Equity Research report
ALAMAR AB Equity
2 December 2024

Target Price: SAR 87/share
Current Price: SAR 75.1/share
Upside: 16% (+Div. Yield: 2.6%)
Rating: Overweight

Alamar Food Company (Alamar)

Recovery lingering further than anticipated, Revise TP

- Geopolitical challenges handcuffing expansion targets in 2024 with a modest 2% y/y increase in new stores opened in 3Q24.
- Growth is likely to resume in 2025, aided by a recovery in sales from a lower base, higher store roll-out, and margin expansion on better efficiency.
- Post revision in our estimates and rolling forward our valuation, we lower our TP to SAR 87/share, but maintain an Overweight rating due to the recent price decline.

3Q24 results: Alamar sales fell 13% y/y to SAR229mn, slightly missing our estimates of SAR233mn. This declined was mainly because of i) the ongoing regional geopolitical situation, ii) lower-than-expected store expansions (1 new store vs. 7 estimated), and iii) marginal currency devaluation in Egypt (contained with 88% of revenue from US$-pegged currency). However, some of these challenges were offset by a recovery in a few regional markets, driven by targeted marketing initiatives. Further, gross profit fell 16.4% y/y to SAR67mn, missing our estimate of SAR 74mn, primarily due to higher direct costs and increased non-material-related expenses. Nonetheless, the company witnessed an improvement in operational efficiency due to the management's efforts to create a more agile cost structure and better balance between variable and fixed costs. This was further supported by the contribution of non-recurring items. As a result, net profit declined at a slower pace of 6.1% y/y to SAR19mn (beating our estimate of SAR16mn), with a net margin of 8.4% (+0.62ppt y/y).

Performance still under pressure: Alamar's revenue recovery has been slower than anticipated, with Domino's witnessing an 11% y/y drop and Dunkin' facing a more severe 41% y/y drop in 3Q24. However, according to the company, Domino's is showing early signs of recovery in Oman, while performance in KSA (-4% y/y) and the UAE has remained mostly stable. In contrast, markets in Kuwait, Qatar, Bahrain, and Jordan continue to be heavily impacted. The North African region, with a decline of 26% y/y, has faced even greater hurdles, further impacted by currency devaluation and broader macroeconomic challenges, specifically in Egypt, which have weighed on performance and placed significant obstacles to its expansion strategy.

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e	2026e
Revenue	1,076	992	895	972	1,116
Revenue growth	*24%*	*-8%*	*-10%*	*9%*	*15%*
Gross Profit	362	293	255	293	355
Gross Profit margin	*34%*	*30%*	*29%*	*30%*	*32%*
EBITDA*	268	201	155	185	236
*EBITDA margin**	*25%*	*20%*	*17%*	*19%*	*21%*
Net profit	115	57	29	53	91
Net profit margin	*11%*	*6%*	*3%*	*5%*	*8%*
EPS (SAR)	4.5	2.3	1.3	2.2	3.8
DPS	3.4	2.1	1.9	2.0	2.7
P/E	16.6x	33.0x	59.3x	34.5x	19.9x

*Source: Company, GIB Capital *Adjusted IFRS 16*

Stock data	
TASI ticker	6014
Mcap (SARmn)	1,915
Trd. Val (3m) (SARmn)	4.8
Free float	42.1%
QFI holding	6.4%
TASI FF weight	0.04%

Source: Bloomberg

Alamar vs TASI indexed to 100

Source: Bloomberg

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Geopolitical challenges handcuffing expansion targets in the near term: By the end of 3Q24, Alamar's corporate store count reached 526, reflecting a muted 2% y/y increase with 13 new stores added YTD (10 for Domino's and 3 for Dunkin). In contrast, no new non-corporate (sub-franchises) stores were opened during the same period. Going forward, we expect Alamar to open 3 new stores in 4Q24e (all Domino's) across KSA and the UAE, from a pipeline of 17 secured locations in these markets for 2H24. Meanwhile, we expect the company to meet its planned expansion targets by 1H25e. Additionally, Alamar is progressing with a store relocation plan (30 stores) in Saudi Arabia, with 3 stores successfully relocated in 3Q24. However, geopolitical uncertainties have led to delays in expansion plans for non-corporate stores in Pakistan, Kuwait, and Oman. Despite these challenges, management has expressed optimism about resuming expansion efforts with local partners in Pakistan.

