

Target Price: SAR64/share
IPO price: SAR48/share
Upside: 34% (+Div. Yield: ~3.8%)
Rating: Overweight

Modern Mills Company

On the forefront of KSA's food self-sufficiency program

- Healthy earnings growth (+6.7% CAGR during 2022-27e) driven by capacity addition (+36% by 2025) and innovative product offerings.
- Margins remain relatively stable, with gross margin hovering between 34.2-37.4%, supported by operating leverage and cost efficiencies post-expansion.
- Initiate Modern Mills with a target price of SAR64/sh., and an Overweight rating based on an avg. of DCF and P/E (22x P/E on 2024e EPS) methods.

Planned expansion along with innovative offerings in small packs to drive the growth: Modern Mills achieved remarkable growth during 2021-22, witnessing substantial increases in both volume and revenue. This growth can be predominantly attributed to strategic initiatives implemented by the new management, who joined in 3Q21. The company's focus on rebranding, higher promotional efforts, and enhancements to feed recipes led to a significant surge in utilization. Notably, wheat and feed milling utilization rose from 66% to 99.7% and 45.8% to 66.4% in 2022, respectively. Approaching almost full utilization, Modern Mills plans to expand the wheat milling capacity at the Jumum facility from 1,200 to 2,450 tons/day. Additionally, the company invested in the industrial mix, aiming to introduce ready-mix and other innovative products, ultimately leading to higher price realization per ton (small packs weighing 1-10kg are not price-regulated).

Feed segment to sustain the momentum driven by company initiatives and government push: Modern Mills is the leader in the animal feed segment among its peers in the KSA, having a market share of 7% (2022) and a total feed milling capacity of 1,400 tons/day. The segment recorded strong growth during 2020-22, with revenue growing almost fourfold, driven by strategic initiatives, including improvement of feed recipes, change in the feed pricing strategy, and industry dynamics. The government's push for localization of poultry production (80% by 2025 and 100% by 2030) will likely keep the demand steady and growing. However, the segment is expected to experience some normalization in revenue due to possible correction in feed prices.

Risks: Reduction or removal of wheat subsidy, sharp movement in raw material prices, delay in capacity addition, increasing customer concentrations, and any regulation on food wastage.

Figure 1: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Revenue	978	971	1,082	1,190
Revenue growth	76%	-1%	11%	10%
Gross Profit	366	359	371	414
Gross profit margin	37%	37%	34%	35%
Operating Profit	269	264	268	300
Net profit	233	211	214	244
Net profit margin	24%	22%	20%	21%
EPS (SAR)	2.8	2.6	2.62	3.0
DPS (SAR)	2.3	1.7	1.8	2.1
P/E	16.9x	18.7x	18.3x	16.1x

Source: Company data, GIB Capital

Stock data

Listing M.Cap. (SARmn)	3,928
Offer shares (mn)	24.6
IPO Size (SARmn)	1,178
Offering	30%
TASI Ticker	2284

Source: Company data, Tadawul

Valuation (SAR/share)

DCF (50% weight)	63
P/E (50% weight)	65
Target Price (rounded)	64

Source: GIB Capital

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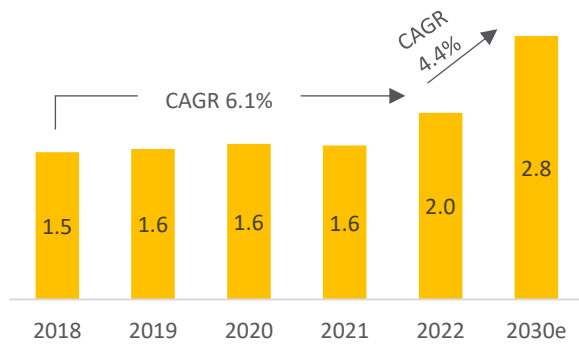
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Investment Case

Growing market demand

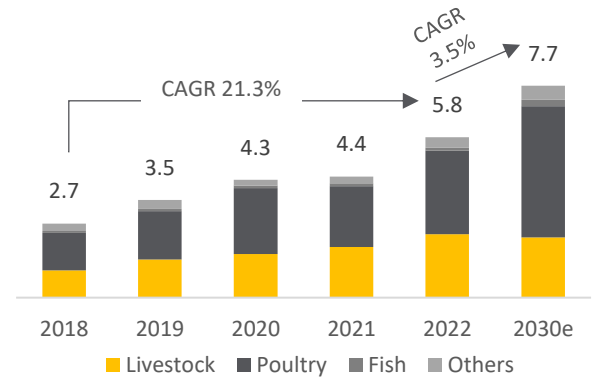
The wheat flour market is highly regulated in KSA, with the government providing subsidies to producers and end users. The government plays a key role in the wheat flour market, procuring wheat from global and local producers and supplying to the flour milling companies. Over 2018-22, the local wheat flour market grew at 6.1% CAGR, primarily driven by population growth and the growing tourism activities in Saudi Arabia. Going forward, the flour market is expected to grow at a CAGR of 4.4% over 2022-30e, driven by i) improving macro-economic conditions, ii) favorable demographics (+2.5% over 2022-30e), iii) increased government spending in food security and tourism growth, iv) high disposable income (+4.7% CAGR), v) and a stronger penetration of small SKUs (1-10kg packs). Further, over 2022-30e, the animal feed sector is also expected to steadily grow at a CAGR of 3.5% due to the heightened demand from the government initiatives to increase the local production of poultry and red meat.

Figure 2: Wheat flour consumption (SAR bn)



Source: Euromonitor, GIB Capital

Figure 3: Compound animal feed consumption (SAR bn)

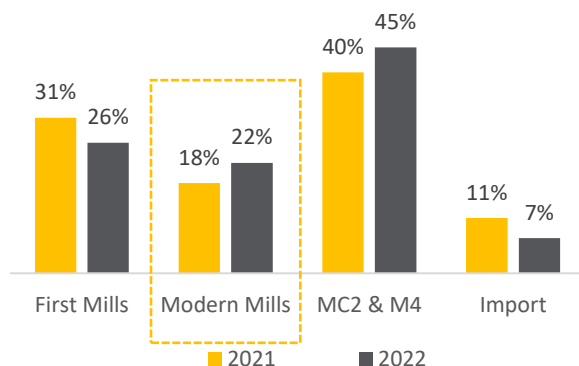


Source: Euromonitor, GIB Capital

MMC - Well-placed to capture the rising flour demand, driven by wheat capacity expansion

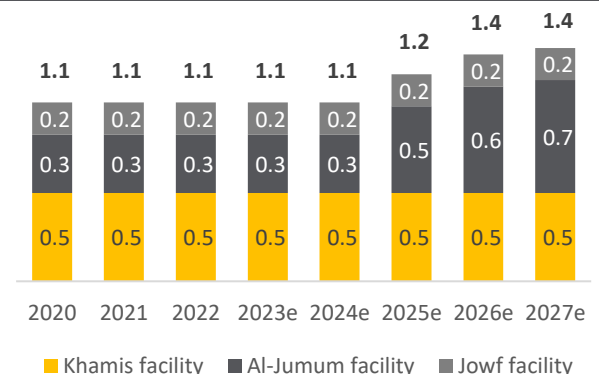
Modern Mills (MMC) operates three facilities with a total wheat milling capacity of 3,450 tons/day, strategically serving the Northern, Western, and Southern regions of KSA. Currently, all three facilities run at an impressive 89.8% utilization, which resulted in the company gaining market share from 18% in 2021 to 22% in 2022. Further, the company also plans to double the Jumum facility's capacity from 1,200 to 2,450 tons/day, making it the largest milling line in KSA. The facility is located close to Makkah and Madinah, and is expected to rapidly reach optimum utilization due to the likely rise in religious tourism outlined in Vision 2030.

Figure 4: Wheat flour market share by value



Source: Company data, GIB Capital

Figure 5: Wheat milling capacity by facility (mn tons)

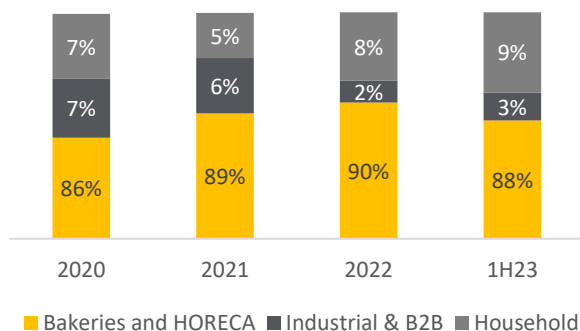


Source: Company data, GIB Capital

Flour segment continues to benefit from a diversified portfolio, valued-added offerings, and further penetration of small packs

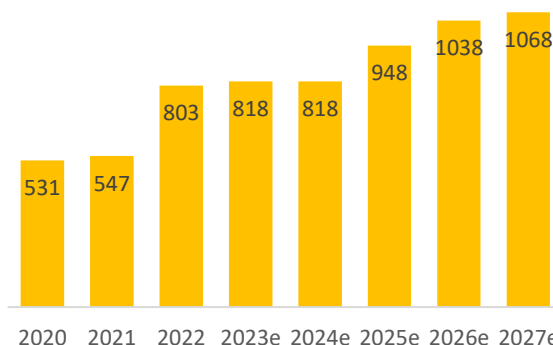
MMC offers an extensive range of approximately 54 wheat flour products tailored to the needs of various channels, including bakeries, food manufacturers, and HORECA. Furthermore, the company continues to innovate its offerings to provide products at premium prices. It plans to invest in industrial mixers, enabling the introduction of ready mixes for cakes and other high-value products. Notably, small packs weighing less than 10kg and other value-added products are not price-regulated, providing the company with the opportunity to increase sales of these unregulated small-pack value-added products, strengthening its market positions.

