COVER PAGE AND DECLARATION

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Introduction

Almarai is a Saudi Arab based company that deals in food with its headquarters in Riyadh. The company aimed to make its products in a high quality, and they follow up the standards of continuous improvements. Their mission is to provide quality and nutritious food that benefits the lives of consumers. Their vision is to become the first choice of consumers in the Saudi market of food and beverage. The company has improved its finances and raised its market value gradually. To achieve that the shareholders increased to a high amount of 50 thousand shareholders for Almarai. Almarai should increase its market share comparing with its competitors to avoid its financial fluctuations. Almarai should be always has continuous improvement to deal with the competitors despite its satisfied performance. Almarai Co. came on stream in Saudi Arabia in 1976 and converted from a limited liability to joint-stock company in 2005. It operates in several segments including dairy, cheese and juices marketed under its Almarai brand which makes the company as a leader in the market of food production.

Amid the growing food war in the recent period, this sector has become a corner stone for maintaining the country's independence and self-reliance.

Accordingly, the Kingdom has exerted tremendous efforts to support the Agriculture and Food Industries sector to achieve maximum self-reliance. As the aim of the Kingdom of Saudi Arabia to invest in other countries especially in the African continent like Egypt, Sudan, Somalia, etc. Almarai was one of the pioneers that served the Kingdom's objectives in this sector. The company implement a strategic policy based on expansion and diversification in food industry, Almarai increased its operations in 2007 to include bakery under the L'Usine and 7Days. After that They invest in poultry segment in 2009 through

Al-Youm brand. After that, it established the first plant for the manufacturing and marketing of baby formula. Almarai also formed a global strategic partnership via International Dairy and Juice Co., with the aim of capitalizing on the solid investment opportunities in Southeast Asia, Africa, and Middle East. The company unveiled a five-year expansion investment plan for the period 2013-2017, at a total value of SAR 15.70 billion, which relied on a internal and external financing.

In this study we will go through financial analysis for the company's financial statements, in addition to an evaluation of the company's performance. Almarai was in the top rank in terms of profitability, as it accounted for 35% (SR 1,441 million) of the sector's earnings of SR 3,908 million. Meanwhile, it came second in terms of shareholders' equity with SR 7,549 million, or 34% of the SR 22,521 million for the whole sector. It took the fourth position with an EPS of SAR 3.6, operating profit (17%) and profit after tax (14.60%).

This Assignment aims to calculate and analyze the financial conditions of Al Marai and to get an in-depth understanding of the company and how it makes its financial policies. On the other hand, various terms are also discussed like equity multiplier, interval measures, etc. In the four years of 2015,2016,2017 and 2018 Al Marai confronted difficulties on account standards during the time spent growing and making its business openings.

Financial Statements

The information in the report of financial statements issued on a periodic basis. This requires the following four financial statements:

- **Balance Sheet** - statement of financial position at a given point in time.
- **Income Statement** - revenues minus expenses for a given period ending at a specified date.
- **Statement of Owner's Equity** - also known as Statement of Retained Earnings or Equity Statement.
- **Statement of Cash Flows** - summarizes sources and uses of cash; indicates whether enough cash is available to carry on routine operations.

Balance Sheet:

The balance sheet is based on the following model:

Assets = Liabilities + Equity

Assets classified as either current assets or fixed assets. Current assets contain of cash, accounts receivable, marketable securities, notes receivable, inventory, and prepaid assets. Fixed assets contain of land, buildings, and equipment. Liabilities represent the portion of a firm's assets that are owed to creditors. Liabilities can be classed as short-term liabilities (current) and long-term (non-current) liabilities. Current liabilities contain of accounts payable, notes payable, interest payable, wages payable, and taxes payable. Long-term liabilities contain of mortgages payable and bonds payable.

Equity is either a sole proprietorship owner's equity or a partnership owner's equity, and stockholders' equity or shareholders' equity in a corporation. The equity owners of a business having a right to what remains after the creditors have been paid.

Income Statement:

The income statement presents the results of the entity's operations during a period, such as one year. It is described simply by equation :

Net Income = Revenue - Expenses

Revenue refers to the inflows from operating cycle. Expenses are outflows incurred to produce revenue.

We can separate between income from operation and other income. So, the income in such case can be described by:

Net Income = Revenue - Expenses + Gains - Losses

Cash Flow Statement:

The nature of accrual accounting is such that a company may be profitable but nonetheless experience a shortfall in cash. The statement of cash flows is useful in evaluating a company's ability to pay its bills. The cash flow statement gives us the following information:

- Sources of cash
- Uses of cash
- Change in cash balance

We bring the information which we use to build the cash flow statement from the beginning and ending balance sheets for the period and from the income statement for the period.

