Aleid Foods FY22 Results Conference Call Transcript

[00:00:00] Mr. Metaab Al-Masoud: Hello, everyone, it's great to have you all here, and thank you all for joining us. My name is Metaab Al-Masoud, I'm the investor relations manager at Aleid Foods, and I'm going to start with our agenda today. We will be discussing our market dynamics and tailwinds, and headwinds of the year 2022 before moving for the business performance for Q4 and the year 2022. First, let's begin with Aleid food dynamics.

[00:00:34] Mr. Metaab Al-Masoud: When it comes to our dynamics, the first thing to know is that the year 2022 was a turning point for Aleid foods. It created a change in our mindset and our outlook, with the launch of Goals 25 regional expansion strategy and achieving the milestones of entering the Dubai and Saudi markets. The second point in our dynamics that we are proud of was creating solid foundations to diversify the income-generating business segmentation.

[00:01:14] Mr. Metaab Al-Masoud: Now looking back at 2022, we had two tailwind factors that positively impacted our businesses. The first was the subsidiaries' remarkable performance, which registered 99% growth from the end of the year 2021 till the end of the year 2022. The second was expanding and diversifying our product basket that we embarked on in the year 2021 to include confectionary, snacks, and healthy foods options, which resulted in a 23% contribution to the business within the distribution segment.

[00:02:03] Mr. Metaab Al-Masoud: Moving on with the headwinds that affected the food business in general and the company's performance, starting with the high inflation rates that hit the economy and the food service in Kuwait at the beginning of 2022 before dropping to 3.15 by the end of the year, and the second major headwind that affected our company in particular, especially in Q4, was the forced low stock levels in frozen chicken, considering that a big part of Aleid distribution is frozen chicken. And we're will go through the business performance and the financials with our CEO, Mr. Mohammad Al-Mutairi.

[00: 03:02] Eng. Mohammad Al-Mutairi: Good afternoon everybody, we are happy to have you today with us on the second conference call, we will go through our business performance. You can see in the first slide in the Q4 performance, our total revenues, were 5,220,000 compared to 7,470,000 with a minus of 30% compared to last year. The net profit was 387,635 compared to 728,819 which is almost 46% minus. Our net profit margin was down in the quarter to 7.4% compared to the 9.8% achieved last year, which is almost 23% less. As you see in the highlights, in Q4 the revenue declined 30% compared to the same period, and also, expenses were affecting our net margin due to adding a lot of new businesses or acquisitions, and therefore we are expecting the contribution will be affected in the future.

[00: 04:19] Eng. Mohammad Al-Mutairi: We'll go to the next slide, which presents the details of the quarter for performance. That's exactly what we are starting to show from first conference, how the businesses contributed. As we state in our Goals_25, the distribution still continue leading the profit and stream, but our vision and strategy is to reduce its contribution, if you see comparison in the distribution, the contribution came down from 74% to almost 70%, a minus of 34%, which was the highest and been due to the inflation, we will explain it to you later with more details. Branches was having a growth of 7%, subsidiaries was minus 24% and regional start contributing starting this quarter. As mentioned the performance of branches was lower, but started picking up, and the subsidiaries started contributing more as with our plan.

[00: 05:34] Eng. Mohammad Al-Mutairi: We'll go next to the performance of the whole year, which is showing our results. The revenue was 28 million compared to 22 million in 2021 leading to 23% of growth, which is more than the forecasted 22%. The net profit was 2,600,000 compared to 2,249,000, which is a growth of 15.7%. True, that profit is lower than what we expected due to, as mentioned, the cost, and also the inflation and all the expenses which contributed to the business, but overall, business stats are positive more than double-digit, which is 23%, was exactly our aim. Actually, we planned 22% for the year 2022. However, our target and aim were more than that, but due to the performance in Q4 it was reduced.

