



COMPARISON BETWEEN FIVE CORPORATIONS OF THE CONSUMER STAPLES INDUSTRY

Financial management project

Section 224

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Executive summary

This project will provide an analysis and comparison between five corporations of the major listed corporations available in KSA in the consumer staples industry, which are:

- Almarai company
- Saudi dairy and foodstuff company (SADAFCO)
- Abdullah Alothaim markets Co.
- Halwani brothers Co.
- National Agriculture Development Co (NADEC)

The analysis and comparison will be on the bases of each corporation's risk and return, working capital performance, and the financial ratio analysis during the last three years.

Introduction

Since the acknowledgment of risk and return is important when deciding whether to invest in a stock or not, we calculated:

- The return of the market
- The return of each company.
- Beta (measurement of systematic risk)
- The expected return of each company.

To help us understand each company's stock performance during the last three years, which are 2015, 2016, 2017. Financial ratios help making the comparison between the five companies easy, understandable, and clear. And the working capital enables us to understand how efficient the company is when it comes to its operational performance. It also enables us to state the time period each company needed to receive payment for their products from the payment day of their raw materials, by looking at each company's production cycle, payment cycle, and collection cycle. (Brooks, 2013) All data which have used in this project for each company have been taken from Tadawul.

Companies background

This section of the project will provide a simple background of each of the five corporations of the major listed corporations available in KSA in the consumer staples industry.

Almarai company

Almarai - Joint Stock Company was founded in 1977 and is headquartered in Riyadh, Saudi Arabia. Almarai with its subsidiaries, operates as an integrated consumer food and beverage company in Saudi Arabia, other Gulf Cooperation Council countries, Egypt, Jordan, and internationally. The company is operating through Dairy and Juice, Bakery, Poultry, and Other Activities segments. ("Almarai - Joint Stock Company: Private Company Information - Bloomberg", 2018)

Saudi dairy and foodstuff company (SADAFCO)

Saudia Dairy & Foodstuff Company was founded in 1976 and is based in Jeddah, Saudi Arabia. It's a dairy and foodstuff company that operates across the Middle East. The company produces and distributes dairy products, beverages, and other foodstuff. ("SAUDIA DAIRY & FOODSTUFF CO (2270: Saudi Stock Exchange): Stock Quote & Company Profile - Bloomberg", 2018)

Abdullah Alotthaim markets Co.

Abdullah Al-Othaim Markets Company was founded in 1956 and is headquartered in Riyadh, the Kingdom of Saudi Arabia. The company with its subsidiaries, engages in the retail and wholesale of food supplies and other products in the Kingdom of Saudi Arabia. The company engages in the import and export, wholesale, and retail of vegetables, fruits, grains, flours, rice, dates, sugar, milk, ghee, millets, olives, halva, meat and pasta products, fizzy beverages, mineral water, and fish and dairy products, as well as trades in livestock and household items. ("Abdullah Al-Othaim Markets Company: Private Company Information - Bloomberg", 2018)

Halwani brothers Co.

Halwani Bros. Co. Ltd was incorporated in 1952 and is headquartered in Jeddah, the Kingdom of Saudi Arabia, and it is a subsidiary of Aseer Arabian Industrial Investment Ltd. The company produces and distributes food products in the Middle East. It offers sweets, bakery products stuffed with dates, dairy products, processed meat, jams, and juices; halawa; maamoul; tahini; cheese; provision, such as mixed pickles, olive oils, sliced black and green oils, sugarcane syrups, garlic pickles, and red pepper in oil; and packaging products. ("Halwani Bros. Co. Ltd.: Private Company Information - Bloomberg", 2018)

National Agriculture Development Co (NADEC)

The National Agricultural Development Company (NADEC) was established in 1981 by royal decree. The company is a joint stock public company – 20% owned by the Government, and the rest publicly traded on the Saudi Stock Exchange.

