

Target Price: SAR160/share
Current Price: SAR119.4/share
Upside: 34% (+Div. Yield: 2.8%)
Rating: Overweight

Alamar Food Company (Alamar)

Quality franchise with superior metrics

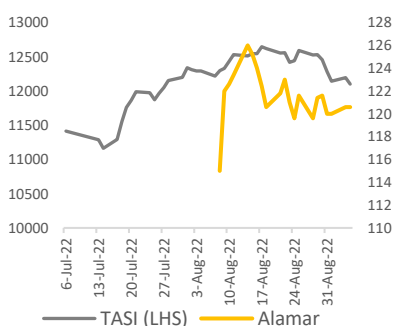
- Alamar is a leading QSR in KSA with future expansion across the MENAP region through globally renowned Domino's and Dunkin' brands.
- The company has a proven track record of delivering high same-store sales growth with a negative cash conversion cycle, helping generate strong FCF, and has no debt, given expansions through store leasing.
- We use the DCF method to arrive at our target price of SAR 160/share (which implies a 25x on our 2023e EPS) and initiate with an Overweight rating.

Stock data

TASI ticker	6014.SE
Mcap (SARmn)	3,045
Trd. Val (SARmn)	12.6
Free float	42.9%
QFI holding	6.5%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Growth focus intact: Alamar has increased its store count by 30% in the last 3.5 years (around 600 stores currently from 435 in 2018) and plans to continue its growth by expanding in current/newer markets. We forecast a total of 769 stores by 2025 (36% growth from 2021 levels). Domino's contributed ~91% of revenues and the later added Dunkin' brand in Egypt and Morocco contributed 7% in 2021 (12% by 2025e). 80% of the revenues came from KSA (67%) and UAE (13%) in 2021.

Value brand: Despite new entrants in the QSR pizza space, by positioning itself as a value brand with a focus on innovation and efficiency, the company has maintained its market leadership position (43% share of the KSA pizza market in 2021). The company witnessed a strong sales per store growth of 12% y/y in 2021 and ~20% in 1H 2022, mainly coming from volumes. Given that a part of expansions is to come from outside KSA where margins could be lower, we conservatively forecast gross margins to decline over the years even as pressure from commodities ease, stores mature, and royalty as % of sales decline.

Valuation and risks: The stock is trading at SAR119.4/sh. above IPO price of SAR115/sh. We factor in a revenue CAGR of ~20% during 2021-25 and profit growth of ~15% during the same period. The company trades at 21x P/E (12m fwd.), lower than global QSRs (25x). 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 1: Key financial metrics

SARmn	2020a	2021a	2022e	2023e
Revenue	695	868	1,138	1,359
Revenue growth	18%	25%	31%	19%
Gross Profit	231	307	400	469
Gross Profit margin	33.2%	35.4%	35.1%	34.5%
EBITDA	180	242	289	315
Op. income	82	143	184	199
Net profit	56	117	147	161
Net profit margin	8%	14%	13%	12%
EPS (SAR)	2.2	4.6	5.8	6.3
DPS (SAR)	0.0	0.0	3.4	4.4
P/E	54.4x	25.9x	20.7x	18.9x

Source: Company, GIB Capital

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Investment case

Alamar is one of the leading QSR operators and has a master franchisee of Domino's Pizza in MENAP and a Dunkin' franchisee in Egypt and Morocco. It has Domino's in ~550 locations and Dunkin' across ~50 locations. Domino's contributed 91% of Alamar's top line and had a market share of 43% in the pizza QSR space in KSA in 2021. The company has a comprehensive distribution platform of ~600 stores currently across 16 markets with the largest presence in Saudi Arabia with 276 stores at the end of 1Q22. The company made 67% of its revenue in KSA, 13% in UAE, and 20% from the other markets. In terms of store count, around 71% is operated by the company while 19% are sub-franchised and 10% are under Joint Ventures. It has an omnichannel concept with 54% of its sales generated via digital channels.

The track record of the company is impressive with an addition of 157 stores (implying 30% growth) in the last 4 years. Store count has doubled in less than 7 years, fortifying key cities and expanding into newer markets, and has a store payback period of fewer than 3 years. The company has been able to maintain the lowest pricing among its peers, thus creating a perception of a value brand and delivering strong same-store sales growth. In 2021, the per-store sales growth was 12% as compared to 13% in 2020 and 22% y/y in 1H 2022 mainly led by volume. We believe online sales and the maturity of stores also contributed to this. The gross margin was 35% for 2021 with a higher margin (~40%) generated from KSA stores. The company also has a last-mile logistics system and delivery infrastructure, helping the delivery margins to be similar to in-store margins in our view. The company benefits from a negative cash conversion cycle, helping it to optimize cash flows. Expansion of its stores is via leasing than owning which further helps improve cash flows and has no debt. While expanding outside of KSA could lower margins, the offsetting factors include a decline in raw material costs, decline in competitive intensity, improvement in margins as stores mature, and reduction in royalty as a % of sales.

The business has delivered revenue growth of 32% CAGR over the last 4 years, driven by new products addition, store expansion, and technological integration (through apps). Operational efficiency, improved store economics, and operating leverage helped the company to improve its margins. We expect these trends to continue at a healthy pace.

