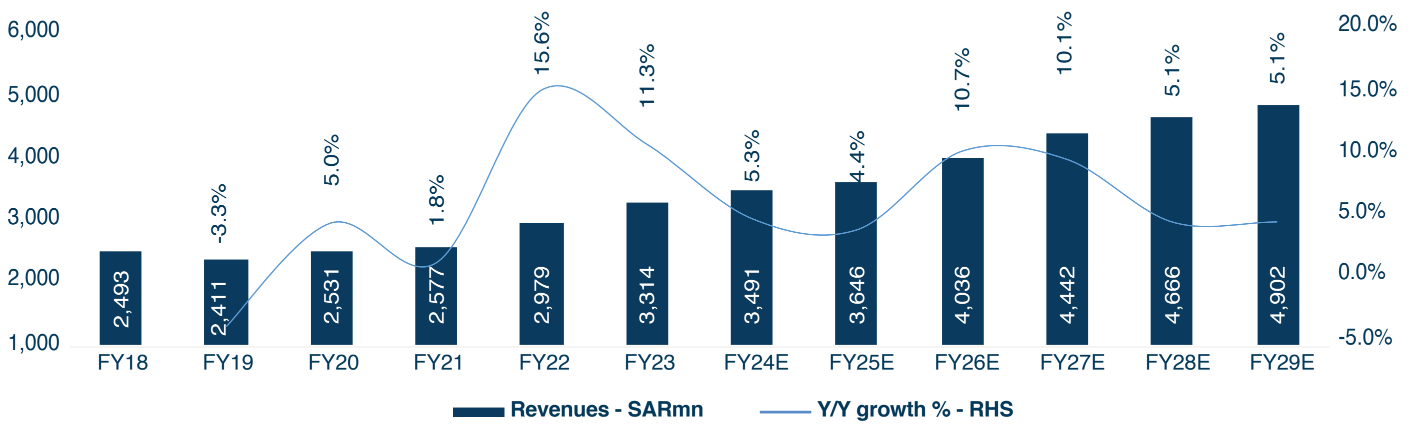
Financial Analysis

Historical revenue growth expected to continue, driven by meat & poultry businesses benefitting from capacity expansion and fresh poultry portfolio through a higher stake in Balady

KSA's food market is poised for a growth of over 4% over FY23-28E underpinned by several macroeconomic factors as well as consumption and demand trends. Meat and poultry, being the largest component of KSA's F&B market will be at the forefront of this growth cycle. Over the years AFC has derived most of its revenues from the red & white meat business (58%) which has aided AFC to scale up its revenues at 5.9% CAGR over FY18-23. Going forward we expect the same trend to continue as the meat & poultry business is likely to be a key beneficiary of F&B sectoral expansion due to higher consumption in KSA. Further the company's 17% stake in Balady and its plans to increase it to 40% will mark AFC's foray into fresh poultry, which will fuel the growth of this business. Balady benefits from having access to one of the largest distribution network in the Kingdom.

Further AFC's plans of expanding its annual processing capacity by 32,000MT to 50,000MT will produce items such as frozen minced meat, tenderized breast, nuggets, chicken strips and seafood. This will likely expand the product assortments and thus benefit in increased revenue opportunities. We believe AFC will be the key beneficiary of the sectoral tailwinds poised for KSA's F&B market due to its long operating history, deeply rooted in the market and its portfolio of brands being a common and trusted brand within Saudi households. Accordingly, we expect the revenues to reach SAR 4.90bn by FY29e, implying a 6.7% overall revenue CAGR over FY23-29e.

