Target Price: SAR75.5/share
Current Price: SAR60.4/share
Upside: 25% (+Div. Yield: +5.5%)
Rating: Overweight

First Milling Company (FMC)

Favorable growth prospects despite subsidy concerns

Stock data	
TASI ticker	2283
Mcap (SARmn)	3,352
Avg. Trd. Val (3m) (SARmn)	6.4
Free float	41.9%
QFI holding	2.7%
TASI FF weight	0.04%

Source: Bloomberg

Prices indexed to 100

Source: Bloomberg

- Revenue to grow at a healthy rate of 5% CAGR over 2024-27e, supported by capacity expansion and a marginal improvement in avg selling prices.
- The outlook remains intact, backed by robust local demand and export approval. The recent price correction, amid subsidy concerns, offers a compelling buying opportunity.
- We revise our TP to SAR75.5/sh (SAR84/sh earlier) using both DCF and P/E (15x on 2025e EPS; multiple revised from 18x to 15x to reflect current market sentiment) valuations, indicating an upside of 25% with an Overweight rating on the stock.

Largely in-line 4Q24 result: 4Q24 revenue increased by 9% y/y, largely in line with GIBC estimates (+3.6% deviation) and consensus (+4.2% deviation). This growth was driven by all key categories—flour (+5.2%), feed (+13.2%), and bran (+17%). Subsequently, gross profit rose by 13.4% y/y, supported by revenue growth and margin expansion (44.1% vs. 42.4% in 4Q23 vs. GIBCe: 43.2%), largely driven by lower feed raw material costs. However, operating profit grew at a slightly slower pace (+11.5% y/y) due to higher-than-anticipated OPEX (SAR 36mn vs. GIBCe: SAR 33mn). Overall, net profit increased by 15.5% y/y (+8.3% q/q) to SAR66mn, slightly exceeding our earnings estimate of SAR62mn.

Strong local demand and optimum capacity utilization: As of 1Q25, FMC's wheat milling capacity stands at 5,150 tons/day, reflecting a 21.5% increase over 2023 levels, due to the upgradation of Mill C in 4Q23 (+250 tons/day) and the expansion of Mill A (+250 tons/day) in 4Q24. Notably, instead of upgrading Mill B at the Jeddah plant—which was originally expected to add 100 tons/day—FMC's board approved the addition of a new production line with a capacity of 600 tons/day at the Qassim facility. This expansion will increase Qassim's total production capacity from the current 900 to 1,500 tons/day, a 66% increase, with commercial operations expected to begin in 2Q26. Given the flour industry's projected demand growth of ~4.2% CAGR over 2023-30e, FMC is well-positioned to fully utilize its expanded capacity. As a result, we project overall sales volume to grow at a CAGR of 4.6% over 2024–27e, resulting into a top-line growth of 5% over 2024-27e (+6.5% earlier), supported by capacity expansion and marginal growth in prices (~1% CAGR). Further, gross margin is expected to improve marginally from 43.5% in 2024 (43.3% in 2025e) to ~44% by 2027e, resulting in earning growth of 7.4% CAGR over 2024-27e (+11% earlier).

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e	2027e
Revenue	964	1,049	1,086	1,172	1,213
Revenue growth	*6%*	*9%*	*3%*	*8%*	*3%*
Gross Profit	413	456	470	511	529
Gross Profit margin	42.8%	43.5%	43.3%	43.6%	43.7%
Op. income	287	319	327	357	370
Net profit	220	251	263	298	311
Net profit margin	*22.8%*	*23.9%*	*24.2%*	*25.4%*	*25.7%*
EPS (SAR)	4.0	4.5	4.7	5.4	5.6
DPS (SAR)	2.8	3.2	3.3	3.7	3.9
P/E	15.2x	13.4x	12.7x	11.3x	10.8x

Source: Company data, GIB Capital

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Export approval; a positive development for the sector: Milling companies typically produce more during peak seasons, often resulting in surplus inventory in the following quarters. The recent approval from GFSA to export wheat flour when there is excess local capacity is a positive development for FMC. The company has already received multiple requests for flour products from regional markets, especially Iraq, the UAE, and some African countries. This development is expected to help even out the seasonality effect by providing an outlet for surplus production during off-peak periods.