Figure 6: Flour revenue breakup by channel



Source: Company data, GIB Capital

Figure 7: Flour sales volume ('000' ton)

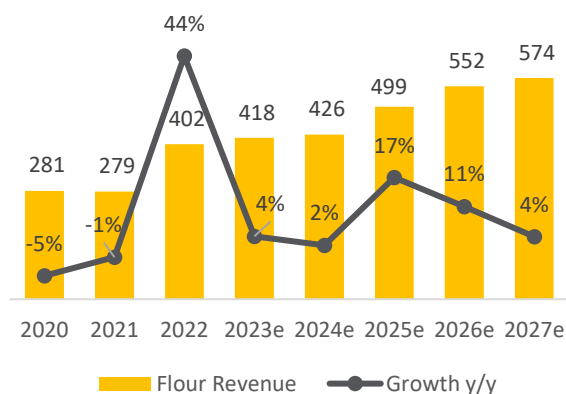


Source: Company data, GIB Capital

Further, MMC acquires wheat at a subsidized rate of SAR 180/ton and is mandated to sell the processed flour at a maximum of SAR 500/ton (for large 45kg bags), ensuring a fixed gross margin of SAR 320/share, equivalent to a 64% margin without accounting for additional costs. The pricing regulation doesn't apply to smaller bags (1-10kg, constituting 16% of the total flour market), allowing them to be priced higher, with the average selling price reaching SAR 520/ton in 1H23, exceeding the capped pricing of SAR 500/ton. Accordingly, on a conservative basis, we expect average pricing to grow at a CAGR of 1.4% over 2022-27e.

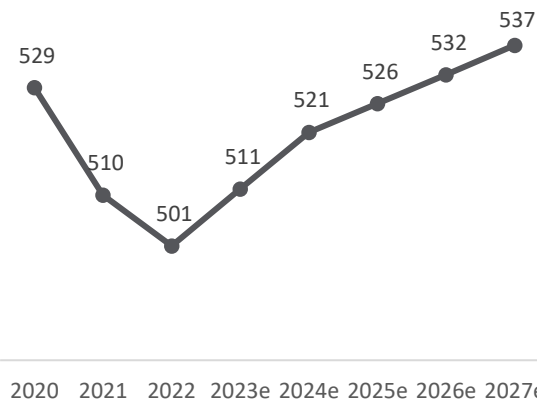
Overall, we expect flour revenue (over 40% top-line contribution) to grow at a CAGR of 7.4% over 2022-27e, mainly on the back of increased sales volume (+5.9% CAGR).

Figure 8: Flour revenue (SAR mn)



Source: Company data, GIB Capital

Figure 9: Flour average selling price (SAR/ton)

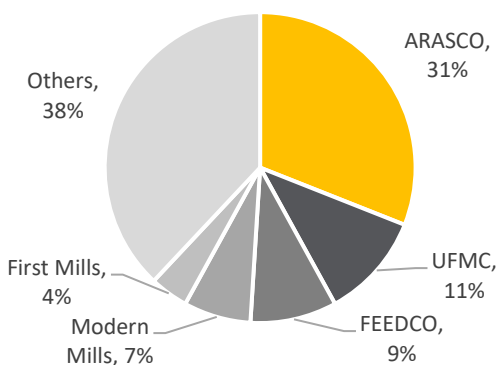


Source: Company data, GIB Capital

The animal feed segment to sustain growth on the back of leadership position and government initiatives

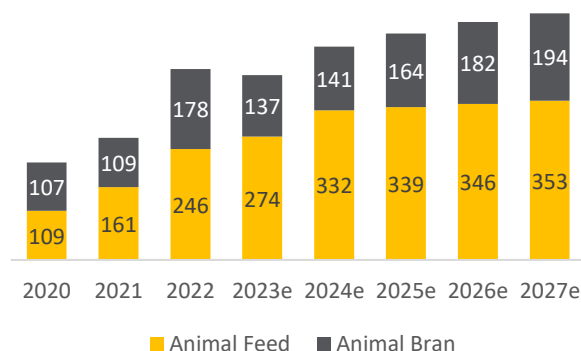
The company has a leadership position in the animal feed segment (41% contribution as of 1H23) among other milling companies, having a feed milling capacity of 1,400 tons/day. MMC recently expanded into poultry feed, shifting its sales portfolio split between livestock and poultry from 70:30% to an even 50:50% split in 1H23. This enabled it to gain market share in the animal segment, reaching 7% (value terms) in 2022. MMC has been witnessing robust growth in the animal feed segment, propelled by both company-led initiatives (such as enhancements to the feed recipe and higher promotion) and favorable government initiatives (MEWA's target for local poultry production: 80% by 2025, 100% by 2030; 68% as of 2022), that is expected to increase the demand for animal feed by 4.7% CAGR over 2022-30e.

Figure 10: Animal feed market share by value (2022)



Source: Company data, GIB Capital

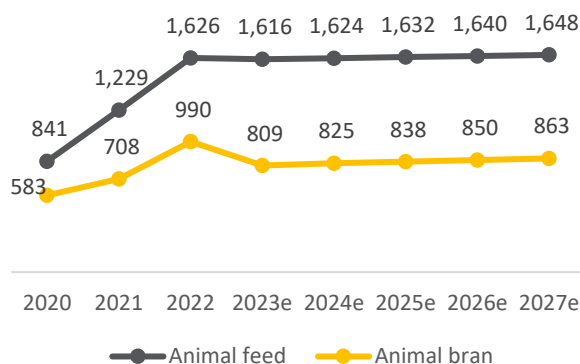
Figure 11: Compound animal feed consumption (mn ton)



Source: Company data, GIB Capital

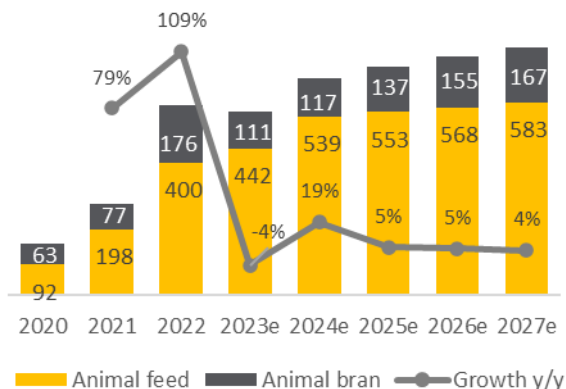
Notably, unlike the wheat flour market, the animal feed market is free-priced (unregulated), providing the room to offer innovative products at premium prices, which enabled the company to raise the average selling price by 46% y/y and 32% in 2021 and 2022, respectively, resulting in a higher contribution to top-line (36% and 41% respectively in the same period). Moreover, higher feed prices during 2021-22 also contributed to the company's robust performance. We note that the revenue from animal feed quadrupled during 2020-22, rising from SAR92mn in 2020 to SAR400mn in 2022. The segment is expected to continue the growth momentum, rising at a CAGR of 7.8% during 2022-27e capturing the rising demand from the poultry market. Further, we expect the Animal Bran segment to improve gradually in the future.

Figure 12: Feed and bran average selling price (SAR/ton)



Source: Company data, GIB Capital

Figure 13: Animal feed and bran revenues (SAR mn)

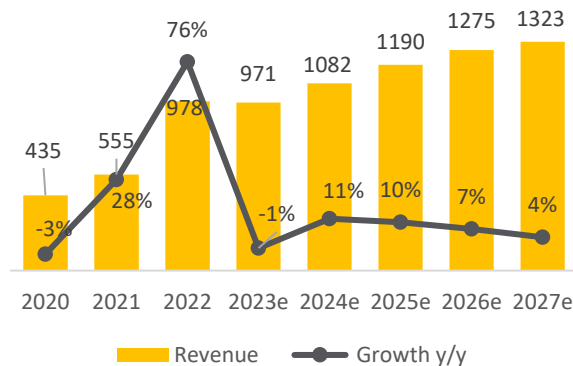


Source: Company data, GIB Capital

Rising demand boosts top-line amid market expansion and diversified offerings

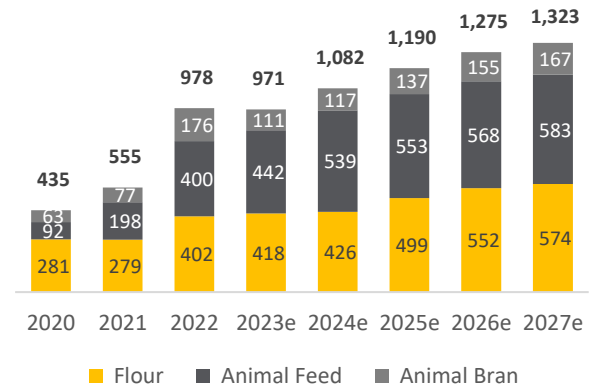
MMC experienced strong top-line growth during 2020-22, with total revenue rising by 28% y/y and 76% in 2021 and 2022, respectively. Going forward, we expect total revenues to grow at a CAGR of 6.2% in 2022-27e, driven by the increase in volumes sold and the higher penetration in value-added products, such as smaller flour packs and animal feed products resulting in higher average selling prices.