Fig 7. Revenues to grow at 6.7% CAGR over FY23-29E driven by sectoral tailwinds, capacity expansion and foray into fresh poultry with a higher stake in Balady



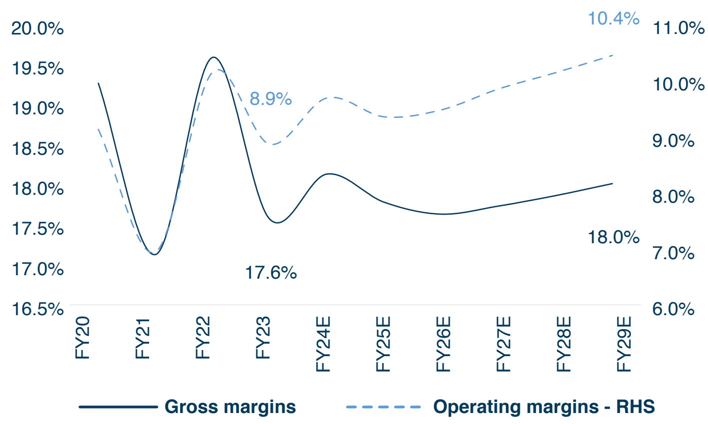
Source: Company, AlJazira Capital research

Despite intense competitive landscape, margin expansion likely due to focus on margin accretive products

AFC operates in a competitive landscape, which is currently very intense in KSA, moreover its business focus has always been on distribution, which has resulted in thin gross margins for it. Gross margins for AFC have been range bound within 17-19% levels. However, operating leverage and cost rationalization along with continuous demand for products has driven its operating margins from 9.1% in FY20 to 10.1% in FY22, before reducing it to 8.9% in FY23. Low or negligible levels of debt have eased the burden of financing cost thus resulting in a majority flow through of operating profit to the net profit. This resulted in its net profit expanding at 7.1% CAGR over FY20-23. We believe these levels are sustainable as the company is likely to benefit from i) growth in high margin value-added products driven by capacity expansion; ii) foray into margin accretive fresh poultry products with a higher stake in Balady; iii) robust sectoral tailwinds driven by Vision 2030 initiatives; and iv) operating leverage at play. We forecast the gross and operating margins to expand by 29bps and 127bps, to reach 17.9% and 10.1% levels respectively by 2029. Lower reliance on debt will continue going forward, which will result in finance cost saving, which should aid in expansion of net profit margins from 8.5% in FY23 to 10.7% by FY28E.

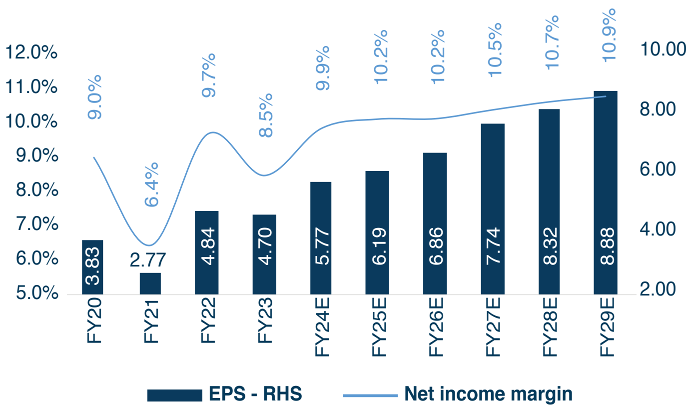
Almunajem saw gross margins expand by 440bps Y/Y to 21.7% in Q1-24, due to price increases despite stable revenue. Note that prices were raised due to shortage of imported chicken in the market due to delays in shipments on account of red sea crisis. Shipments reached after the peak demand period of Ramadan and resulted in oversupply in Q2-24, causing prices to drop back, hence gross margins contracted by 557bps and 140bps Q/Q and Y/Y, respectively, in Q2-24 to 16.1%. We expect margins to improve Q/Q in Q3-23 and Q4-24, as supply/demand imbalance normalizes. Due to absence of one-off price increase we see margins to see a 35bps decline in 2025, to normalized level of 17.8%.

