Transcript

Aleid Foods Earnings Call

Monday, April 22, 2024

Operator Hello, all, and welcome to Aleid Foods' earnings call. My name is Lydia, and I'll be your operator today. If you'd like to ask a question after the prepared remarks, you can do so by pressing star followed by one on your telephone keypad. I'll now hand you over to Mohamad Al Sakhal with Arqaam Capital to begin. Please, go ahead.

Mohamad Al Sakhal Good afternoon, everyone. This is Mohamad Al Sakhal from Arqaam Capital. Welcome to Aleid Foods' H2 2023 earnings webcast. We have with us today engineer Mohammad Al Mutairi, chief executive officer, Mr Metaab Al Masoud, investor relations manager, and Miss Amal Khreich, marketing and communications director. We can start the panel by Mr Metaab giving us a brief introduction, then Mr Mohammad, a brief about the results and the latest evolvements, and then we can jump into Q&A. Mr Metaab, the floor is yours.

Metaab Al Masoud Hello, Mr Mohamad. Thank you, and thanks to Arqaam for hosting the Aleid Foods earnings for the half year and the year 2023. And thanks, everyone, for your participation and your attendance. Today, we're going to take you through our latest presentation of earnings for the half-year and the year 2023.

Our agenda is we're going to discuss the growth acceleration goals and action plans, the tailwinds for the second half and the headwinds of the second half of the year 2023, the business performance, financial performance, and Aleid Foods' share performance.

At first, we had some goals for the year 2023, firstly to support our diversification of the income stream and business segments, create valuable opportunities for products and partners to grow market share, and finally accelerate the regional expansion plans, Goals 25, ensuring sustainable results.

This year, we raised our capital, a total of KWD 30 million, which reflected positivity as you can see on the increase and the shareholders rights of the company by presenting a record rate at the end of 2023, in addition to an increase in earnings per share by 23%, and in addition to an increase in net profit by 27%.

Aleid Foods this year acquired Alashraf Foodstuff company, which took place during Q4 of this year, and it comes as a pivotal point on this journey to accelerate the expansion plans of the company operations in the food services sector and supporting the Goal 25 regional expansion strategy. And now, we're going to take you, with Mr Mohammad Al Mutairi, the CEO of Aleid Foods company, to discuss the financials and reporting the new structure.

ALEID FOODS

العيد للأغذية

Transcript

Aleid Foods Earnings Call | Monday, April 22, 2024

Mohammad Al Mutairi Good afternoon, everybody, and welcome. As you see from the slide, here, we start presenting the new structure of the business channels for income streaming. Which is noted by the people who attended our earlier conference calls, that it was different. Here, we have a distribution which is split into food service and trading and retail, which is the store, online and offline, and production units, which is anything related to the processing, either SMB or individual initiatives.

If there is a question, we changed the structure because we think htat after the acquisition is a time to start talking about the business segmentation as per channel and how we focus on these business channels, since they are inter-related almost in the same business orientated kind of operation and the way of handling the business. So this will be our new structure, this is the way we are going to move forward, making an analysis of our numbers and growth and the percentage.

If we go to the next slide, again, as usual, we used to show it, the first point is that again we are talking about how the operations are structured, so as we said the new restructuring will serve the regional business units, which is efficiency and centralising the support, also enables cross-division and collaboration which is allowing us to have the constant growth of the market share, that's where we're aiming always at, and strengthening of all the divisions for the different business lines results.

If you see the numbers, as a business segmentation, still distribution is the biggest contributor, 92%, and the retail business, which has contributed almost 2.1%, and the production which is 5.8%. And geography, we have shown our Saudi and UAE business is still under the distribution, but in Kwait we are having all the business channels there.

If we go to the next slide, discussing the tailwinds, again we highlight what has been changing and the structure, as Mr Metaab explained earlier. The first point was the acquisition, because again acquisition of Alashraf Foodstuff , we think it's a big opportunity. The acquisition of Al-Ashraf Foodstuff allows us to enter a new segmentation, which is food services, which we started earlier under the small company of Legion Foods and other partnership expansions now we are growing in a bigger way, and we think that kind of channel or segmentation will allow us more regional expansion.