Balance Sheet				
As at 31 December				
	2018	2017	2016	2015
	SAR ’000	SAR ’000	SAR '000	SAR '000
ASSETS				
Non-Current Assets				
Property, Plant and Equipment	22,606,542	22,401,692	21,138,370	18,696,071
Intangible Assets and Goodwill	1,038,371	1,046,607	930,725	1,009,077
Biological Assets	1,366,566	1,283,342	1,292,302	1,227,815
Investments in Associates and joint venture	102,828	220,140	199,484	198,414
Prepayments	67,059	74,558	132,867	72,426
Deferred Tax Assets	11,488	39,926	13,875	1,156
Derivative Financial Instruments	19,747	16,808	10,257	11,089
	25,212,601	**25,083,073**	**23,717,880**	**21,216,048**
Current Assets				
Inventories	3,972,632	3,209,224	3,168,687	2,835,663
Trade Receivables, Prepayments and Other Receivables	1,929,949	1,702,375	1,401,793	1,277,110
Derivative Financial Instruments	20,336	9,480	4,680	3,438
Cash and Bank Balances	1,182,902	1,891,697	729,700	2,038,776
	7,105,819	**6,812,776**	**5,304,860**	**6,154,987**
TOTAL ASSETS	**32,318,420**	**31,895,849**	**29,022,740**	**27,371,035**
EQUITY				

Share Capital	10,000,000	10,000,000	8,000,000	6,000,000
Statutory Reserve	2,049,304	1,848,418	1,630,190	1,422,141
Treasury Shares	-593,567	-453,156	-378,994	-330,699
Other Reserves	-520,500	-609,135	-711,996	-392,636
Retained Earnings	2,991,559	1,998,246	2,796,393	3,659,639
Equity Attributable to Shareholders	13,926,796	12,784,373	11,335,593	10,358,445
Perpetual Sukuk	-	1,700,000	1,700,000	1,700,000
Equity Attributable to Equity Holders of the Company	13,926,796	14,484,373	13,035,593	12,058,445
Non-Controlling Interests	589,194	396,867	421,250	559,783
TOTAL EQUITY	**14,515,990**	**14,881,240**	**13,456,843**	**12,618,228**
Non-Current Liabilities				
Long-Term Loans	11,651,970	10,543,125	10,134,730	9,343,435
Employee Retirement Benefits	699,325	621,536	540,143	472,186
Derivative Financial Instruments	7,101	30,779	41,212	63,427
Deferred Tax Liabilities	37,967	48,060	56,492	67,123
	12,396,363	**11,243,500**	**10,772,577**	**9,946,171**
Current Liabilities				
Bank Overdrafts	179,321	255,585	165,620	217,647
Short-Term Loans	2,010,294	2,003,403	146,911	153,380
Zakat and Income Tax Payable	316,064	272,906	1,171,885	1,668,030
Trade and Other Payables	2,874,066	3,227,490	3,206,804	2,730,153
Derivative Financial Instruments	26,322	11,725	102,100	37,426
	5,406,067	5,771,109	4,793,320	4,806,636

TOTAL LIABILITIES	**17,802,430**	**17,014,609**	**15,565,897**	**14,752,807**
TOTAL EQUITY AND LIABILITIES	**32,318,420**	**31,895,849**	**29,022,740**	**27,371,035**

Income Statement				
For the year ended 31 December				
	2018	2017	2016	2015
	SAR ’000	SAR ’000	SAR '000	SAR '000
Revenue	13,722,797	13,935,532	14,698,662	13,794,616
Cost of Sales	-8,277,435	-8,351,893	-8,865,050	-8,511,353
Gross Profit	5,445,362	5,583,639	5,833,612	5,283,263
Selling and Distribution Expenses	-2,330,916	-2,343,046	-2,855,658	-2,612,198
General and Administration Expenses	-376,475	-397,339	-436,078	-409,013
Other Expenses, net	-301,299	-211,071	-91,398	-130,721
Operating Profit	2,461,356	2,583,350	2,541,876	2,262,052
Exchange Gain, net	29,524	7,094	44,676	46,150
Finance Cost, net	-407,747	-401,254	-351,336	-275,788
Share of Results of Associates and joint venture	-5,413	13,018	13,323	-37,297
Profit before Zakat and Income Tax	2,077,720	2,202,208	2,157,141	1,864,396
Zakat and Foreign Income Tax	-70,498	-42,245	-74,345	-65,735
Profit for the year	2,007,222	2,159,963	2,080,485	1,915,691
Profit / (Loss) for the year attributable to:				
Non-Controlling Interests	-1,647	-22,323	-2,311	117,030
	2,007,222	2,159,963	2,082,796	1,798,661
Earnings per Share (SAR), based on Profit for the year attributable to Shareholders of the Company				
- Basic	1.97	2.13	2.54	2.35
- Diluted	1.95	2.11	2.52	2.33