Figure 14: Revenue growth



Source: Company data, GIB Capital

Figure 15: Total revenue (SAR mn)



Source: Company data, GIB Capital

Increasing focus on geographic penetration and enhancing the channel distribution through a separate entity

The company's sales are largely concentrated in the areas where the facilities are located, with Makkah, Jouf and Asir regions contributing 28.2%, 12.0%, and 59.8% of the total revenues in 2022, respectively. However, to extend its sales beyond the locations of its primary branches, MMC has established a subsidiary, Hasad Al-Arabia for Trade, in 2022 to function as a distribution arm, facilitating the company's expansion into different sales channels (branded and retail sales) and geographies. Hasad Al Arabia started the operation in 4Q22 and contributed ~0.7% of the topline in 1H23.

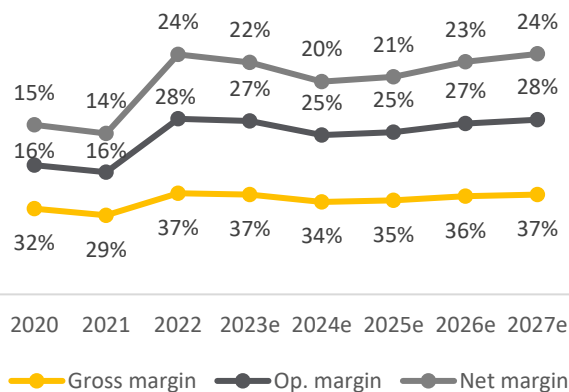
Eye on export

The Company has formally applied to the GFSA for a license to export flour, anticipating that the approval will open doors to new international markets. Leveraging its production facilities strategically located near the northern, western, and southern borders of the Kingdom, the company aims to gain a competitive cost advantage in exporting to nearby markets. In addition, the company plans to expand its presence in international markets by introducing its animal feed products. This initiative begins in 2023, with the export of animal feed products to the GCC region.

Near-term margin pressure due to change in the mix; but likely to improve post expansion aided by operating leverage and cost efficiencies

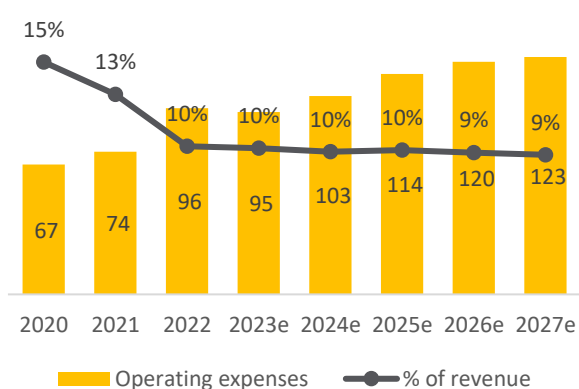
MMC experienced a substantial improvement in margins throughout 2021-22, driven by robust revenue growth and cost-efficiency measures. However, a modest normalization in gross margin is anticipated during 2024e-25e due to ramping up in feed production. Operating leverage is expected to play a significant role in enhancing margins post-expansion. As MMC expands its capacity in the flour segment by 2025, it will likely benefit from economies of scale and improved efficiency, leading to improvement in margins (Figure 16).

Figure 16: Margins



Source: Company data, GIB Capital

Figure 17: Operating expenses (SAR mn)



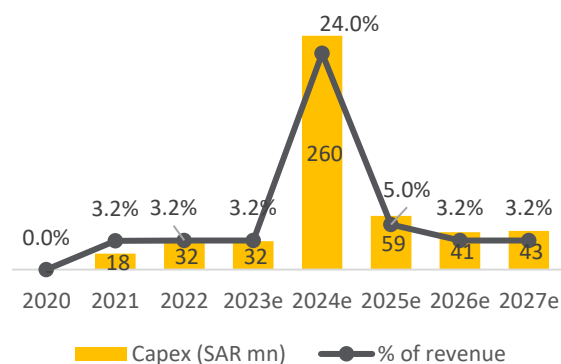
Source: Company data, GIB Capital

Improving working capital and limited capex requirement post expansion

While the revenues of MMC nearly doubled between 2020-22, the company's inventory level remained relatively constant, demonstrating the management's proficiency in working capital management. Consequently, the cash conversion cycle decreased from 110 days in 2020 to 29 days in 2022. Notably, MMC historically conducted sales on a cash basis, resulting in zero trade receivables during 2020-21. However, in 2022, the company began selling on credit to a limited number of customers, with net receivables (mainly related to the newly established subsidiary Hasad Al Arabia) reaching SAR0.9mn and SAR1.6mn in 2022 and 1H23, respectively. The cash conversion cycle in 1H23 reached 36 days, and we expect that it will be a maintainable level going forward.

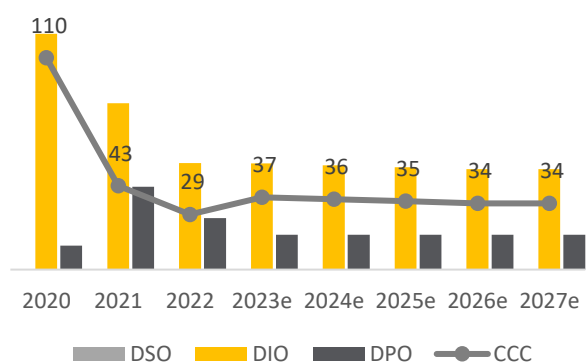
Further, as discussed earlier, the company is planning to more than double the capacity of one of its facilities, which will increase production capacity by ~36%. We expect this capacity expansion to cost around 24% and 5% of revenues in 2024-25e. Going forward we expect the maintenance capex to be around ~3% of revenue (in-line with the historical average; detailed in Fig: 40).

Figure 18: Capex



Source: Company data, GIB Capital

Figure 19: Cash conversion cycle

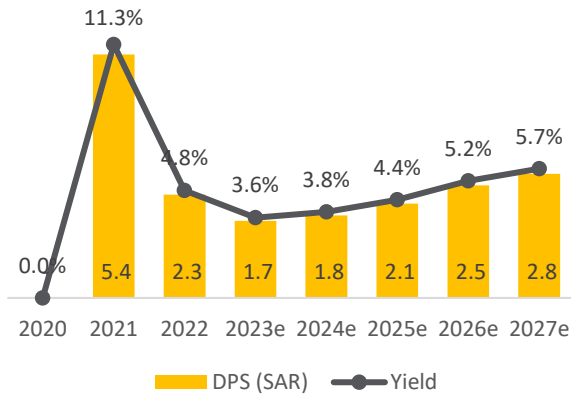


Source: Company data, GIB Capital

Increasing cashflows to improve leverage position and ensure stable dividend payout

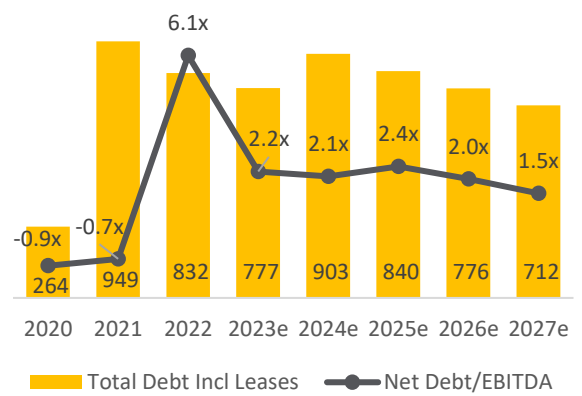
The company intends to boost production capacity by securing additional financing, aiming to raise SAR233mn in 2024 for this purpose. With its strong financial position and projected robust cash flow, the company aims to maintain a stable dividend payout (70%) throughout this period.

Figure 20: Dividend



Source: Company data, GIB Capital

Figure 21: Leverage (SAR mn)



Source: Company data, GIB Capital

Valuation and risk

We use an equal mix of DCF and P/E multiple valuation approaches for valuing the company. For relative valuations, we use an 20x multiple on 2024e EPS to arrive at a P/E-based target price (1 year forward) of SA59/share. As for DCF, based on a WACC of 8.7%, we derive SAR63/share as the DCF-based target price. We arrive at an equal weightage average target price of SA61/share (rounded off), implying a significant upside of 28% from the IPO price. We initiate on Modern Mills with an Overweight rating.

