GIB CAPITAL جي آي بي كابيتال

Target Price: SAR155/share
Current Price: SAR152/share
Upside: 2% (+Div. Yield: 2.5%)
Rating: Neutral

Alamar Food Company (Alamar)

Trim TP to SAR155/share on higher competition

- We expect the company to report strong 2022 numbers in-line with IPO guidance.
- However, competition is increasing though Alamar's strong execution and business model may help to defend its market share.
- The stock reached our prior target price of SAR160/sh. (published in September 2022). Our revised target is SAR155/share (Neutral rating from OW prev.).

Expect good 4Q22: The company is likely to meet its (implied) earnings guidance for 2022 at the time of IPO, of around SAR145mn (before adjusting for ESOP costs which were not factored previously). ESOP costs were 13.4mn in 3Q22 and are likely to be around 3mn each quarter and likely to decline after the second vesting date in August 2023. 4Q core demand is likely to have been stronger with World cup happening in the end of the year.

Competition increasing: We notice that the competition is increasing again in the Pizza space in KSA. In the past, we had witnessed Maestro taking market share mainly from Pizza Hut, now we see that competition is heating up again with multiple promotional offers from existing players and new entrants such as Lorenzo, and Pizza Hut, now under Americana. However, Alamar continues to be having a solid footing being execution focused with a reputation for quality. While broadly input prices are stable, we noticed tomato prices increasing. The company is not passing on any increase in costs of raw material and is only focusing on volume growth. Own online deliveries are picking up well as per the management.

Valuation and risks: We revise our estimates slightly lower because of the competition. Based on our revised numbers, the company trades at ~22x P/E (2024e), 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	2021a	2022e	2023e	2024e
Revenue	868	1,158	1,311	1,455
Revenue growth	*25%*	*33%*	*13%*	*11%*
Gross Profit	307	386	423	487
Gross Profit margin	*35.4%*	*33.4%*	*32.3%*	*33.5%*
EBITDA	242	259	287	338
Op. income	143	153	164	204
Net profit	117	127	135	173
Net profit margin	*14%*	*11%*	*10%*	*12%*
EPS (SAR)	4.6	5.0	5.4	6.9
DPS (SAR)	0.0	3.3	3.8	5.1
P/E	33.0x	30.4x	28.3x	22.2x

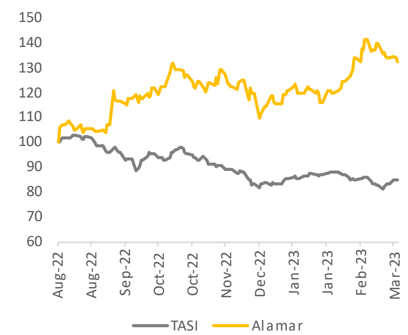
Source: Company, GIB Capital

Stock data

TASI Ticker	6014
Mkt cap (SARmn)	3,876
Trd. Val 3m (SARmn)	8.7
Free float	42.7%
QFI holding	7.3%
TASI FF weight	0.09%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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Lorenzo Pizza and Pizza Hut: Competition is picking up pace with some of the old Pizza Hut branches converted to Lorenzo Pizza (which might explain the fast expansion in a short time - 20 branches just in Riyadh – Figure 3). It appears as if the business model is similar to Domino's, with small box stores focusing on delivery and carryout. On the other hand, Pizza Hut follows the bigger box model with dine-in space. Pizza Hut also has been expanding (30 stores in 2H22). and taking up some of Hardee's spaces. Americana is planning to scale up expansion, but Domino's continues to have lowest prices in the space in Saudi.

Figure 2: price comparison

Pizza type	Domino's pizza	Lorenzo pizza	Maestro pizza	Pizza Hut
Pepperoni Large	SAR35	SAR35	SAR36	SAR39
Deluxe Large	SAR35	SAR35	SAR36	SAR39

Source: Companies' menu

Figure 3: Lorenzo pizza stores in Riyadh, Feb2023

Source: Google maps

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We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/-10%, we have a Neutral rating.

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