

Aleid Foods

EPS growth limited to +10% y/y on higher opEx and finance charges; -16% vs. ACe.

- Q3 revenues grew 42% y/y to KWD 7.2bn (11% ahead of ACe) likely driven by new segments; subsidiaries and branches.
- Gross margin was largely stable y/y at c.16% (just 70bps below our estimate) as higher input costs was likely offset by larger contribution from new high-margin segments.
- Operating profit was weighed by 2x y/y surge in G&A expenses (4.3% of sales vs. 3.0% last year), with associated margin contracting by 210bps y/y.
- Hike in interest expense (+72% y/y) on higher rates further pressured earnings, which grew by just 10% y/y, missing our estimate by 16%.

Robust topline growth of 42% y/y likely supported by new segments. Q3 revenues surged by 42% y/y to KWD 7.2bn, beating our estimate by 11%, likely on contribution from recently-launched segments, subsidiaries and branches. Subsidiaries were established/acquired near mid-2021 and include Honey World (trading and importing of honey), Legion Foods (catering service to HORECA channel) and Brunch Company (five food brands specializing in different cuisines). Branches were established to either produce for local/international brands, or launch their own brands, like Morena chocolates.

Earnings growth softens to 10% y/y on elevated opEx and finance charges.

Gross profit grew 39% y/y with margins remaining largely stable y/y at c.16% as input cost growth is likely offset by larger contribution from high-margin new segments. Operating profit growth softened to +19% y/y (-9% vs. ACe) on a 2x y/y surge in G&A expenses, likely on higher costs associated with their expansion. G&A expenses are at 4.3% of sales vs. 3.0% in Q3 21A, and operating profit margin contracted by 210bps y/y to 11%. Net income was further pressured by 72% hike in interest expenses on higher rates (as debt balance remained flat y/y), coming in at KWD 631m, growing by just 10% y/y and missing our estimate by 16%.

Maintain Buy on attractive growth at a 45% discount to peers. Despite EPS miss in Q3, our full-year earnings estimate of KWD 2.9bn implies 11% y/y net income growth in Q4e. At 11x FY 23e P/E, Aleid trades at a 45% discount to MENA F&B names despite offering (i) stronger growth prospects (22% FY 22-25e EPS CAGR vs. 15% for peers ex. Halwani and Mezzan), (ii) better returns (RoE/RoIC of 11%/9% vs. 8%/7% for peers), and (iii) a similar DY of 2%.

BUY

KWd 313.4

Food, Beverage, & Tobacco / Kuwait

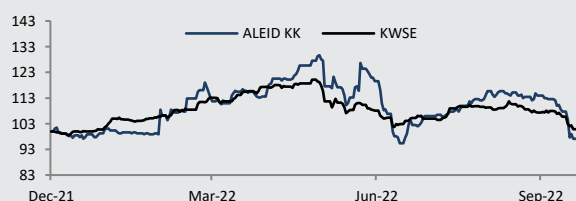
Bloomberg code	ALEID KK
Market index	KWSE
Target Price	313.4
Upside (%)	31.7

Market data 11/16/2022

Last closing price	238.0
52 Week range	207.0-304.3
Market cap (KWD m)	40
Market cap (USD m)	131
Average Daily Traded Value (KWD m)	152.0
Average Daily Traded Value (USD m)	493.2
Free float (%)	49%

Year-end (local m)	2021	2022e	2023e	2024e
Revenues	22,863	27,843	33,784	41,818
EBITDA	3,017	3,849	4,700	6,002
Net income	2,250	2,917	3,614	4,698
EPS	13.30	17.24	21.36	27.77
EPS growth (%)	43.0	29.7	23.9	30.0
P/E (current price)	17.9	13.8	11.1	8.6
DPS	4.17	4.62	5.72	7.44
Div. yield (%)	1.8	1.9	2.4	3.1
FCF/share	11.2	10.1	13.2	13.8
FCF yield (%)	4.7	4.2	5.5	5.8
CAPEX	339	278	338	418
CAPEX/sales (%)	1.5	1.0	1.0	1.0
Net Debt/EBITDA (x)	1.7	1.4	1.1	1.0
EV/EBITDA (x)	-	-	-	-
RoAE (%)	10.6	12.5	13.9	16.0
RoIC (%)	8.5	10.2	11.5	13.3