[00: 06:51] Eng. Mohammad Al-Mutairi: we'll go to the next slide, the businesses contribution. Here if you see the picture is more clear, because it's the whole year. Overall, we are seeing the contribution of the new vertical businesses started contributing 16% to the business as the distribution came down from 90% to 83.9%, which is almost 84% and that is our aim. Other core businesses have started contributing to the business, which started with 16% of the total businesses. In details you see, the distribution was 23 million compared to 20 million last year and also the branches contributed 1,087,000 compared to 594,000. Subsidiaries were the highest, almost double, achieved 3,336,000 compared to 1,673,000. As mentioned, regional segments just started contributing, as the process and setting up things delayed in achieving the numbers. However, overall Goals 25 started leading and contributing to our aim by mixing our income generating segments and having different business verticals and not depending on one stream of business model. That was the aim, and I think it started showing that numbers are improving and we are starting to achieve what we are planning to do.

[00: 08:37] Eng. Mohammad Al-Mutairi: If you go to the next slide, that's only related to the distribution segment, not the others, the breakdown here is: what is in our basket?
As we said, the frozen protein, which is poultry, meat, and fish, had a growth of 12%, and the rice and other basic commodity businesses made 17% growth. Frozen French fries and vegetables are minus because as we highlighted in the last conference that the availability of French Fries and the crops were causing that situation. “Others” is one of the things we are really focusing on by diversifying our basket and enhancing our models by having more brands, contributed to 23% growth and that was exactly what we were aiming for, and the numbers indicate that we achieved what we were planning, which is enhancing the contribution of “others” to the total of business.

[00: 09:48] Eng. Mohammad Al-Mutairi: The next slide is the financial performance, if you see the working capital, it's almost the same no big change, and there is no big investment last year, because we are more in operating working capital. The debt increased from 6,340,000 to 7,968,000 because there's a new loan has been taken during the last years for the business's operation. But overall, as we said last time, still as a business model, the contribution of loans is almost 36%, which is less than usual in this business, usually it contributes from 60 to 90%, so we are very low, and especially with the inflation rate, we want to maintain the loans as minimum as we can, however, sometimes businesses need to take loans as operation expansion needs it.

[00: 10:55] Eng. Mohammad Al-Mutairi: If we go to the next slide, which is an overview of the shares, what our board meetings propose as a dividend strategy. We are providing 5% cash and 10% bonus shares, which again as a strategy, we want to maintain our dividends clear to be more than 70%, and also to enhance the cash from the contribution of the total dividends, which is almost 30% and it's now becoming almost 53%, and that's how we want to keep it. And also, it's more than that actually, it’s what we gain, we give it as a dividend to the shareholders.

[00: 11:46] Eng. Mohammad Al-Mutairi: Next is, that's Goals and where we are, as we said, our aim is to reduce the contribution of distribution to 50% of the business with the other streams starting to contribute the remaining large, and to lead the total growth of doubling our numbers, which is a 100% in growth.

Thanks for the time and now for questions, if any.

[00: 12:15] Participant 1: Thank you. If you would like to ask a question and you've joined on the telephone, then please press staff by one. If you change your mind, please press staff by two. If you're prepared to ask your question, please ensure that your phone is un-muted locally. For those of you who have joined online, please type your question into the Q&A box. Have a reminder that is staff by one on the telephone, or type your question into the Q&A box. We take the moment to allow the questions to be registered. Have a reminder that is staff by one on the telephone, or type your question into the Q&A box.

[00: 13:33] Participant 2: this is Mehwish, if I may. I see there is no question currently in the chat box, but I have a question. I was wondering why did the revenues fail by 30% during Q4? I wonder on the volume front, the volume would have been very strong on the back of expansion and new brand editions, but why did the revenue actually fell, and this is quite significant compared to the previous quarters in the same year. Thank you.

[00: 14:02] Eng. Mohammad Al-Mutairi: Yes, thank you for your question, which is a really good question because it's a big number as a performance, I agree with you, but this was due to many reasons. First, we highlighted also in our earlier conference call, that the inflation of increasing and dropping prices started affecting sales. Also as we previously highlighted in our points regarding the stock availability of the frozen, during last year there was a big up and down in the frozen, which usually does not happen maybe almost every 10 or 15 years, so that is the situation we faced last year, and almost faced it in 2008, so the prices went up 50%, then again drop back to 30%. This never happens, usually, we go 5% maximum, 10 or 8 %. That's what is in commodity businesses, that's what we know and experience.
But even though we work with the situation, with our experience since we've been there for 20 years in the business we know how the trend is happening. That's why what I mean is when the prices fall down, definitely they will be affecting the new selling price and your costing and