Leveraging aggregators amid intensifying competition in KSA: Alamar's partnership with 9 aggregators has significantly boosted its digital delivery sales, accounting for ~30%-35% of total sales and ~50% of digital revenue. This strategic move, in response to shifting consumer behavior, has also helped drive a higher average transaction price (ATP) in KSA on a q/q basis throughout 2024. However, Alamar faces increasing competition in the Saudi QSR market. While Domino's maintains a strong competitive position, particularly in the delivery and digital engagement space, it faces challenges from the rise of fast-casual and delivery-only brands, including cloud kitchens. These new entrants, operating with minimal overhead and leveraging efficient delivery models, can offer competitive pricing and greater flexibility, intensifying pressure on traditional brands like Domino's to sustain growth and profitability.

2025e & beyond: Looking ahead, we project a conservative 8.6% CAGR growth in the opening of new corporate stores between 2025-27e, compared to management's guidance of 11-13% CAGR. This cautious forecast considers current market conditions and anticipates new store openings gaining momentum next year as the effects of the boycott diminish. Additionally, we expect only a moderate recovery in revenue per corporate store, with a ~4% CAGR during 2025-27e, within the management's guidance range of 3-5%. This recovery will be driven by i) strategic marketing efforts, ii) the full adoption of third-party delivery services in KSA—resulting in shorter delivery times— improved driver tracking systems, and iii) the rollout of a more efficient rewards program featuring instant cashback via an E-wallet, replacing the previous deferred rewards system. These measures, combined with higher ATP observed in Saudi Arabia compared to offline channels, are expected to underpin this recovery.

Regarding the margin outlook, the adjusted EBITDA margin declined to 20% in 2023 from 25% in 2020. We forecast a further decline to 17% in 2024. However, with the likely easing the boycott impact, lower raw material prices, the limited Egyptian pound devaluation impact, coupled with ongoing cost optimization strategies, we foresee margin recovery starting in 2025e. We project an average adjusted EBITDA margin of ~21% during 2025-27e, aligning with management's guidance range of 19%-21% for the same period.

Figure 2: Management guidance vs GIBC estimate

	2024e		2025-27e	
	Guidance	GIBCe	Guidance	GIBCe
Sales per store growth%*	-4%	-13%	3-5%	4%
Corporate store count growth%	4%	1%	11-13%	8.6%
Organic capex % of sales	4%	3.3%	5-6%	5.9%#
Dividend Payout ratio	94%	166%	70-80%	82%#

*Source: Company data, GIB Capital, *corporate store (own,)#Average 2025-27e*

Upside catalyst: Alamar is progressing toward expanding its portfolio through two M&A deals. targeting one local GCC brand and one international brand, with further details expected to be disclosed by 1Q25e. This could further enhance and diversify Alamar's portfolio/revenue mix and provide additional growth opportunities in the MENA region and beyond.

Valuation and risks: We value Alamar using a discounted cash flow approach, applying a WACC of 9%, and arrive at a 1-year forward target price of SAR 87/share (SAR 134.8/share earlier), leading us to maintain our “Overweight” rating with an upside potential of 16%, given the recent drop in market prices. We believe the current market price has already factored in negative factors, resulting in a limited downside risk. Key downside risks include heightened competition, rising raw material costs, shifts in consumer preferences, increased pressure on consumer spending, disruptions to expansion plans, geopolitical instability, and currency fluctuations.