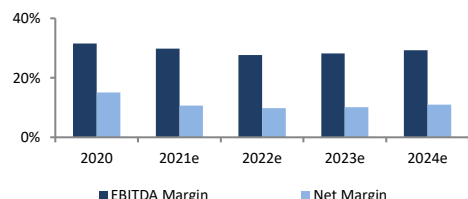
Price Performance



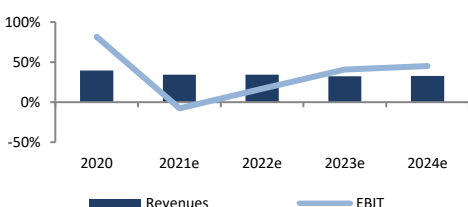
Abacus

Arqaam Capital Fundamental Data

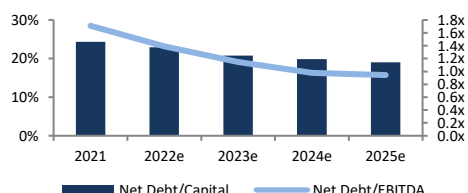
Profitability



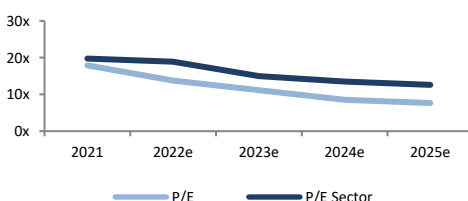
Growth



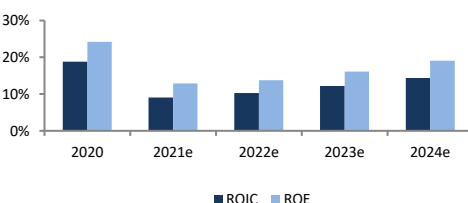
Gearing



Valuation



Return



AL-EID FOOD KSC

Year-end	2020	2021	2022e	2023e	2024e	2025e
Financial summary						
Reported EPS	9.30	13.30	17.24	21.36	27.77	31.09
Diluted EPS	9.30	13.30	17.24	21.36	27.77	31.09
DPS	-	4.17	4.62	5.72	7.44	8.33
BVPS	115.23	125.43	138.06	153.69	174.02	196.78
Weighted average shares	-	-	-	-	-	-
Average market cap	-	-	-	-	-	-

Year-end	2020	2021	2022e	2023e	2024e	2025e
Valuation metrics						
P/E (x) (current price)	25.6	17.9	13.8	11.1	8.6	7.7
P/E (x) (target price)	33.7	23.6	18.2	14.7	11.3	10.1
EV/EBITDA (x) (current price)	-	-	-	-	-	-
EV/EBITDA (x) (target price)	30.0	22.5	17.6	14.4	11.3	10.1
EV/FCF (x)	51.8	24.2	26.8	20.5	19.6	16.7
Free cash flow yield (%)	2.2	4.7	4.2	5.5	5.8	6.8
Dividend yield (%)	-	1.8	1.9	2.4	3.1	3.5

Year-end	2020	2021	2022e	2023e	2024e	2025e
Growth (%)						
Revenues	(2.1)	30.6	21.8	21.3	23.8	10.6
EBITDA	2.4	33.5	27.6	22.1	27.7	11.7
EBIT	2.6	34.0	27.9	22.2	27.9	11.8
Net income	4.2	43.0	29.7	23.9	30.0	12.0

Year-end	2020	2021	2022e	2023e	2024e	2025e
Margins (%)						
EBITDA	0.1	0.1	0.1	0.1	0.1	0.1
EBIT	0.1	0.1	0.1	0.1	0.1	0.1
Net	0.1	0.1	0.1	0.1	0.1	0.1

Year-end	2020	2021	2022e	2023e	2024e	2025e
Returns (%)						
RoAA	5.9	7.9	9.3	10.5	12.0	12.0
RoAE	8.1	10.6	12.5	13.9	16.0	15.8
RoIC	6.3	8.5	10.2	11.5	13.3	13.3
FCF margin	2.2	4.7	4.2	5.5	5.8	6.8

Year-end	2020	2021	2022e	2023e	2024e	2025e
Gearing (%)						
Net debt/Capital	27.9	24.3	22.9	20.8	19.9	19.0
Net debt/Equity	27.9	24.3	22.9	20.8	19.9	19.0
Interest cover (x)	4.5	5.9	6.3	6.8	7.5	7.6
Net debt/EBITDA (x)	2.4	1.7	1.4	1.1	1.0	0.9

Abacus Arqaam Capital Fundamental Data

Company profile

Aleid Food Company was established as a family owned business in 1994 by Al-Mutairi family for the purpose of importing, selling, packaging and distributing food and consumer goods. It became a KSC shareholding company in 2004 in preparation to list on the Boursa Kuwait (which took place in 2008) and to support future expansion plans.

In 2020, Aleid Foods embarked on a restructuring plan that saw it expand its business lines from just distribution to a vertically integrated business model (adding subsidiaries and branches). From the first year of launching these new segments, Aleid saw sales and net profit jump 31% and 43% y/y, respectively (vs. its historical +4-6% growth annually). The company is also looking to expand in the UAE and KSA markets starting FY 22e. Expansion of these new high-margin business lines, increased geographical presence, along with sustainable 5% growth in distribution business should drive sales/EPS CAGR of 22%/28% y/y over the next 3 years.