Cash Flow Statement				
For the year ended 31 December				
	2018	2017	2016	2015
	SAR ’000	SAR ’000	SAR '000	SAR '000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year	2,007,222	2,159,963	2,080,485	1,915,691
Adjustments for:				
Depreciation of Property, Plant and Equipment	1,684,106	1,573,671	1,431,753	1,349,886
Amortisation of Intangible Assets	47,451	50,017		
Depreciation of Biological Assets	313,838	295,927	363,132	237,949
Loss / (Gain) Arising from Changes in Fair Value less Cost to Sell of Crops	1,214	-977	2,311	-117,030
Provision for Employee Retirement Benefits	108,660	128,262	128,512	100,297
Share-Based Payment Expense	29,211	39,394	35,079	15,448
Exchange Gain, net	-29,524	-7,094	-44,676	-46,150
Finance Cost, net	407,747	401,254	351,336	275,788
Other Expenses, net	301,524	212,181	91,398	130,721
Share of Results of Associates and joint venture	5,413	-13,018	-13,323	37,297
Zakat and Foreign Income Tax	70,498	42,245	74,345	65,735
	4,947,360	4,881,825	4,500,352	3,965,632
Changes in:				
Inventories	858,754	1,083,062	-412,893	-78,829
Biological Assets	-1,614,754	-1,197,326		
Trade Receivables, Prepayments and Other Receivables	-239,893	-106,170	-147,195	513,650

Trade and Other Payables	-314,422	35,566	523,949	580,706
Cash Used in Operating Activities	-1,310,315	-184,868	4,464,213	4,981,159
Employee Retirement Benefits Paid	-56,355	-70,888	-60,461	-35,884
Zakat and Foreign Income Tax Paid	-22,964	-11,922	-10,161	-13,334
Net Cash Generated from Operating Activities	3,557,726	4,614,147	4,393,591	4,931,941
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in Associates	-	-25,000	-	-18,213
Acquisition of Subsidiary, net of Cash Acquired	-3,872	-		
Proceeds from Sale of Investment in Associate	105,000	-		
Dividend from Equity Investment	225	1,110	500	-
Additions to Property, Plant and Equipment	-1,918,833	-2,797,282	-4,450,819	-4,005,199
Proceeds from the Disposal of Property, Plant and Equipment	35,740	30,790	133,971	37,279
Additions to Intangible Assets	-39,797	-52,927		
Additions to Biological Assets	-97,818	-81,536	-93,789	-104,804
Appreciation of Biological Assets	-639,089	-582,895	-618,673	-514,954
Proceeds from the Disposal of Biological Assets	200,239	197,274	200,486	196,940
Repayment of Loan – Associate	17,861	-	-71,794	-
Net Cash Used in Investing Activities	-2,340,344	-3,310,466	-4,900,118	-4,408,951
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in Loans, net	1,114,449	1,105,031	349,526	1,755,249
Finance Cost Paid	-420,625	-467,977	-360,596	-265,496

Dividend Paid	-747,846	-717,905	-687,721	-598,542
Purchase of Treasury Shares	-222,707	-75,533	-75,414	-260,530
Settlement of Treasury Shares	75,112	1,371	27,119	76,217
Transactions with Non-Controlling Interests	130,253	-11,052	86,864	-7,123
Payment of Profit on Perpetual Sukuk	-73,531	-72,087	-59,321	-50,232
Repayment of Perpetual Sukuk	-1,700,000	-		
Directors‘ Remuneration	-5,640	-2,840	7,427	82,161
Net Cash Used in Financing Activities	-1,850,535	-240,992	-712,116	731,704
Net Change in Cash and Cash Equivalents	-633,153	1,062,689	-1,309,076	1,241,989
Cash and Cash Equivalents at 1 January	1,636,112	564,080	2,038,776	796,787
Effect of Movements in Exchange Rates on Cash and Cash Equivalents	622	9,343	-90,433	-12,705
Cash and Cash Equivalents at 31 December	1,003,581	1,636,112	729,700	2,038,776

DATA ANALYSIS

SHORT-TERM SOLVENCY

Al Mari's Short-term Solvency ratios	2018	2017
Current ratio	1.31↑	1.18
Quick ratio	0.60↓	0.64
Cash ratio	0.22↓	0.33
NWC to TA	0.05↑	0.03
Interval measure	230.31days↑	219.05 days

We measure the ability to meet short term solvency with the current assets by the current ratio.

