

## Earnings and revenues came below expectations in Q3-23 as Dairy and juice segment remained under pressure

Almarai posted net profit of SAR 486.2mn for the 3Q-23, up 5.0% Y/Y and down 12.7% Q/Q, the result was lower than our and market's expectation of SAR 532.4mn and SAR 571.5mn. The deviation is mainly attributed to weak gross margins which stood at 30.6% vs our expectation of 32.1%. Revenue growth remained limited to just 0.6% Y/Y in Q3-23, core GCC markets saw continued momentum, however lower Alfalfa sales from USA and Egyptian pound devaluation restricted overall topline growth. Gross profit declined by 129bps Y/Y to SAR 1,469.4mn, while gross margins saw an attrition of 58bps Y/Y to 30.6%. The company saw a 15.8% increase in funding costs to SAR 128.5mn due to increase in interest rates. We maintain our 'Neutral' recommendation on Almarai, with a TP at SAR 67.4/share.

- Almarai posted net profit of SAR 486.2mn for the 3Q-23, up 5.0% Y/Y and down 12.7% Q/Q (up 10.4% on a pretax/Zakat basis), the result was lower than our and market's expectation of SAR 532.4mn and SAR 571.5mn. The deviation is mainly attributed to weak gross margins which stood at 30.6% vs our expectation of 32.1%. The decline mainly emanates from 21% drop in profits of the dairy and juice segment to SAR 295mn, the segment saw net margins decline by ~300bps Y/Y to 9% in Q3-23, due to Egyptian pound devaluation, lower export sales, higher marketing costs and high cost inventory (that is delaying the impact of reduction in commodity prices). Bakery and poultry segment saw 4% Y/Y and 16% Y/Y improvement in net income to SAR 115mn and SAR 112mn in Q3-23. The dairy giant saw a 15% increase in funding costs to SAR 128.5mn due to increase in interest rates, the impact was restricted due to fixed debt portfolio. Zakat expense came in at SAR 15.5mn vs a reversal of SAR 12.6mn in Q3-22.
- Revenue growth remained limited to just 0.6% Y/Y in Q3-23, core GCC markets saw continued momentum; however, lower Alfalfa sales from USA and Egyptian pound devaluation restricted overall topline growth. Segment wise Poultry saw the highest Y/Y increase of 13% due to expansions, which was followed by Bakery segment which saw 4% Y/Y growth in sales, due to new product launches and support from back to school sales. Sales for Dairy and juice segment remained stagnant Y/Y, as they were negatively impacted by the Egypt pound devaluation. Other segment saw sales decline by 43.3% Y/Y due to lower export sales of Alfalfa.
- Gross profit declined by 129bps Y/Y to SAR1,469.4mn, while gross margins saw an attrition of 58bps Y/Y to 30.6%. Segment wise on net basis, Dairy and juice saw 300bps Y/Y reduction in margins to 9% (due to EGP devaluation and higher marketing costs), Bakery segment margins remained constant at 18% while poultry segment margin increased by 100bps to 13% in Q3-23 (due to volume growth and strong cost controls).
- Operating profits improved by 11.2% Y/Y to SAR644mn, amidst 129bps Y/Y expansion in operating margins to 13.4%, owed to the 97.2% Y/Y decline in other expenses and strong overhead cost controls.

**AJC view and valuation:** Almarai's Q3-23 result was lower than expectation due to pressure on Dairy and juice segment and lower Alfalfa sales. Bakery and poultry segment continued their momentum. We expect normalization in Almarai's profitability metrics and forecast strong topline growth, due to declining input costs and expansion in poultry segment. We have built in the SAR 6.6bn, 225mn birds poultry capacity addition, starting from 2026; we expect expansion reaching full capacity by 2028. We foresee macroeconomic backdrop to become more favorable over the next 12 months, due to declining inflation, cut in interest rates, improvement in economic activity and tourism. We expect the company to post income of SAR 2,124/2,455mn in FY23/24 (up 20.7/15.6% Y/Y), company trades at FY24E forward PE of 24.7x. We maintain our 'Neutral' recommendation on Almarai, with a TP at SAR 67.4/share.

### Results Summary

SARmn	Q3-22	Q2-23	Q3-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	4769.1	4792.3	4796.9	0.6%	0.1%	-2.2%
Gross Profit	1488.7	1567.1	1469.4	-1.3%	-6.2%	-6.7%
<i>Gross Margin</i>	<b>31.2%</b>	<b>32.7%</b>	<b>30.6%</b>			
EBIT	578.9	718.5	643.9	11.2%	-10.4%	-9.3%
Net Profit	<b>463.2</b>	<b>557.1</b>	<b>486.3</b>	5.0%	-12.7%	-8.5%
EPS	0.46	0.56	0.49	5.0%	-12.7%	-8.5%

Source: Company Report, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	67,4
Upside / (Downside)*	11.2%

Source: Tadawul \*prices as of 10<sup>th</sup> of October 2023

### Key Financials

(in SAR mn, unless specified)	FY22	FY23E	FY24E	FY25E
Revenue	18,722	19,609	19,974	20,302
Growth %	18.1%	4.7%	1.9%	1.6%
Net Income	1,760	2,124	2,455	2,692
Growth %	12.6%	20.7%	15.6%	9.6%
EPS	1.76	2.12	2.46	2.69

Source: Company reports, Aljazira Capital

### Key Ratios

	FY22	FY23E	FY24E	FY25E
Gross Margin	30.0%	31.2%	32.5%	33.0%
Net Margin	9.4%	10.8%	12.3%	13.3%
P/E (x)	28.6	28.5	24.7	22.5
P/B (x)	3.0	3.4	3.1	2.9
EV/EBITDA (x)	14.2	14.8	13.7	13.3
Dividend Yield	1.9%	1.7%	1.7%	2.1%

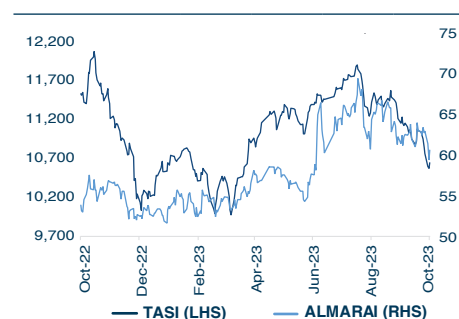
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	61.1
YTD %	13.3
52 week (High)/(Low)	71.0/51.5
Shares Outstanding (mn)	1000.0

Source: Company reports, Aljazira Capital

### Price Performance



Source: Bloomberg, Aljazira Capital

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RESEARCH DIVISION

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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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