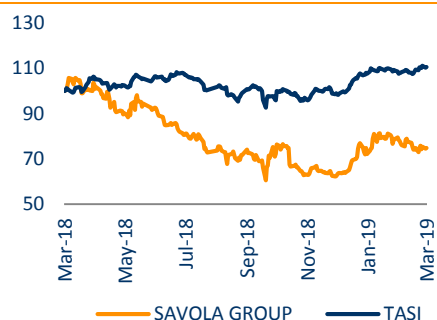


FY 2018 Results Update
March 27, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	31.6
Target Price (SAR)	32.4
Upside/Downside (%)	2.7%

As of 27th Mar 2019
Key Data (Source: Bloomberg)

Market Cap (SAR bn)	16.9
52-Wk High (SAR)	44.9
52-Wk Low (SAR)	25.1
Total Outstanding shares (in mn)	534
Free Float (%)	73.3%

SAVOLA GROUP vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(4.6%)	(7.4%)
6m	0.8%	(8.8%)
12m	(25.2%)	(35.7%)

Major Shareholders (%)

Assilah Investment Co.	11.23%
General Org. for Social Insurance	10.26%
Abdulqader Al Muhaidib & Sons Co.	8.23%
Abdullah M. A. Al Rabeia	8.21%
Al Muhaidib Holding Co.	6.36%

Quarterly Sales (SAR bn) and Operating Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 27th Mar 2019

Savola Group swings to loss in FY18 on losses recorded in Food division

Savola Group reported a net loss of SAR 520mn in FY18 compared to a net profit of SAR 1,026mn in FY17, missing consensus estimates by a huge margin. Profitability across segments was impacted by currency devaluation, commodity movement, and pricing pressure. Barring Herfy, the remaining segments, including Retail, Foods, and Almarai Investments, underperformed during the year. Profits for 4Q18 were majorly affected by the Foods division that swung to losses worth SAR 116.4mn compared to a net profit of SAR 198.8mn in 4Q17, driven by lower profitability in core edible oil and pasta. Weaker revenue, a lower share of profit from Almarai, and higher net finance expenses due to currency devaluation resulted in losses for 4Q18 as against 4Q17.

We expect the company's top line to be pressurized as the Food segment faces headwinds in the form of volatile commodity prices, currency devaluation, and hyperinflationary trends witnessed in Sudan and Iran. Besides, growth in volume in the Food segment failed to generate the desired growth in revenue. Also it remains to be seen if the restructuring of the Retail operations through closure of stores can bring the segment back to profits. Moreover, we need to see how well the company manages to integrate the newly acquired Frozen Foods operation of Al Kabeer.

- Revenue declined 8.5% YoY to SAR 21.8bn in FY18, primarily due to lower sales in the Retail and Food segments. Retail sales decreased 4.5% YoY to SAR 11.1bn, mainly owing to a combination of store closures and a decline in customer count. On a like-for-like basis, retail sales dropped largely on account of a decline in the expatriate population.
- Retail revenue fell 4.3% YoY to SAR 11.1bn, affected by lower commodity prices, pricing control measures, and currency devaluation in overseas markets, which offset the impact of the increase in volume.
- Gross profit declined 11.3% YoY to SAR 3.9bn in FY18, despite a decrease in cost of sales. Cost of sales fell 7.8% YoY to SAR 17.9bn. Consequently, gross margins contracted 57 bps YoY to 17.9% during the year.
- Operating profit slumped 65.5% YoY to SAR 277mn due to a lower share of profit from associates (Almarai), which offset a 3.0% YoY decrease in SG&A expenses and a 10% YoY decline in impairment loss. As a result, operating margins narrowed to 1.3% in FY18 from 3.4% in FY17.
- Net loss for the year stood at SAR 520mn compared to profit of SAR 1,026mn. Higher finance expense, higher taxes, and losses from discontinued operations further added to the low operating income, dragging the company to net losses for the year.
- The company closed the Pandati store format in 4Q18, in addition to closing nine superstores and one hyper store during the year.
- During the quarter, Savola's wholly owned subsidiary Good Food Co acquired 51% stake based Al Kabeer Group for a cash consideration of SAR 565.5mn after receiving all the necessary approvals from regulatory authorities.

Valuation: We revise our target price with a fair value of SAR 32.4 per share. Despite short-term pressures, we believe that the expansion through inorganic mode and restructuring in the retail segment will be the key long-term catalysts for the stock. We maintain our 'Neutral' rating on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	5.3	5.8	-7.7%	21.9	21.8	0.3%
Gross Profit (SAR bn)	1.0	1.2	-14.6%	4.1	3.9	4.2%
EBITDA (SAR bn)	0.2	0.3	-32.5%	2.0	1.2	58.2%
Net Profit (SAR bn)	-0.5	-0.04	NM	0.2	-0.5	NM
EPS Basic (SAR)	-0.99	-0.07	NM	0.5	-1.0	NM
Gross Margin (%)	18.5%	20.0%	-1.5%	18.6%	17.9%	0.7%
EBITDA Margin (%)	3.8%	5.2%	-1.4%	9.0%	5.7%	3.3%
Net Profit Margin (%)	-9.8%	-0.6%	-9.2%	1.1%	-2.4%	3.5%

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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