So, if we look in the previous table, we will find that Al Marai’s current ration improved to be 1.31 times which means that the liquidity increased from 2017 to 2018. But the quick ratio decreased to 0.60 times in 2018 compared with 0.64 times in 2017, which explains that the company depends on its inventories which is the most important assets from them as per the nature of the business to meet their current obligations. we measure the ability to pay its current liability with its cash and cash equivalents through the cash ratio. As per the pervious table we will find that the cash ratio dropped to be 0.22 times in 2018 which interprets that they use a new cash strategy to hold less cash

NWC to total assets ratio measures the percentage of investment in short-term to total assets. The calculations told us that the ratio increased in 2018 and that means Al Marai has improved their day-to-day business operations.

The company determine the time they need to last and pay its daily expenditures if any bad thing happens through the interval measures ratio. If we look to the results in the previous table we will find that the company needs more days to pay for its daily expenditures in 2018 than 2017 because it increased from 219 days in 2017 to be 230 days in 2018 .

LONG-TERM SOLVENCY RATIOS

Al Mari Long-term Solvency ratios	2018	2017
Total debt ratio	55.08% ↑	53.34%
Debt/Equity	1.22↑	1.14
Equity Multiplier	2.22 ↑	2.14
LTD ratio	36.05% ↑	42.13%
Cash coverage	18.70 ↑	20.88

The total debt ratio is a percentage to measure the ratio of total liabilities divided by total assets. Al Marai has more liabilities than assets. As showing in 2017 company got 53.34 percentage while in 2018 increased by 55.08 percentage that means a high ratio shows that Almarai Company may be stroking itself at risk of defaulting on its loans if interest rates were to increase rapidly. Debt\equity ratio designates how much Almarai company is using debt comparative to shareholder's equity. On the other hand, in 2018 the dept/equity increase by 0.08 from 2017 which means In general, a high debt/equity ratio shows that the Company may cannot make cash enough to satisfy its debt responsibilities. Nevertheless, low debt/equity ratios might to show that the company is not winning benefit from increased profits that financial leverage could bring.

Equity Multiplier ratio shows how worthy Almarai Company's financial leverage, as it shows in the table that the company has a higher ratio in 2018 by 2.22% which means a higher asset to equity ratio demonstrations that the current shareholders own fewer assets that the current creditors. Also, we prefer that the company get a low equity multiplier since that will display the company uses less debt to finance its assets. Long-term debt ratio rises from 33.05% to 36.05% which shows the company needs to have a worthy cash inflow to pay all expenses because higher LTD means that the Company driving itself at the risk of defaulting on its loans if interest rates stayed to rise unexpectedly.

Cash coverage help us to measure the times a company can pay its interest after adding back the non-cash payment like the depreciation. Because of the low liquidity and the higher amount of interest due to more debt borrowed so Al Marai is getting worse to pay its interest.

ASSET MANAGEMENT RATIOS

Al Mari's Assets management ratios	**2018**	**2017**
Inventory turnover	□ 2.14	2.68
Days sales in inventory	□ 170.56	136.44
Receivables Turnover	□ 7.11 times	8.19 times
Days Sales in Receivables	□ 51.33 days	44.59 days
Total Asset Turnover	□ 0.42	0.44

We use the inventory turnover ratio to show how many times a firm has sold and replaced inventory during a period. As we can see from the table that Al Marai's Inventory turnover decreases from 2017 to 2018 to be 2.14 present which means that the firm has sold and replaced inventory less. Days sales in inventory inform us how many days the firm took to sell its inventory for a year. The previous table shows that Al Marai took about 170.56 days to sell its inventories but in 2017 it took 136.44.

When we want to quantify a firm`s effectiveness in collecting its money we use the receivables turn over ratio. comparing with 2017, Al Marai's decreases on its Receivables by 7.11 times in 2018. The days sales in receivables is a calculation used by a company to estimate the size of their outstanding accounts receivable. As per the previous table it increase in 2018 to took 51.33 days but it took 44.59 days in 2017.