Fig 8. Increased localization, focus on margin accretive products to benefit margin expansion



Source: Company, AlJazira Capital research

Fig 9. Lower financing cost to benefit in maximum flow through of operating profit to the bottom-line



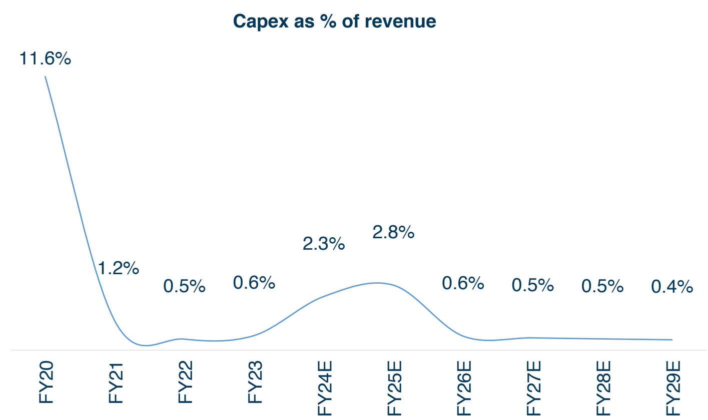
Source: Company, AlJazira Capital research

Efficient working capital requirement, low debt and capex requirement to elevate shareholder payouts

The company has efficiently controlled its cash conversion cycle which reduced from 77 days in FY20 to 43 days in FY23. This was largely due to better payment terms to suppliers, indicating bargaining power for AFC. Further AFC's receivable days has been within 28-30 days, despite being into distribution business, with most of the customers being B2B. This robust framework ensures minimal working capital requirement for future cash flows in the medium to long term.

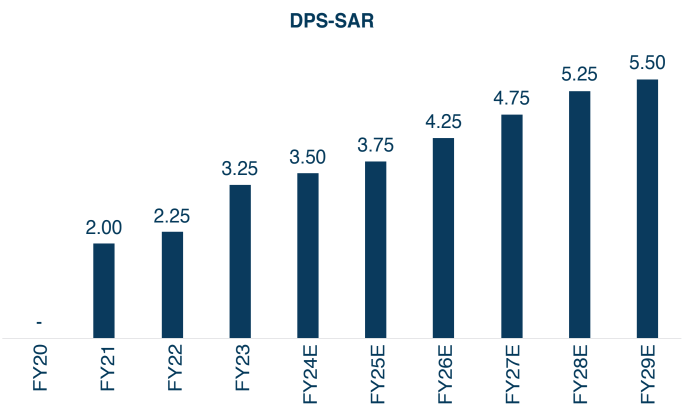
Historically the company's capex intensity has been within 0.5-1.2% of revenues, and we expect the same momentum to continue going forward because of the asset light business model of the company. Moreover, we expect the low or negligible levels of debt to continue going forward as the company generates enough CFO (SAR 423mn as on FY23) and has a cash base of SAR 182mn. Efficient working capital requirement, low capex requirement and low debt levels ensure consistency in cash generation and profitability, which can aid the company in elevating its shareholder payouts. We estimate company to payout SAR 3.5 per share dividend in 2024, which corresponds to dividend yield of 3.8%, and we expect stronger dividend yields for the future years as well due to clean debt free balance sheet.

Fig 10. Capex intensity to remain range bound due to asset light nature of business



Source: Company, AlJazira Capital research

Fig 11. Efficient working capital requirement, low debt and capex levels to result in higher shareholder payouts