Figure 22: DCF Valuation

SAR mn	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
EBIT	264	268	300	343	366	389	398	405
Zakat	(9)	(9)	(10)	(12)	(13)	(15)	(15)	(16)
EBIT minus taxes	255	259	290	330	353	375	382	389
(+) Depreciation & amortization	55	67	72	74	77	80	82	85
(+/-) Change in working capital	(29)	(1)	(4)	4	1	1	0	0
(-) Capex	(33)	(262)	(62)	(44)	(45)	(47)	(48)	(48)
Free Cash Flow to Firm	248	63	296	365	385	408	417	426
Terminal value								6,487
PV of FCF (explicit period)	1,628							
PV terminal	3,618							
EV	5,245							
(-) Debt, incl. lease liabilities	(777)							
(+) Cash	123							
(-) Minority	0							
(-) Pension/other liabilities	(6)							
Equity value	4,585							
Number of Shares	82							
Equity value per share	56							
Target price (one year forward)	63*							
Cost of Equity	10.5%							
Cost of debt	6.0%							
Target D/A	40.0%							
WACC	8.7%							

Source: GIB Capital, *Target price is rounded, and time value adjusted 1 year forward, using 2.0% terminal growth rate

DCF sensitivity analysis (Per share value in SAR)

Figure 23: Sensitivity of terminal growth rate and WACC

	WACC	Terminal growth			2.5%	3.0%
		2.0%	2.5%	2.0%		
7.7%		76	83	76	83	90
8.2%		69	74	69	74	80
8.7%		63	67	63	67	72
9.2%		58	61	58	61	65
9.7%		53	56	53	56	59

Source: GIB Capital

P/E based valuation: The regional peers are trading at a median P/E of 21.6x (current year estimated). First Mills (FMC; currently trading at ~21.6x) is the closest peer in the local market, as both operate in a similar market dynamic. Given the similarity with FMC we use 22x on 2024e EPS to derive the 1Y Forward TP of SAR65 per share.

Figure 24: Peer valuations – Milling companies

Company name	Country	Mkt Cap (USDmn)	P/E Ratio (TTM)	Est P/E Current Yr	P/E - FY2	EV/T12M EBITDA	Est. EV/ EBITDA - 1FY	Est. EV/EBITDA - 2FY	Dividend Yield - FY1	P/B
Middle Egypt Flour Mills	Egypt	17	6.5x	N.A.	N.A.	4.1x	N.A.	N.A.	N.A.	2.0x
Middle & West Delta Flour Mill	Egypt	40	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	2.5x
Upper Egypt Flour Mills	Egypt	26	5.9x	N.A.	N.A.	3.5x	N.A.	N.A.	N.A.	1.8x
East Delta Flour Mills	Egypt	22	6.9x	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	2.8x
General Mills Inc	United States	39,033	14.9x	15.4x	14.7x	12.1x	12.3x	12.1x	3.4%	4.1x
East Delta Flour Mills	Egypt	22	6.9x	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	2.8x
Oman Flour Mills Co SAOG	Oman	196	88.6x	N.A.	N.A.	17.1x	N.A.	N.A.	N.A.	1.1x
Flour Mills of Nigeria PLC	Nigeria	114	8.5x	130.0x	12.6x	1.6x	5.5x	4.1x	N.A.	0.8x
First Milling Co	Saudi Arabia	1,313	22.3x	21.6x	18.5x	18.2x	16.9x	15.9x	3.0%	5.5x
Average			20.1x	55.7x	15.3x	9.5x	11.6x	10.7x	3.2%	2.6x
Median			7.7x	21.6x	14.7x	8.1x	12.3x	12.1x	3.2%	2.5x

Source: Bloomberg, GIB Capital. As of 26th Mar 2024

Risks

Reduction or removal of government subsidy: The company purchases the wheat from GFS (regulator in KSA) at a subsidized price (SAR180/ton) and sells the flour at SAR500/ton under the Wheat Pricing Policy. However, this arrangement/policy ends on 12th July 2025, and there can be three scenarios post that: 1) continuation of the current subsidy arrangement, 2) partial/gradual lifting of subsidy, and 3) complete lifting of subsidy. The reduction or removal of the subsidy may have a material effect on the company's operations.

Sharp movement in the price of feed raw material: Feed grains (yellow corn, soybeans, vegetable, and palm oil), vital for animal feed production, constituted 53% and 54% of the company's total raw material costs in 2022 and 1H23, respectively. The company sources this raw material from various local and international suppliers. The costs of these materials are subject to fluctuations, and significant increases may occur when production is constrained due to factors such as changes in laws affecting suppliers, alterations in Saudi regulations on imports, heightened costs, and fees due to demand-supply dynamics or other influencing factors.

Delay in capacity expansion: Any delay in the addition of capacity or slower-than-expected utilization of the upcoming expansion in a highly competitive market will directly impact the company's performance.

Customer concentration in the feed segment: While the flour segment boasts a well-diversified customer base, with the top 10 customers contributing 31% and 33% in 2022 and 1H23, respectively, the animal feed and bran segment exhibits higher customer concentration. The top customer contributed 42% and 49% in 2022 and 1H23, respectively, while the remaining top 9 customers contributed 12% and 16% over the same period.

Wastage at restaurants: Any new regulation aimed at reducing food wastage in restaurants and hotels is likely to lead to a decrease in demand.

Modern Mills vs First Mills

Figure 25: Modern Mills vs First Mills

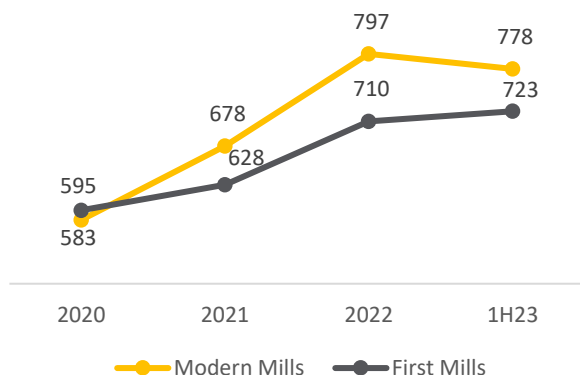
Company	Modern Mills					First Mills				
	2021a	2022a	2023e	2024e	2025e	2021a	2022a	2023a	2024e	2025e
No. of facilities	3	3	3	3	3	4	4	4	4	4
Wheat milling capacity ('000' tons)	1,068	1,068	1,068	1,068	1,237	1,348	1,348	1,355	1,449	1,525
Production as % of milling capacity	50%	77%	77%	77%	77%	76%	76%	76%	76%	76%
Feed milling capacity ('000' tons)	368	368	368	368	368	289	289	289	289	289
Production as % of milling capacity	46%	66%	93%	95%	96%	86%	87%	88%	90%	92%
Revenue mix										
Flour	50%	41%	43%	39%	42%	62%	56%	57%	57%	57%
Animal Feed	36%	41%	46%	50%	47%	28%	30%	28%	27%	26%
Bran	14%	18%	11%	11%	12%	10%	15%	15%	16%	17%
I/S (SAR mn)										
Revenue	555	978	971	1,082	1,190	801	914	964	1,082	1,182
Gross Profit	162	366	359	371	414	331	398	413	477	539
Gross Profit margin %	29%	37%	37%	34%	35%	41%	44%	43%	44%	46%
EBITDA	141	323	319	335	372	257	307	335	371	420
EBITDA margin %	25%	33%	33%	31%	31%	32%	34%	35%	34%	36%
Net income	80	233	211	214	244	198	217	220	234	286
Net margin %	14%	24%	22%	20%	21%	25%	24%	23%	22%	24%
EPS (in SAR)	1.0	2.8	2.6	2.6	3.0	3.6	3.9	4.0	4.2	5.2
DPS (in SAR)	5.4	2.3	1.7	1.8	2.1		1.37	1.41	3.14	3.65
Payout %	556%	80%	66%	70%	70%		35%	36%	65%	65%
Key ratios										
ROE	13%	NM	99%	76%	70%	30%	29%	25%	27%	28%
ROA	6%	20%	18%	17%	18%	17%	9%	9%	11%	12%
Current ratio	1.5x	1.1x	1.3x	1.2x	1.3x	1.9x	1.2x	1.2x	1.2x	1.2x
Receivable days	0	0	0	0	0	1	2	2	2	2
Inventory days	86	55	55	54	53	90	84	98	98	98
Payable days	43	27	18	18	18	47	31	32	32	32
Cash conversion cycle	43	29	37	36	35	44	56	68	68	68
Net Debt/EBITDA	6.1x	2.2x	2.1x	2.4x	2.0x	0.8x	4.2x	3.6x	3.0x	2.5x
Debt/Equity	9.7x	4.7x	3.1x	2.9x	2.2x	0.5x	2.0x	1.5x	1.3x	1.1x
Debt/Assets	0.8x	0.7x	0.7x	0.7x	0.6x	0.3x	0.6x	0.6x	0.5x	0.5x
P/E*	49.4x	16.9x	18.7x	18.3x	16.1x	23.2x	21.2x	22.2x	18.2x	15.6x
P/B	4.0x	22.0x	15.8x	12.5x	10.2x	0.1x	1.0x	5.5x	4.9x	4.5x
EV/EBITDA	32.6x	14.2x	14.4x	13.7x	12.3x	23.0x	19.2x	18.5x	16.0x	14.5x
Div. Yield	11.3%	4.8%	3.6%	3.8%	4.4%	13.4%	1.6%	1.6%	3.6%	4.2%

Source: Company, GIB Capital. All in SARmn unless mentioned, *based on IPO price

Rising exposure to the animal feed (mainly poultry) segment drives the ASP higher for MMC

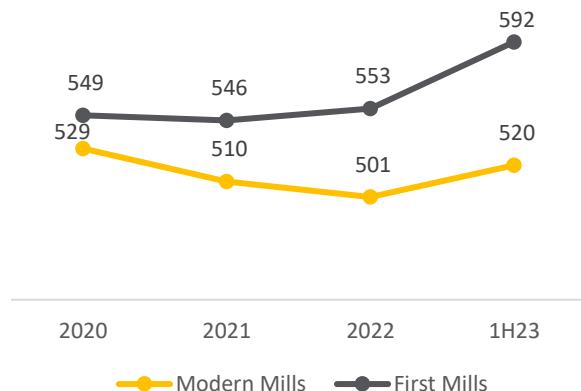
MMC is well-positioned to capitalize on the rapidly expanding animal feed market by identifying growth prospects in poultry and leveraging its leadership in the Southern region. The company recently expanded its poultry segment within animal feed, accounting for 48.0% of its total animal feed sales as of 2022. Consequently, despite the lower average selling price in the flour segment compared to First Mills, the company's overall average selling price increased at a faster rate than First Mills, attributed to the growing exposure of MMC to the animal feed segment, where prices are unregulated.