Figure 2: Key performance indicators for Alamar

KPIs	2020a	2021a	2022e	2023e	2024e	2025e	2026e
Domino's sales per store (SARmn)	1.4	1.5	1.8	2.0	2.1	2.3	2.4
Growth in Domino's sales per store	13%	11%	18%	10%	8%	7%	6%
Dunkin' sales per store (SARmn)	1.1	1.4	1.6	1.8	1.9	2.1	2.3
Growth in Dunkin' sales per store	9%	32%	13%	10%	9%	9%	8%
Net margin	8%	14%	13%	12%	12%	12%	11%

Source: Company, GIB Capital

Assumptions, valuation, and risks

Revenue:

The Kingdom is the largest foodservice market in the Middle East. The Kingdom's quick service restaurant (QSR) market is estimated at SAR29.1bn in terms of GMV in 2021 and is expected to grow at a CAGR of 10.1% during 2021-25 to reach SAR42.7bn in 2025. Future growth in the quick service restaurant (QSR) market will be driven by economic growth, favorable demographics, tourism growth, technology adoption, innovative business models, and continued promotional activities/loyalty programs.

In the next four years, we expect the company's sales to grow by a minimum of ~20% CAGR with a store growth of 8% and improving same-store sales. This is in line with the past trend where the company has witnessed strong growth from online sales and same-store sales growth, helping sales grow much faster than store growth. Around 60% of Domino's sales are through digital channels owned by the company which generates better margins and bigger order value.

We expect the largest growth to come from its UAE operations. In the last four years, the company has been expanding its Domino's operations in the UAE by a CAGR of 50%, and plans are to continue with that growth given that Domino's stores in the UAE bring in more revenue on a per store basis than their stores in KSA or MENA.

Costs/margins: Alamar is sensitive to key raw materials price fluctuations with tomato, cheese, and poultry having the biggest impact. The company maintained an average cost of raw materials at 25-27% of sales over the last four years. However, the cost of raw materials has increased in the past two years, resulting in 2Q22 margins declining from 36% to 33% in q/q (along with Ramadan seasonality). Of late, the company started seeing materials' prices normalize and we expect this to soften in 2H 2022. Employee costs are the second biggest component of costs (20% of sales) which can provide some operating leverage as the business scales up.

Alamar pays a royalty to Domino's as part of the franchise agreement. The royalty expense is based on a percentage of sales and new store openings. The royalty expense as % of sales is expected to go down as Alamar's sales and the number of stores grow. In the past three years, royalty expense has gone down from 4.6% of sales in 2019 to 4.4% in 2021.

Capex: Most of the company's Capex is attributed to opening new stores. Under the current Domino's master franchise agreement, the company is required to operate 1,250 stores by 2037 and operate 85 Dunkin' stores by 2024. We expect the company to add 162 stores in the next 3 years, in line with the company's historical trends and expansion plans. We estimate that Capex is around SAR753K per Domino's store and SAR562.3K per Dunkin' store.

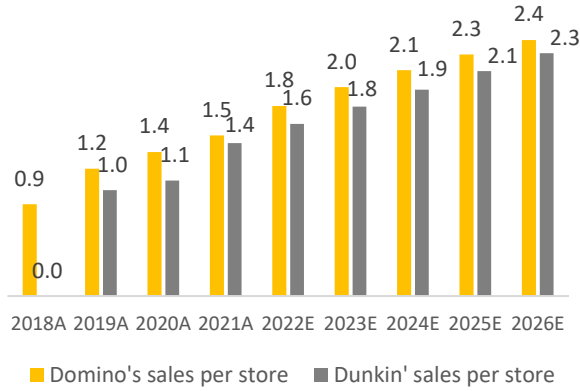
Key **downside risks** include an increase in competition, cost of raw materials, change in the expansion plan, and currency fluctuations in the newer markets where the company is expanding.

Four key inputs in our valuation are:

- a) Stores expansion
- b) Per-store growth
- c) Gross margins
- d) Lease payments

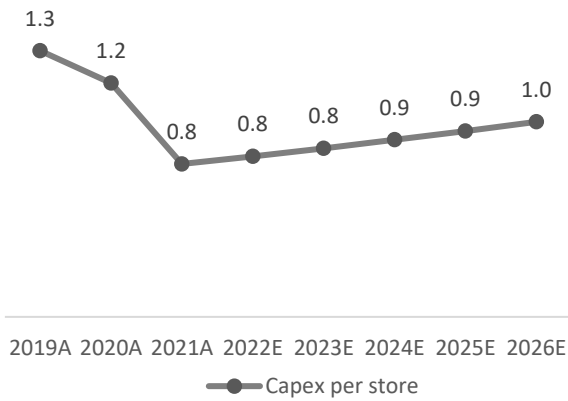
Raw materials are the biggest cost component

Figure 3: Sales per store (SARmn)



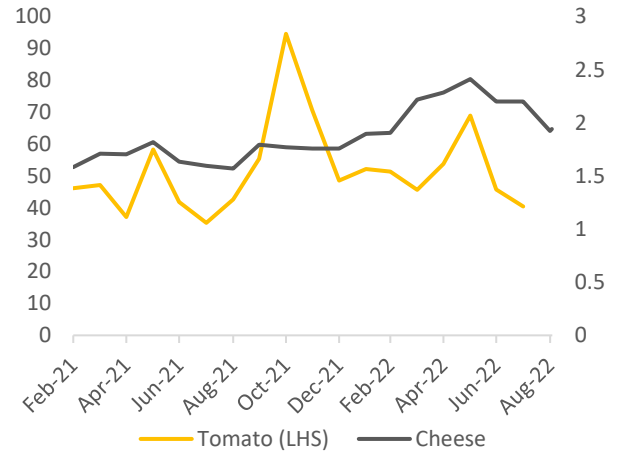
Source: Company data, GIB Capital

Figure 5: Capex per store (SARmn)