Source: Company, AlJazira Capital research

Valuation Methodologies

We have performed 50% DCF based on our forecasts for the next five years and 50% P/E based valuation on 2025 earnings estimates. We assumed risk free rate of 4.25%, market risk premium of 6.25% and beta of 0.88 to arrive at WACC of 9.8%. Terminal growth rate is assumed at 2.5%. Our valuation of AFC based on DCF yielded an enterprise value of SAR 6.4bn and a fair value to equity shareholders of SAR 6.6bn, which translated into a value of **SAR 110.5 per share**. We also have valued AFC using a relative valuation method based on 19x P/E multiple on 2025E earnings. Based on the P/E valuation our value is **SAR 117.6 per share**. Further assigning 50% weightage to DCF and 50% to P/E based valuation methodology, we have arrived at a weighted target price of **SAR 114.1 per share**. Increased competition in poultry segment due to major upcoming capacities, and tariffs on key import items are the downside risk to our valuation, while higher than expected improvement in the gross margin due to increased exposure on locally sourced poultry supply and further expansion of processing facilities are the upside risk to our valuation

Fig 12. Discounted Cash Flow model

	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	TV
EBITDA	**400**	**437**	**485**	**540**	**577**	**611**	
Change in Working Capital	16	(10)	(49)	(53)	(32)	(26)	
Capital Expenditure	(395)	(102)	(25)	(24)	(23)	(23)	
Free cash flow	**21**	**325**	**410**	**463**	**522**	**563**	**7,934**
Present value of free cash flow	**20**	**286**	**328**	**337**	**346**	**340**	**4,794**
Debt/ (Debt + equity)	0.00	0.00	0.00	0.00	0.00	0.00	
Weighted average cost of capital	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
Enterprise Value							6,451
Less: Debt							-
Add: cash							182
Equity value to common shareholders							6,632
No of outstanding shares (mn)							**60**
Fair value per share							**110.5**

Source: AlJazira Capital research

Fig 13. Weighted valuation summary

	TP (SAR)	Weight	Weighted TP
Discounted cashflow	**111**	**0.5**	**55.3**
PE	118	0.5	58.8
Fair value (SAR/share)			**114.1**
Current market price			93
Expected Capital Gain			**23.3%**

Source: AlJazira Capital research

Risk Factors

- **Contract termination or non-renewal:** Since the company primarily acts as a distributor for 800+ products sourced from 70+ suppliers, AFC faces a key risk of contract termination or non-renewal. Reduction in demand for the brands sold by the company acts as an additional risk to the financial operations and market share of AFC.
- **Supply disruptions to impact margins:** 84% of purchases from international suppliers increases the risk of supply disruptions and higher freight costs, given the current prevailing situation in the Red Sea. Any increase in import tariffs by the government could impact on the company's ability to maintain margins.
- **Rising operating costs:** Company operates in a business which typically has thin margins. Further the increasing competitive intensity in the sector can impact on the company's ability to maintain the margins due to increase in costs related to sourcing, logistics, leasing of warehouses.