Change in estimates: With the scraping of Mill B's upgrade at Jeddah (-100 tons/day) and a downward revision in avg selling prices, we have lowered our revenue estimate by 8% for 2025e, leading to an 8% drop in earnings versus prior estimates. Additionally, despite the addition of 600 tons/day at Qassim facility, we also revise our 2026 forecasts slightly downwards at both revenue and earnings levels due to slight downward revision in prices and GP margin, reflecting recent trends (2023–24).

Figure 2: Revision in estimates

SARmn	2025e			2026e		
	Current	Earlier	% change	Current	Earlier	% change
Revenues	1,086	1,182	-8%	1,172	1,231	-5%
Gross profit	470	539	-13%	511	567	-10%
GPM %	43.3%	45.6%		43.6%	46.0%	
Operating Profit	327	367	-11%	357	388	-8%
OPM %	30.1%	31.1%	-3%	30.4%	31.5%	-3%
Net profit	263	286	-8%	298	306	-3%
NPM %	24.2%	24.2%		25.4%	24.8%	

Source: GIB Capital

Uncertainly around subsidy – an overhang for the industry: Despite a healthy industry outlook and export approval, FMC and other milling stocks do not reflect their growth potential, likely due to market concerns over wheat subsidy removal. With no official update on the subsidy arrangement expiring in July 2025, a continuation remains possible. Even if subsidies are reduced or removed, we expect minimal impact, as milling companies can pass costs to consumers with little effect on sales volume due to flour's inelastic demand, The following scenario analysis highlights these expectations:

Scenario analysis

In our base case, we expect a continuation of the current subsidy arrangement as the KSA government is unlikely to reduce or remove subsidies. With ~4mn tons of subsidized wheat imports, the subsidy cost of the government budget is minimal being less than ~0.5%, making a full subsidy cut improbable. The current structure has shielded KSA from global inflation spikes, and many other industries (e.g., Petchem, Poultry) also benefit from subsidies. Bread demand is relatively inelastic, so any decline in consumption would likely be limited and temporary. Further, gradual subsidy removal, along with government support for low-income households, could help mitigate consumption drops.

In Scenario 1, wheat costs rise from SAR 180/ton to SAR 300/ton, with 80% of the hike passed on through higher prices, leading to a 5% annual sales volume decline in 2025–2026, and stabilization till 2030e. In Scenario 2, costs climb to SAR 375/ton, with 90% passed on, resulting in a 10% sales volume decline in 2025–2026 and no changes afterward. Profitability is negatively affected in both cases, with Scenario 2 showing a greater impact (Figure 4).

Figure 3: Key assumptions inputs

	2025e	2026e	2027e	2028e
Base				
Wheat (SAR)	180	180	180	180
Flour (SAR)	537	543	548	554
Volume	0%	0%	0%	0%
Scenario 1				
Wheat (SAR)	300	300	300	300
Flour (SAR)	633	639	644	650
Volume	-5.0%	-5.0%	0.0%	0.0%
Scenario 2				
Wheat (SAR)	375	375	375	375
Flour (SAR)	713	718	724	729
Volume	-10.0%	-10.0%	0.0%	0.0%

Source: GIB Capital

Figure 4: Scenario analysis

	2025e	2026e	2027e	2028e
Sales (SARmn)				
Base	1,086	1,172	1,213	1,230
Scenario 1	1,164	1,257	1,343	1,361
Scenario 2	1,212	1,309	1,452	1,469
Gross Profit (SARmn)				
Base	470	511	529	541
Scenario 1	348	368	420	431
Scenario 2	271	279	375	385
Gross Profit Margin				
Base	43%	44%	44%	44%
Scenario 1	30%	29%	31%	32%
Scenario 2	22%	21%	26%	26%
Net Profit (SARmn)				
Base	263	298	311	327
Scenario 1	134	142	176	186
Scenario 2	53	44	111	118
Net Profit Margin				
Base	24%	25%	26%	27%
Scenario 1	12%	11%	13%	14%
Scenario 2	4%	3%	8%	8%

Source: GIB Capital

Valuation: For relative valuations, we use a 15x multiple (changed from 18x to 15x) on 2025e EPS to arrive at a P/E-based target price (1 year forward) of SAR79/share. As for DCF, based on a WACC of 9.3%, we derive SAR72 /share as the DCF-based target price (1 year forward). We arrive at an equal average target price of SAR75.5/share (SAR84/sh earlier), implying a healthy upside of 25% with an Overweight rating.