Figure 26: Weighted avg selling price (SAR/ton)



Source: Company data, GIB Capital

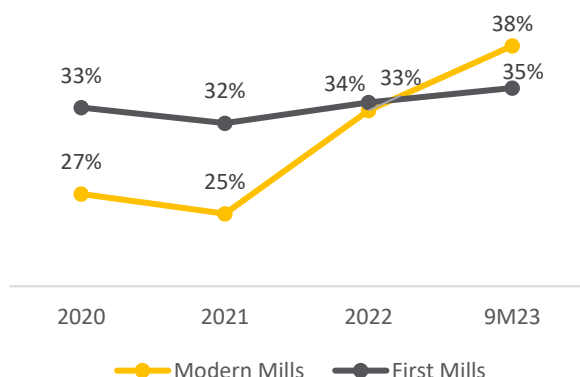
Figure 27: Flour avg selling price (SAR/ton)



Source: Company data, GIB Capital

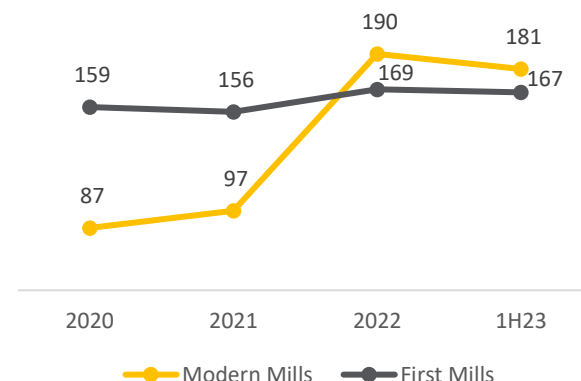
Furthermore, historically, MMC exhibited lower EBITDA margins and net income per ton compared to First Mills. However, in the recent period, as illustrated in Figures 28 and 29, Modern Mills has outperformed First Mills in both metrics.

Figure 28: EBITDA margin



Source: Company data, GIB Capital

Figure 29: Net income per ton (SAR)



Source: Company data, GIB Capital

IPO Details

Figure 30: IPO details

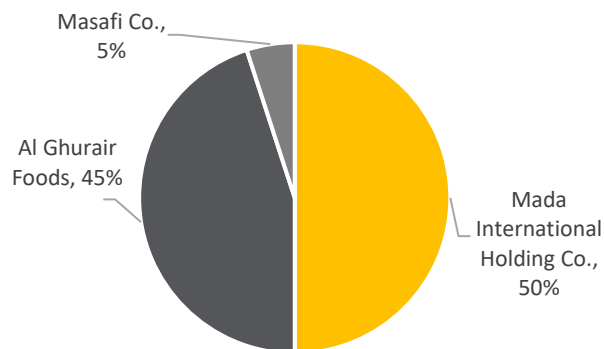
IPO Overview	
Offering	24.55mn shares
Float (%)	30%
Institutional Offering & Book-Building	Feb 15-Feb 21
Retail Offering	Mar 5-Mar 6
Final Allocation	Mar 12
Listing Date	Mar 27
Retail offering coverage	22x
Institutional offering coverage	127x
Listing market	Tadawul (The main market of Saudi exchange)
Shareholder Lock-up period	Six months
Selling shareholders	Mada International Holding Co, Al Ghurair Foods, Masafi Co.
IPO proceeds	Net offering proceeds will be distributed to the selling shareholders

Source: Company data, GIB Capital

Ownership structure

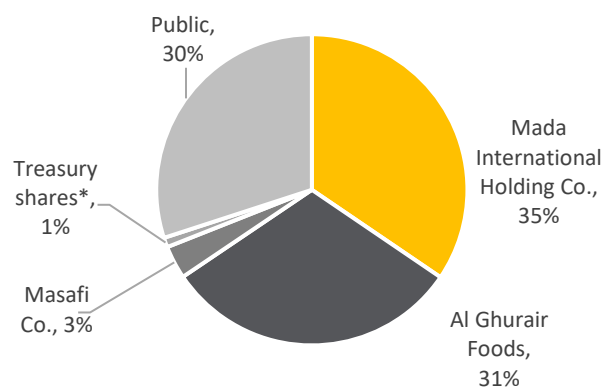
All the shareholders are expected to offload a combined 30% proportionately. As a result, the public shareholding will stand at 30% of the total shares after the offering.

Figure 31: Ownership structure – pre-IPO



Source: Company data, GIB Capital

Figure 32: Ownership structure – post-IPO



Source: Company data, GIB Capital, *Company to retain 1% of post-offering capital for employee stock program.

Company Profile

The company was initially established under the Saudi Grains Organization in 1972 and then incorporated as Third Milling Co. (MC3) in 2016. It was subsequently rebranded to the Modern Mills Company (MMC) in 2022. MMC, headquartered in Jeddah, is a prominent producer and distributor of flour products, feed, and animal bran. Its production facilities are strategically located in Al-Jumum, Khamis Mushait, and Al-Jouf, boasting an aggregate milling capacity of 3,450 tons per day and a feed plant capacity of 1,400 tons per day, with a wheat silo storage capacity of 185 thousand tons.

Recognized as one of the leading flour producers in the Kingdom, MMC has demonstrated remarkable growth, increasing its volume market share from 20% in 2021 to 24% in 2022—the largest gain among its competitors. Additionally, the company is a leading animal feed producer in the KSA, securing a 7% market value share in 2022, with the largest animal feed production capacity among flour milling companies in the Kingdom.

Figure 33: Modern Mills evolution over the years

Year	Key milestones
1972	GFSa was established by Royal Decree
1982	Established a production facility in Khamis Mushait.
2008	Established a production facility in Al-Jouf.
2013	Established 2 nd production line in Khamis Mushait, with a capacity of 800 MT/day.
2015	GFSa established a production facility in Al-Jumum.
2016	The Council of Ministers approved the Organization Privatization Program and establishing the company as a closed joint stock company owned by the PIF.
2017	The company commenced its commercial operations as a separate entity.
2020	GFSa accepted a bid led by consortium of Al Rajhi Holding and Al Ghurair Foods for the acquisition of the company.
2021	The company completed its merger with Mada Al Ghurair Co.
2022	Established a subsidiary distribution Co, Hasad Al-Arabia for Trade. Commenced the expansion of the Al-Jumum facility. The company was rebranded as Modern Mills.
2023	Launched 3 retail brands of flour, commenced contracting with third party to further penetrate the retail segment, launched ESG projects.

Source: Company data, GIB Capital

Products overview

The company produces flour products, animal feed products and animal bran products. Sales of flour, animal feed, and animal bran products contributed 46%, 41%, and 13% of revenues during 1H23, respectively.

Flour

MMC offers flour products in pack and bulk formats, ranging from 1 kg to 45 kg. The company targets large bakeries, food manufacturers, HORECA, and retail consumers. With a diverse portfolio of flour product brands spanning all retail tiers, the company experienced a 43% revenue growth in flour product sales from 2020 to 2022. This growth is attributed to increased quantities sold across various branches, boosted market share during the Hajj and Umrah seasons, and a resurgence in school-related sales starting from 3Q21.

Animal Feed

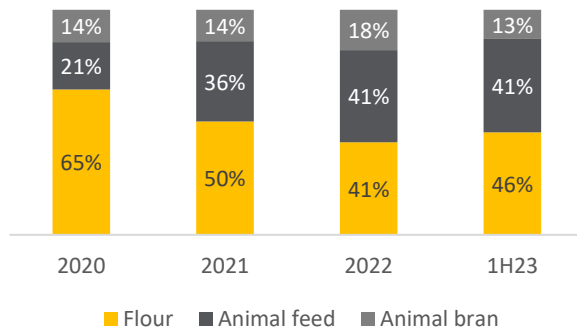
MMC produces a wide range of animal feed products, including specialty poultry and livestock animal feed. Notably, MMC is the leader in both capacity and market share in the animal feed segment among its peers. Over the recent period, the company has focused on this business segment, gaining a significant market share (7% in 2022). MMC, benefiting from unregulated

pricing in animal feed products, attributes its success to providing superior quality, allowing them to command higher prices. This strategy has resulted in superior profit margins, with a 40% increase in feed margin during 2021-22, followed by an 8% increase between 2022-23.