The second point is the capital increase as we said, that was the way we did the acquisition, through increasing our capital, then, after that we had the acquisition. As we gained [? 00:06:50] the structure, as we said earlier, it's enabled our cross-divisional collaboration and optimising the company for the experience of the future growth.

نمو متواصل

Ardiya Industrial area Block 2, Building 100, Kuwait

+965 24335300-400 +965 24338216 info@aleidfood.com www.aleidfoods.com

Headwinds, I think also in an earlier conference call we had the interest rates, which are still the same, and we are still maintaining the same debts and loans, but as everybody says, we are expecting, indicating, lower, declining interest rates. The other issue that was there was the supply chain. There were some delays on delivery of some products, especially affecting the frozen meat which comes from Brazil, routing that was delayed by almost two weeks to three weeks, but this is what happened late Q4 and early Q1 this year.

But we had our own risk management as used to say, this kind of thing, such as we always had good relations with our partners to minimise the effect by having extra inventory or having extra back-up to cover whatever risk effects or sudden surprises.

If we go to there, now, we'll talk more about the business performance. The second half of the year, you see, revenue was 17Million, compared to 12.4Million last year, with a growth of 37.9%, and profit is 1.55Million compared to 1 million, which is 49.6%, due to the changes in Q4 last year, so that's why we see a big difference of the growth of the profits.

Again, the highlights, the growth of the net profit, as we said it was having good growth, which is really contributing to increasing our margin, so net margin is back to normal, as we promised, we said it was affected but, since our operation is normal and recovered, so our net margin will go back to normal. So that's exactly what was expected to happen, and that was the result.

If we go to the next slide, which is the year-end financial performance, here we highlight honestly, we expected the growth of 14%, but, thank God, achievement was really above expectation, which is 24%. Yes, some of it was coming from consolidating the acquisition of Al-Ashraf, but still there was growth in all our business channels, the three divisions highlighted and explained earlier, distribution and retail and production. So that's why we had healthy growth across all the channels.

Again, the net profits, again from revenue of 35 million compared to 28 million, which is 24.5%, net profit at 3.4 million compared to 2.6M, 31.5%, which is again improving the profit margin, which was 9.2% last year, and this year we have 9.7. And 9.7, this is our aim, as we explained earlier. We goal for profit margin between 9 and 10, so I think that was a good achievement by having back-to-normal, healthy, and good margin of what we are working for and what we are targeting to achieve.

The next slide, here we present the new structure, which is again, as we said, the channel, the way we are going to present our numbers. If you see, the distribution contributes 92%, which is again 32Million compared to last year 26Million, with the growth of 21.6%. And retail, again it was a big jump of 749,000 compared to 299,000, again distribution 2.1% with the 150% growth. The production

نمو متواصل
Ardiya Industrial area Block 2, Building 100, Kuwait
+965 24335300-400 +965 24338216 info@aleidfood.com www.aleidfoods.com

unit, which is 2Million compared to 1.3Million, with a contribution of 5.8%, with a growth of 54.7%. So, I think that's exactly what we have set as a goal for performance. And as you see, the growth was available in all the channels, and that's healthy, and that's what we are planning to do, and that's what we achieved.

Next, we'll go to our financial performance, which is again, comparing 2023 to 2022. In the working capital, there were big changes, again after the acquisition, and increasing of the capital, 58 million, and relatively percentagewise, it's increased from 80% to 109%. CAPEX, there was no big change, so it's a small variation.

The big change there was in the cash flow, again, its 5.5 million compared to 4.3 million. Again, relevant percentage is almost the same. If you see, here, the changes were in the debt, due to the acquisition in the H2 its higher, but from a percentage share point of view its still within the targeted ratio , which verifies it's increase from 7.9 million to 16.4 million.

But if you see compared to equity as a percentage, and that's what we keep saying is that, still we are in a healthy position since we are below 40%. And this kind of business we are expecting to grow more than 40% but we work so hard to maintaining it below 30% but recently its unexpectedly higher than our goals specially that the interest rate is still on the higher side.

EBITDA growth again from 3.5 million to 4.4 million, percentagewise it's a big change because still consolidating numbers of Al-Ashraf's acquisition in December, so consolidation showed a small effect.

