Target Price: SAR126/share
Current Price: SAR134.8/share
Upside: -6.5% (+Div. Yield: 2%)
Rating: Neutral

Alamar Food Company (Alamar)

Currency + Competition = Lower TP

- Currency and competition had a higher-than-anticipated impact in 1Q23 (along with seasonality).
- We believe 2Q may remain subdued as well, while any signs of ease in competition by 3Q could be the next trigger for the stock.
- Even after assuming a recovery by 2H23, we lower our target price to SAR126/share (prev. SAR155/share) and maintain Neutral rating.

Saudi performance: Saudi is the key contributor to company's financials (~68% of revenues and ~90% of reported PBT). On an average, Saudi rev/store at ~SAR2.5mn is much higher than the average SAR2mn for the group. Based on our analysis, Saudi revenues which saw an average of 22% y/y growth for each of the quarters in 2022 declined by -2% y/y in 1Q23 due to Ramadan, competitive pressures and a higher base (Expo/soccer). Ramadan was partly in 1Q, around 9 days out of 90 days in the quarter and weighed on sales as outdoor restaurant business declined during Ramadan. Americana reported a 45% decline in sales during the last 10 days of 1Q. Even if we extrapolate similar numbers for Alamar, one could get low single % growth for the rest of 1Q for Alamar's Saudi operations, which is lower than previous periods.

On currency: Specifically on Dunkin (which is primarily Egypt), it has seen a 48% y/y decline in rev/store (led by an 84% decrease in EGP) based on our calculations. This implies a 36% increase in local currency which is good but still not enough at the consolidated level because of the currency devaluation. We expect continued increase in prices over the quarters for Dunkin to return to almost prior levels of revenue/store only by 2H 2024 as inflation plays catch up.

Sentiments weak: 1Q23 has come slightly lower than 2Q22 which saw the full impact of Ramadan. The management estimates SAR23mn impact from currency alone adjusting for which sales would have been broadly flat. The weak 1Q implies 2Q to be weaker as we had 20 days of Ramadan in 2Q and thus profits/sentiments for the stock are likely to be low. On the

Figure 1: Key financial metrics

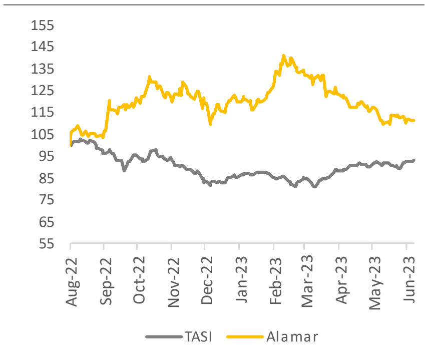
SARmn	2021a	2022a	2023e	2024e
Revenue	868	1,076	1,063	1,211
Revenue growth	*25%*	*24%*	*-1%*	*14%*
Gross Profit	307	362	323	390
Gross Profit margin	*35.4%*	*33.7%*	*30.4%*	*32.2%*
EBITDA	242	253	229	275
Op. income	143	141	110	150
Net profit	117	115	89	127
Net profit margin	*14%*	*11%*	*8%*	*10%*
EPS (SAR)	4.6	4.5	3.5	5.0
DPS (SAR)	0.0	3.3	2.4	3.7
P/E	27.7x	28.2x	37.3x	26.2x

Source: Company, GIB Capital

Stock data	
TASI Ticker	6014
Mkt cap (SARmn)	3,269
Trd. Val 3m (SARmn)	10.8
Free float	42.7%
QFI holding	4.9%
TASI FF weight	0.07%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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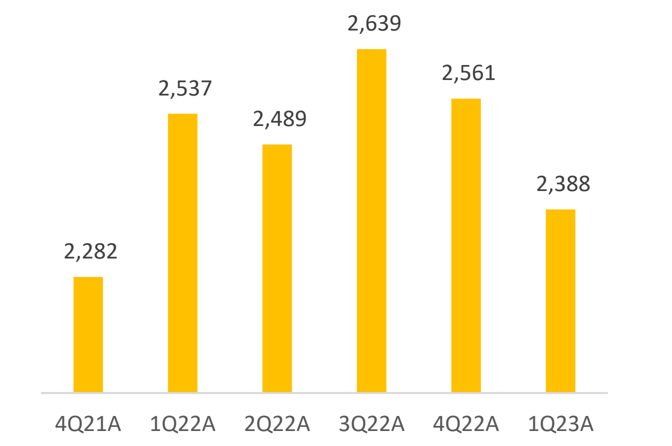
ground we see aggressive promotions continuing. However, Hajj also sees huge number of visitors to Saudi/region which should offset some of the impact.

