

Tear Sheet:

Almarai Co.

August 14, 2023

S&P Global Ratings expects Almarai Co.'s revenue and profitability growth to continue as prices increase and inflation eases. The company's revenue increased by 8% in the first half of 2023, supported by price increases of 6% and improved volume growth and product mix. Almarai's EBITDA margin over the 12 months to June 30, 2023, improved to 23.3% from 22% in 2022, due to the stabilization of key dairy and feed commodities and strong overhead cost controls. Tourism to Saudi Arabia has been robust on the back of strong government support, and consumer preferences are increasingly focused on convenience, supporting the growth of on-the-go consumption. We anticipate full-year revenue growth of about 5%, driven primarily by expanding volume rather than prices. We expect the company's EBITDA margin to stabilize at about 21%-23% over the next 12-24 months, given easing commodity prices.

We expect Almarai's liquidity to remain adequate, which we view positively after it issued sukuk of \$750 million in July 2023. Debt maturities due in the next 12 months from June 30, 2023, are Saudi riyal (SAR) 3.6 billion, with a further SAR1.9 billion in the next 24 months. These will be covered by Almarai's recent sukuk issuance and internally generated cash. Almarai's liquidity profile remains adequate, considering the company's large undrawn committed lines of SAR1.8 billion and flexibility on capital expenditure (capex). In addition, Almarai benefits from its sound relationships with local and international banks, and prudent risk management.

Almarai's large capex plans will lead to low or negative free operating cash flow (FOCF). We understand that the group plans to spend about SAR6.6 billion over the next five years. This includes SAR5.0 billion-SAR5.2 billion over the next 12-24 months (including replacement capex), focused on poultry, red meat, and seafood. The planned capex will put pressure on the company's FOCF, but we believe Almarai is committed to maintaining the current rating. We expect the company to be selective regarding any mergers and acquisitions (M&A), and anticipate that its shareholder remuneration policy will remain stable.

Primary contact

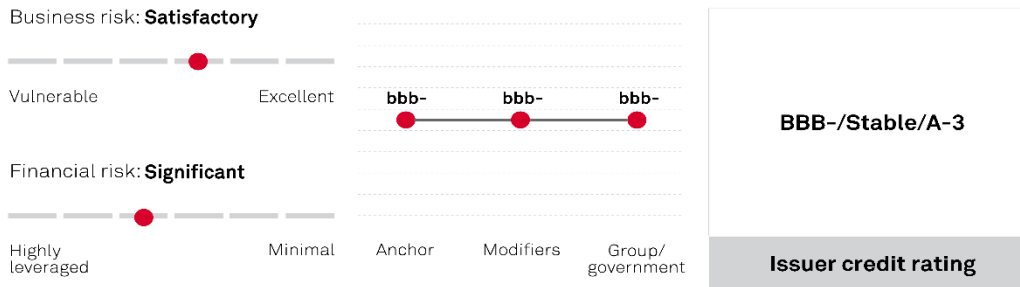
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Ratings Score Snapshot

Almarai Co.



Recent Research

- Almarai Sukuk Ltd.'s \$2 Billion Program Affirmed At 'BBB-' On Update Of Terms And Conditions, July 17, 2023
- Research Update: Saudi Arabia-Based Food And Beverage Company Almarai Affirmed At 'BBB-/A-3' On Solid Performance In 2022, March 7, 2023

Company Description

Founded in 1977 and headquartered in Riyadh, Saudi Arabia, Almarai is a food and beverages manufacturer, with revenue of SAR18.7 billion and a reported EBITDA of SAR4.0 billion in 2022. It achieved SAR9.9 billion in revenue and SAR2.7 billion in reported EBITDA in the first half of 2023.

The company operates mostly in Saudi Arabia, which accounted for 68% of revenue in first-half 2023. Other Gulf Cooperation Council (GCC) countries represented 20% of revenue, and it also has operations in Egypt and Jordan.