profits. That's what was happening. However, we maintained and it did not lead to negative numbers, still, we are positive.
Yes, if compared to last year the numbers are negative but our performance was profitable, even if the percentage dropped to 7.4 it’s still not minus. However, we took action on that and we worked very professionally to minimize it. And also part of that is why we introduced the new business verticals in commodities and frozen, that’s the main purpose. If you see the numbers of the growth of last year is almost 5.3 million, comparing 22 million to 28 million. So in this 5.3 million, the contribution of new businesses was almost 42%, that is what we are aiming for, to diversify the businesses with the core businesses still there, and it's growing, and that’s what I highlighted about the “others” and the brands, that this segment has started contributing and it's growing. So the answer summarized, It’s due to the unexpected fluctuating happening to the market, due to the war, due to the supply chain, due to the inflations. So all these factors affected us and it was unexpected and it was big fluctuating the prices. However, we noticed normal from December onward things going back to normal.

[00: 17:23] Participant 2: Understood. Thank you very much for the explanation. We have a question in the Q&A box from Ankit Bansal, from Sancta Capital. He asked if the working capital was about 98% of revenues in 2022, how much it could be by 2026 once the strategic transformation plan is achieved?

[00: 17:58] Eng. Mohammad Al-Mutairi: Yes. You see the working capital is almost 90%, and It came down to 97% and now 98%. Your question is very, I don't want to say not clear, and it’s for something which is far away to protect it. However, we forecasted things based on the needs. So as mentioned, we are increasing our capital as Aleid Foods company, Three years ago our capital was 10 million, and today our capital is almost 17 million. So that's why we're giving more bonus shares to increase the capital to accommodate our expansion plan and the working capital needed for the businesses. That's number one. Number two, what we mentioned in the loans, which is increasing yet still have a percentage of 36%, which is lower than the market. We want to minimize the use of loans, especially now, actually that's our strategy before the inflation, and the bank rate increase, however, we have a financial team, and we will go as per needs and requirements, and definitely we want to maintain the healthy working capital to satisfy all our acquisitions or expansion or establishing based on the strategy that we put.

[00: 19:39] Participant 2: Alright, thank you. Our next question is from Mohammad AlTalib from Ajeej Capital. He asked could we get a better understanding on the HORECA channels, which regions are showing the most growth and which regions seem to be underpenetrated?

[00: 19:58] Eng. Mohammad Al-Mutairi: Yes, this is a very good question actually. In the food services or let's say the restaurant sector, HORECA is the niche segment, and that's why we introduced ourselves to the niche segment. It's almost dependent on US meat and very premium products, and it's away from the commodities, and that's exactly what we aim for and that's why the company was established for. Yes, it's a very high-margin product and it's a stable fluctuating compared to the other commodity businesses. Which region? In most of the regions, as you see subsidiaries were one of the good contributors to the businesses, it's almost 11.8% and its growth as mentioned earlier was 99%. We are delayed on the regional Saudi, specifically! However, setting up new businesses, especially in the Saudi market was not easy, so we took our own time, also due to the big fluctuating happening during that time in enterprises of the frozen. We said let clarity be there and let things cool down and we set up things meanwhile back in November and December. So this January things started going good in Saudi as a region, and we saw everything had become healthy. Back to your question, if you want me to elaborate my answer more, we are expecting from the regional expansion almost 150% growth and again to increase the contribution of other verticals from 16% to 24%, and so we want to bring down the distribution contribution from the current 84% to 76%. As mentioned, definitely we are implementing and starting to contribute to the business what we want it to be as per Goals 25, and that's exactly what we're aiming for and what we are starting to achieve.

[00: 22:38] Participant 2: Perfect, thank you. Our next question is from Rajat Bagchi from NBK Capital. He's saying he's still in the process of learning about the company and has asked, could you please talk about some of the growth strategies in 2023?

[00: 22:53] Eng. Mohammad Al-Mutairi: This is a very good question. In 2023 we are expecting 14% growth, 2.5% will come from our distribution, so we are not expecting more, due to stability or we don't want to put over target to that segment because as we said we want to minimize it as a strategy, but we put more targets on the others, like on the branches, we are expecting 50% growth, and 55% growth from the subsidiaries, and 150% from the regional. So that's what will lead to 24% of our contribution and it will come from all these business models, 76 % will come from our businesses. So that's our strategy, and that's what we are aiming for, we are expecting a growth of 3,750,000, 85% of that number will come from the new vertical businesses being added and 15% will be from the normal businesses. That's our aim and since we succeeded last year to make it 58% to 42%, we want to make it this year 8% to 15%. That's the formula of how we are going forward.

