

FY18 Results Update

March 19, 2019

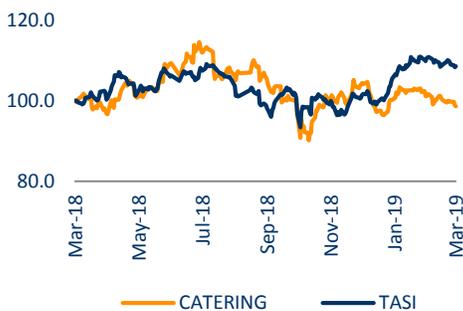
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	82.8
Target Price (SAR)	83.1
Upside/Downside (%)	0.3%

As of March 18th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	6.8
52-Wk High (SAR)	96.5
52-Wk Low (SAR)	75.0
Total Outstanding Shares (in mn)	82.0
Free Float (%)	63.5%

CATERING vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(3.1%)	(2.0%)
6m	(5.1%)	(17.4%)
12m	(1.1%)	(10.8%)

Major Shareholders (%)

Public Institution for Arab Airlines	35.70%
Strategic Supply Co. Ltd.	9.31%
Abdul Mohsen Abdul Aziz Al-Hokair Holding Group	8.67%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 18th 2019

Challenges from the retail sector adversely impact profitability, miss street expectations

Saudi Airlines Catering Co. (SACC)'s net profit for FY18 declined 4.7% to SAR 459mn in FY18 from SAR 481.7mn in FY17, missing consensus estimates as challenges from the retail sector persisted. On the other hand, revenues increased 4.3% YoY to SAR 2,036mn from SAR 1,953mn in FY17, primarily driven by the outperformance of the Inflight Catering segment. Operating profit declined 5.6% YoY to SAR 505.6mn due to the rise in the cost of sales for the year, owing to the rise in the personnel cost and rent.

A healthy balance sheet, steady cash flows, and a strong dividend yield continue to support the stock's attractiveness to investors. However, given the sluggish expansion of the Saudia fleet, growth in the recent path has been slower than estimated. In addition, growing receivables and the emergence of other low-cost carriers in a challenging oil price environment pose an inherent threat to SACC's business model, and thus limit the stock's upside potential. Given the countervailing factors, we retain our "Neutral" rating on the stock.

- Revenues grew 4.3% YoY to SAR 2,036mn, driven by higher sales from in-flight catering, non-airline, and other operating revenues. In-flight catering segment revenues increased 9.4% YoY to SAR 1,461mn. Other operating revenues rose 73.3% YoY to SAR 36.6mn, further boosting the topline. However, the Retail segment's revenue declined 32.0% YoY to SAR 177.7mn, while that from the Business Lounge segment marginally edged up 0.6% to SAR 170.8mn.
- Gross profit declined 3.6% YoY to SAR 696mn owing to a rise in the personnel, rent, maintenance, depreciation, and other operating costs, offsetting the drop in cost of materials and goods sold. Consequently, the gross margin for the year narrowed to 34.2% in FY18 versus 37.0% in FY17.
- As a result, operating income for the year lowered to SAR 506mn, down 5.6% YoY. General and administrative expenses grew 3.5% YoY to SAR 214.4mn. The operating margin for the year contracted to 24.8% in FY18 from 27.4% in FY17. In 4Q18, the operating margin improved to 331 bps QoQ to 27.9% compared with the third quarter of 2018
- Net income reduced 4.7% YoY to SAR 459mn in FY18 due to the higher operating expenses. Therefore, the net income margin during the year declined 211 bps to 22.6% in FY18 vis-à-vis 24.7% in FY17.
- The board has recommended a cash dividend of SAR 1.30 per share for 4Q18, amounting to SAR 106.6mn for its shareholders.
- SACC entered into a 10-year contract with Saudi Arabia Airlines for designing, constructing, and operating the Alfursan International Lounge at the new King Abdulaziz International Airport in Jeddah. The contract, with a provisional value of SAR 500mn, will be effective upon the opening of the lounge, and the positive financial impact is expected to be seen in 4Q19.

Valuation: We continue to maintain a "Neutral" rating on the stock with a downwardly revised target price of SAR 83.1 per share in view of the latest results for FY18.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	315.0	265.4	18.7%	2,256.1	2,035.8	10.8%
Gross Profit (SAR mn)	127.7	157.1	(18.7%)	782.7	696.5	12.4%
EBITDA (SAR mn)	91.8	130.3	(29.5%)	645.6	557.5	15.8%
Net Profit (SAR mn)	76.2	98.9	(23.0%)	532.8	459.3	16.0%
EPS Basic (SAR)	0.9	1.2	(23.0%)	6.5	5.6	16.0%
Gross Margin (%)	40.5%	59.2%	(18.7%)	34.7%	34.2%	0.5%
EBITDA Margin (%)	29.1%	49.1%	(19.9%)	28.6%	27.4%	1.2%
Net Profit Margin (%)	24.2%	37.3%	(13.1%)	23.6%	22.6%	1.1%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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