



US\$12.60bn Market cap	36% Free float	US\$10.35mn Avg. daily volume
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Target price	79.9	1.7% over current
Consensus price	76.4	-2.6% over current
Current price	78.6	as at 20/1/2015

Research Department
ARC Research Team

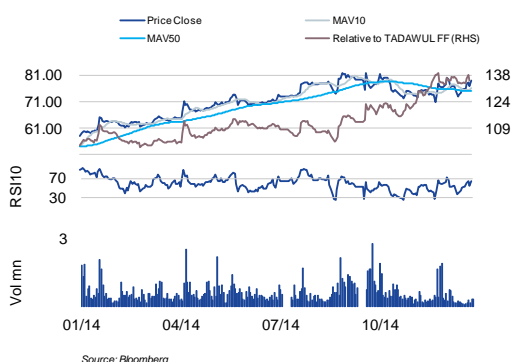
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Flash view

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

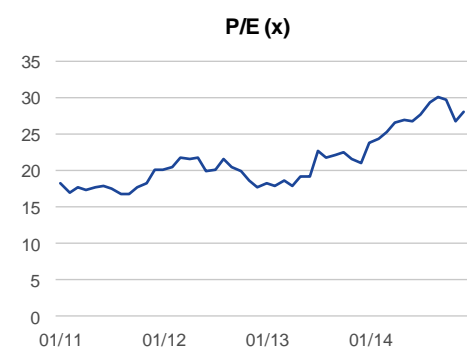


Earnings

Period End (SAR)	12/13A	12/14E	12/15E	12/16E
Revenue (mn)	11,219	12,545	13,878	15,577
Revenue Growth	13.5%	11.8%	10.6%	12.2%
EBITDA (mn)	3,127	3,313	3,990	4,611
EBITDA Growth	14.2%	5.9%	20.4%	15.6%
EPS	2.50	2.74	3.33	4.20
EPS Growth	4.3%	9.4%	21.6%	26.2%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Almarai

Q4: Meets expectations

Almarai's Q4 2014 results met our forecasts with both revenues (+10.7% y-o-y) and net profit (+14.7% y-o-y) coming in line with our as well as consensus estimates. The company's core dairy business continued to drive growth on the back of an expanding distribution network. The poultry segment posted an improved bottom-line performance, with its loss reducing over the last three quarters. However, the bakery segment witnessed a decline in sales due to a fire incident at one of its plants. For 2015, the management expects to maintain a similar top-line growth rate. The poultry segment is also expected to post positive cash flow in 2015 as its operating metrics continue to improve. We believe Almarai's current stock price already reflects its growth potential. Thus, we reiterate our Neutral rating on the company with a target price of SAR79.9.

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

- Revenues:** Almarai's revenues jumped 10.7% y-o-y to SAR3,331mn, in line with our SAR3,298mn estimate (consensus: SAR3,401mn). The quarter's top-line growth was driven by the poultry segment (+34.1% y-o-y) and the dairy & juice segment (+10.7% y-o-y). On the other hand, the Bakery segment witnessed a 3.8% y-o-y decline in revenues due to the fire incident at the company's Jeddah bakery plant. For the full year, revenues were up 12.4% y-o-y to SAR12.6bn backed by strong growth from Egypt and Qatar.
- Gross and operating profits:** The company's gross profit jumped 24% y-o-y to SAR1,234mn, coming in ahead of our SAR1,128mn forecast, partly due to certain reclassification of costs. Gross profit margin improved 400bps y-o-y to 37.1%, supported by lower cost of goods sold (net of subsidy) as well as improved efficiencies. Operating profit stood at SAR507mn (+10.6% y-o-y), in line with our SAR496mn estimate. Operating profit margin was stable at 15.2% despite higher gross profit margin, since selling & administrative costs surged due to new product launches, expanding distribution capabilities and increasing employee headcount.