Animal Bran

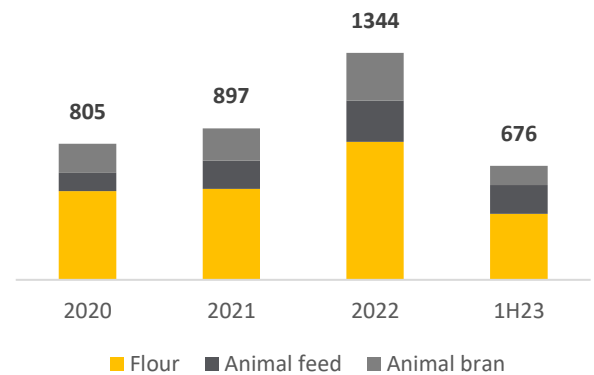
The company generates animal bran as a by-product of flour milling, offering it in large 40kg packs and bulk quantities. While most bran is used internally for animal feed preparation, the surplus is sold to appointed distributors. The company, capitalizing on unregulated pricing, has successfully influenced the market by aligning bran prices with international standards over the recent period. Sales of animal bran contributed 18% and 13% of the company's total revenues in 2022 and 1H23, respectively.

Figure 34: Revenue by product (SAR mn)



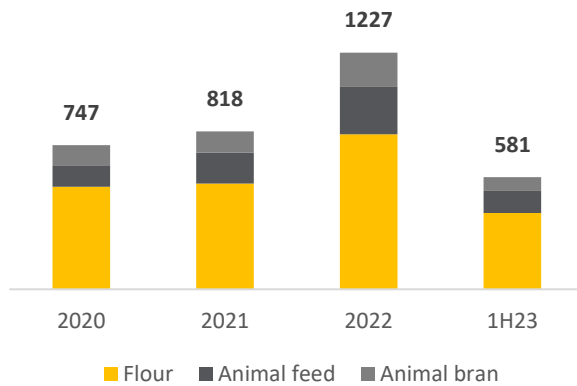
Source: Company data, GIB Capital

Figure 35: Production by product ('000' tons)



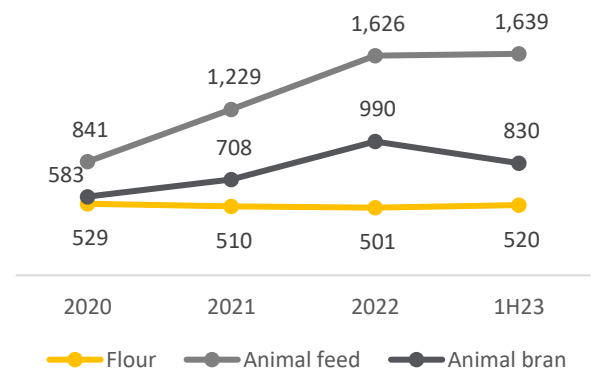
Source: Company data, GIB Capital

Figure 36: Sales volume by product ('000' tons)



Source: Company data, GIB Capital

Figure 37: Avg revenue per ton (SAR)

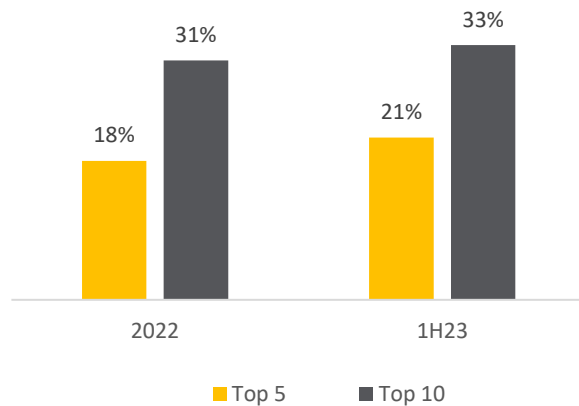


Source: Company data, GIB Capital

Customers/clients

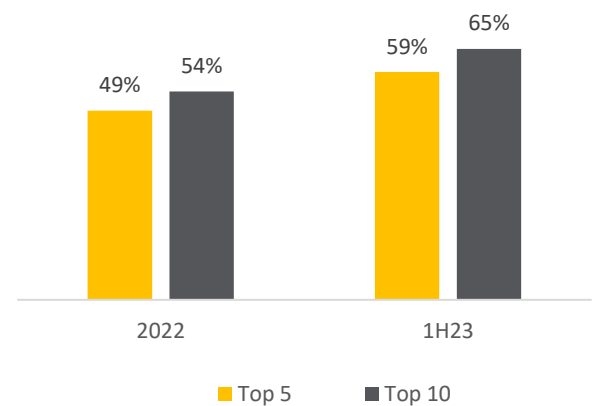
The company's primary customers for flour products include bakeries, HORECA establishments, industrial clients, and wholesalers. On the other hand, the main purchasers of the company's animal feed and bran are poultry farming companies and feed wholesalers who re-sell them to small farmers.

Figure 38: Flour revenue breakup by customers



Source: Company data, GIB Capital

Figure 39: Animal feed and bran revenue breakup by customers



Source: Company data, GIB Capital

Production facilities and expansion

MMC has three production facilities strategically located in Al-Jumum, Khamis Mushait and Al-Jouf. The combined wheat milling capacity of all three facilities stands at 3,450 tons/day and a feed plant capacity of 1,400 tons/day, with a wheat silo storage capacity of 185 thousand tons.

- Al-Jumum facility started its commercial operation in 2015. The facility has two flour milling lines with daily milling capacity 1,200 ton/day. Moreover, the company plans to double the capacity of this facility from 1,200 to 2,450 ton/day by 2025.
- Khamis Mushait facility is the largest and oldest facility of the company which started its commercial operation in 1982. The facility has three flour milling lines with daily milling capacity of 1,650 ton/day and silos with storage capacity of 40,000 tons. By upgrading the production lines, the company plans to increase the capacity of this facility from 1,650 to 1,800 tons/day (we did not factor in this increase, due to the lack of information on the start of the expansion).

The Khamis Mushait facility also has two animal feed plants with a total aggregate daily production capacity of 1,400 tons/day, the highest animal feed production capacity of any milling company in the KSA.

- Al-Jouf facility is relatively smaller than the other two facilities with a milling capacity of 600 tons/day. The Al-Jouf facility also has warehouse storage for finished products with a capacity of ~5,000 tons.

Figure 40: Facilities and their production capacity.

	Al-Jumum	Khamis Mushait	Al Jouf	Total
Year Established	2015	1982	2008	
Daily wheat milling capacity (tons) (as of 9M23)	1,200	1,650	600	3,450
Annual wheat milling capacity (tons) (as of 9M23)	384,000	528,000	192,000	1,104,000
Daily feed milling capacity (tons) (as of 9M23)	-	1,400	-	1,400
Annual feed milling capacity (tons) (as of 9M23)	-	368,000	-	368,000
Silo Storage Capacity (tons) (as of 9M23)	125,000	40,000	20,000	185,000
Revenue contribution (FY22)	60%	28%	12%	100%
Planned capacity expansion by 2025	From 1,200 to 2,450			

Source: Company data, GIB Capital

Wheat milling industry of KSA

The wheat flour market is highly regulated in KSA, with government providing subsidies for producers and end users. The government procures wheat from global and local producers and supplies it to four milling companies at subsidized rates for processing into wheat flour. These milling companies, originally owned by GFSA (govt entity), were privatized between 2020 and 2021 as part of Saudi Arabia's Vision 2030 privatization efforts. All four milling companies, First Mills company, Milling Company 2 (MC2), Modern Mills Company (MMC), and Milling Company 4 (MC4), have a cumulative milling capacity of 15,150 tons/day. The milling companies typically operate at over 85% of their installed capacity to cater to the local market demand.

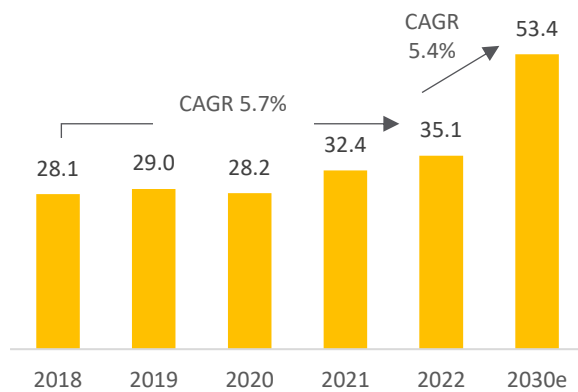
In 2022, total wheat procurement for milling reached 3.9mn tons, 86.2% from imports and 13.8% from local sources. The four milling companies received 4.4mn tons (including reserve), marking a 27.3% increase from the previous year. The majority (75-78%) was used for wheat flour production, with animal wheat bran accounting for 21-23% and minimal derivatives.

Wheat flour

The estimated wheat flour consumption (including local production and import) reached 3.4mn tons in 2022, reflecting a CAGR of 6.5% over 2018-22, translating to sales value growing at a CAGR of 6.1% over the same period, driven by population growth, rise in tourism activities, and higher volume of packaged foods.

