Aleid Foods Q2 - H1-2024 Results Conference Call Transcript

Operator Hello, everyone, and welcome to the Aleid Foods Earnings Call. My name is Felicia, and I'll be your operator today. Following today's presentation, there will be a Q&A session. You may register for questions by pressing star, followed by one on your telephone keypad or by sending them using the Q&A box on the call. I will now hand you over to Mohamad Al-Sakhal to begin. Please, go ahead, Mohamad.

Mohamad Al-Sakhal Good afternoon, everyone. This is the Mohamad Al-Sakhal from Arqaam Capital. Welcome to Aleid Foods H1 2024 Earnings webcast. We have with us today, Engineer Mohammad Al-Mutairi, Chief Executive Officer, Mr Metaab Al-Masoud, Investor Relations Manager and Ms Amal Kreich. Marketing and Communication Director and Mr Waleed Ali, Marketing and Business Development Director. We can start the panel by Mr Metaab giving us an introduction, then Mr Mohammad, a brief about the results and the latest developments, and then we can jump into Q&A. Mr Metaab, the floor is yours.

Metaab Al-Masoud Hello, everyone. First, thank you, Arqaam Capital, for hosting the first half of 2024 earnings call. Today, we're going to take you through our presentation. First thing on the agenda, we're going to talk about, Aleid Foods' operational structure, tailwinds, H1 of 2024, headwinds, H1 of 2024, business performance and financial performance. Aleid Foods, first half of 2024 [inaudible 00:01:48], as you know, after the acquisition of Al-Ashraf Foods, which has accelerated the company plans to become a competitive player in the food service segments of the first half of this year. Aleid would become a leader on the frozen chicken supply [inaudible 00:02:09] the largest distribution channel in Kuwait. Company entry into specialised retail segments of chocolate and bakery, raw materials and equipment.

Now we're going to talk about the tailwinds and the headwinds. First of all, the tailwinds of the first half of this year, the diversification of income-generating business segments. Retail and production units had a significant growth, picked up after the acceleration strategy with the retail division, bought [? 00:02:49] at 421%, and our production division at 44%. The newly entered food service segment's contribution to business [inaudible 00:03:02] at 631% growth. The good thing about the first half is that inflation ended with the rate at 2.8%, which is considered the normal average for the market.

Now with the headwinds, the main headwinds we have appointed here, it's the continuous consideration for the supply chain challenge during these sensitive times. And now we're going to go through the application, when we will start with the business performance with our CEO, Mr Mohammad Al-Mutairi.

Mohammad Al-Mutairi Good afternoon, everybody, and welcome to our half-year earnings call. Today, we are here to review our financial and operational performance for the first half of the year and to discuss the latest developments in our company. Thank you for joining us today, and let's begin with reviewing our performance of the first half of the year. If you see the revenue of the first half year, reached to 37.1 million, compared to almost 18 million, 17.99, which is with a growth of 106%, which, as we promised and we said, that's what will be resulted from after the acquisition of Al-Ashraf.

Net profit, we had 3.1 million, compared to 1.8 million, with the 69.7 percentage of growth. Our net margin came down to 8.5, compared to 10.3 last year, and we will come to that in detail. If you see in the highlight, we'll discuss it now. In the EBITDA, it's 4 million compared to 2.4 last year with a 65% growth. The EBITDA margin [inaudible 00:05:07] 15.5%. In the highlights, we highlight the growth of the net profit to 69.7% during the first half of the year. Net margin, as we said, came down to 8.5% due to the low profit margin in the food service segmentation from Al-Ashraf operation. I will go to the next slide.

If you see the business performance, as last time, we restructured our channels. The distribution, as we said, has contributed 92%, had a growth of 104%, compared to 34.1 million this year, we reached, compared to 16.7 last year. And the retail also was the highest growth, 421%, as highlighted from, I mean 1.5%, 1.5 million compared to 0.3 last year, which has contributed 4.2 percentage. The production had a growth of 44%, 1.4 million, compared to almost 1 million last year, with the contribution of 3.8%. As you see, that is the restructuring we did last year, and that's the channel, exactly what we are focusing. Yes, distribution is still the highest contribution. That's what is expected on the model we have.

