



US\$13.09bn	36%	US\$11.18mn
Market cap	Free float	Avg. daily volume

Target price	71.20	-9.6% over current
Consensus price	75.50	-4.2% over current
Current price	78.79	as at 14/10/2014

Research Department
ARC Research Team

Tel 966 11 211 9332, gopij@alrajhi-capital.com

Existing rating

Underweight

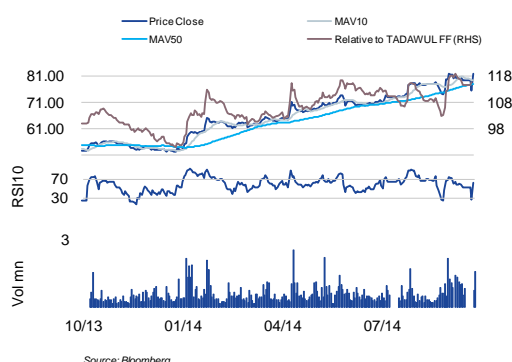
Neutral

Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

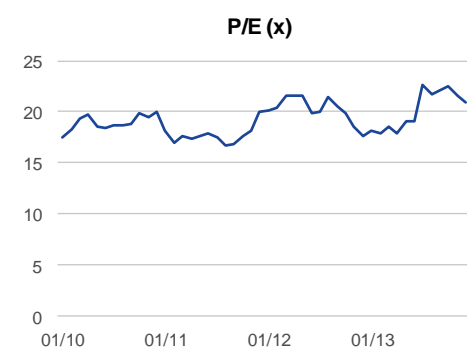


Earnings

Period End (SAR)	12/12A	12/13A	12/14E	12/15E
Revenue (mn)	9,883	11,219	12,563	13,937
Revenue Growth	24.3%	13.5%	12.0%	10.9%
EBITDA (mn)	2,739	3,127	3,568	4,084
EBITDA Growth	21.7%	14.2%	14.1%	14.5%
EPS	2.40	2.50	3.02	3.54
EPS Growth	26.4%	4.3%	20.6%	17.4%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Almarai

Q3 meets estimates

Almarai's Q3 2014 results came in line with our estimates with the company's net profit growing 13.4% y-o-y to SAR539mn (our estimate: SAR521mn), and its top-line rising by 11.7% y-o-y to SAR3,269mn (our estimate: SAR3,277mn). The company's growth continued to be driven by its core dairy business segment, as poultry remained a drag on the bottom-line. Management stated that its target of reaching breakeven in the poultry segment by Q4 2014 will not be achieved, as the segment's KPIs have been improving at a slower than expected rate. The business is now expected to reach breakeven sometime in 2015. Nevertheless, as the company's other business segments continue to report strong numbers, Almarai's bottom-line maintains a growth trajectory. The company recently suffered a fire at its Bakery plant in Jeddah. The fire is likely to affect the company's Q4 revenue, but the impact would be minor. For now, we reiterate our Neutral rating on the company, with a target of SAR71.2.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenue:** Almarai's Q3 revenues increased 11.7% y-o-y to SAR3,269mn, in line with our SAR3,277mn estimate (consensus estimate: SAR3,237mn). The company's top-line growth was driven by its poultry segment's sales, rising 28.7% y-o-y to SAR274mn, on the back of the third production line, which started operations earlier this year. The dairy & juice segment saw a top-line growth of 11% y-o-y to reach SAR2.6bn, while bakery sales grew 12.7% y-o-y to SAR366mn. On a geographical basis Egypt, Qatar and Oman witnessed strong revenue growth during the quarter.
- Gross and operating profit:** Gross profit grew 13.2% y-o-y to SAR1,251mn (our estimate: SAR1,208mn). Gross profit margins improved by about 50 bps y-o-y to 38.3%, while we had expected margins to contract. Operating profit jumped 13% y-o-y to SAR625mn, ahead of our SAR595mn estimate. Similarly, operating profit margin expanded by 20bps y-o-y to 19.1%. The management attributed the improving margins to economies of scale.

Figure 1 Almarai: summary of Q3 2014 results

(SAR mn)	Q3 2013	Q2 2014	Q3 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	2,926	3,287	3,269	11.7%	-0.5%	3,277
Gross profit	1,105	1,138	1,251	13.2%	9.9%	1,208
Gross profit margin (%)	37.8%	34.6%	38.3%			36.9%
Operating profit	554	508	625	13.0%	23.2%	595
Net profit	476	433	539	13.4%	24.5%	521

Source: Company data, Al Rajhi Capital



Net profit: The company's net profit rose 13.4% y-o-y to SAR539mn, mostly in line with our SAR521mn estimate (consensus estimate SAR542.8mn). Net profit margin also improved by about 20bps y-o-y to 16.5%. Profit (before minority interest) from the dairy & juice segment surged 24.8% y-o-y to SAR649mn, while the poultry segment's loss worsened to SAR89mn.