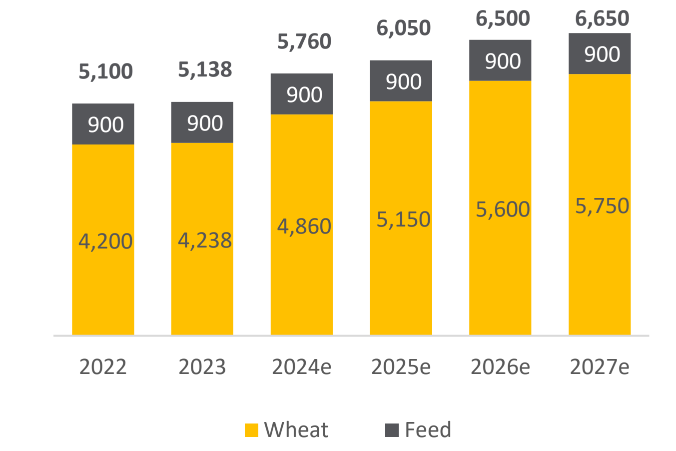
Figure 5: 4Q24 results summary

SARmn	4Q24	4Q23	y/y %	3Q24	q/q %	GIBC est.	Variance %
Revenues	**269**	**247**	**9.0%**	**261**	**2.9%**	**260**	**3.6%**
Cost of sales	150	142	5.8%	150	0.3%	147	1.9%
Gross profit	**119**	**105**	**13.4%**	**112**	**6.4%**	**112**	**5.8%**
Opex	36	31	17.9%	34	7.4%	33	11.0%
Operating profit	82	74	11.5%	78	5.9%	80	3.6%
Net income	**66**	**58**	**15.5%**	**61**	**8.3%**	**62**	**6.8%**
Gross margin	44.1%	42.4%		42.7%		43.2%	
Operating margin	30.7%	30.0%		29.8%		30.6%	
Net margin	24.7%	23.3%		23.5%		24.0%	

Source: Company data, GIB Capital

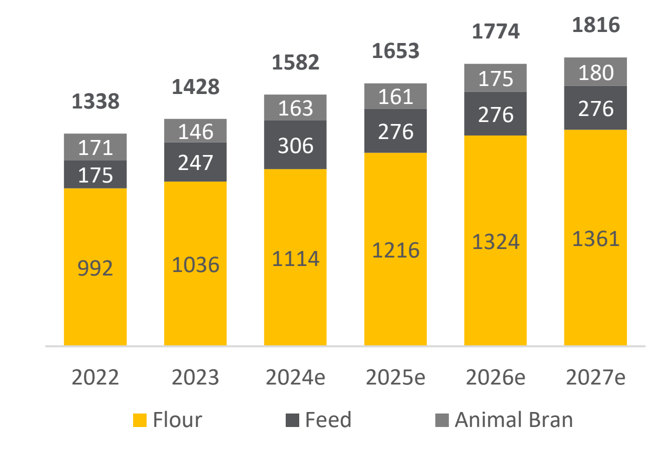
Financial analysis in charts

Figure 6: Wheat milling capacity (tons/day)



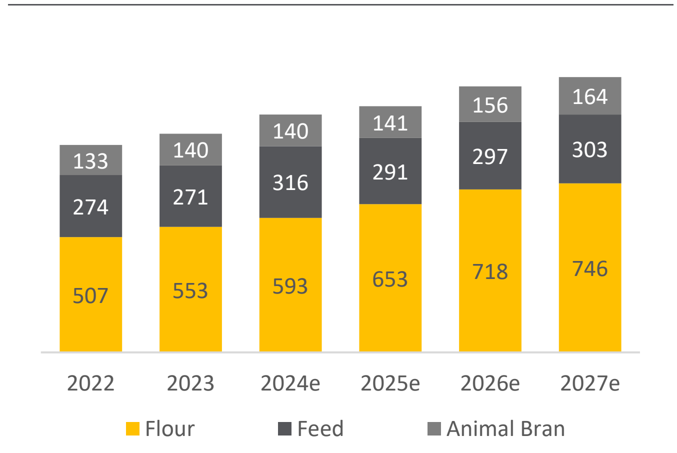
Source: Company data, GIB Capital

Figure 7: Sales volume ('000' tons)