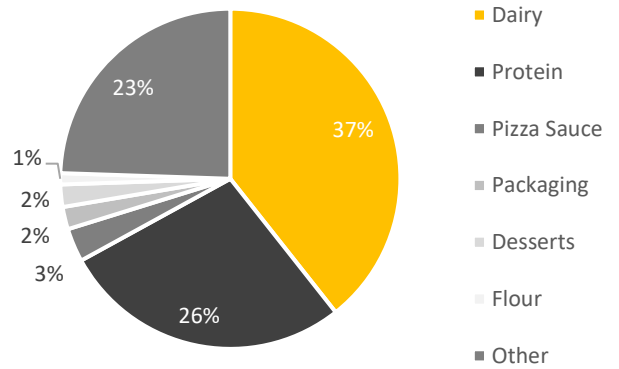
Source: Company data, GIB Capital

Figure 4: Costs trend -USD/cwt for Tomato and USD/lb for Cheese



Source: Bloomberg

Figure 6: Mix of ingredients procured in 2021 by value



Source: Company data

For FCF valuation, we use a terminal growth of 3%, cost of equity of 9%, and a target capital structure of no debt and arrive at a 1-year forward price of SAR160.

Figure 7: DCF model

SARmn	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29	FY30
EBIT	184	199	230	249	263	270	287	317	345
Taxes	-18	-20	-23	-26	-27	-28	-30	-33	-36
EBIT minus taxes	165	179	207	224	236	242	257	284	309
(+) D&A	106	116	123	126	129	129	128	128	129
(+/-) Change in WC	-20	-6	-5	-4	-3	-3	-2	-3	-3
(-) Capex	-51	-46	-37	-37	-27	-24	-23	-23	-23
(-) Lease payment	-63	-71	-78	-83	-88	-91	-94	-96	-99
Free Cash Flow to Firm	137	172	210	226	247	253	266	289	313
Terminal value					0				5,371
PV of FCF (explicit period)	1,324								
PV terminal	2,696								
EV	4,019								
(-) Net debt	186								
(-) Lease obligations	-253								
(-) Minority	0								
(-) Pension/other Liab.	-57								
(+) Investment	2								
Equity value	3,897								
Number of Shares	25.5								
Target price (1 yr fwd)	160								

Source: GIB Capital

Figure 8: Global peers valuations

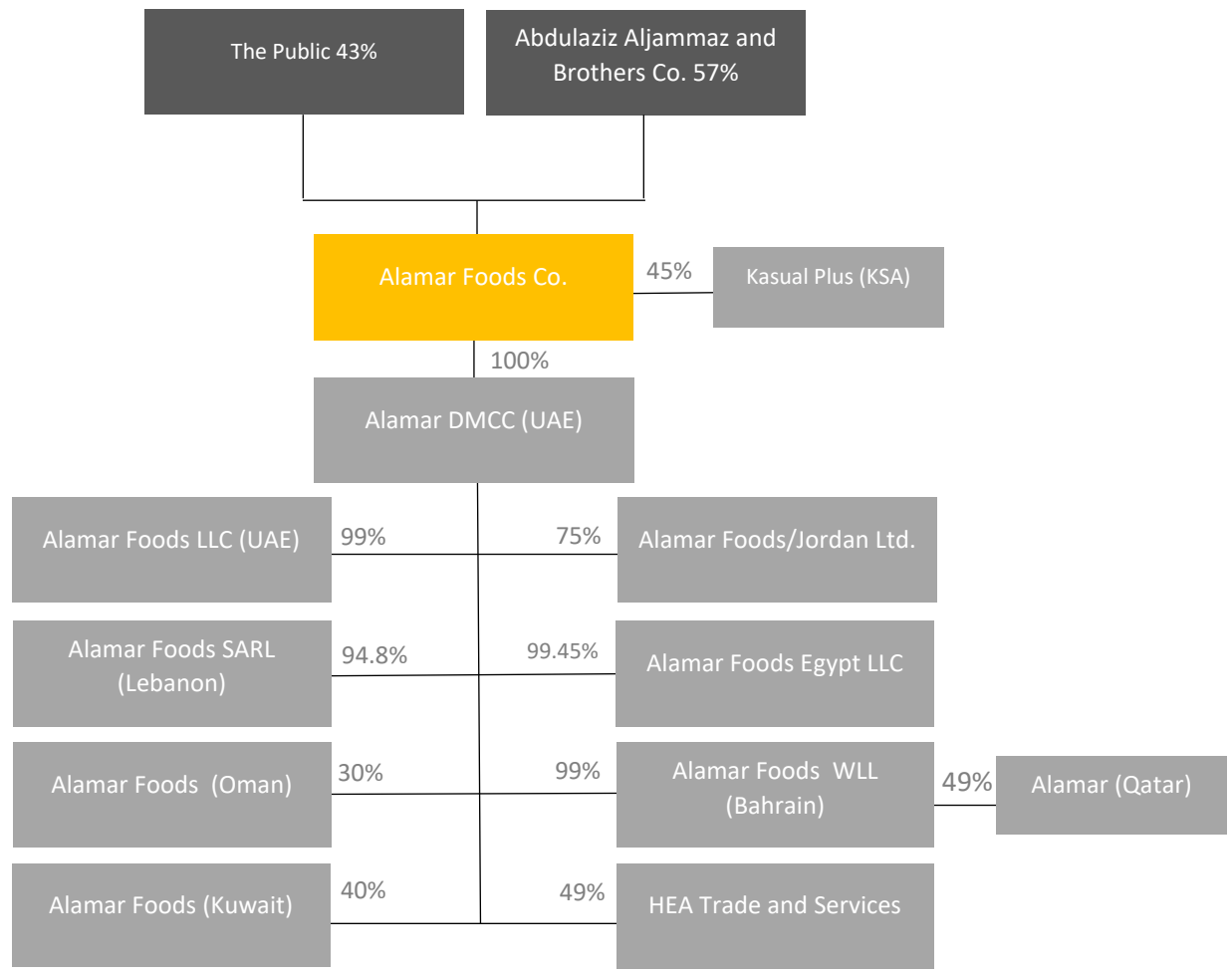
Name	Mkt Cap (USDmn)	Est P/E Current Yr	Dividend Yield - FY1 (%)
Mcdonald's Corp	187,247	25.9	2.3
Jack In The Box Inc	1,701	13.7	2.3
Restaurant Brands Intern	26,653	19.5	3.7
Yum! Brands Inc	32,079	24.7	2.1
Wendy's	4,111	22.9	2.8
Yum China Holdings Inc	20,058	44.1	1.2
Domino's Pizza Inc	13,127	28.9	1.3
Starbucks Corp	95,165	28.8	2.5
Chipotle Mexican Grill Inc	44,882	49.1	NA
Jollibee Foods Corp	4,824	41.9	NA
Zensho Holdings Co Ltd	3,884	42.6	NA
Greggs PLC	2,344	17.0	NA
Jubilant Foodworks Ltd	5,056	71.7	NA
Jack in the Box Inc	1,701	13.7	2.3
Domino's Pizza Inc	13,127	28.9	1.3
Domino's Pizza Enterprises Ltd	3,528	28.7	2.8
Domino's Pizza Group PLC	1,242	12.6	NA
Papa John's International Inc	2,802	25.7	2.0
Alsea SAB de CV	1,540	18.7	NA
Arcos Dorados Holdings Inc	1,539	15.1	3.1
Herfy Food Services Co	714	17.5	NA
Median	4,111	25.7	2.3