The total asset turnover is an activity ratio measuring the ability of a firm to effectively use its assets for the generation of sales. As per the table above it decreased in 2018 which means that the company dropped on their daily business operations. Results show a slight decrease from 0.44 in 2017 to 0.42 in 2018.

PROFITABILITY RATIOS

Al Mari's Profitability Ratios	**2016**	**2017**
Profit Margin	↓ 14.6%	15.5%
Return on Assets (ROA)	↓ 6.2%	6.8%
Return on Equity (ROE)	↓ 13.8%	14.5%

The Profitability ratio measures a company's overall efficiency uses its assets and how manages its operations. The focus in the Profitability ratios is on the bottom line, net income.

As we can see from the above table that Al Marai's profit margin decreased from 15.5% in 2017 to 14.6%

in 2018. That informs us that the company gains 14.6 halalas in profit per each Saudi Riyal in sales in 2018 but in 2017 it was 15.5 halalas for every Saudi riyal.

Return on assets (ROA) is a measure of profit per Saudi riyal of assets. Dropped to 6.2% in 2018 compared with 6.8% in 2017, which means that Al Marai is not making enough income from the use of its facilities, machinery, or fleet. The company may be expanding too quickly. If it purchases too much land, buildings, and equipment, its assets

Return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders' investments in the company. Moreover, to that, it's a measure of efficiency. It explains how well a company's management is arranging the shareholders' capital. Which means that the higher the ROE the better. Falling ROE is usually a problem. Based on the calculations, the ratio decreased from 14.5% to 13.8% in 2018.

RECOMMENDATIONS:

If we look to the horizontal analysis, we will find that the company financial performance has been fluctuating between 2017 and 2018 with the solvency ratio reporting mixed fortunes. As a proof for that the current ratio raised from 1.81 in 2017 to 1.31 in 2018 on the other hand both the cash ratio and the quick ratio dropped from 0.33 and 0.64 in 2017 to 0.22 to 0.60 in 2018. It is evident therefore that the solvency ratio results Al Mari faced the challenges of increasing competition from other competitors which affected its ability to balance trade and financial records in an appropriate manner. The fluctuating performance of Al Mari indicates that the company needs to increase its market share and therefore can meet its long-term obligations.

Overall, the long-term solvency ratio for Al Mari improved from 2017 to 2018 with credible performance in the total debt ratio, debt to equity, and time earned interest as well as cash coverage. As showing in 2017 company got 53.34 percentage while in 2018 increased by

55.08 percentage that means a high ratio shows that Al Mari Company may be stroking itself at risk of defaulting on its loans if interest rates were to increase rapidly. This performance shows the ability of Al Mari to meet its debt obligation indicating that the cash flow of the company is sufficient to meet its short- and long-term liabilities. For 2017 and 2018, Al Mari continued to experience a decrease in the growth of its asset management ratio. Results presented show the differences in cross-sectional financial states of both the current period and future period returns. Through the analysis presented, Al Mari decreased its inventory turnover from 2.68 to 2.14 and total asset turnover from 0.44 to 0.42 in 2017 to 2018. The reduction of this decreased factor is attributed to the failures in asset management.

Al Mari experienced a reduction in its profitability ratio with the profit margin decreasing from 15.5% in 2017 to 14.6% in 2018. The same trend was in the Return of Assets which reduced from 6.8% in 2017 to 6.2% in 2018 and ROE reduced from 14.5% to 13.8%. This trend indicates the way the company uses its assets to produce value to shareholders and generate profits. In this case, the return on equity, and return on assets. The calculation and computation of the financial ratio of Al Mari shape the mechanism of assessing the company's financial performance alongside its competitors.

It is recommended that Al Mari increase its financial performance by working on its pricing strategies as well as asset management as to increase its returns on investments. Al Mari should use the financial metrics from the analysis of the Four years to ensure that it attains the realization of the financial goals. Al Mari should work with marketers and investors in using the knowledge from the metrics to ascertain the amount of profitability and possible returns to investment.

Conclusion:

The financial management principles show that the performance of the company is guided by the effort of generating its market share and increasing its competitiveness. In the four years of 2015 to 2018, Al Mari faced challenges on account principles in the process of expanding and creating its business opportunities. Based on the cash flows and turnovers, Al Mari values its financial performance and will seek a mechanism to address its shortfalls and therefore increase its profitability as well as its ability to meet its short term and long-term debt obligations.

Depending on the previous analysis Al Marai should pay return earnings.

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