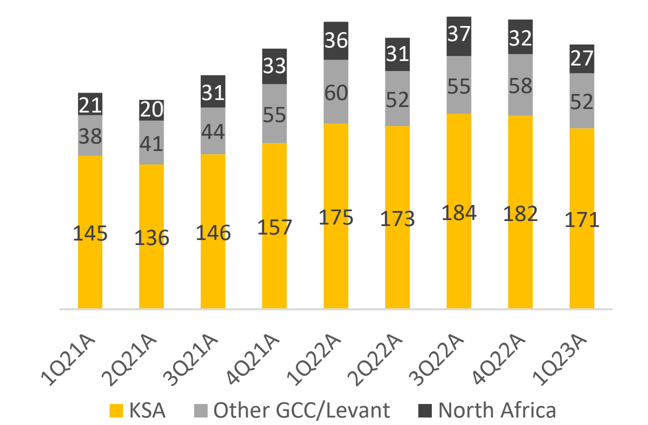
Margins and cost of materials: Raw materials are 43% of total cost of goods sold while most of the rest is variable, increasing along with store count e.g. Salaries/depreciation/overheads etc. We do not anticipate a major benefit in cost of materials because of no material decline in prices. For example, Wheat and Poultry are locally sourced which are stable and not declining in Saudi. Cheese prices and Tomato prices which are mostly sourced from the US are stable as well and likewise Mushroom and Potato sourced from Europe. Inventory on the balance sheet has gone higher by 63% which is more than volume growth suggesting possibly no improvement though the pace of increase has gone down. EBITDA margin was 26% and 28% in 2020 and 2021 and now dropped to 19% in 1Q23. The guidance (19%-21%) and our analysis that currency, operating leverage and Ramadan weakness being temporary factors, suggests a recovery in margin. We forecast around 21% margin for 2023 and 23% average over the years.

Figure 2: Annualized Revenue per KSA store (SARmn)



Source: GIB capital

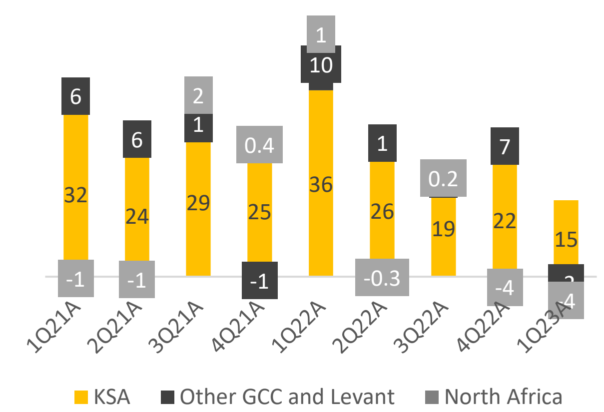
Figure 3: Revenue by geography (SARmn)



Source: Company data, GIB Capital

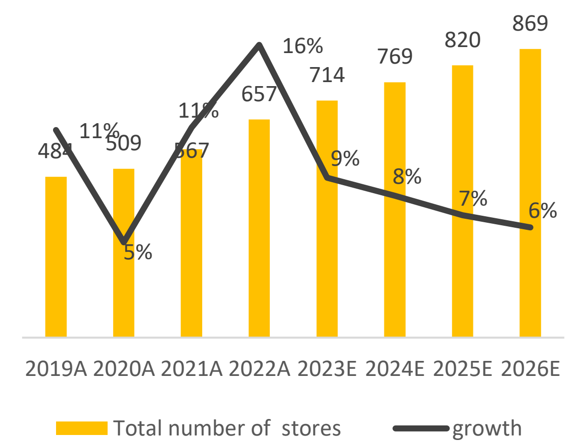
Valuation/risks: We assume a 5% group level same store sales growth (3-5% guidance) and an average of 8% total store growth (11-13% guidance: corporate store growth) in the medium term from 2024. It is important to note that Saudi store count growth grew only low single digit % in recent periods and majority of the growth is to come from lower store metrics. Non-Saudi stores reported net losses on an average in 1Q23. While we believe that these estimates are realistic our valuation hinges on how the performance turns around in 2H23 as the base /currency effect fade and cost pressures subside. We revise our estimates lower but assume a gradual recovery from 2H23 and factor no major weakness in currencies. We take an average of DCF (SAR133/sh.) and PE methods (120) to arrive at a rounded SAR126/share target price. The difference between the two is attributed to the fact that theoretically PE can be much higher given the growth from a low base but we restrict it to prior averages (23x). The stock was the most shorted in Saudi previously and we have seen QFI holding almost halve. Key downside risks include an increase in competition, cost of raw materials, change in the expansion plans, and currency fluctuations in the newer markets where the company is expanding.

Figure 4: Segment profit before zakat and income (SARmn)



Source: Company data

Figure 5: Total store growth



Source: Company data, GIB capital

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