The next slide, which is the last, as we always say, we are showing our share performance. And, its worth to highlight that during the year 2023 with the challenges of the market we were able to achieve the performance of 15 Fils and that was our forecast following our past years trend, but we can say we beat that expectations with this growth this year, so reaching 16.6, really good performance and milestone, with a 23% growth, and that was actually one of the aims for the acquisition that took place this year, to have more better numbers in the performance of the shares profits.

The dividends, and as mentioned previously, we were looking forward to focus more on the cash dividends, and that's what's happening this year. So we are proposing to our board the distribution of 10% cash dividends. Finally the Ownership structure changed after raising the capital, so the Dalqan Holding now owns 67.5% and the float shares is 52.5%.

Now, we can leave it for questions, any clarifications or question required, we are there to answer you. Thank you.

Operator Thank you. Please press star followed by the number one if you'd like to ask a question, and ensure your device is unmuted locally when it's your turn to speak. If you've joined us online, please type your question in the Q&A box provided. Our first question today reads how has the Saudi market expansion been going? Last time, there were some regulatory issues. How do you plan to deal with large competitors like Almarai and Savola? is there any guidance on margins, going forward? And can you tell us the expected five-year revenue CAGR?

Mohammad Al Mutairi First, regarding the Saudi performance, there's still restriction there and, as we said, we highlighted earlier, we are still trying, and hopefully we will have more updates soon. However, as we mentioned earlier one of the reasons for the acquisition of Al-Ashraf Food services is to allow us to strengthen us on this kind of business operation. Because, again, our operation in Saudi, it's mainly food service and wholesale.

Nothing's changed, still the numbers there, but still low because nothing's changed, and we are working and focused to achieve the goals. The last half of the year last year was focussing more on that, and we are still testing the market of Saudi, but we are not competing with Almarai or Svola, we are competitors of other people, like Monajjem, these are the main competitors for us. That's regarding the question of Saudi operations. The other question is… What is it again? I missed it. It's regarding the margin?

Amal Khreich Shed some light on the recent acquisition and what is the expected contribution.

Mohammad Al Mutairi Acquisitions, as we said, the acquisition of Al-Ashraf, we are expecting the growth of the number's contribution will be 100%, so almost doubling our numbers. So if you allow me, let's talk about the numbers. In 2023, if we consolidated both businesses 100%, which has not happened yet, our revenue would be 64 million and the profit was 5 million. This is the actual amounts in 2023. In 2024, we are expecting 68 million, and with a profit of 5.7 million. If you ask me about what is consolidating and how we are expecting the number, that's our target and that's the plan, how we are going to achieve the numbers in 2024.

Operator Thank you.

Amal Khreich The last question was do you have a debt repayment schedule planned? The last question, here, mentioned do you have a debt repayment schedule planned.

Mohammad Al Mutairi Our debt is normal, as we said, and healthy, with the overall working operations, [unclear 00:18:36] instalment has been on time and it's normal, nothing is there to highlight. If you see the numbers, there has been a jump because consolidating the debt of Al-Ashraf, until the contribution was not there. So the contribution of Al-Ashraf, I think in the next two quarters, Q1 and Q2, the picture will be clearly seen to the people, they will understand the benefits of acquisition when the numbers start reflecting and contributing to the total financial results of Aleid.

Operator Thank you. The next question is how should we think about margins going forward, are these the normalised levels of margins?

Mohammad Al Mutairi Actually, it could be a concern of the people, yes, because if you see the numbers of Al-Ashraf, usually food services is lower-margin, and we know that, but still if you see our numbers, our margin was 9.7, which is good, the mixture that we have from the production and retail, and also the distribution that we had on the trading side. So that's why we are maintaining our...

And as we said, to recover from 8% back to 9.7%, what we just highlighted, this is a good thing, and that's what we are expecting. Our aim, if you're asking me, our aim is that since the acquisition numbers, revenue-wise, will be very high numbers, we are 60-plus millions now, our focus will be focusing on two factors. The first factor is enhancing our gross margin on the food services side, operation-wise, and maintaining and start translating into the operation expenses, so whatever overhead expenses, whatever... Because, again, Al-Ashraf operations, has quite a good structure, so having two giants now together, I think now we can consolidate... Again, we should not affect the business, but some of the things can be saved and enhanced. So our aim is that it's not in the top line, actually, in the bottom line, but enhancing our gross margin and reducing our expenses.

