

Transcript

0800 138 2636
conferencingservice@netroadshow.com
www.netroadshow.com

Aleid Foods H1 Earnings Call

Monday, 04 September 2023

Mohamad Al Sakhal Good afternoon, everyone. This is Mohamad Al Sakhal from Arqaam Capital. Welcome to Aleid Foods H1 2023 Earnings webcast. Today, we have with us Mr. Mohammad Al Mutairi, Chief Executive Officer, Mr. Metaab Al Masoud, Investor Relations Manager, and Ms. Amal Khreich, Marketing and Communications Director. We can start the meeting by Mr. Mohammad giving us a brief about the results and the latest developments, and then we can jump into Q&A after. Mr. Mohammad, the floor is yours.

Mohammad Al Mutairi Yes, good afternoon, everybody, and welcome to our Earnings call for the half of the year 2023. Welcome, as usual. We will take you through the presentations, and if you have any clarification questions, kindly keep it till the end. I'll try to highlight some of the clarification during the presentation if some information needs to be highlighted. Otherwise, I will be answering the questions at the end. If you see the slides, let's go through our agenda as usual. In the first slide after the agenda slide, number 3, we'll go to slide number 4, which is usually there with the updates to continue understanding our operation dynamics, the geography, and the availability of our footprint. Also, the plan that we highlighted from the beginning when we announced our regional expansion, the Goals_25. Therefore, we will keep highlighting it until we achieve the results. Indeed, we began implementing our strategy and accelerated the process of achieving it, which has consolidated our presence in the market in the frozen food sector, which is the main and most essential sector in our business, in addition to enhancing and balancing the relationship with international partners, with whom we always maintain our relationship considering their effective role in contributing to our business.

Also, we set our goals, OKRs, and KPIs for the regional growth plan for KSA and the UAE, Dubai, within the framework of the regional expansion plan. If you look closely, you will notice that the acceleration of the operation has already started in various segments, subsidiaries, and branches. In the food retail sector, which is now online, and the Cloud Kitchen which is the most important, we are witnessing positive growth in these sectors. If you look at the overall business segmentation, which we always track and follow up on, the distribution segment contributed 82% to revenue in addition to noticeable growth in contribution by the subsidiaries, branches, and other regional divisions.

In the next slide, we will identify the tailwinds for the first half of the year. As you can see the newly founded subsidiaries and branches highlighted earlier, are now contributing 17.1% of the total revenues as compared to 11.9% for the last year, which is a growth of 44% and very positive. That is the plan we set, and things are going according to plan. The distribution segment contribution declined, which is what we aim for, however the segment still recorded a positive growth of 7.3%.

For the next slide, we will address the headwinds, highlighting the inflation which was discussed in the previous conference call as it persists, we should notice its decline. Likewise, inflation in other countries has begun to decline. But we expect that because the cost of most resources and services has decreased, inflation should decrease. We may see that in the coming months. The second point is the fluctuation of commodity prices, which remained on the positive side so far, but it is also a challenge to raise, and these fluctuations can sometimes become negative.

However, we see a lot of fluctuation in the prices of crops, especially in the field of olive cultivation. This year, the crop was not good in Spain and Greece, most of the Europe side, and also in North Africa and Tunisia. So, that's one

Transcript

0800 138 2636
conferencingservice@netroadshow.com
www.netroadshow.com

Aleid Foods H1 Earnings Call

Monday, 04 September 2023

thing, and the second thing, sometimes, like in India with price fluctuations, where we see an increase in prices, not because of the crop itself, but because of export restrictions by governments like India, which contributes to almost 40% of rice exports in the world.

The interest rate is also one of the factors as it is rising globally, however, Kuwait remains much better than other countries and is now more in control of the increasing interest. We see that it may decrease in the future, during the next six months, but it is one of the challenges that we are monitoring and trying to control.

If you go to the next slide, which is the business performance of the first half of the year, it is good, and we have a double-digit growth, which is 14%, 17.993 compared to 15.778 million. Another positive highlight is that net profit with a growth of 18.8%, which is very good, and that's because our net margin has been growing 4% from 9.9% to 10.3%. EBTIDA margin is 13.5% as compared to 13.1%. Overall, the number is positive, and you can see the total revenue growth is 14%, as per the forecast. The stability of the profit margin in expenses is due to positive growth, and this is what we expect, and things are going as per our forecast.

Moving on to the next slide is the business performance and as you can see the distribution segment is still the main one, but as highlighted earlier its contribution has decreased from 88% to 82%. However, the segment's growth in the company's revenue is still 7% compared to last year. The branches have once again recorded 29% growth, and their contribution started to increase. Subsidiaries now contribute 12.3% compared to 8.5% last year, with a growth of 64%. As for the regional operations, they are behind schedule and you can see that most things are going according to our planned timeline, except for the regional segment.

