

## ALMARAI



## EVENT FLASH

## Margins remained under pressure, as expected

Almarai announced its preliminary 2Q12 results on 7 July 2012. Although revenue was strong at 25% YoY, net income came in just 9% higher YoY to SR380mn, impacted by higher raw material costs and operating expenses. We await full details before updating our model

- **Sales:** 2Q12 came in at SR2,524mn vs. NCBC estimate of SR2,549mn. 2Q12 was an increase of 25.4% YoY. (SR2,013mn in 2Q11).
- **Gross profit:** 2Q12 came in at SR922mn vs. NCBC estimate for 2Q12 at SR928mn. 2Q12 was an increase of 18.7% YoY (SR777mn in 2Q11).
- **Net Income:** 2Q12 came in at SR380mn vs. NCBC estimate for 2Q12 at SR373mn. 2Q12 was an increase of 8.7% YoY (SR349mn in 2Q11).
- In summary, 2Q12 revenue growth is encouraging, although continued high COGS and a significant increase in operating expenses partially offset this, leading to just 9% YoY rise in net income to SR380mn, in-line with our estimate.
- Management highlighted the revenue growth was off the back of 1) Continued expansion of key product lines across the GCC and in particular growth in Bakery across the GCC 2) Expansion of Poultry in KSA and 3) Consolidation of IDJ which added SR165mn to the revenue line in 2Q12.
- Gross margins declined by 208bps YoY to 36.5% in 2Q12, but 12bps above our estimate, due to continued use of high priced commodities purchased in 2H11 (raw materials, packaging, feed etc) with limited ability to pass this on to end consumers.
- The margin pressure was further worsened by higher SG&A expenses to support the expansion of the Poultry division in Saudi Arabia and other businesses across the GCC. This led to a YoY decline of 294bps for the EBIT margin and as a result to only 8.7% YoY growth in net income in 2Q12. However, when compared to our estimate, revenue as well as all profit lines came in line with our expected numbers
- Almarai recently announced that it increased its stake in IDJ to 52% from 48% earlier in 2012. In line with this, from 2Q12 Almarai has consolidated this venture as opposed to using the equity method in the same quarter last year. It also unveiled its capex plan for coming five years of SR15.7bn for 2013-2017, around 50% higher than market consensus.

### 2Q12 Results Summary

SR mn	2Q12A	2Q11A	% YoY	2Q12E	% Var <sup>^</sup>
Sales	2,524	2,013	25.4	2,549	(1.0)
Gross income	922	777**	18.7	928	(0.7)
Operating income	435	406	7.1	446	(2.6)
Net income	380	349	8.7	373	1.8
EPS*	0.95	0.87	8.7	0.93	1.8

Source: Company, NCBC Research <sup>^</sup> % Var indicates variance from NCBC forecasts \*\*Restated from SR767mn

## NEUTRAL

**Target price (SR) 63.4**

**Current price (SR) 64.5**

### STOCK DETAILS

M52-week range H/L (SR)	72/48
Market cap (\$mn)	6,889
Shares outstanding (mn)	400
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.8)	(10.1)	14.7
Rel. to market	(7.3)	3.3	11.5

Avg daily turnover (mn)	SR	US\$
3M	43.6	11.6
12M	26.0	6.9

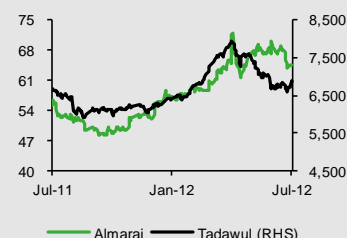
Reuters code	2280.SE
Bloomberg code	ALMARAI AB
	<a href="http://www.almarai.com">www.almarai.com</a>

### VALUATION MULTIPLES

	11A	12E	13E
Reported P/E (x)	22.6	17.8	14.5
Adjusted P/E (x)	19.8	17.8	14.5
P/B (x)	3.8	3.3	2.9
EV/EBITDA (x)	15.9	13.9	11.7
Div Yield (%)	3.5	2.4	2.9

Source: NCBC Research estimates

### SHARE PRICE PERFORMANCE



Source: Reuters

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- OVERWEIGHT:** Target price represents expected returns in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents expected returns between -10% and +15% in the next 12 months
- UNDERWEIGHT:** Target price represents a fall in share price exceeding 10% in the next 12 months
- PRICE TARGET:** Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

- NR:** Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
- CS:** Coverage Suspended. NCBC has suspended coverage of this company
- NC:** Not covered. NCBC does not cover this company

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