Source: Bloomberg

Company Profile

Alamar foods is a master franchise operator for Domino's in the MENAP region and recently Dunkin' in Egypt and Morocco, operating ~600 stores in 16 markets. The company built the necessary online platforms to complement its operation in the QSR segment, resulting in more than 50% of orders coming through online channels providing better margins and bigger basket size.

Figure 9: Current ownership

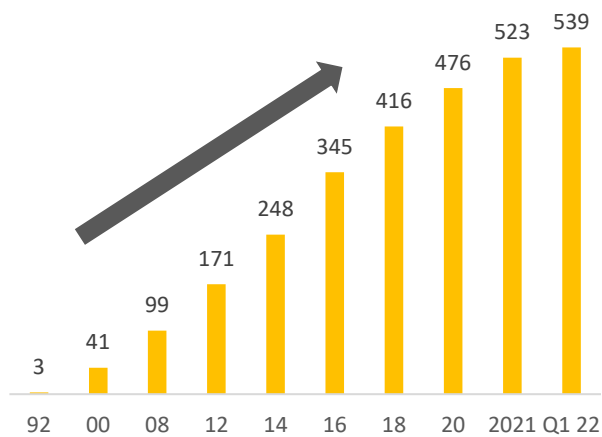


Source: Company data

Domino's

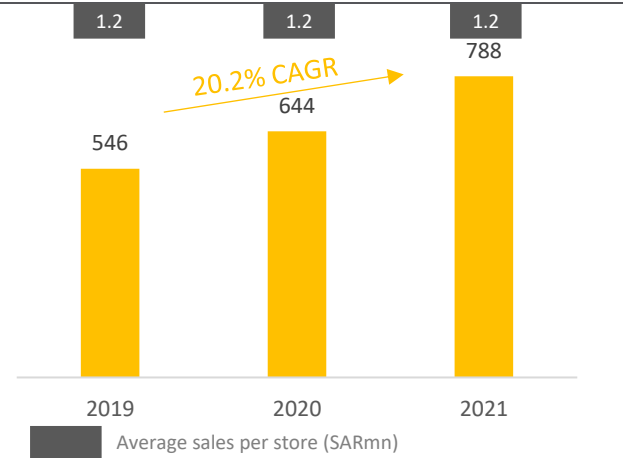
Domino's was founded in 1960 and is the leading pizza franchise restaurant chain with a global footprint. The brand operates 17,600 stores in more than 90 countries around the world, most of which are franchised. Domino's offers a variety of freshly made food, including pizza and chicken products. Alamar has held franchise rights for Domino's since 1992 and is the master franchise in 16 markets. Since its founding in Saudi Arabia, it has expanded operations across the region with a footprint of 600 stores, and the current franchise renewal date is set at 2037 with 10 years right.