NADEC is one of the largest agricultural and food-processing share stock companies in the Middle East and North Africa. ("Company Profile & Information | National Agricultural Development Company", n.d.) The company produces agricultural and dairy products. It operates a dairy complex incorporating dairy farms and processing plants. NADEC also operates sheep farms, a date processing plant, and a fruit nursery. ("NADEC: Saudi Arabia Stock Quote - National Agriculture Development Co/The", 2018)

Analysis and comparison

Beta and expected return

This section provides the calculations of Beta and the expected return for the 5 companies, the market risk free rate and the market risk and the expected return on the market during the last three years.

The market risk free rate and the market risk and the expected return on the market:

Year	R(f)	R(m)
2015	0.01785	-0.0006844
2016	0.02423	0.00026063
2017	0.02285	3.6279E-05

Beta and the expected return for the 5 companies:

The formula that has been used to calculate the expected return:

$$E(r) = Rf + (E(rm) - Rf) \times \beta$$

	Almarai		SADAFCO		Alothaim markets		Halwani		NADEC	
Year	Beta	E(r)	Beta	E(r)	Beta	E(r)	Beta	E(r)	Beta	E(r)
2015	0.613	0.647%	0.690	0.506%	0.599	0.674%	0.702	0.484%	1.025	-0.116%
2016	0.593	1.000%	0.632	0.908%	0.850	0.385%	0.888	0.294%	1.155	-0.346%
2017	1.060	-0.135%	0.489	1.169%	0.806	0.446%	0.532	1.076%	0.711	0.662%

Almarai company

Almarai's systematic risk decreased in 2016 compared to how it was in 2015, but in 2017 it increased dramatically.

2015 Beta: less than 1, so it's a defensive investment. 2016 beta: less than 1, so it's a defensive investment. 2017 beta: greater than 1, so it's an aggressive investment. (Brooks, 2013)

In 2016, Almarai's expected return increased by 0.353% compared to how it was in 2015, but in 2017 it decreased dramatically by 1.135%.

Saudi dairy and foodstuff company (SADAFCO)

SADAFCO's systematic risk kept decreasing during the last three years. In 2016, beta decreased by 0.058 compared to beta of 2015. And in 2017, beta decreased by 0.143 compared to beta of 2016. Since all beta values are less than 1, it means they are considered as a defensive investment. (Brooks, 2013)

SADAFCO's expected return kept increasing during the last three years. In 2016, the expected return increased by 0.402% compared to what it was in 2015. And in 2017, it increased by 0.261% compared to what it was in 2016.

Abdullah Alothaim markets Co.

Abdullah Alothaim markets' systematic risk increased in 2016 by 0.251 compared to how it was in 2015. But in 2017, it decreased by 0.044 compared to how it was in 2016.

Since all beta values are less than 1, it means they are considered as a defensive investment. (Brooks, 2013)

In 2016, Abdullah AlOthaim Markets' expected return decreased by 0.289% compared to how it was in 2015. But in 2017, the expected return increased by 0.061% compared to how it was in 2016.

Halwani brothers Co.

Halwani's systemic risk in 2016 increased by 0.186 compared to how it was in 2015. But in 2017 it decreased dramatically by 0.356.

Since all beta values are less than 1, it means they are considered as a defensive investment. (Brooks, 2013)

In 2016, Halwani's expected return decreased by 0.19% compared to how it was in 2015. But in 2017 it increased dramatically by 0.782% compared to how it was in 2016.

National Agriculture Development Co (NADEC)

NADEC systematic risk in 2016 increased by 0.13 compared to how it was in 2015. But in 2017 it decreased dramatically by 0.444 compared to how it was in 2016.

2015 beta: greater than 1, so it's an aggressive investment. 2016 beta: greater than 1, so it's an aggressive investment. 2017 beta: less than 1, so it's a defensive investment. (Brooks, 2013)

In 2016, NADEC's expected return decreased by 0.23 compared to how it was in 2015. But in 2017 it increased dramatically by 1.008 compared to how it was in 2016.