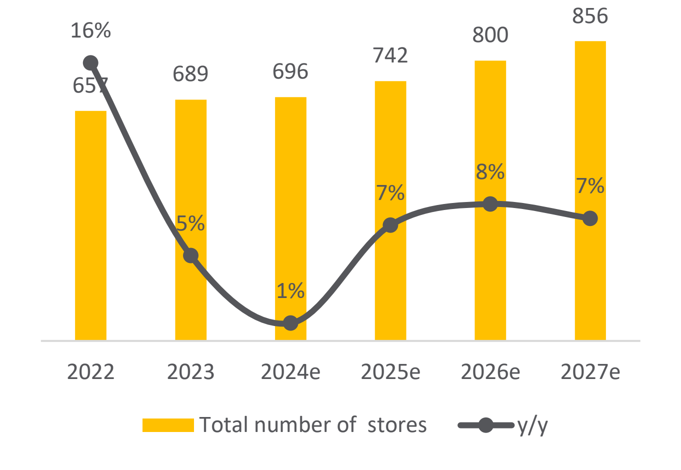
Figure 3: 3Q24 results summary

SARmn	3Q24	3Q23	y/y %	2Q24	q/q %	GIBCe	Variance %
Revenues	**229**	**264**	**-13.1%**	**226**	**1.1%**	**233**	**-1.8%**
Cost of sales	162	184	-11.7%	158	3.1%	159	1.9%
Gross profit	**67**	**80**	**-16.5%**	**69**	**-3.3%**	**74**	**-9.9%**
Opex	45	54	-17.4%	50	-10.9%	52	-13.8%
Operating profit	**22**	**26**	**-14.6%**	**19**	**16.7%**	**22**	**-0.7%**
Net income	**19**	**20**	**-6.1%**	**13**	**48.6%**	**16**	**21.3%**
Margins							
Gross margin	29.1%	30.2%	-1.16ppt	30.4%	-1.34ppt	31.7%	-2.59ppt
Operating margin	9.6%	9.8%	-0.16ppt	8.3%	1.28ppt	9.5%	0.11ppt
Net margin	8.4%	7.7%	0.62ppt	5.7%	2.67ppt	6.8%	1.59ppt