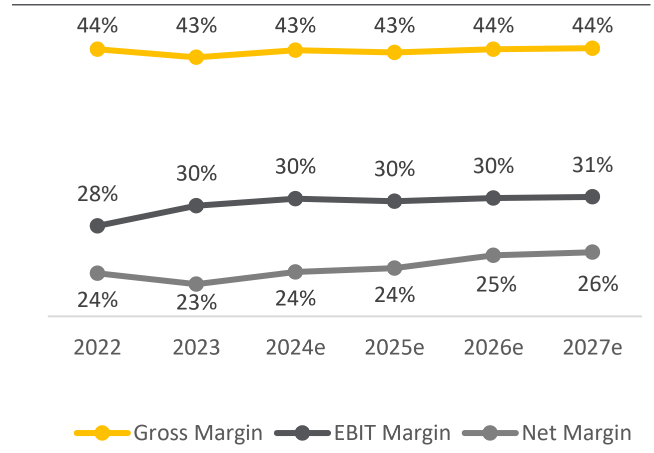
Source: Company data, GIB Capital

Figure 8: Revenue (SARmn)



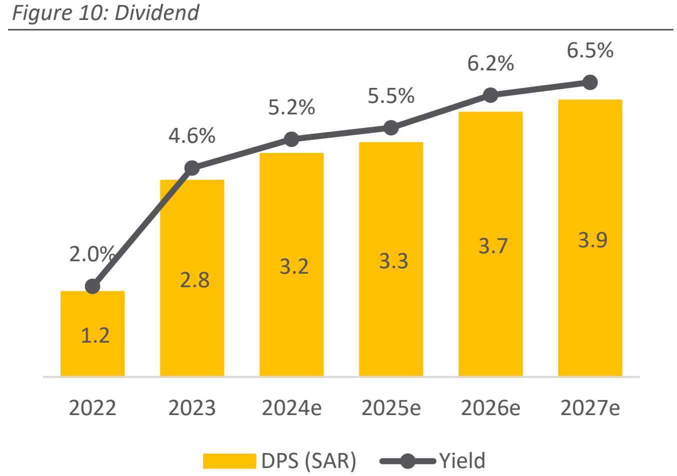
Source: Company data, GIB Capital

Figure 9: Margin trend



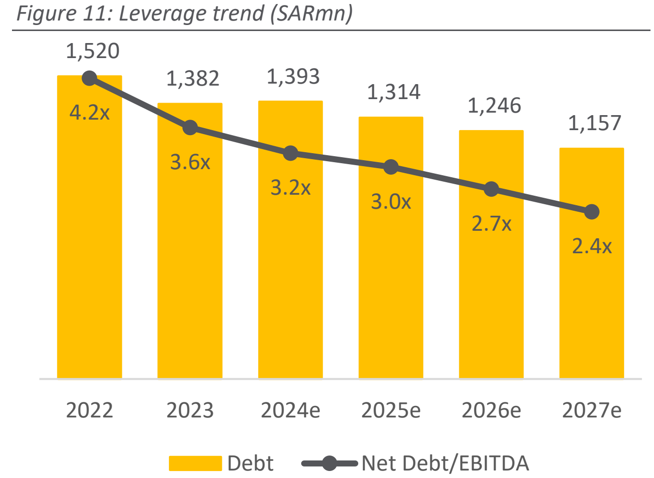
Source: Company data, GIB Capital

Figure 10: Dividend



Source: Company data, GIB Capital

Figure 11: Leverage trend (SARmn)



*Source: Company data, GIB Capital, *net debt includes lease liabilities*

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Summarized Financial statements

Figure 12: Summarized basic financial statements (SARmn)