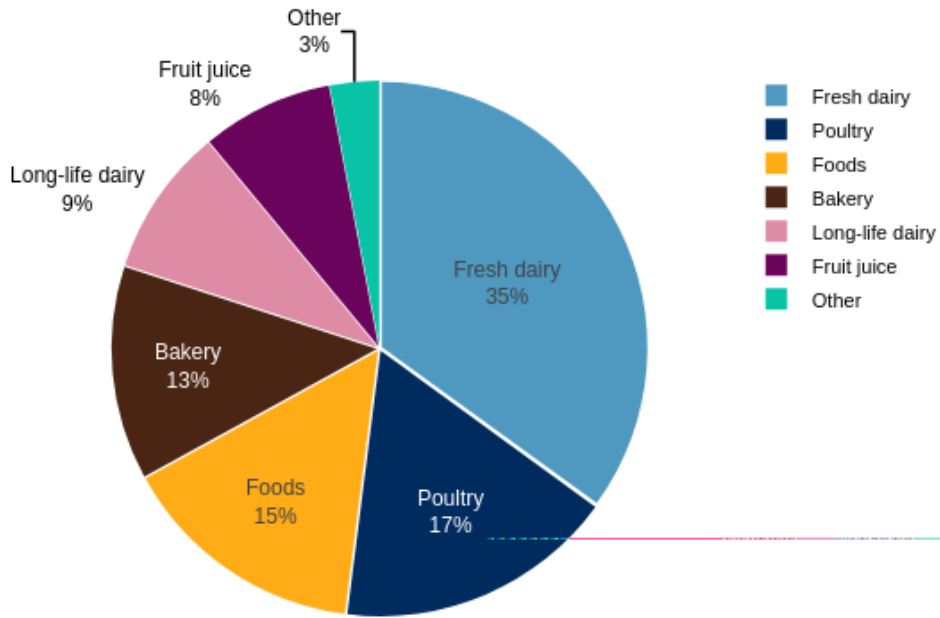
Almarai has been listed on the Tadawul since 2005, and its biggest shareholders include SAVOLA Group Co. (34.5%), His Highness Prince Sultan bin Mohammed bin Saud Al Kabeer and a related entity (23.7%), and more recently Saudi Agricultural and Livestock Investment Co. (SALIC, 16.3%), after the Public Investment Fund (PIF) transferred its shares to SALIC. We understand that the transfer aims to leverage synergies within the PIF's food and agriculture portfolio and enable SALIC to stimulate growth in the sector, and that it will not affect Almarai's strategy.

Almarai's main product segments are:

- Dairy food and beverages (59% of revenue in first-half 2023);
- Poultry (17%);
- Bakery (13%);
- Fruit juices (8%); and
- Others (3%).

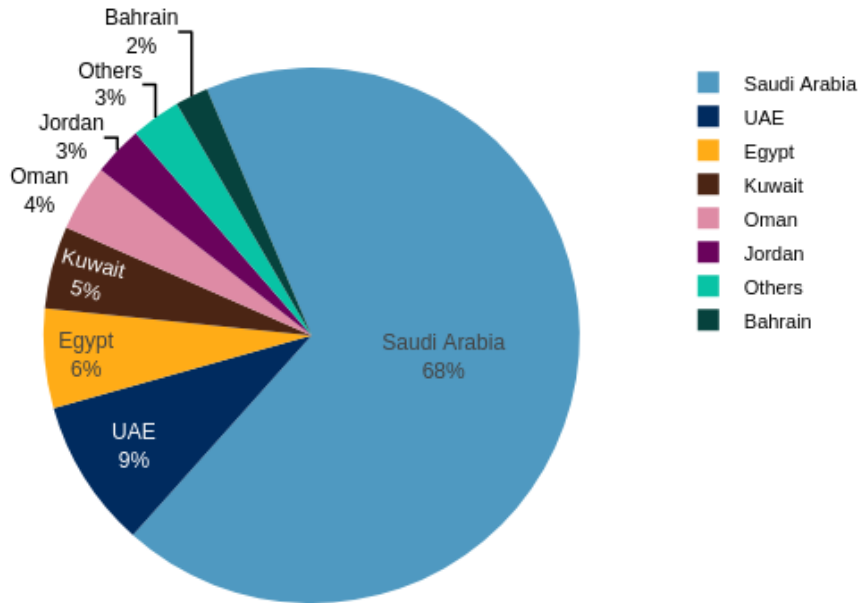
Other businesses include International Dairy and Juice Ltd., which is related to milk and juices in Egypt and Jordan under the Teeba and Beyti brands. Almarai also has a small infant nutrition business under the brand Nuralac.