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Revenues	2,577	2,979	3,314	3,491	3,646	4,036	4,442	4,666
Y/Y	**1.5%**	**15.6%**	**11.3%**	**5.3%**	**4.4%**	**10.7%**	**10.1%**	**5.1%**
Cost of Sales	(2,136)	(2,395)	(2,732)	(2,858)	(2,998)	(3,324)	(3,654)	(3,833)
Gross profit	**441**	**583**	**582**	**633**	**648**	**712**	**787**	**833**
General and Administrative exp	(23)	(25)	(27)	(28)	(29)	(31)	(33)	(35)
Selling and distribution expenses	(235)	(253)	(261)	(271)	(278)	(297)	(316)	(325)
Other income								
Operating profit	**179**	**302**	**294**	**338**	**341**	**382**	**437**	**473**
Y/Y	**-22.5%**	**68.9%**	**-2.8%**	**15.1%**	**0.8%**	**12.1%**	**14.4%**	**8.2%**
EBITDA	211	341	331	400	437	485	540	577
Financial charges	(4)	(3)	(7)	(7)	(7)	(8)	(9)	(9)
Profit before zakat	**181**	**309**	**296**	**364**	**396**	**439**	**495**	**532**
Zakat	(15)	(19)	(19)	(22)	(24)	(27)	(30)	(33)
Net income	**166**	**290**	**282**	**346**	**371**	**412**	**465**	**499**
Y/Y	**-27.7%**	**74.7%**	**-2.8%**	**22.6%**	**7.4%**	**10.8%**	**12.8%**	**7.5%**
EPS (SAR)	**2.77**	**4.84**	**4.70**	**5.77**	**6.19**	**6.86**	**7.74**	**8.32**
DPS (SAR)	**2.00**	**2.25**	**3.25**	**3.50**	**3.75**	**4.25**	**4.75**	**5.25**
Balance sheet								
Assets								
Cash & bank balance	86	111	249	36	107	234	380	550
Inventory	486	662	569	610	622	689	761	802
Recievables	220	246	251	245	251	278	307	324
Property & Equipment	287	272	265	317	384	370	357	345
Other non-current assets	51	48	44	359	360	360	361	362
Total assets	**1,298**	**1,484**	**1,565**	**1,772**	**1,932**	**2,163**	**2,422**	**2,653**
Liabilities & owners' equity								
Total current liabilities	405	495	547	616	628	695	767	808
Total non-current liabilities	88	89	90	92	94	101	109	114
Paid -up capital	600	600	600	600	600	600	600	600
Reserves	205	301	328	463	610	767	946	1,130
Total owners' equity	805	901	928	1,063	1,210	1,367	1,546	1,730
Total equity & liabilities	**1,298**	**1,484**	**1,565**	**1,772**	**1,932**	**2,163**	**2,422**	**2,653**
Cashflow statement								
Operating activities	232	241	423	390	395	400	448	503
Investing activities	(29)	(12)	(21)	(395)	(102)	(25)	(24)	(23)
Financing activities	(138)	(204)	(263)	(208)	(223)	(248)	(277)	(310)
Change in cash	66	26	138	(213)	71	127	146	169
Ending cash balance	**86**	**111**	**249**	**36**	**107**	**234**	**380**	**550**
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.4	2.4	2.3	1.8	1.9	2.1	2.2	2.4
Quick ratio (x)	1.2	1.0	1.3	0.8	0.9	1.1	1.2	1.4
Profitability ratios								
GP Margin	17.1%	19.6%	17.6%	18.1%	17.8%	17.6%	17.7%	17.9%
Operating Margins	6.9%	10.1%	8.9%	9.7%	9.3%	9.5%	9.8%	10.1%
EBITDA margin	8.2%	11.4%	10.0%	11.5%	12.0%	12.0%	12.2%	12.4%
Net Margins	6.4%	9.7%	8.5%	9.9%	10.2%	10.2%	10.5%	10.7%
Return on assets	14.0%	20.9%	18.5%	20.7%	20.1%	20.1%	20.3%	19.7%
Return on equity	23.0%	34.0%	30.9%	34.8%	32.7%	32.0%	31.9%	30.5%
Market/valuation ratios								
EV/sales (x)	1.3	1.0	1.3	1.6	1.5	1.3	1.2	1.1
EV/EBITDA (x)	16.3	8.8	12.6	13.8	12.4	11.0	9.6	8.7
EPS (SAR)	2.8	4.8	4.7	5.8	6.2	6.9	7.7	8.3
BVPS (SAR)	13.4	15.0	15.5	17.7	20.2	22.8	25.8	28.8
Market price (SAR)*	58.9	51.9	73.7	92.5	92.5	92.5	92.5	92.5
Market-Cap (SAR mn)	3,532	3,115	4,422	5,550	5,550	5,550	5,550	5,550
Dividend yield	3.4%	4.3%	4.4%	3.8%	4.1%	4.6%	5.1%	5.7%
P/E ratio (x)	21.3	10.7	15.7	16.0	14.9	13.5	11.9	11.1
P/BV ratio (x)	4.4	3.5	4.8	5.2	4.6	4.1	3.6	3.2

Source: Company reports, AlJazira capital

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RESEARCH DIVISION

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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