Source: Company data, GIB Capital

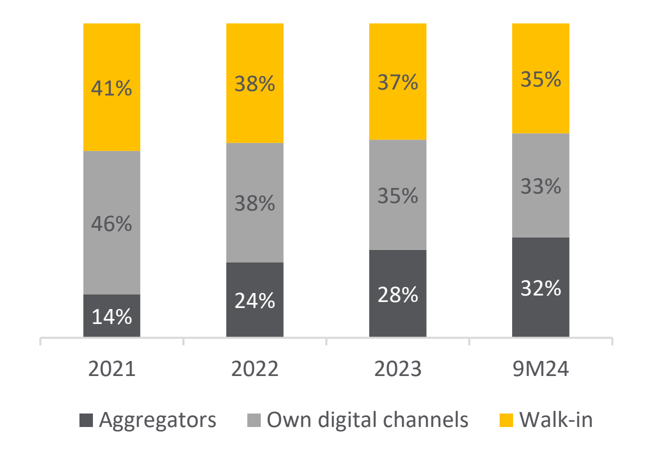
Financial analysis in charts

Figure 4: Total number of stores



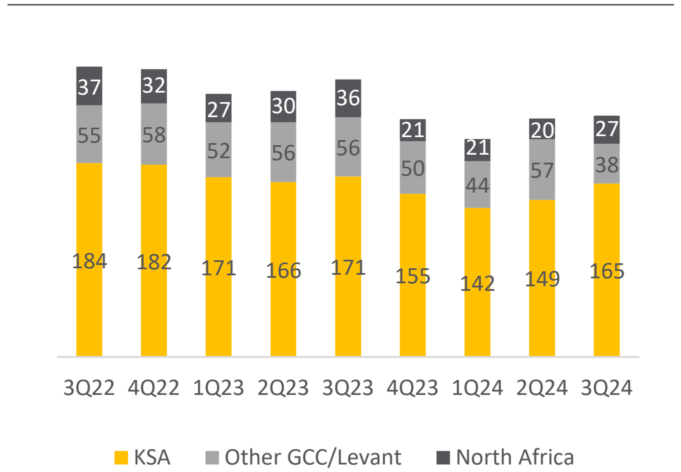
Source: Company data, GIB Capital

Figure 5: Revenue mix by service method %



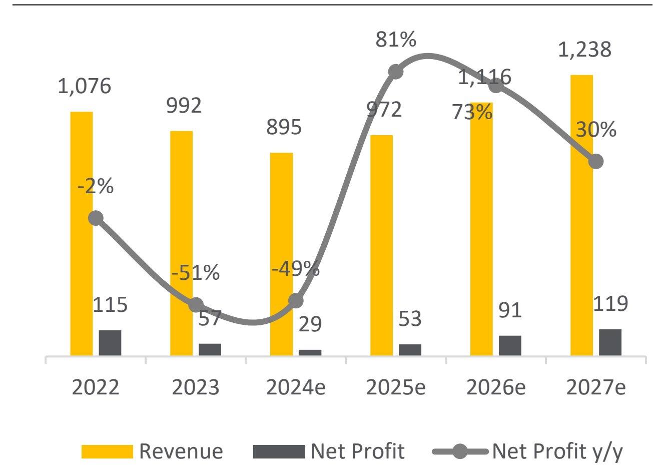
Source: Company data, GIB Capital

Figure 6: Revenue mix by geography (SARmn)



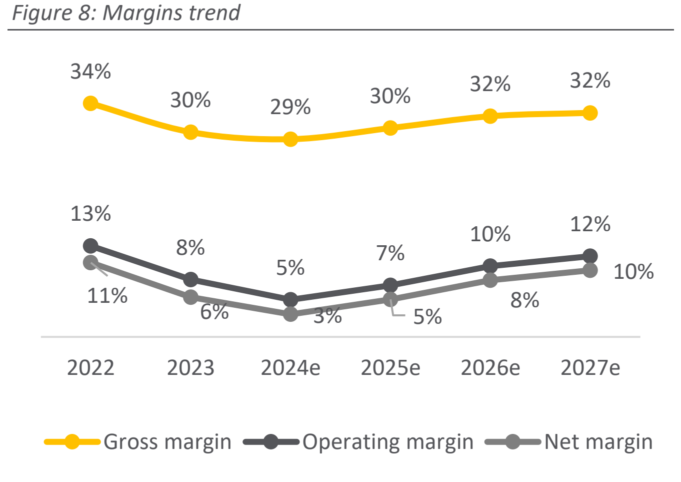
Source: Company data, GIB Capital

Figure 7: Financial Performance trend (SARmn)



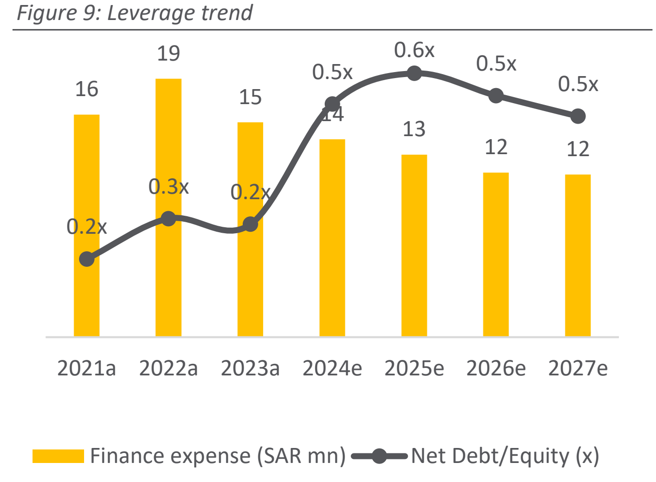
Source: Company data, GIB Capital

Figure 8: Margins trend



Source: Company data, GIB Capital

Figure 9: Leverage trend



Source: Company data, GIB Capital

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Financials

Figure 10: Summarized basic financial statements (SARmn)