[00: 24:28] Participant 2: Alright, thank you. We have another question from one of the participants, and he's asked can you please give us an overview of your expectations for the top line and margins in 2023?

[00: 24:42] Eng. Mohammad Al-Mutairi: Yes, actually as mentioned in the numbers, we are expecting almost 32 million as revenues total, and we are expecting our gross margin will go back to 17% and 18%, and with the contribution of the new verticals it might take us to 19%, and that's what we aim. In our earlier conference, we said the aim of Goals 25 and the new business verticals we added is to increase our gross margin to 22%, that's our aim for 2025, which will definitely improve our net margin, which is now almost 9 to 10%. So in 2023, we are expecting the same numbers 17/18 % as a gross margin and the net will be between 9.5% to 10.5% and that's the range we are expecting.

[00: 26:02] Participant 2: we do not have any further questions in the chat box. Lauren do you have any question on the line?

[00: 26:08] Participant 1: There are no questions registered on the telephone line.

[00: 26:14] Participant 2: Okay. Probably if there are no more questions I can ask one question. Regarding your revenue growth expectation for 2023 I was wondering how much of this is driven by pricing and volumes, and also what do you think what markets are going to be the highest growth potential and which markets are proving challenging in your view?

[00: 26:35] Eng. Mohammad Al-Mutairi: Again as a commodity, it will be both, the volume and the price. That's what is the growth of 14% in the year we are planning. The highest growth will be from the regional market, from Saudi, that's what we are expecting, as for the contribution, as we said earlier distribution businesses will still contribute 24 million from the 32 million. There is always a business challenge definitely, but we've been in for almost 30 years in the business, so we have a vehicle to study, to have a forecast, to sense, to see what's going on, to grab the opportunities if something is there, or to slow down if there is something expected. That's our experience, and that's what we have as know-how knowledge and that's how we keep growing. As you see last year Aleid had the highest revenues in its history and it was the highest net profit, and those were really good numbers, and they will not have come unless you have a proper team, a good forecast for things, and good subsidiaries and partners in the company, which you invest in and you start contributing to your business.

[00: 28:08] Participant 2: Thank you, and just one last question from my end. I was wondering how are you looking at the operational margins going forward, do you expect any pressure from the new growth avenues and where do you think you can potentially cut costs?

[00: 28:22] Eng. Mohammad Al-Mutairi: Yes, I think we answered this question, but as I said earlier we are going back to our normal gross margin which is 17 to 18 and 19. Regardless of fluctuating, already as the new businesses are being added and contributed, we are expecting the growth of 3,750,000 to go to 32 million, 85% of it from the new business verticals. There the margin is higher than what is our normal in the distribution market. I don't want to give numbers so to have a commitment here, but as I said, our vision is to go to 22% as a gross margin, that's our aim to achieve it. We will try it with many verticals, from our core business distribution, and from the new businesses we added on, and also we are aiming to achieve from 11 to 12% net margin. That's exactly what are our aim and strategy.

[00: 29:38] Participant 2: Thank you. Thank you for the explanation. I do not have any further question in the chat box. Lauren, back to you, If you have anyone waiting on the line.

[00: 29:48] Participant 1: We still have no questions registered on telephone line.

[00: 30:09] Participant 2: Okay. I'll hand back to the management team for closing remarks.

[00: 30:19] Eng. Mohammad Al-Mutairi: Okay, thanks everybody and really we are happy to have you with us today and we hope we answered all the questions and clarifications also besides that, we hope that we cleared our strategy and our vision and goals where we want to be and where we want to take Aleid to another level. I appreciate your availability and thanks, everybody. Thank you. Bye.

[00:30:39] Mr. Metaab Al-Masoud: Thank you, everyone. As we finished our conference call and as an investors' relation we are happy to receive any kind of concerns and questions through our website, our email, and our online platform. We are happy to meet you also, anyone here in Kuwait, we can just meet you here and thanks everyone.