Figure 10: More than double the footprint in the last 10 years



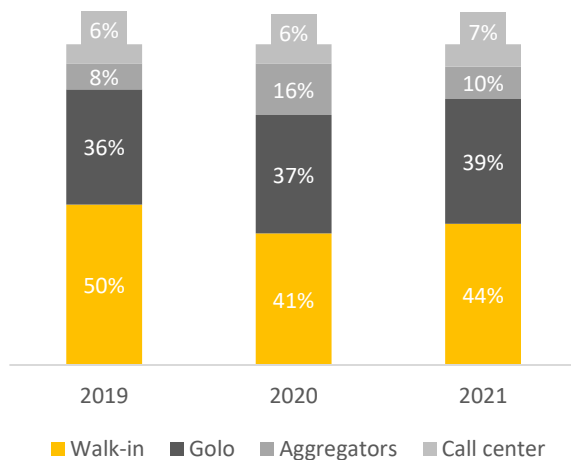
Source: Company data

Figure 11: Domino's revenue growth on the back of expansion



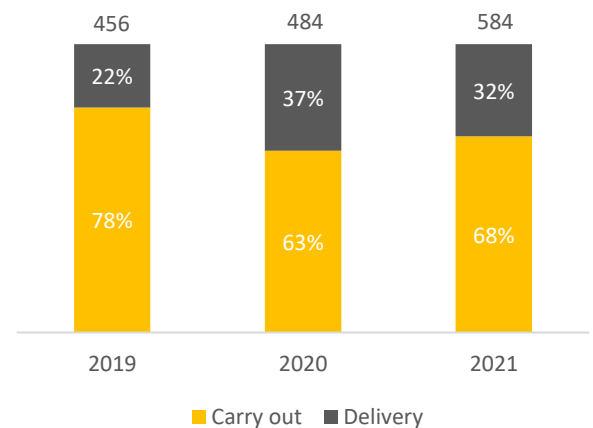
Source: Company data

Figure 12: Sales Value mix (%) by service method



Source: Company data

Figure 13: Revenue by channel (SAR mn)

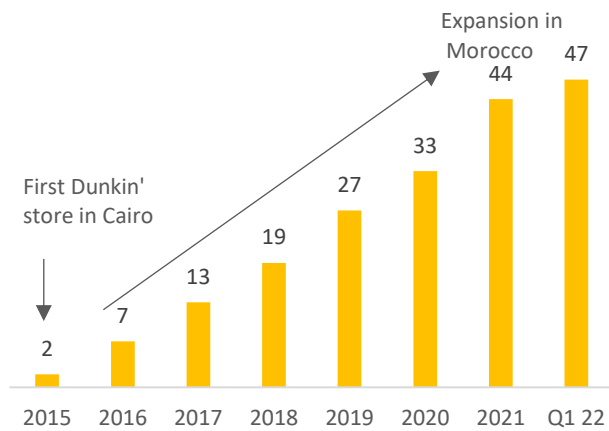


Source: Company data

Dunkin'

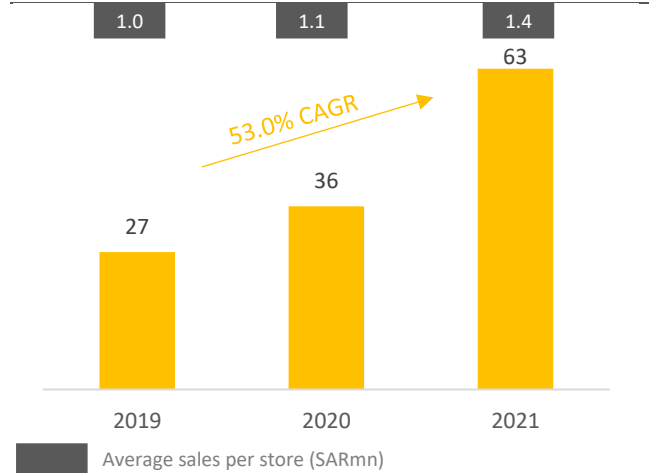
Dunkin' was founded in 1950, the company has more than 12,600 restaurants in 40 countries worldwide. It has traditionally offered various types of donuts but has expanded its offering to include coffee and other products recently rebranding from Dunkin' Donuts to Dunkin'. Alamar has operated Dunkin' brand since 2015 and is the master franchise in 2 markets. Since its founding, it has expanded operations across Egypt and Morocco with a footprint of 47 stores. The franchise renewal date is 2024 with 10-year extension rights.