Operator Thank you. The next question is is there any impact from the Red Sea on your supply chain?

Mohammad Alkhas Yes, actually, we highlighted it. Yes, the effect was not that big in the last year, but in this quarter, yes. It was a delay of two weeks of products by routing the ships. But as we said, we already had a recovery plan, we had our own recovery by having good relations with international partners, like we diverted some stock from Dubai to recover our things, until we get our normal shipments from there, as scheduled. So yes, it was affected, but we had our emergency plan to recover it, which was mostly good.

Operator Thank you. And should we expect margin pressures in the first half of 2024 as a result of the increase in shipping rates due to the Red Sea conflict?

Mohammad Al Mutairi No, not in the Red Sea and not the interest rates. As we said, if we see the margin, because of adding the new business, which is lower-margin, the food services, Al-Ashraf, but we said already we are understanding that, because this is the nature of the business, and that is what is in our mind, and we know what we are going to do.

So as we said earlier, also, it affected our margin and we recovered, so what we said is that we want to keep that always as our aim. We want to keep always between 9 to 10 , and that's our average and our benchmark, and that's what is our target.

Operator Thank you. The next question asks can you kindly inform us of your inventory level policy, as it seems to be high?

Mohammad Al Mutairi I don't know, based on which financials he's talked about. If it's 2023, inventory level, it depends. Again, you mentioned business, if you see that's the question, when you route... One of the questions you asked me now, affected by routing the plan during the red sea crises, having a good secure inventory always, minimising the risk of sudden changes. So this is part of the strategy of purchasing.

So it depends on that which kind of project and which kind of needs of handling, so there's a purchasing division, there is strategy risk management, so we had a lot of things, and always if you want to grow, especially on wholesale and food services, all should keep buffer stocks. And the question is rotating the stock and having good cash flow, and that's what the performance is showing. So I think we are fine, and it depends on which kind of project, and sometimes having the buffer stock could be an opportunity and giving you the strength to utilise and increase your market share.

Operator Thank you. And the next question is have you had any discussions with your suppliers regarding food inflation moving forward, and what do they expect?

Mohammad Al Mutairi Regarding, again, inflation actually, as we said, it's two things, fluctuation of prices of supply chain and commodity, which is again sometimes not affected like

نمو متواصل
Ardiya Industrial area Block 2, Building 100, Kuwait
+965 24335300-400 +965 24338216 info@aleidfood.com www.aleidfoods.com

now, like chocolate which has jumped to unusual heights. But I'm saying that fluctuation of supplies and commodity is always there, and always the network that we have, and the knowledge that we have, always we plan ourselves to cover and recover things, and we have a mixed basket to adjust between and averaging between what is happening.

Regarding frozen, if you're talking about frozen meat was not that much affected by the inflation. Yes, supply was challenging, as we highlighted, as a supply chain, and it was normal, and we recovered smoothly and fast, So I think we are in control by having a good relationship with our partners to manage and handle any unexpected matters, during an emergency or sudden changes, like what's happening with routing the shipments line.

Operator Thank you. The next question is what is Aleid Food's strategy after the recent capital raise?

Mohammad Al Mutairi Sorry? Again?

Operator What is Aleid's strategy after the recent capital raise?

Mohammad Al Mutairi Again, as we said, the strategy, it's to enter a new segment, which is the food services, which Aleid was not strong on. So the first one is that, to enter a channel which we think is the future. And already a company like Al-Ashraf was one of the key players in the market. And also, it will allow us for regional plans, like either in UAE or in Saudi, because this is our future. Our future plan is to expand and focus more on food services and wholesale B2B, not on the retail distribution or trading distribution. So that's the strategy.

We are mixing the business channels, changing our focus from retail to, again, food services. Again, this is the future and this is the potential, both in Kuwait and also in the regional sites. So I think this is a good move, and this is what our strategy will be, to focus more on that. With the earlier strategy, what we started highlighted, by having the new businesses, as we highlighted here, what we call it now, this time in the retail and the production, which is having a higher margin to enhance also your distribution margin.