But the contribution of retail and production, that's what we are pushing it, to contribute more, and that's what we are aiming to have. Next slide, the financial performance. First, in the working capital, we had very big growth as, after consolidating the financial statement with Al-Ashraf, which is 41.3 million, compared to 25.1 million, the percentage of the revenue is 117%, compared to 67.8% last year. Capex, as we said, during the last year, there is no big investment, so it's still in the low side. The free cash flow, it's 5 million, compared to 2.9 million last year. Again, the percentage of the revenue is 14%, and last year was 7.8.

The debit, again, we had 16.9, and we highlight that after consolidating the operation with Al-Ashraf. That number has been doubled, compared to 7.6 million last year. Again, if we see the debit to the equity, still, the percentage within a reasonable and acceptable number, actually below, 55%, compared to 52.9 last year. EBITDA is 4 million, as we discussed, and 2.4 million last year. Again, the percentage, 343%, compared to 55% last year. Go to the next slide. Again, this is the share performance. If you see, the free float has been increased, compared to last time. Our share profits, reached 10 fils, and that's what is our aim, actually, and that's what we highlighted.

The growth here, you see 6.3%. It's actually much higher than if you compare, like to like. But here, the comparison, it is not reflected. The 9.3 fils last year is not reflected to the new base of capital. But as you see in the profits, what we highlight, almost any, as we said, 70% growth in the net profits. That's what we had today for our earnings call. And now, we'll go to the questions with you, Muhammad now

Metaab Al-Masoud Thank you. I think Mr Mohammad, now, will handle the questions. We could have it by participant, or also writing. So, let's start with the Q&A.

Operator Thank you. The first question is, what are Aleid's expansion plans, both locally and internationally? Should we expect any new acquisitions?

Mohammad Al-Mutairi Yes, good question, actually. Aleid Foods is actively, as we said, pushing any expansion, any opportunity, and internationally. And we aim our strategy to present by opening any new, especially in the retail, outlets, or expanding our distribution network. And that's what is exactly, we keep doing it. So, what we also had, any acquisition study. We are looking to it. So, opportunity of acquisition is there on the table. So, any opportunity, which is aligned with our strategic goals to diversify our product offering or enhancing our market share, definitely we will go for it. Yes, that's it.

Operator Thank you. As a reminder, if you wish to ask a question, please press star, followed by one on your telephone keypad if you're connected via the telephone line, or use the Q&A chat box if you are streaming the call.

Metaab Al-Masoud Felicia, I think they are sending by the chat here. You can just read it.

Operator The next question is, your cash conversion cycle is, on average, above 300 days, whilst competitors have a much lower cash conversion cycle of around 100 days. Why is this? And are there plans to improve this, as this imposes a risk?

Mohammad Al-Mutairi Yes, actually, we discussed this one. Again, we cannot answer the question like this, because it needs a lot of details. I don't know from where he compared the 300 days. But as we said, we discussed this, regarding there, he is talking about… What he means, the cash comparison? It means what? He's talking about inventory, or he’s talking about reliability [? 00:11:46] receivables? So he's talking about receivables, but…

Operator Perhaps, if the person who sent in the text question is listening, they can clarify. We've not received any further comment, so would you like to take the next question?

Mohammad Al-Mutairi Yes.

Operator The next question is, what are the companies margin projections going forward?

Mohammad Al-Mutairi Yes, actually, the margin, always, we say, our target is to be between 9 and 10, the net margin. And that's what we are performing. Yes, we noticed a coming down this year too, aligning with us, the food service business from Al-Ashraf, which is because there, the business’s, the margin is lower. Al-Ashraf margin is 5.8%. But as we said, with all the other business channels we have, like the retail and productions, which are the higher-margin business models, that's what we are averaging and enhancing our margin. And as we said in our last earnings calls, that is what is the challenge.

Actually, we said, this year, we have two challenges. The first one is improving our margin to achieve the 9% and also constantly enhancing our expenses because we are consolidating other businesses on the company. So, whatever alliance and synergy on the expenses, we’ll try to save it and to minimise the cost of expenses, to enhance the margin. And that's what is exactly our aim, and that's the plan we put from beginning of the year, and we are going to achieve it and enhance it.