Figure 14: Increase in footprint and expansion to new markets



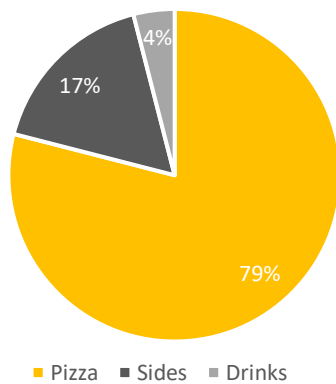
Source: Company data

Figure 15: Doubling revenue in 2 years



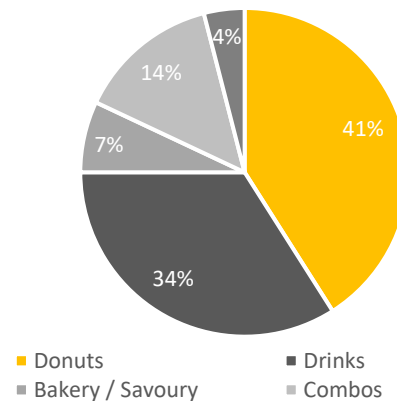
Source: Company data

Figure 16: Domino's revenue mix



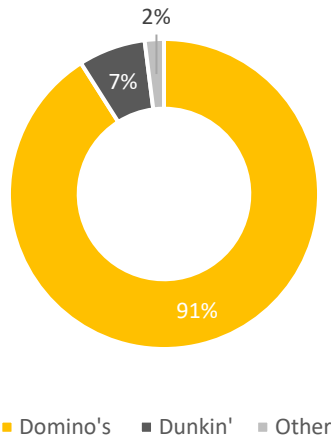
Source: Company data

Figure 17: Dunkin' revenue mix



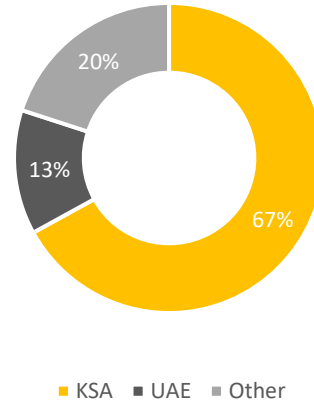
Source: Company data

Figure 18: Revenue product split 2021



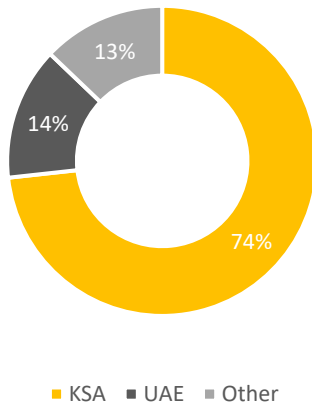
Source: Company data

Figure 19: Revenue geographic split 2021



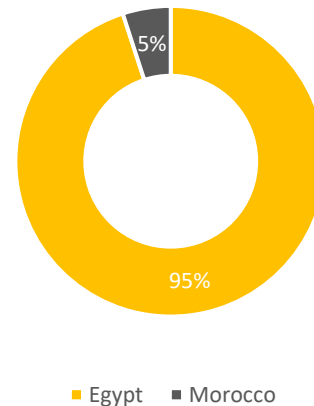
Source: Company data

Figure 20: Domino's revenue geographic split 2021



Source: Company data

Figure 21: Dunkin' revenue geographic split 2021



Source: Company data

Strategy

Growing established brands:

- Continuing to further grow Domino's well-established position across the region, whilst also increasing Dunkin' regional presence.
- Platform and proprietary technology ready to support and integrate expansion into new markets.

New markets:

- Proven capabilities of expanding Domino's and Dunkin' to new geographies.
- MFA rights to operate in several further markets – significant white space.
- New markets are chosen based on a favorable macro backdrop where new QSR operators can successfully compete with existing players and expand

New brands:

- Successfully integrated Dunkin' brand which launched in Egypt in 2015 and has grown from 2 stores to 43 stores. And recently opened the first Dunkin' store in Morocco in July of 2021.
- New brands selected on their ability to complement existing brands and potential to expand across a large footprint spanning several markets.

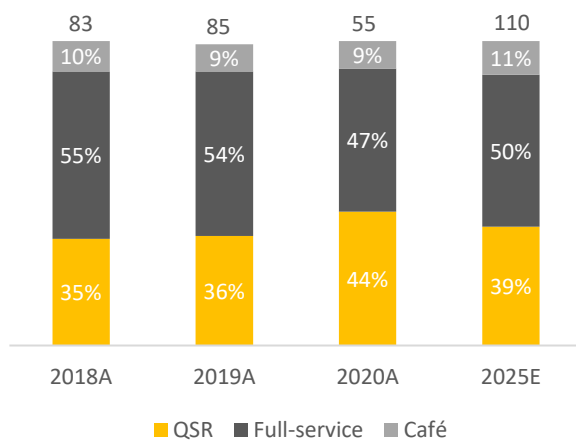
Sub-franchisee stores:

- Network of sub-franchised stores operating under the Domino's brand across Kuwait and Pakistan
- The Sub-franchised stores currently represent c.20% of the total store count

Market dynamics

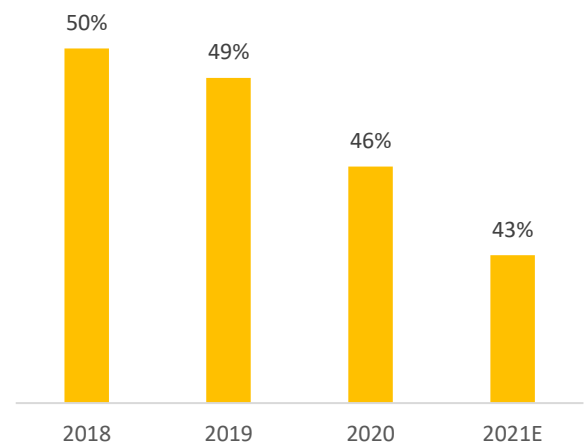
Following the COVID-19 pandemic, Quick Service Restaurants experienced a lot of growth as online delivery was consumers' preferred way to order food. In Saudi Arabia, restaurants were allowed to operate and deliver to customers during lockdowns, which supported the adoption of online delivery channels, positioning QSRs to gain the most. With the increase in disposable income, increased women's employment, favorable economic conditions and steady population growth, and a median age of 32 years, QSRs are favorably positioned to grow fast. QSRs were able to recover faster than FSR (full-service restaurants) after COVID. The market share of the FSR sector declined from 55% in 2018 to 47% in 2020 while QSRs have grown from 35% to 44% in the same period. Alamar has a 43% market share in the QSR pizza segment. In 2018, the company held 50% market share, but after Maestro Pizza entered the market with aggressive marketing and competitive pricing, Pizza Hut lost significant market share while Alamar was able to hold on to its leadership position. As per our understanding, Maestro Pizza holds a 29% market share in the QSR pizza segment currently.