Almarai Co. revenue by product, H1 2023



Source: Company reports. H1--First half

Almarai Co. revenue by country, H1 2023



Source: Company reports. H1--First half. UAE--United Arab Emirates.

Outlook

The stable outlook indicates that, over the next two years, we expect Almarai's operating performance to improve marginally, despite negative external factors, such as commodity cost pressures, rising interest rates, and lower consumer purchasing power. We believe Almarai's revenue will benefit from the company's ability to increase prices, generate higher earnings from poultry as capacity increases, make changes to its product and channel mix, and realize cost savings. We anticipate that Almarai can maintain funds from operations (FFO) to debt of 26%-32% and adjusted debt to EBITDA of 2.6x-3.1x, in line with the rating, after recording 35.1% and 2.4x on Jun. 30, 2023.

Downside scenario

We could consider a downgrade if, over the next two years:

- We see heightened cost pressures resulting in a sharper decline of Almarai's EBITDA margin than we currently expect, which would weigh on FOCF and increase debt. This could stem from a loss of market share in key categories like dairy due to competitors' aggressive pricing, as well as inability to control operating costs; or
- The company undertakes large debt-financed acquisitions to offset potential low revenue growth, with FFO to debt declining to 20% and adjusted debt to EBITDA rising to 4.0x or higher.

Upside scenario

We could take a positive rating action over the next 12-24 months if Almarai substantially increases its EBITDA and FOCF through a combination of solid earnings growth in its largest segments, successful expansion into sizable new geographic markets, and successful working capital and capex management, such that:

- The company generates meaningfully positive FOCF with no expectation of significant future debt-funded acquisitions;
- Reduces leverage and maintains FFO to adjusted debt at about 35%, while adjusted debt to EBITDA stays well below 3x; and
- Adheres to a consistent financial policy regarding M&A and shareholder remuneration that is compatible with a higher rating.

Key Metrics

Almarai Co.--Key Metrics*

Mil. SAR	2021a	2022a	RTM Jun. 2023a	2023e	2024f
Revenue	15,850	18,722	19,467	19,000-20,000	20,000-21,000
EBITDA	3,588	4,115	4,537	4,000-4,500	4,000-4,500
EBITDA margin (%)	22.6	22.0	23.3	21-23	21-23
Debt to EBITDA (x)	2.9	2.5	2.4	2.8-3.1	2.9-3.3
FFO to debt (%)	30.7	32.2	35.1	26-30	25-29
FOCF to debt (%)	22.8	11.2	16.4	(4)-5	0-10

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. RTM – Rolling 12 months. FFO--Funds from operations. FOCF--Free operating cash flow. SAR--Saudi riyal.

Financial Summary

Almarai Company--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	SAR	SAR	SAR	SAR	SAR	SAR
Revenues	13,936	13,723	14,351	15,357	15,850	18,722
EBITDA	4,289	4,296	4,151	4,111	3,588	4,115
Funds from operations (FFO)	3,714	3,766	3,607	3,559	3,197	3,339
Interest expense	518	495	633	514	396	469
Cash interest paid	563	507	525	468	357	445
Operating cash flow (OCF)	3,567	2,496	3,578	3,091	3,736	2,495
Capital expenditure	2,850	1,959	1,775	1,089	1,364	1,334

Almarai Company--Financial Summary

Free operating cash flow (FOCF)	717	537	1,803	2,002	2,372	1,161
Discretionary cash flow (DCF)	(76)	(434)	638	904	1,244	(69)
Cash and short-term investments	1,892	1,183	1,148	504	628	563
Gross available cash	1,892	1,183	1,148	504	628	563
Debt	13,480	13,442	13,179	12,032	10,418	10,381
Common equity	13,181	14,516	15,259	16,234	16,618	16,983
Adjusted ratios						
EBITDA margin (%)	30.8	31.3	28.9	26.8	22.6	22.0
Return on capital (%)	8.7	7.7	7.0	7.1	5.3	6.3
EBITDA interest coverage (x)	8.3	8.7	6.6	8.0	9.1	8.8
FFO cash interest coverage (x)	7.6	8.4	7.9	8.6	10.0	8.5
Debt/EBITDA (x)	3.1	3.1	3.2	2.9	2.9	2.5
FFO/debt (%)	27.6	28.0	27.4	29.6	30.7	32.2
OCF/debt (%)	26.5	18.6	27.1	25.7	35.9	24.0
FOCF/debt (%)	5.3	4.0	13.7	16.6	22.8	11.2
DCF/debt (%)	(0.6)	(3.2)	4.8	7.5	11.9	(0.7)