Operator Thank you. And the next question is the distribution segment accounts for the majority of the sales, what is the targeted percentage of sales, going forward?

Mohammad Al Mutairi Definitely, when we add now the numbers later, when they start contributing, the numbers of Al-Ashraf on the food services side, definitely the percentage will be on

نمو متواصل
Ardiya Industrial area Block 2, Building 100, Kuwait
+965 24335300-400 +965 24338216 info@aleidfood.com www.aleidfoods.com

the higher side. But, as we said, we will take care of the margin that's after consolidating the distribution. And in distribution, as we said, there are two parts, food services and the trading.

So these will start to contribute 50-50, that is our plan. From the 92% or 90%, to keep the same, it might be slightly higher also, but within the division itself the split between the two operations would be a bit like 50-50. That's the plan. And also, to focus on the retail and production side. But the numbers, the revenue will not be high, but the margins are high on the profit side, the bottom will be more. So that's exactly because if you see, now, our retail gross margin and production is more than 18-plus, which is not there in distribution.

So now we will start maintaining that, we'll start motivating this retail and production business to grow more, to have a better average gross margin, net margin, which will help you in improving your net margin on the distribution side. But as a contribution percentagewise, I think it will be the same, but it will be enhanced between inside the distribution, between trading and food service.

Operator Thank you. The next question is can you give us a breakdown of volumes of products sold and percentages of contributions of frozen and rice, for example? And how do you plan on dealing with price ceiling of Tamween?

Mohammad Al Mutairi Let's start with the last one, Tamween is one of the main and most solid channels now, as we said, one of the best and biggest channels on frozen chicken in the Kuwait market, and it's also a stable contract with the government, and having a good margin. We keep growing on that. With the acquisition of Al-Ashraf, we are stronger than 60% of this channel share on frozen chicken alone, because we have more brands available than any other competitor through the combined operations.

Amal Khreich The breakdown of volumes, products sold, percentages, contribution of frozen [overtalking]?

Mohammad Al Mutairi Okay. As we said, this time in the presentation we changed, but again contribution, as we said earlier, the contribution of frozen meat contributed 57 to 58 and chicken contributed more into it something like 59 and 60. That's in the frozen. And other commodities, like 20% rice and other, which usually we used to highlight, the frozen, the French fries and pulses breakdown. We removed that from our presentation because we said, let's focus more on the channels because that's exactly what is our future. And again, this kind of business channel, having the same concept of margin, distribution is almost like trading and food services, and if you go to

Ardiya Industrial area Block 2, Building 100, Kuwait
+965 24335300-400 +965 24338216 info@aleidfood.com www.aleidfoods.com

retail, the margin is almost similar, whatever it is under the retail segment. The same thing for anything under manufacturing or production are having the same margins.

So we changed it to have a better understanding in the way we present the numbers, because these kinds of channels are having almost the same margin and gross margin, and the operations also we want to see how it's contributed together to the business, and then enhancing that, at the end of the day, as we say, we are targeting to enhance the bottom line, not the top line. Now, our top line is very much higher. Now, enhancing our bottom line by enhancing the gross margin and maintaining our overhead expenses, that's our goal, and that's what we want to achieve during 2024.

Operator Thank you. As a reminder, if you would like to ask a question, please either press star followed by one on your telephone keypad or submit any written questions in the chat box provided. We've had no further questions, so I'll turn the call back over to you, Mohamad with Arqaam capital.

Mohamad Al Sakhal It seems we currently have no other questions. On behalf of Arqaam Capital, I thank you all for joining, and I'll hand it back to the management for any final remarks.

Mohammad Al Mutairi Thanks, Mohamad, and thanks to all your team and you're handling of the conference call, and nothing there much, I appreciate the people and their questions and their contribution, and thanks to everybody. Metaab, now?

Metaab Al Masoud Thank you. As an investor relations office, we are receiving any kind of questions, you can find my email, you can find Amal's email, and we hopefully can reach you soon again and again and again. Thank you.

Amal Khreich Thank you, Mohamad, thank you, Lydia.

Mohamad Al Sakhal Thank you, thank you.

Amal Khreich Thanks, [overtalking].

Operator Thank you. This concludes today's call. Thank you for joining. You may now disconnect your line.