Figure 22: KSA Foodservice market GMV (SARbn)



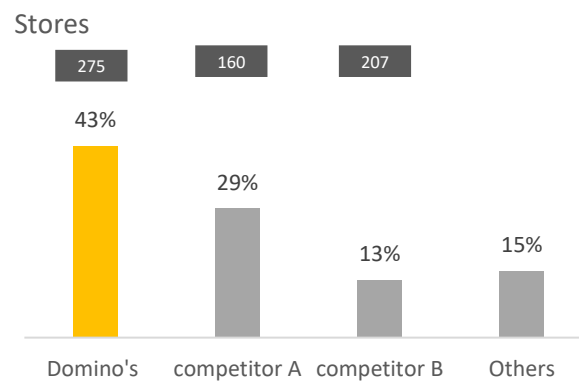
Source: Company data

Figure 23: Alamar market share in Pizzas in KSA



Source: Company data

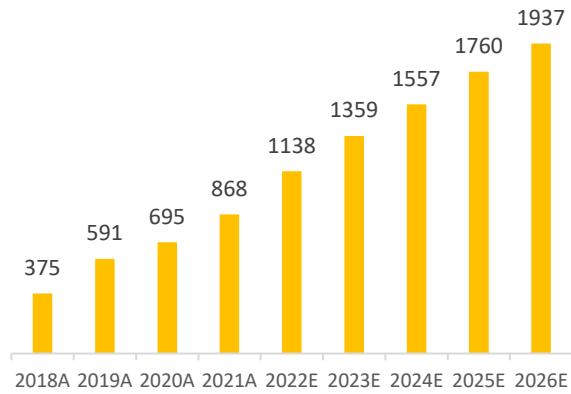
Figure 24: KSA QSR Market share



Source: Company data

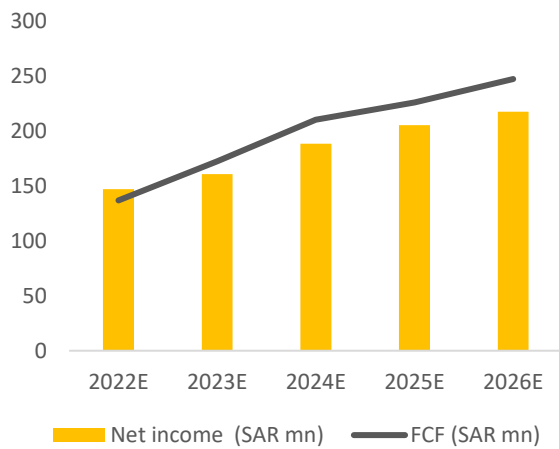
Financial analysis in charts

Figure 25: Annual revenues (SAR mn)