Ownership structure

Dalqan Group Holding	51%
Adeeb Abdulwahab Abdulaziz Alothman	5%
Free float	44%

Board of Directors

Fahad Saud Merdhi Almutairi	Chairman
Abdullah Saud Merdhi Almutairi	Vice Chairman
Mohamed Saud Merdhi Almutairi	CEO
Muhammad Taha Abdul Rahman	Director
Bassam Abdul Rahman Al-Badawi	Director

AL-EID FOOD KSC

Year-end	2020	2021	2022e	2023e	2024e	2025e
Income statement (KWD000)						
Sales revenue	17,502	22,863	27,843	33,784	41,818	46,254
Cost of sales	(14,753)	(19,131)	(23,159)	(27,982)	(34,365)	(37,917)
Gross profit	2,750	3,732	4,684	5,802	7,453	8,336
SG&A	(560)	(814)	(992)	(1,250)	(1,589)	(1,758)
EBITDA	2,260	3,017	3,849	4,700	6,002	6,704
Depreciation	142	179	221	268	332	367
EBIT	2,118	2,837	3,628	4,432	5,670	6,338
Interest expense	(471)	(485)	(574)	(650)	(753)	(833)
Share of results of associates & JV	-	-	-	-	-	-
Profit before tax	1,647	2,352	3,053	3,782	4,917	5,505
Taxes	(73)	(103)	(136)	(168)	(219)	(245)
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit (group)	1,573	2,250	2,917	3,614	4,698	5,260
Minorities	-	-	-	-	-	-
Net profit (parent)	1,573	2,250	2,917	3,614	4,698	5,260
Arqaam adjustments (including dilution)	-	-	-	-	-	-
Arqaam Net profit	1,573	2,250	2,917	3,614	4,698	5,260

Year-end	2020	2021	2022e	2023e	2024e	2025e
Balance sheet (KWD000)						
Cash and equivalents	812	1,183	1,601	2,034	2,506	2,927
Receivables	13,978	14,132	15,866	17,401	19,652	22,050
Inventories	11,432	12,556	13,197	14,413	16,149	18,076
Tangible fixed assets	312	489	547	617	703	799
Other assets including goodwill	62	110	110	110	110	110
Total assets	26,596	28,470	31,321	34,574	39,121	43,961
Payables	524	554	650	785	961	1,063
Interest bearing debt	6,260	6,340	6,961	7,432	8,364	9,251
Other liabilities	316	352	352	352	352	352
Total liabilities	7,100	7,247	7,962	8,569	9,677	10,666
Shareholders equity	19,496	21,223	23,359	26,005	29,444	33,295
Minorities	-	-	-	-	-	-
Total liabilities & shareholders equity	26,596	28,470	31,321	34,574	39,121	43,961

Year-end	2020	2021	2022e	2023e	2024e	2025e
Cash flow (KWD000)						
Cashflow from operations	473	1,742	1,432	1,917	1,971	2,238
Net capex	-	(339)	(278)	(338)	(418)	(463)
Free cash flow	883	1,893	1,708	2,229	2,338	2,736
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	-	(603)	(782)	(968)	(1,259)	(1,409)
Net inc/(dec) in borrowings	249	81	620	472	931	887
Other investing/financing cash flows	(471)	(485)	(574)	(650)	(753)	(833)
Net cash flow	250	351	418	433	473	421
Change in working capital	(1,738)	(1,208)	(2,280)	(2,615)	(3,812)	(4,222)

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Q3 22A results summary

Revenues: KWD 7,201m (+42% y/y, -22% q/q and +11% vs. AC est.)

Gross profit: KWD 1,135m (+39% y/y, -24% q/q and +6% vs. AC est.)

EBITDA: KWD 797m (+19% y/y, -32% q/q and -9% vs. AC est.)

Net income: KWD 631m (+10% y/y, -33% q/q and -16% vs. AC est.)

Exhibit 1: Aleid Q3 22A results

(KWDm)	Q3 22A	AC est.	Δ	Q3 21A	Δ y/y	Q2 22A	Δ q/q
Revenues	7,201	6,500	10.8%	5,087	41.6%	9,172	-21.5%
Gross profit	1,135	1,073	5.8%	818	38.7%	1,483	-23.5%
EBITDA	797	878	-9.2%	670	19.0%	1,180	-32.4%
Net income	631	748	-15.6%	575	9.8%	946	-33.3%
Gross margin (%)	15.8%	16.5%	(74bps)	16.1%	(32bps)	16.2%	(41bps)
EBITDA margin (%)	11.1%	13.5%	(243bps)	13.2%	(210bps)	12.9%	(179bps)
Net margin (%)	8.8%	11.5%	(274bps)	11.3%	(253bps)	10.3%	(155bps)

Source: Company Data, Arqaam Capital Research

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