Operator Thank you. We will go back to the previous question, so I will repeat the question and the comment we received. Your cash conversion cycle is, on average, above 300 days,

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whilst competitors have a much lower cash conversion cycle of around 100 days. Why is this? And are there plans to improve this, as this imposes a risk? I'm speaking of receivable and inventory altogether and payables, cash conversion. Put them all together.

Mohammad Al-Mutairi Yes, okay, if he's talking about receivables, actually, it depends on which business he's talking about because there is a receivable with 100, and there is a receivable, 180 days and 160 also. So, depends on the model, as we discussed. I think this question raised last time, and we discussed about, it depends on the company models. Each company has its own way of handling the businesses. And if you see, in our receivable what he's talking about, 91%, it's below 120 days as an ageing. So, you cannot take it as a lump sum, but if you see the ageing of the receivables, if he has the ageing, it's there in the financial, if he's reading the financials, it's giving him the indication that 91% is below 120, which is a clear indication it's healthy receivable. This is number one.

Number two, since our business involves more on wholesale and groceries, and we had a market share on that, and we want to keep market share, definitely, since in operation, your business is depending on commodities, it's two things to grab your market share, to increase your market share, and to have and sustain. And maintaining your market share is in two ways. Number one is your pricing. It's a commodity business. The price is a strength you have. So, the more you lower prices, the more you have sales and increase your market share. Number two is, giving credit to your customers. So that's exactly it, and that's what we are doing.

So, we are having a credit facility to our customers on both channels, the wholesale and grocery. That's why we have more on ageing. But it's healthy, and again, you are talking about a company, which is 30 years in the business. So, we know where we should put our business, I mean, our sales as a credit and where are the good customers and the healthy customers and to appoint that. And also, there is a provision. So, the remaining of the amounts, key analysis, that is, if there is a provision for that, and we have experience, and we we've been on the business many years. So, we didn't have that problem.

However, receivable, it's one of your assets on generating the sales and maintaining your market share. That's why you are investing on that. And again, as I said, it depends on the company models, and our models, it's depending on giving more, since we are depending, having a strength on the wholesale and groceries. So, that's exactly the answer, but it's overall healthy. If he goes on retail more, in the numbers, he will see a positive indication, not negative as he highlights in the questions. But again, it's also comparison. So, there is a 161/170-days company having that, and it depends on the model of the company. So, I hope we answered the questions.

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

Mohammad Al-Mutairi Yes, actually [inaudible 00:18:10] because, again, on the distribution, we have two things, the trading and distribution and the food service, and they're the biggest. So, definitely, it will be contributing the highest. But we are aiming to increase our contribution on, the new channels, the retail, and the productions, because they are the channels, which are creating more margin to enhance our margin. So, if we are targeting, as we said, to improve and enhance our margin, definitely, we need to increase the contribution of other channels. But our aim is to be 9 and 10, the others instead of 2.

So, yes, and we are thinking it might go 2% higher and lower, and that's the aim. But still, the business model will be the same. Distribution will contribute the highest.

Operator Thank you. The next question reads, given the high interest rate environment, is Aleid planning to deleverage its debt?

Mohammad Al-Mutairi Actually, as we highlighted earlier, our debt, we are still in lower side. So, as we said, the same guy, he answered the question earlier in comparison with P/E [? 00:19:31]. Also, we are having 32% or 55% of our equity. So, still, we are in lower side, because in this kind of businesses, you will find a company having a debt of more than 50 and 70%. So, we are still in lower side, and we are, as we said, investing already. So, actually, we are we are liquidating our cash flow through the two channels we have, the inventory and receivables, and that's what, we are depending more on our business cash flow and loans there.

But still, we are on minimum side in case, and we are keeping that buffer for two reasons. In case of any acquisition and expansions, we will use it when, also the rate will be… If interest were coming down, definitely will be one of the cushions we have. So, in case of any use, we'll be using it. But still, we are in lower side, and we are keeping maintaining that as a strategy.

Operator Thank you. The next question reads, what are the growth rates for revenue, EBITDA and net profit on a like-for-like, basis?

Mohammad Al-Mutairi Actually, I think we gave it. I believe that was 60/65%, was there. Yes, and the EBITDA…

Amal Kreich Yes, your like-for-like.