Income statement	2023a	2024e	2025e	2026e	2027e
Revenue	**964**	**1,049**	**1,086**	**1,172**	**1,213**
revenue y/y	*6%*	*9%*	*3%*	*8%*	*3%*
COGS	551	593	616	661	683
Gross Profit	**413**	**456**	**470**	**511**	**529**
Gross Profit margin	*42.8%*	*43.5%*	*43.3%*	*43.6%*	*43.7%*
Selling and distribution expenses	48	56	58	62	64
General and administrative expenses	78	82	85	92	95
Operating profit	**287**	**319**	**327**	**357**	**370**
Operating margin	*30%*	*30.4%*	*30.1%*	*30.4%*	*30.5%*
Finance costs, net	61	62	58	52	52
Other income	0	0	0	0	0
PBT	**226**	**257**	**270**	**305**	**319**
Zakat/tax	6	6	6	7	8
Net income	**220**	**251**	**263**	**298**	**311**
Net margin	*23%*	*23.9%*	*24.2%*	*25.4%*	*25.7%*
y/y	*1%*	*14%*	*5%*	*13%*	*5%*
EPS	**4.0**	**4.5**	**4.7**	**5.4**	**5.6**
DPS	2.8	3.2	3.3	3.7	3.9
Payout	70%	70%	70%	70%	70%
EBITDA	**335**	**368**	**380**	**411**	**427**
Net debt (w/o lease liabilities)	852	823	768	702	595

Balance Sheet	2023a	2024e	2025e	2026e	2027e
Inventories	148	148	152	164	169
Trade receivables	5	23	24	26	27
Prepayments and other current assets	12	13	13	14	15
Cash and cash equivalents	192	221	176	143	149
Total Current Assets	**358**	**405**	**366**	**346**	**359**
Property and equipment	671	700	726	750	738
Right-of-use assets	304	314	332	361	371
Intangible assets	5	5	5	5	5
Derivative financial instruments	43	43	43	43	43
Goodwill	1,091	1,091	1,091	1,091	1,091
Total Non-Current Assets	**2,113**	**2,152**	**2,197**	**2,250**	**2,247**
Total Assets	**2,471**	**2,557**	**2,563**	**2,596**	**2,606**
Current Liabilities	289	297	304	318	324
Non-current Liabilities	1,289	1,299	1,219	1,149	1,059
Equity	892	961	1,040	1,130	1,223
Total Equity and Liabilities	**2,471**	**2,557**	**2,563**	**2,596**	**2,606**
BVPS	16.1	17.3	18.7	20.4	22.0

Cashflow	2023a	2024e	2025e	2026e	2027e
Cashflow from Operations	318	288	316	349	366
Cashflow from Investing	(119)	(79)	(79)	(79)	(44)
Cashflow from Financing	(222)	(181)	(282)	(305)	(316)
Total Cashflows	**(23)**	**29**	**(44)**	**(34)**	**6**

Source: Company, GIB Capital, Some FY24 figures are actual, while others are estimates since detailed financial statements are not yet available.

Figure 13: Key ratios

Key ratios	2023a	2024e	2025e	2026e	2027e
Profitability ratios					
RoA	9%	10%	10%	11%	12%
RoE	25%	26%	25%	26%	25%
Sales/Assets	39%	41%	42%	45%	47%
Net margin	22.8%	23.9%	24.2%	25.4%	25.7%
Liquidity ratios					
Currrent Assets/ Current Liabilities	1.2	1.4	1.2	1.1	1.1
Debt to Total Equity (w/ IFRS liab.)	1.5	1.4	1.3	1.1	0.9
Receivable Days	2	8	8	8	8
Inventory Days	98	91	90	90	90
Payable days	32	30	30	30	30
Cash conversion cycle	68	69	68	68	68
Debt ratios					
Net Debt/EBITDA (w/o IFRS liab.)	2.5	2.2	2.0	1.7	1.4
Net Debt/EBITDA (w/ IFRS liab.)	3.6	3.2	3.0	2.7	2.4
Debt/Assets (w/o IFRS liab.)	0.4	0.4	0.4	0.3	0.3
Net Debt/Equity (w/o IFRS liab.)	1.0	0.9	0.7	0.6	0.5
Net Debt/Equity (w/ IFRS liab.)	1.3	1.2	1.1	1.0	0.8
Valuation ratios					
P/E	15.2	13.4	12.7	11.3	10.8
P/B	3.8	3.5	3.2	3.0	2.7
EV/EBITDA	13.5	12.3	11.9	11.0	10.6
FCF Yield	6.5%	8.1%	8.8%	9.6%	11.2%
Dividend Yield	4.6%	5.2%	5.5%	6.2%	6.5%

Source: Company, GIB Capital, Some FY24 figures are actual, while others are estimates since detailed financial statements are not yet available.

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