Peer Comparison**Almarai Company--Peer Comparisons**

	Almarai Co.	Danone	China Mengniu Dairy Co. Ltd.	Nomad Foods Ltd.
Foreign currency issuer credit rating	BBB-/Stable/A-3	BBB+/Stable/A-2	BBB+/Stable/--	BB-/Stable/--
Local currency issuer credit rating	BBB-/Stable/A-3	BBB+/Stable/A-2	BBB+/Stable/--	BB-/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	SAR	SAR	SAR	SAR
Revenue	18,722	111,095	52,136	11,807
EBITDA	4,115	16,282	6,465	1,919
Funds from operations (FFO)	3,339	12,752	5,126	1,354
Interest	469	1,381	831	343
Cash interest paid	445	654	821	244
Operating cash flow (OCF)	2,495	11,860	5,987	979
Capital expenditure	1,334	3,506	4,994	318
Free operating cash flow (FOCF)	1,161	8,354	993	661
Discretionary cash flow (DCF)	(69)	3,105	(23)	542
Cash and short-term investments	563	18,804	9,893	1,363
Gross available cash	563	18,804	19,739	1,363
Debt	10,381	45,854	12,875	7,837

Almarai Company--Peer Comparisons

Equity	16,983	69,747	28,918	10,467
EBITDA margin (%)	22.0	14.7	12.4	16.3
Return on capital (%)	6.3	10.8	14.1	8.3
EBITDA interest coverage (x)	8.8	11.8	7.8	5.6
FFO cash interest coverage (x)	8.5	20.5	7.2	6.6
Debt/EBITDA (x)	2.5	2.8	2.0	4.1
FFO/debt (%)	32.2	27.8	39.8	17.3
OCF/debt (%)	24.0	25.9	46.5	12.5
FOCF/debt (%)	11.2	18.2	7.7	8.4
DCF/debt (%)	(0.7)	6.8	(0.2)	6.9

Environmental, Social, And Governance

Environmental, social, and governance (ESG) factors have no material influence on our credit rating analysis of Almarai. We view ESG credit factors for Almarai as broadly in line with those of food and beverage industry peers. In our view, the main ESG risks include food health and safety, plastic packaging waste, water scarcity, and greenhouse gas emissions (GHG).

Large dairy activities in Saudi Arabia expose Almarai to environmental risks like carbon dioxide (CO₂) and GHG emissions, and water scarcity. Its three main 2025 goals are to increase water efficiency by 15%, decrease energy consumption by 15%, and decrease waste to landfill by 50%. The company's main contributors to CO₂ and GHG emissions are its large transportation fleet and herd of 80,000 dairy cows. Positively, we note that the group is investing in solar energy and expects to derive 10% of its electricity consumption in Saudi Arabia from this source, compared to an average of 3.7% for the GCC in 2022. Almarai also mitigates water use in Saudi Arabia by importing 100% of its alfalfa supplies for its dairy cows from other countries.

In our view, social risks include food safety. Deficient product quality controls can have an immediate, high impact on consumer demand and can tarnish a brand in a country. Consumers and governments are also pushing for healthier product reformulations that include lower intakes of sugar or fat content. The move to healthier products is ongoing, and Almarai's products are already free of artificial colors and trans fats. Furthermore, governments could enforce more stringent recycling rules for packaging waste, which would mean higher operating costs if Almarai had to pay to collect and recycle waste.

We assess Almarai's management and governance as satisfactory, reflecting the consistency of its business strategy and its ability to adapt to changing market conditions. We also assess that the board maintains sufficient independence from management to provide effective oversight of its actions. That said, we note that independent directors constitute only one-third of the company's board members.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/A-3
Business risk	Satisfactory
Country risk	Moderately High
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-
Likelihood of government support	Low (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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