

January 21, 2010

ALMARAI (2280.SE)

- Almarai reported a 17% increase in total revenue in 2009 to SAR 5.9 billion—a result that is in line with our forecast. Excluding the effect of the HADCO acquisition, which took place on October 15, 2009, Almarai's top-line would have increased by 15%.
- Fresh dairy sales, which account for 48% of total revenue, increased by 14% to SAR 2.8 billion in 2009 compared to SAR 2.5 billion in 2008. Almarai attributes this performance to an improved market share of laban (a yoghurt drink), milk, and yoghurt in Saudi Arabia.
- Fruit juice, which experienced a 28% year on year increase in sales, was the fastest-growing segment for Almarai in 2009. With fruit juice sales reaching SAR 620 million in 2009, the segment is currently the third-largest contributor to total revenue, outpacing both long-life dairy and bakery sales. We remain bullish on the fruit juice segment, and expect it to remain the highest growing product category for Almarai. This is due to the fragmented nature of the fruit juice market in the GCC, which allows a strong player like Almarai to grow by gaining market share.
- Sales of cheese & butter, long-life dairy, and bakery achieved double-digit growth rates in 2009, increasing by 11%, 13%, and 20%, respectively. Sales in these segments benefited from redesigned packaging of some products (cheese & butter and long-life dairy), and the introduction of the “7 Days” brand (bakery).
- Almarai achieved an EBITDA of SAR 1.6 billion in 2009, a 23% increase over the 2008 level and 2% below our forecast. Almarai attributes the expansion in the EBITDA margin from 25.3% in 2008 to 26.7% in 2009 to the success of the procurement strategy which was adopted in 4Q2008 to benefit from the drop in commodity prices at the time. The procurement strategy enabled Almarai to achieve a lower cost of raw materials in 2009.
- Net income increased by 21% in 2009 to SAR 1.1 billion, a result that is 3.8% below our forecast. A major reason for the divergence between Almarai's actual net income and our forecast is due to a higher-than-expected depreciation expense. Almarai recorded SAR 288 million in depreciation in 2009, 9% higher than our forecast of SAR 265 million.
- Almarai reported a 77% increase in cash flow from operations in 2009 to SAR 1.8 billion, as the company benefited from an enhanced net working capital position. Moreover, Almarai's capital expenditure declined to 1.3 billion in 2009, from 1.6 billion in 2008. As a result, Almarai managed to generate a free cash flow (FCF) of SAR 467 million in 2009, the first free cash flow for the company since its IPO.
- As result of the acquisition of HADCO through a share swap transaction, Almarai's net debt-to-equity declined from 0.9x in 2008 (1.0x in 9M2009) to 0.7x in 2009.
- In line with Almarai's dividend policy for the last three years, the board of directors have recommended to pay SAR 460 million as cash dividend for 2009 (SAR 4 per share and a payout ratio of 42%), compared to SAR 382 million for 2008 (SAR 3.5 per share and payout ratio of 42%).
- We view this set of results positively; our fair value for Almarai, SAR 200, is now 14% over the closing price of 20 January 2010 (SAR 175.75), hence, our current recommendation on the stock is an “Accumulate”.

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Related Research

- Almarai Initiation of Coverage - 17 Nov. 2009

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