Comparison

In 2016, the highest beta among the five companies was NADEC's beta with a value of 1.1553, and the lowest beta was Almarai's beta with a value of 0.5938. Even though that Almarai had the lowest beta, they had the highest expected return when compared to the other four companies, and NADEC had the lowest expected return when compared to other four companies even though that they had the highest beta. It's well known that the higher the risk the higher the return, but in this case it's not working that way, that was due to market risk premium being negative, that means that the return on government securities was higher than the return on the market shares (Campisi, 2016), that usually happens in time of crisis which is what the economy of Saudi Arabia was facing during the last three years.

Some of the systematic risks that the five companies faced during the last three years:

1. In 2017, Saudi Arabia cut diplomatic relations with Qatar which resulted in losing their market in Qatar. (Qiblaw, Tawfeeq, Roberts & Alkhshali, 2017)
2. The recession of the Saudi economy during the last 3 years.
3. The increase of interest rate in Saudi Arabia in 2016. (البنوك السعودية ترفع فوائد القروض " 2016 , "%0.25)
4. Decrease of purchasing power of Saudi people. (تباطؤ الاقتصاد في السعودية يخفض أسعار " (المستهلكين لأول مرة منذ سنوات" , 2017

Working capital and financial ratios

This section provides a comparative performance analysis of the five companies based on each company's working capital performance and the financial ratios.

Working capital

Almarai company

Working Capital Turn overs:

Year	Accounts Receivable Turnover	Accounts Payable Turnover	Inventory Turnover
2016	17.144643	5.795333	3.020247

Cash conversion cycle:

Year	Accounts Receivable Cycle	Accounts Payable Cycle	Production Cycle	Cash Conversion Cycle
2016	21.347777	63.154268	121.182141	79.375649

Saudi dairy and foodstuff company (SADAFCO)

Working Capital Turn overs:

Year	Accounts Receivable Turnover	Accounts Payable Turnover	Inventory Turnover
2016	12.334074	14.786931	3.472502

Cash conversion cycle:

Year	Accounts Receivable Cycle	Accounts Payable Cycle	Production Cycle	Cash Conversion Cycle
2016	29.673895	24.751586	105.399504	110.321812

Abdullah Alothaim markets Co.

Working Capital Turn overs:

Year	Accounts Receivable Turnover	Accounts Payable Turnover	Inventory Turnover
2016	221.972362	5.897004	9.186501

Cash conversion cycle:

Year	Accounts Receivable Cycle	Accounts Payable Cycle	Production Cycle	Cash Conversion Cycle
2016	1.648854	62.065417	39.841069	-20.575494

Halwani brothers Co.

Working Capital Turn overs:

Year	Accounts Receivable Turnover	Accounts Payable Turnover	Inventory Turnover
2016	7.964917	6.419781	2.914583

Cash conversion cycle:

Year	Accounts Receivable Cycle	Accounts Payable Cycle	Production Cycle	Cash Conversion Cycle
2016	45.951515	57.011293	125.575443	114.515665

National Agriculture Development Co (NADEC)

Working Capital Turn overs:

Year	Accounts Receivable Turnover	Accounts Payable Turnover	Inventory Turnover
2016	13.38472	3.397711	2.54003

Cash conversion cycle:

Year	Accounts Receivable Cycle	Accounts Payable Cycle	Production Cycle	Cash Conversion Cycle
2016	27.344615	107.719589	144.092786	63.717812

Comparison

Working Capital Turn overs

In 2016, Abdullah Alothaim markets Co. had the highest accounts receivable turnover, they collected cash about 222 times a year which is considered a very high number when compared to the other four companies. Halwani brothers Co. had the lowest accounts receivable turnover, they collected cash only about eight times a year which is considered a very low number when compared to the other four companies. When looking at all the five companies accounts receivable turnover, we find that the most suitable one is NADEC's accounts receivable turnover, they collected cash about 14 times a year.