Mohammad Al-Mutairi Yes, okay. As we said the EBITDA's like-for-like was there. So, it's from 4 million, compared to 2.4 million. And actually, it was 65%, the growth. That's what, as per, the presentation was showing there. And the numbers there in the presentation.

Operator Thank you. As a reminder, if you wish to ask a question, please use the Q&A chat box, which can be found on the presentation page. It seems we have now just got a question. How is Aleid Food mitigating the higher freight rate?

Mohammad Al-Mutairi Yes, actually, first, we are always saying that we are depending here, on this basis, on shipments, but Aleid, is maintaining that by having a strategic partnership with our supplier and logistics provider to optimise our supply chain and exploring any alternative of shipping routes and methods. So, that's what is, and actually, honestly, we are in a better situation now in supply. And the rate of freight is coming down, compared to 2020, like COVID time or after that. So, I think, and during that time, we handled by having good relations with our supplier and partners and also our shipping lines and logistics, whatever's the alternative.

However, we are maintaining that, and also, we are keeping it always, because we are depending on [inaudible 00:23:17] basis, which is, always the freight will be the responsibility of the supplier, not us as a buyer. And that's our style of purchasing and the technique. But we don't see any issues now. We are seeing, actually, in the other side, it's improving and it's maintaining the prices.

Operator Thank you. We have another question. What are the margin projections going forward?

Mohammad Al-Mutairi Yes, actually, we answered that question. I think, as we say, we kept our margin this year, half of the year was 8.5. And we said we are targeting to go between the range of 9 and 10. That's the area, which we are always targeting. Yes, it's a challenge, as we say, but we are trying our best to achieve that. But still, our net margin, 8.5 is still in the higher side in this business.

Operator Thank you. As another reminder, please use the Q&A chat box on the presentation link to send in any text questions you may have. We've received another question. You mentioned that Aleid Foods became a competitive player in the food services segment. If available, would it be possible to share the market share?

Mohammad Al-Mutairi Yes, definitely. Aleid Foods has second, and it has increased their market share in the food services since they entered after the acquisition of Al-Ashraf, because, as we said earlier, Al-Ashraf is one of the key player on the food services actually. And one of the aims of acquisition of Al-Ashraf is to enter the new channel, which is the food service. So, you can say, now, today, Aleid, on the frozen meat, we are the number two key player, as the second market leader on the market. And we can confirm that all this, to achieve, to sustain and whatever, all these things are to maintain our market share and to increase it, and that's what we are doing.

But definitely, Al-Ashraf, it's contributed to that, and it's one of the key players on the frozen meat and chicken. So, that's why we said we've become more competitive, actually. Actually, we are second market leader, we can say, but we didn't highlight it. But this is what is happening in the market.

Operator The next question reads, net revenues nearly doubled in Q2 and more than doubled in H1. How sustained are the current levels, or is this related to seasonality?

Mohammad Al-Mutairi No, actually, this is related to the acquisition of Al-Ashraf, because, as we said, that's the contribution, because we are adding a business model, almost similar to Aleid's business. That's what we say. And it's mainly on the food services, and Aleid was on retail business. So, that one, one of the key factors of this one. So, whatever the numbers, it's consolidating of the business with the financial balance sheet from Al-Ashraf. But again, if you are asking me, how is it, the projection, that's what we are expecting. As we said, we highlighted in the last year, we are targeting to achieve 68 million with a profit of 5.7, and that's what we announced, which almost doubles the number.

So, we are always seeing 100% growth on the revenues, and you will see 70 to 80% growth of that net profit. And that's what is the projection, and that's what's going to be achieved, since we are consolidating both companies' financials now.

Operator You have no further questions, so I'll hand back to the Management team for any closing remarks.

Metaab Al-Masoud Thank you, everyone, for your participation. And just a reminder, you can go to our website. It's always updated with new figures and information, and if you need any special enquiries, you can just communicate with us as an investor relation and send me by my email.

Mohammad Al-Mutairi And thanks, Mohamad, and thanks, Arqaam, for hosting this conference call. And we hope that we answered all the questions. And I really appreciate, and thanks to all the participants today with us, and we hope we gave them answers, and if something is there, as Mr Metaab said, they can send us email and we can clarify everything. Thank you and bye.

Mohamad Al-Sakhal Thank you, Management, and thank you all for joining.

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