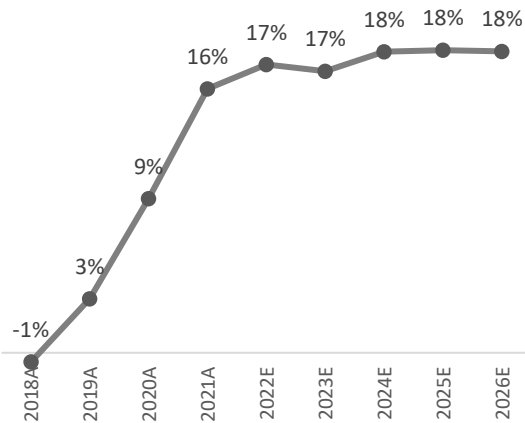
Source: Company data

Figure 27: Improving FCF and net income



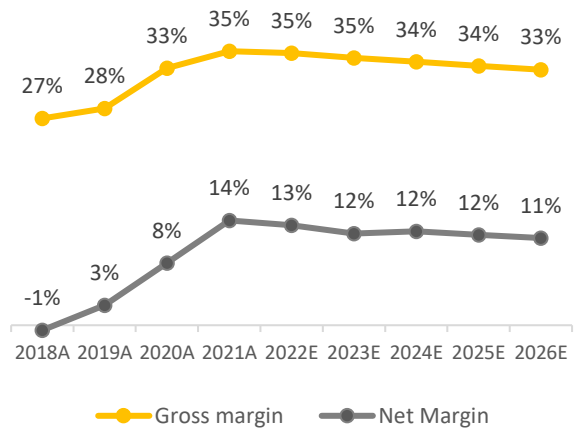
Source: Company data, GIB Capital

Figure 29: Return on assets



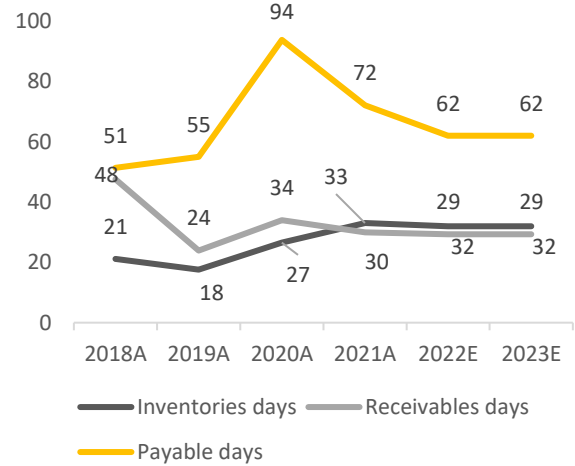
Source: Company data, GIB Capital

Figure 26: Annual gross and net margin



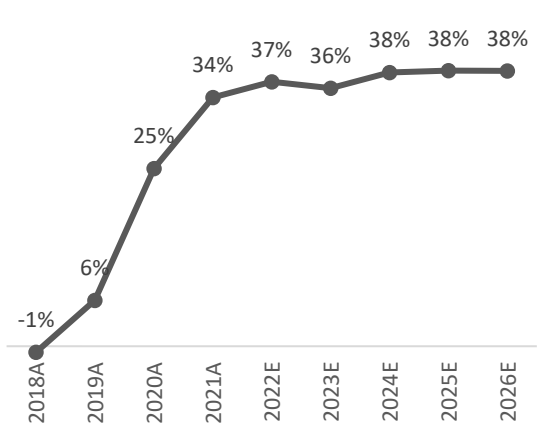
Source: Company data, GIB Capital

Figure 28: Inventory, receivables, and payable days



Source: Company data, GIB Capital

Figure 30: Return on equity



Source: Company data, GIB Capital

Figure 31: Local peers' metrics

Sales growth	2019a	2020a	2021a
Almarai	5%	7%	3%
Herfy	5%	-16%	22%
SADAFCO	0%	13%	2%
NACEC	6%	3%	-3%
Savola	2%	-2%	14%
Alamar	58%	18%	25%
Gross margin	2019a	2020a	2021a
Almarai	37%	36%	32%
Herfy	30%	23%	29%
SADAFCO	34%	36%	36%
NACEC	38%	32%	28%
Savola	20%	21%	18%
Alamar	28%	33%	35%
Net profit margin	2019a	2020a	2021a
Almarai	13%	13%	10%
Herfy	15%	5%	12%
SADAFCO	12%	13%	12%
NACEC	0%	2%	-13%
Savola	2%	4%	1%
Alamar	3%	8%	14%

Source: Company, GIB Capital

Financials

Figure 32: Summarized basic financial statements (SARmn)

Income statement	2020a	2021a	2022e	2023e
Revenue	695	868	1,138	1,359
revenue y/y	18%	25%	31%	19%
COGS	465	561	738	883
Gross Profit	231	307	400	469
Gross Profit margin	33%	35%	35%	35%
Sales & Marketing	64	85	115	143
G&A	93	96	120	147
Operating profit	82	143	184	199
Operating margin	12%	16%	16%	15%
Finance costs	(15)	(16)	(18)	(18)
Other income	12	19	19	20
PBT	62	130	165	181
Zakat/tax	(6)	(13)	(18)	(20)
Net income	56	117	147	161
Net margin	8%	14%	13%	12%
y/y	268%	110%	25%	9%
EPS	2.2	4.6	5.8	6.3
DPS	0.0	0.0	3.4	4.4
Payout	0%	0%	58%	70%
EBITDA	180	242	289	315
Net debt (w/o lease liabilities)	(124)	(186)	(227)	(276)
Net debt (w/ lease liabilities)	78	41	26	(1)
Balance Sheet	2020a	2021a	2022e	2023e
Inventories	34	51	65	77
Cash and cash equivalents	128	191	232	281
Trade receivables and other debtors	65	71	91	109
Total Current Assets	237	338	413	493
Property, plant and equipment	154	163	174	176
Right-of-use assets	188	212	236	257
Total Non-Current Assets	374	412	447	470
Total Assets	612	750	861	963
Current Liabilities	214	221	245	277
Non-current Liabilities	171	188	214	236
Equity	227	340	401	450
Total Equity and Liabilities	612	750	861	963
BVPS	24.0	29.4	33.7	37.8
Cashflow	2020a	2021a	2022e	2023e
Cashflow from Operations	194	193	261	297
Cashflow from Investing	-22	-49	-51	-46
Cashflow from Financing	-56	-76	-168	-202
Total Cashflows	115	68	42	49

Source: Company, GIB Capital

Figure 33: Key ratios

Key ratios	2020a	2021a	2022e	2023e
Profitability ratios				
RoA	9%	16%	17%	17%
RoE	25%	34%	37%	36%
Sales/Assets	114%	116%	132%	141%
Net margin	8%	14%	13%	12%
Liquidity ratios				
Current Assets/ Current Liabilities	1.1	1.5	1.7	1.8
Debt to Total Equity	2%	1%	1%	1%
Receivable Days	34	30	29	29
Inventory Days	27	33	32	32
Payable days	94	72	62	62
Cash conversion cycle	-33	-9	-1	-1
Debt ratios				
Net Debt/EBITDA	-0.7	-0.8	-0.8	-0.9
Debt/Assets	0	0	0	0
Valuation ratios				
P/E (x)	54.4	25.9	20.7	18.9
P/B (x)	5.0	4.1	3.5	3.2
EV/EBITDA (x)	16.9	12.6	10.5	9.7
Div. yield	0.0%	0.0%	2.8%	3.7%

Source: Company, GIB Capital

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