SADAFCO had the highest accounts payable turnover, they paid to their creditors about 15 times a year which is considered a very high number when compared to the other four companies. NADEC had the lowest accounts receivable turnover, they paid to their creditors only about four times a year which is considered a very low number when compared to the other four companies. When looking at all the five companies accounts payable turnover, we find that the most suitable one is Almarai's and Abdullah Alothaim markets' accounts payable turnover, they paid to their creditors about 5 times a year.

Abdullah Alothaim markets Co. had the highest inventory turnover, they sold and restocked the inventory about 10 times a year which is considered a very high number when compared to the other four companies. NADEC and Halwani brothers Co. had the lowest inventory turnover, they sold and restocked the inventory only about three times a year which is considered a very low number when compared to the other three companies. When looking at all the five companies inventory turnover, we find that the most suitable one is Almarai's and SADAFCO's inventory turnover, they sold and restocked the inventory about 4 times a year.

Cash conversion cycle

In 2016, Abdullah Alothaim markets Co. had the shortest cash conversion cycle, When Halwani brothers Co. had the largest cash conversion cycle. That is because that Abdullah

Alothaim markets Co. has a short accounts receivable cycle and production cycle, and a larger accounts payable cycle when compared to Halwani brothers Co.

Halwani brothers Co. can reduce their cash conversion cycle by reducing their accounts receivable cycle and production cycle and increase their accounts payable cycle. Because a shorter cash conversion cycle means less funding necessary for the business operations.

Financial ratios

This section provides a comparison based on the financial ratios of each company in 2016, which are:

- Liquidity ratios
- Profitability ratios

Liquidity ratios

These ratios are concerned with company's ability to meet its short-term obligations in a time manner. These ratios are:

- Cash ratio
- Quick ratio
- Current ratio (Brooks, 2013)

The liquidity ratio analysis for the year 2016:

	Almarai	SADAFCO	Alothaim markets	Halwani	NADEC
Cash ratio	0.148435	1.253366	0.222775	0.13	0.063818
Quick ratio	0.33074	2.08166	0.24438	0.56	0.18818
Current ratio	1.094772	4.137742	0.752464	1.32	0.773883

Comparison

SADAFCO has a highest degree of liquidity which means that it can cover its short-term obligations. Based on SADAFCO 's current ratio, it has 4.13 SR of current assets for every rial of current liabilities. Its quick ratio points to adequate liquidity even after excluding inventories, with 2.8 SR in assets that can be converted easily to cash for every rial of current liabilities. SADAFCO 's cash ratio is greater than 1, which means that it has more cash than its current liabilities and its capable of covering its short-term liabilities and still would have

remaining cash. ("Cash Ratio", n.d.) Unlike the rest of the four other companies who are uncapable of covering its short-term liabilities.

Profitability ratios

These ratios are concerned with the company's level of efficiency in turning sales or assets into income. These ratios are:

- Return on equity
- Return on assets
- Net income margin (Brooks, 2013)

The profitability ratio analysis for the year 2016:

	Almarai	SADAFCO	Alothaim markets	Halwani	NADEC
Return on equity	16.582416	25.508253	19.625539	8.75	6.77226
Return on assets	7.593982	20.019642	6.999775	4.97	2.395978
Net income margin	14.979071	13.12375	3.207485	5.26	4.329279

Comparison

SADAFCO has the highest return on equity and on assets. SADAFCO' equity is generating 25.50 SR per investment rial in profit. When its assets are generating 20.01 per investment rial in profit. But Almarai has the highest net income margin, Almarai is generating 13.12 SR of profit from every sales rial.

Conclusion

After analyzing each company of the five corporations of the major listed corporations available in KSA in the consumer staples industry, we found that Almarai had the highest expected return and NADEC had the lowest expected return when compared to the other four companies. Abdullah Alotthaim markets Co. had the shortest cash conversion cycle, When Halwani brothers Co. had the largest cash conversion cycle. And when it comes to the financial ratios, SADAFECO is capable of covering its short-term liabilities and still would have remaining cash, which means that it's highly liquid. Finally, SADAFECO had the highest return on equity and assets, but Almarai had the highest profit margin.

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