Figure 1 Almarai: summary of Q4 2014 results

(SAR mn)	Q4 2013	Q3 2014	Q4 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	3,008	3,269	3,331	10.7%	1.9%	3,298
Gross profit	996	1,251	1,234	24.0%	-1.4%	1,128
Gross profit margin (%)	33.1%	38.3%	37.1%			34.2%
Operating profit	458	625	507	10.6%	-18.9%	496
Net profit	373	539	428	14.7%	-20.7%	419

Source: Company data, Al Rajhi Capital



Net profit: Almarai's net profit rose 14.7% y-o-y to SAR428mn in line with our (SAR419mn) as well as consensus (SAR431mn) estimates. Net profit margin improved 40bps y-o-y to 12.8%, meeting our forecast. The bottom-line growth was supported by an exchange rate gain of SAR17.3mn in Q4 2014 (Q4 2013: SAR5.9mn).

Conclusion: Almarai's Q4 2014 results were in line with our as well as consensus estimates. For the entire 2014, the company logged a top-line growth of 12.4% y-o-y to SAR12.6bn, and net income of SAR1.7bn (+11.5% y-o-y). The management is confident of maintaining its top-line growth rate in 2015 as well, while margins are expected to remain stable. The company also expects to achieve positive cash flow from the poultry segment in 2015. Almarai is investing to expand its distribution network, and reduce its dependence on the Kingdom. We believe the company's current stock price reflects its growth potential. Thus, we remain Neutral on Almarai with a target price of SAR79.9.

Segmental Analysis

Dairy & fresh juice: During Q4 2014, Almarai's core dairy & juice segment reported a top line growth of 10.7% y-o-y to SAR2,626mn (our forecast: SAR2,605mn), while the net profit rose by a nominal 4.7% y-o-y to SAR462mn. For the full year, the segment's revenues grew 12.4% y-o-y to SAR9.9bn, while profit jumped 17.8% y-o-y to SAR2bn. The growth was led by fruit juice (+16% y-o-y), long life dairy (+16% y-o-y) and fresh dairy (+12% y-o-y) businesses. Long life dairy's revenues are driven by new product launches, while fresh dairy's sales growth was supported by expanding distribution network.

Poultry: Revenues from the segment jumped 34.1% y-o-y to SAR288mn (our expectation: SAR285mn). The loss for the quarter improved to SAR72mn in Q4 2014 from a loss of SAR126mn in Q4 2013. The segment has witnessed an improving operating performance over the last three consecutive quarters. For the entire 2014, the segment's revenues jumped 29.1% y-o-y to SAR1,023mn, with sales volumes rising 12.5% y-o-y to 72mn birds. Thus, the top-line was mainly led by improving price realization on the back of a changing geographical mix. The management indicated the segment is moving on the right track and is confident of achieving positive cash flow for 2015.

Bakery: During the quarter, Bakery segment's revenues declined 3.8% y-o-y to SAR394mn (our estimate: SAR384mn), primarily due to the fire at its Jeddah plant. Net profit from the segment fell 6.8% y-o-y to SAR58mn. Although the company has six other bakery plants, the Jeddah plant was the sole producer of a few products (e.g. cupcakes) and used to cater to the Western region for other products. For the year, revenues grew 6.1% y-o-y to SAR1,533mn, while profit jumped 20.8% y-o-y to SAR168mn. Going forward, the company will focus on regaining its market share lost due to the closure of the plant.

Figure 2 Segmental performance

(SAR mn)	Dairy & Juice		Bakery		Poultry	
	Q4 2013	Q4 2014	Q4 2013	Q4 2014	Q4 2013	Q4 2014
Revenue	2,371	2,626	410	394	215	288
y-o-y growth	12.8%	10.7%	11.0%	-3.8%	32.1%	34.1%
Profit (loss) before minority interest	441	462	62	58	-126	-72
Profit margin	18.6%	17.6%	15%	15%	-59%	-25%

Source: Company data, Al Rajhi Capital

Major Developments

Dividend of SAR1 per share for 2014

Almarai's board of directors recommended a dividend of SAR1 per share for 2014, amounting to a total of SAR600mn, unchanged from 2013.

Fire at Jeddah bakery plant

On October 12, 2014, the company announced that a fire broke out at its bakery factory in Jeddah on October 9. The company has insurance against such incidents, which would minimize the loss. The company has a total of 6 bakery plants. The Jeddah plant primarily to the western region.



Disclaimer and additional disclosures for Equity Research

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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.

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