Segmental Analysis

Dairy & Juice segment: Sales from this segment grew 11% y-o-y to SAR2,614mn. Within the segment, fruit juice sales jumped about 16% y-o-y, while fresh dairy saw a 13% y-o-y increase in its top-line. However, cheese & butter sales declined by about 2% y-o-y, as retailers stocked up on the product before Ramadan, which started at the end of Q2 this year. Profit (before minority interest) jumped 16.6% to SAR649mn. The segment's net profit margin came in at 24.8%, an improvement of about 120bps y-o-y. The management also specified that the company has not increased dairy prices in the Kingdom.

Poultry: The poultry segment's revenue jumped 28.5% y-o-y to SAR273.7mn during the quarter, driven by the third production line, which commenced operations earlier this year. The segment's loss worsened to SAR89mn (from a net loss of SAR75mn in Q3 2013). The management stated that it will not be able to meet its earlier guidance of reaching cash flow breakeven in Q4 2014. The management mentioned that the segment's KPIs are improving, but at a slower pace than expected. The poultry segment is now expected to breakeven sometime in 2015. The segment is currently operating at a run rate of about 70-75mn birds (utilization level of 30-35%), whereas it needs to operate at a run rate of 120mn birds to achieve breakeven. On the positive side, the company is not facing any problems from the demand side, with Almarai capturing a dominating 36.8% market share in the Kingdom. Almarai's Alyoum brand is a market leader in the Kingdom, Qatar and Bahrain. According to a study conducted by the company, the total GCC poultry market (excluding Oman) grew by 11% y-o-y (August 2013 - July 2014 period), while Alyoum grew 27% during this period. The company is facing problems at the supply side, as it is finding it difficult to supply the required number of birds to the production line due to a high mortality rate.

Bakery: Bakery segment's revenue rose 12.7% y-o-y to SAR366mn, while profit (before minority interest) more than tripled to SAR44mn (from SAR12mn in Q3 2013). The segment's net profit margin improved from 4% in Q3 2013 to 12% in Q3 2014.

Figure 2 Segmental performance

(SAR mn)	Dairy & Juice		Bakery		Poultry	
	Q3 2013	Q3 2014	Q3 2013	Q3 2014	Q3 2013	Q3 2014
Revenue	2,354	2,614	325	366	213	274
y-o-y growth	6.9%	11.0%	7.2%	12.7%	67.1%	28.7%
Profit (loss) before minority interest	556	649	12	44	-75	-89
Profit margin	24%	24.8%	4%	12%	-35%	-32%

Source: Company data, Al Rajhi Capital

Conclusion: The major development during the quarter was the management's statement that the poultry segment will not reach breakeven in Q4 2014, as per their guidance earlier, but in 2015. The segment has been a major drag on the company's bottom line for the past few years and was finally expected to reach breakeven this year. Nevertheless, the strong performance of the company's other business segments has offset the negative impact of this segment. On the positive side, the company reported its best profit margins since Q3 2011, which is attributable to economies of scale. For the next quarter, we expect the company to continue on its growth trajectory. However, the recent fire incident at Almarai's bakery factory in Jeddah may have a one-time impact on company's performance. The factory is only one of the company's six bakery factories. Since the company has not yet got access to the factory from the authorities, the management was unable to give a timeline on restarting the factory or quantify the loss from the incident. Nevertheless, with the bakery segment accounting for around 12% of the company's total revenues the impact of the incident is not expected to be significant. For now, we reiterate our Neutral rating on the company with a target price of SAR71.20 per share.



Major Developments

Almarai reported a fire incident at its bakery factory

Almarai reported that a fire broke out at its bakery factory in Jeddah on October 9, 2014. There has been significant damage to that plant and the adjacent bakery plant on the same site was also impacted. The company operates a total of six bakery plants. The financial impact of the incident is unknown as of now, as the company is yet to get access to the site from the authorities. However, the company has adequate insurance in place.



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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Jithesh Gopi, CFA
Head of Research
Tel : +966 11 2119332
gopij@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561
Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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