

2Q 2018 Results Update

July 10, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	58.5
Target Price (SAR)	56.4
Upside/Downside (%)	(4.2%)

As of July 09th, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	57.9
52 Wk High (SAR)	68.9
52 Wk Low (SAR)	50.0
Total Outstanding shares (in mn)	990
Free Float (%)	21.9%

ALMARAI vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(3.3%)	(2.6%)
6m	11.4%	(2.3%)
12m	(10.8%)	(26.4%)

Major Shareholders (%)

Savola Group Company	34.52%
Prince Sultan M.S. Al Saud	23.69%
Public Investment Fund	16.32%

Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 09th July 2018

Almarai reported mixed 2Q18 results

Almarai's revenue declined by 0.8% YoY to SAR 3,731mn in Q2 2018, due to factors including contraction in export markets, macroeconomic and demographic changes in KSA, implementation of VAT, and low consumer confidence. Gross profit for the period declined by 3.2% YoY to SAR 1,506mn, while the operating profit was down 3.6% YoY at SAR 760mn, primarily due to higher alfalfa and labour costs, partially offset by better cost management and enhanced production efficiencies. Lower operating profits were partially offset by a SAR 26mn foreign exchange gain and lower funding costs. Net profit ascribed to shareholders was SAR 642mn vis-à-vis SAR 657mn in Q2 2017, a 2.3% YoY decline.

Almarai recently increased the price of its milk products citing rising energy and labour costs as reasons. Saudi Arabia's Consumer Protection Association has reportedly issued a statement questioning these reasons. The company also faces a social media campaign urging consumers to shun its products following the price hike. However, Almarai has seen exceptional performance in its Poultry segment (revenue +15% YoY in 1H18). And, the company is on-track in achieving breakeven in its Infant Nutrition segment by end of FY18, and in achieving the "100% alfalfa import from 1st Jan 2019" target. Almarai has reduced its capital investments as part of its "Almarai 2025" strategy. The company expects to save up to SAR 200mn in 2018 under its cost optimization program. Considering these countervailing factors, we maintain our 'Neutral' rating on the stock.

- Almarai's sales dropped 0.8% YoY to SAR 3,731mn due to weakness in the Dairy & Juice (-4% YoY) and Bakery segments (-5% YoY), partially offset by growth in the Poultry segment (+13% YoY). Sales were affected by decline in export markets, introduction of VAT, and lower consumer spends due to recent macroeconomic and demographic changes in KSA.
- Gross profit declined 3.2% YoY to SAR 1,506mn due to a 0.9% YoY increase in cost of sales resulting from higher alfalfa and labour costs.
- Operating income declined by 3.6% YoY to SAR 760mn. Cost savings from reduction in cost of various back office functions, efficiency programs and lower headcount, were offset by higher general marketing, trade support and depreciation expenses. Consequently, operating margins declined by 60bps YoY to 20.4% in Q2 2018.
- EBITDA for the quarter stood at SAR 1,285mn, as compared to SAR 1,247mn in Q2 2017, a 3.0% YoY increase resulting from higher operational efficiencies and lower headcount. EBITDA margin improved by 127bps YoY to 34.4% during the quarter.
- Almarai's net profit ascribed to shareholders declined by 2.3% YoY to SAR 642mn, as lower operating income was partially offset by a SAR 26mn foreign exchange gain, resulting from strengthening of the USD against other currencies, particularly EUR. Additionally, finance expenses declined by 7.3% YoY to SAR 91mn due to lower debt levels and better cost management, especially for overseas entities.
- Almarai reported a positive free cash flow of SAR 425mn in 1H 2018, an increase of SAR 238mn over 1H 2017, due to the reduction in capital investments as part of its long-term strategy, 'Almarai 2025'.

Valuation: We have revised our target price upwards to SAR 56.4 per share, driven by Almarai's positive EBITDA performance and progress made towards achieving its long-term strategic goals. However, due to uncertainty arising from KSA's changing demographics, lower consumer confidence and contraction in export markets; we maintain our "Neutral" rating for the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	3,731.1	3,760.4	-0.8%	14,074.9	13,935.5	1.0%
Gross Profit (SAR mn)	1,505.6	1,554.9	-3.2%	5,698.7	5,583.6	2.1%
EBITDA (SAR mn)	1,285.0	1,247.2	3.0%	4,591.4	4,503.0	2.0%
Net Profit (SAR mn)	641.5	656.9	-2.3%	2,363.6	2,182.3	8.3%
EPS basic (SAR)	0.65	0.66	-2.2%	2.41	2.20	9.3%
Gross Margin (%)	40.4%	41.4%	-1.0%	40.5%	40.1%	0.4%
EBITDA Margin (%)	34.4%	33.2%	1.3%	32.6%	32.3%	0.3%
Net Profit Margin (%)	17.8%	17.7%	0.1%	16.9%	15.5%	1.4%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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