As for the recently launched operations in Saudi Arabia, they are behind the scheduled timetable. This is due to the fact that when we launched our operations in the Kingdom, we noticed several factors affecting the operations and returns, so we decided to monitor and study them, including the rapid fluctuation in prices for frozen poultry, and the import laws for frozen goods in the Kingdom, and currently we are in final discussions with our global suppliers and partners to improve our agreements and provide flexibility and agility to enable the accelerate of the operations in Saudi Arabia in the coming months.

The next slide details distribution operations and we notice a decrease in the contribution of meat and poultry in revenues, but it is one of the core businesses of our distribution. The rice, vegetables, and spices segment recorded a growth of 6.9%, and the results of this segment in the first half of the year were truly excellent because as we previously mentioned there were price fluctuations in crops and we have benefited from it positively in terms of prices.

The prices of frozen commodities have begun to return to their normal rate. The frozen vegetables and potatoes segment has recorded a growth of 25%, while the segment known as "other" has recorded negative growth due to its products being linked to the price ceiling restrictions in cooperatives, and this is also under study to improve performance as quickly as possible.

We have provided you with a breakdown of the financial performance and operational status, and there is not much I would like to emphasize. If you look at this slide, we have tried to maintain the debt ratio below 35%, and in the

Transcript

0800 138 2636
conferencingservice@netroadshow.com
www.netroadshow.com

Aleid Foods H1 Earnings Call

Monday, 04 September 2023

first half of the year, it reached 32%, which is consistent with our plan and expectations. Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) numbers are generally within the expected rate. In the last slide our share performance, and this year we provided a cash dividend of 5% and shares of 10%.

This is the overall presentation. We always keep Goals_25 at the end, If you want to know more about it you can click on the link in the slide. Things are going as we hope, except for the regional aspect, which remains under observation and testing, because Saudi Arabia is a large and diverse market, but we assure you that things will improve in the future, and will be much better. That is all we have, and we are very happy to answer any questions you have or clarifications you need.

Operator Perfect. Of course, if you'd like to submit a question in writing, you can do so by clicking the Q&A function in the top right of your screen. We will pause briefly to allow for any questions to be registered.

Please note, the call was ended due to technical reasons before any additional questions were submitted for the management team. The participants were contacted afterwards and their questions were answered by the management team on the same day. Please see the responses below included in this transcript.

Questions

- What about the expansion plans in KSA?

Our operations in the KSA have already started, yet it is going slower than our expectations due to some factors including the fluctuation in the pricing of the frozen foods in the KSA market, and the government regulations and limitations specifically in respect to the imports of Brazilian poultry.

- How should we expect the performance of the regional segment in the coming Quarters?

We are working with our international suppliers and partners to re-structure some of our agreements to better serve our operations and market requirements especially in KSA, which is due to be concluded within the coming few months so we can kick start the new plans.

- You mentioned that the newly founded businesses have grown in revenue by 44%, can you elaborate? The overall business growth to date is 14% which is in line with the initial forecast for the year 2023. However, the newly founded business verticals that started in 2021 have contributed 54% of this growth which is validating our plans and motivating us to move forward. The double-digit growth at the initial stage is quite good indicator that these verticals were the good market segments to bring diversification to our business.

- How should we think about margins going forward? Is this the normalized levels of margins?

Transcript

0800 138 2636
conferencingservice@netroadshow.com
www.netroadshow.com

Aleid Foods H1 Earnings Call

Monday, 04 September 2023

Yes, this is a positive average net margins that we have set our plans to achieve. The growth of 18.8% in the net profit is due to the newly founded business contributions which are also high margin business segments. Currently these businesses are at 12.5% net margin and targeted to achieve 14% net margin in the next quarters.

- Post India's regulations on rice export, how will this effect Aleid's (rice, pulses, spices and nuts) segment, and will we see the same growth in H2?

The regulations and ban on export started on the white non-basmati rice which is not a product line that we work with. Later they proposed 20% tax Sella non-basmati, and we have enough inventory that will not have a direct effect on our stock or pricing.

We are closely monitoring the risk of the price fluctuation, and in the first half of the year our inventory and well managed purchasing helped keep our growth in the positive bracket. We keep close monitoring on the prices and new policies specially from India on all commodities, and with our 30 years of experience we will be able to keep it under control and in steady trading.

- The distribution segment accounts for the majority of the sales, what is the targeted percentage of sales going forward?

Distribution has been our core business for the last 3 decades and is accounting today 82% of our total revenue with a growth of 7.3% and we are working to maintain the same average in the coming quarters.

- You mentioned that this year is the year of initiation and acceleration, what are your acceleration plans.

We already identified an acquisition opportunity that will provide our operations with the boost it requires to accelerate and achieve our Goals 25 and beyond and hopefully this will be finalized soon.