Income statement	2022a	2023a	2024e	2025e	2026e
Revenue	**1,076**	**992**	**895**	**972**	**1,116**
revenue y/y	*24%*	*-8%*	*-10%*	*9%*	*15%*
COGS	714	699	640	679	760
Gross Profit	**362**	**293**	**255**	**293**	**355**
Gross Profit margin	*34%*	*30%*	*29%*	*30%*	*32%*
Selling and Marketing Expense	112	125	131	136	145
General and Administrative Expenses	115	95	94	99	112
Operating profit	**141**	**82**	**48**	**73**	**114**
Operating margin	*13%*	*8%*	*5%*	*7%*	*10%*
Finance costs	(19)	(15)	(14)	(13)	(12)
Other income	22	16	15	17	18
PBT	**124**	**70**	**35**	**59**	**101**
Zakat/tax	(8)	(13)	(6)	(6)	(10)
Net income	**115**	**57**	**29**	**53**	**91**
Net margin	*11%*	*6%*	*3%*	*5%*	*8%*
y/y	*-2%*	*-51%*	*-49%*	*81%*	*73%*
EPS	**4.5**	**2.3**	**1.3**	**2.2**	**3.8**
DPS	3.4	2.1	1.9	2.0	2.7
Payout	75%	92%	150%	92%	71%
EBITDA	**268**	**201**	**155**	**185**	**236**

Balance Sheet	2022a	2023a	2024e	2025e	2026e
Inventories	85	80	74	78	88
Cash and cash equivalents	162	150	99	82	79
Trade receivables and other debtors	82	80	98	107	122
Total Current Assets	**332**	**314**	**274**	**271**	**292**
Property, plant and equipment	181	183	176	198	223
Right-of-use assets	209	176	178	190	205
Total Non-Current Assets	**430**	**405**	**394**	**421**	**455**
Total Assets	**761**	**719**	**668**	**692**	**747**
Current Liabilities	228	235	220	231	252
Non-current Liabilities	199	163	149	160	172
Equity	335	323	305	309	337
Total Equity and Liabilities	**761**	**719**	**668**	**692**	**747**
BVPS	13.1	12.7	12.0	12.1	13.2

Cashflow	2022a	2023a	2024e	2025e	2026e
Cashflow from Operations	229	190	136	178	220
Cashflow from Investing	-74	-57	-29	-58	-66
Cashflow from Financing	-175	-145	-157	-136	-157
Total Cashflows	**-20**	**-11**	**-51**	**-17**	**-3**

Source: Company data, GIB Capital

Figure 11: Key ratios

Key ratios	2022a	2023a	2024e	2025e	2026e
Profitability ratios					
RoA	15%	8%	4%	8%	12%
RoE	34%	18%	10%	17%	27%
Sales/Assets	141%	138%	134%	141%	149%
Net margin	11%	6%	3%	5%	8%
Liquidity ratios					
Current Assets/ Current Liabilities	1.5	1.3	1.2	1.2	1.2
Debt to Total Equity	1%	2%	2%	2%	2%
Receivable Days	28	29	40	40	40
Inventory Days	43	42	42	42	42
Payable days	64	67	67	67	67
Cash conversion cycle	7	4	15	15	15
Debt ratios					
Net Debt/EBITDA	0.3	0.2	0.5	0.6	0.5
Debt/Assets	34%	31%	30%	28%	26%
Valuation ratios					
P/E	16.6	33.0	59.3	34.5	19.9
P/B	5.7	5.9	6.3	6.2	5.7
EV/EBITDA	11.4	15.1	19.7	16.4	12.9
Dividend Yield	4.5%	2.8%	2.5%	2.7%	3.6%

Source: Company data, GIB Capital

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