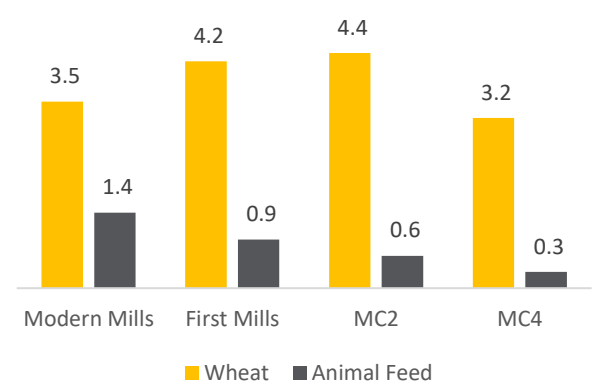
Looking ahead, the wheat flour market is projected to achieve a 3.2% CAGR during 2022-30, reaching ~4.4mn tons by 2030, with sales value growing at a faster pace at 4.4% CAGR over 2022-30, Driven by 1- improved macro-economic conditions. 2- favorable demographics (+2.5% over 2022-30). 3- increased government spending on food security in tourism growth. 4- high disposable income (+4.7% CAGR). 5- stronger penetration of small SKUs (1-10kg packs).

Figure 41: Consumer expenditure on bread & Cereals (SAR bn)



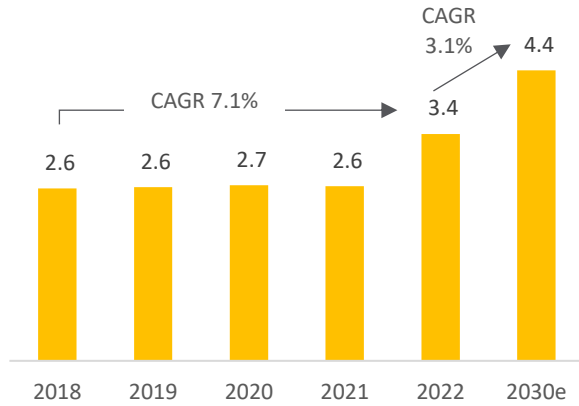
Source: Euromonitor, GIB Capital

Figure 42: Daily wheat and feed milling capacity ('000' tons)



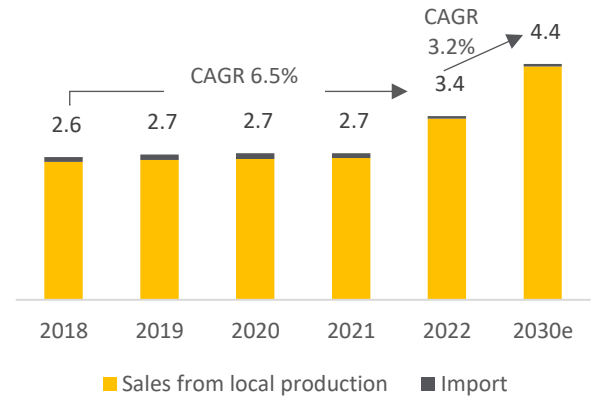
Source: Euromonitor, GIB Capital

Figure 43: Local production of wheat flour (mn tons)



Source: Euromonitor, GIB Capital

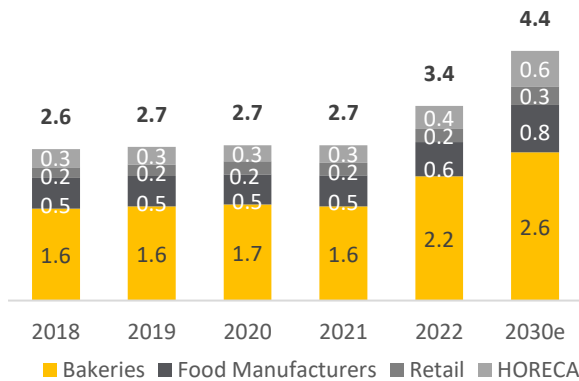
Figure 44: Sales volume of wheat flour in KSA (mn tons)



Source: Euromonitor, GIB Capital

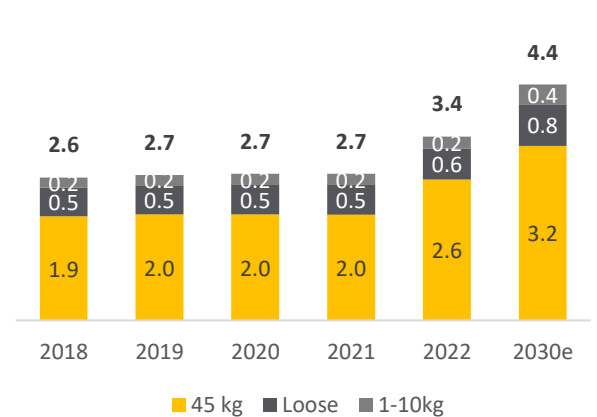
Bakeries and food manufacturers dominate wheat flour consumption in Saudi Arabia, with 80% of their purchases being bakery-type flour, typically in 45kg bags or bulk volumes exceeding 45kg. This sector offers a wide variety of flour products, including Arabic flatbread, leavened bread, cakes, and biscuits. The consumption of such baked goods in KSA is estimated at ~SAR21.4bn in 2022 and is expected to grow at a CAGR of 5.6%, reaching SAR28.0bn by 2030, driven by an expanding population (2.5% increase from 2022-27), a rise in consumer foodservice outlets (5.2% CAGR during 2022-27), and a robust increase in tourism (7.4% CAGR in inbound arrival trips during 2022-27).

Figure 45: Breakup of flour sales volume by channel (mn tons)



Source: Euromonitor, GIB Capital

Figure 46: Breakup of flour sales volume by pack (mn tons)

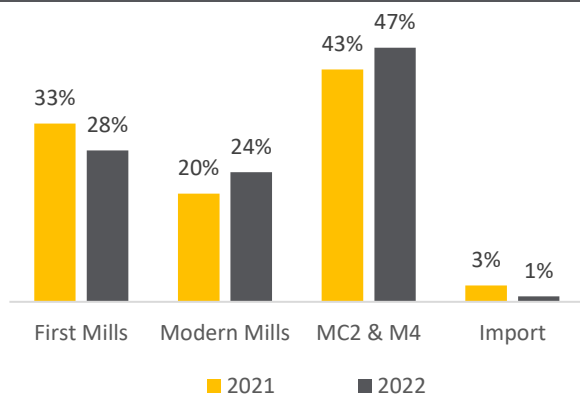


Source: Euromonitor, GIB Capital

Competitive landscape of wheat milling in Saudi Arabia

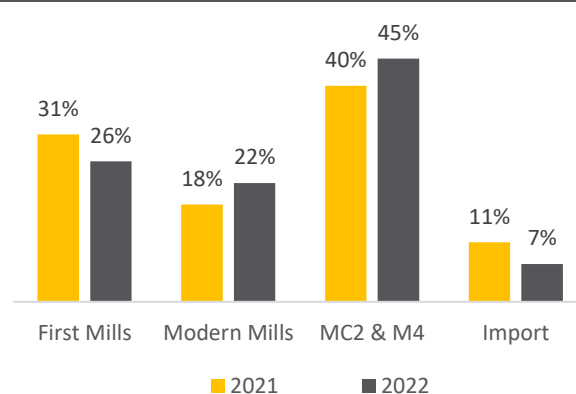
The four milling companies capture almost the whole wheat flour market of Saudi Arabia. First Milling Co. is the leader both in terms of volume and value, with a market share of 26% (value terms) in 2022, followed by Modern Mills (22%), Second Milling (MC2), and Fourth Milling (MC4). Figures 47 and 48 below illustrate how the market share of the milling companies in KSA evolved during 2021-22.

Figure 47: Market share by volume



Source: Euromonitor, GIB Capital

Figure 48: Market share by value

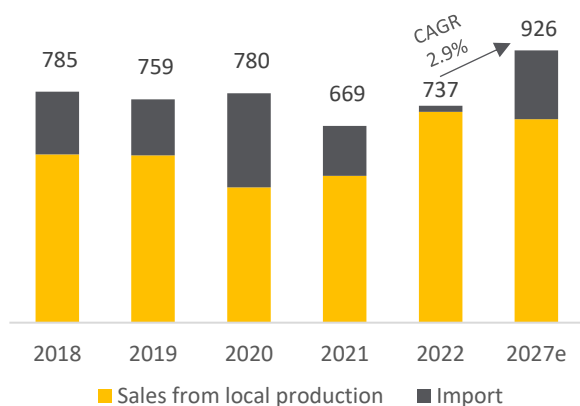


Source: Euromonitor, GIB Capital

Animal bran and compound feed

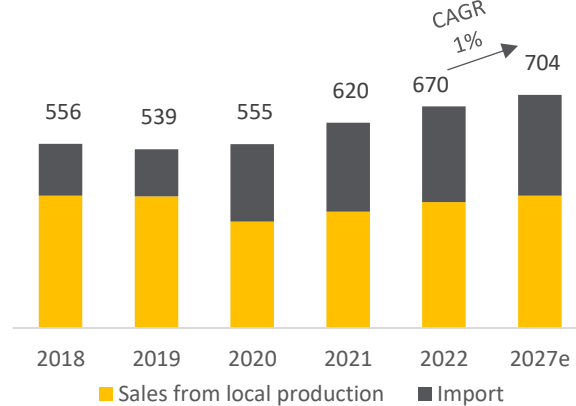
In Saudi Arabia, animal feed is classified into three main categories: traditional (including alfalfa, barley, and grass hay), total compound (made by grinding and compressing ingredients like pulses, maize, corn, soybean etc.), and total mixed ration (TMR) which combines diverse ingredients such as corn, maize, soybean, and animal rice bran, along with forages, supplements, and other components. The compound animal feed is produced locally in KSA, with animal bran sourced from milling companies and other ingredients imported.

Figure 49: Animal wheat bran sales volume (tons)



Source: Euromonitor, GIB Capital, *import data is till Aug 2022, ** breakup for 2027 is assumed based on 2021.

Figure 50: Animal wheat bran sales value (SAR mn)

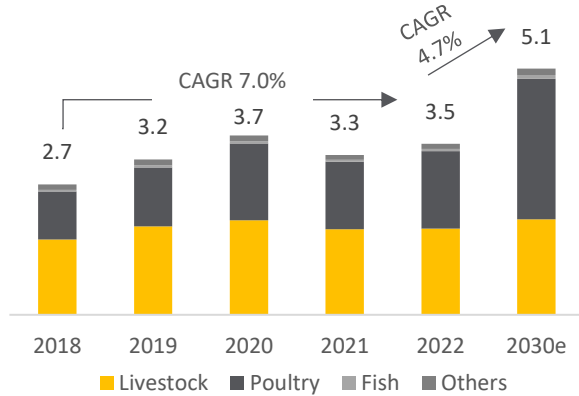


Source: Euromonitor, GIB Capital, *import data is till Aug 2022, ** breakup for 2030 is assumed based on 2021.

In KSA, animal feed consumption increased drastically at a 21.3% CAGR during 2018-22, primarily driven by the livestock and poultry sector. Notably, around 52% of the total sales growth in the animal feed segment is attributed to poultry feed, which grew at a CAGR of 22.4% during the same period. The overall growth of animal feed in KSA is mainly driven by the government initiatives aligned with Vision 2030 to increase the production of poultry and red meat production locally as part of the food security program. In 2020, financial support for small-scale farmers, coupled with the introduction of nutrient-rich total compound animal feed, further fueled growth. Additionally, the poultry market rebounded in 2022 following the SFDA's ban on imports from several countries due to influenza outbreaks, resulting in a 6.9% increase in total compound animal feed consumption, reaching 3.5mn tons in 2022.

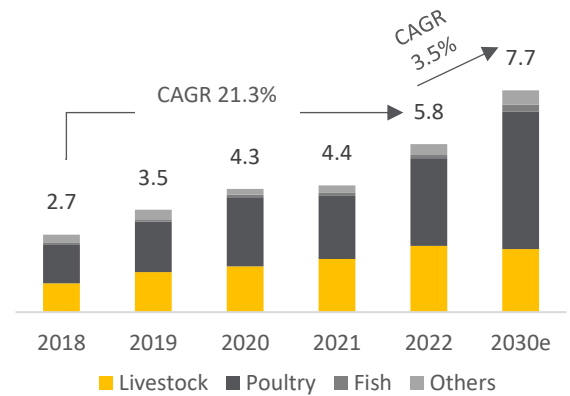
The demand for compound animal feed is projected to grow at a healthy rate of 4.7% CAGR during 2022-30e, driven by several factors, including KSA's ambitious target of 100% local production of poultry by 2030, population growth, and the expansion of the tourism sector.

Figure 51: Compound animal feed consumption (mn tons)



Source: Euromonitor, GIB Capital

Figure 52: Compound animal feed consumption (SAR mn)

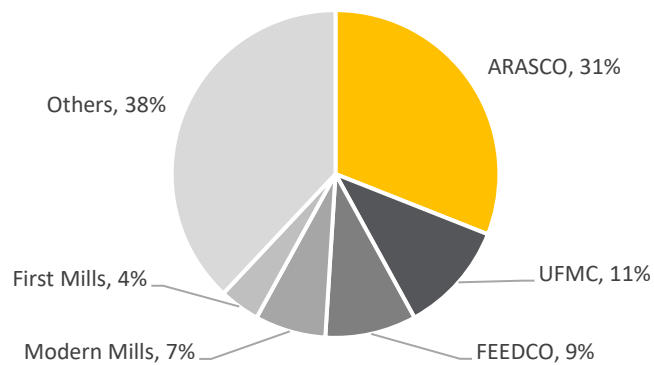


Source: Euromonitor, GIB Capital

Competitive landscape of animal feed in Saudi Arabia

ARASCO, UFMC, and FEEDCO are the key players in Saudi Arabia's animal feed market. Together, these three entities command a significant market share of over 50% in the relatively consolidated total compound animal feed market in 2022. Notably, Modern Mills Company, a leading milling company with the highest daily capacity of 1,400 tons among its peers, initially entered the market by providing compound animal feed for livestock in accessible markets. However, it swiftly expanded its portfolio to include compound animal feed for the rapidly growing poultry category, securing a 7% market share in terms of value in 2022.

Figure 53: Market share by value (2022)



Source: Euromonitor, GIB Capital

Summary of Financials

Figure 54: Summarized basic financial statements (SARmn)

Income statement	2022a	2023e	2024e	2025e	2026e	2027e
Revenue	978	971	1,082	1,190	1,275	1,323
revenue y/y	76%	-1%	11%	10%	7%	4%
COGS	612	612	712	776	812	834
Gross Profit	366	359	371	414	463	489
Gross Profit margin	37%	37%	34%	35%	36%	37%
Selling and distribution expenses	28	31	35	41	44	46
General and administrative expenses	69	63	68	73	76	77
Operating profit	269	264	268	300	343	366
Operating margin	28%	27%	25%	25%	27%	28%
Finance costs, net	28	37	38	38	32	24
PBT	236	220	223	255	304	335
Zakat/tax	3	9	9	10	12	13
Net income	233	211	214	244	292	322
Net margin	24%	22%	20%	21%	23%	24%
y/y	193%	-10%	2%	14%	19%	10%
EPS	2.8	2.6	2.6	3.0	3.6	3.9
DPS	2.3	1.7	1.8	2.1	2.5	2.8
Payout	80%	66%	70%	70%	70%	70%
EBITDA	323	319	335	372	417	443

Balance Sheet	2022a	2023e	2024e	2025e	2026e	2027e
Inventory	93	92	105	113	116	119
Trade receivables	0	1	1	1	1	1
Prepayments and other current assets	16	17	18	20	22	22
Cash and cash equivalents	118	123	107	112	158	212
Total Current Assets	226	236	236	250	301	358
Property and equipment	695	682	887	886	866	846
Right-of-use assets	228	227	226	226	226	227
Total Non-Current Assets	926	914	1,119	1,120	1,103	1,084
Total Assets	1,152	1,150	1,355	1,370	1,404	1,442
Current Liabilities	197	178	191	196	205	210
Non-current Liabilities	776	723	850	787	725	662
Equity	178	249	313	387	474	571
Total Equity and Liabilities	1,152	1,150	1,355	1,370	1,404	1,442
BVPS	2.2	3.0	3.8	4.7	5.8	7.0

Cashflow	2022a	2023e	2024e	2025e	2026e	2027e
Cashflow from Operations	353	291	329	361	412	435
Cashflow from Investing	(32)	(43)	(273)	(74)	(56)	(59)
Cashflow from Financing	(297)	(244)	(72)	(283)	(309)	(323)
Total Cashflows	24	4	(15)	5	47	53

Source: Company, GIB Capital

Figure 55: Key ratios

Key ratios	2022a	2023e	2024e	2025e	2026e	2027e
Profitability ratios						
RoA	20%	18%	16%	18%	21%	22%
RoE	131%	85%	68%	63%	62%	56%
Sales/Assets	85%	84%	80%	87%	91%	92%
Net margin	24%	22%	20%	21%	23%	24%
Liquidity ratios						
Current ratio	1.1	1.3	1.2	1.3	1.5	1.7
Inventory days	55	55	54	53	52	52
Receivable days	0	0	0	0	0	0
Payable days	27	18	18	18	18	18
Cash conversion cycle	29	37	36	35	34	34
Debt ratios						
Net Debt/EBITDA	-0.7	6.1	2.2	2.1	2.4	2.0
Debt/Assets	0.0	0.6	0.5	0.5	0.5	0.4
Net Debt/Equity	-0.1	8.7	4.0	2.6	2.5	1.9
Valuation ratios						
P/E	16.9	18.7	18.3	16.1	13.5	12.2
P/B	22.0	15.8	12.5	10.2	8.3	6.9
EV/EBITDA	14.2	14.4	13.7	12.3	11.0	10.4
FCF Yield	8.6%	6.3%	1.6%	7.5%	9.3%	9.8%
Dividend Yield	4.8%	3.6%	3.8%	4.4%	5.2%	5.7%

Source: Company, GIB Capital

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