

2Q19 Results Update

September 12, 2019

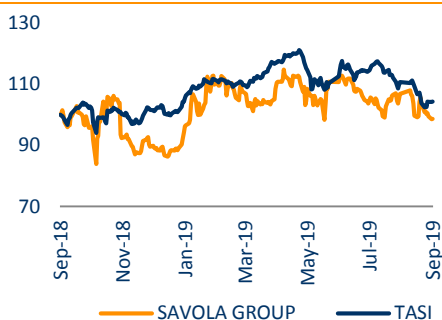
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	30.1
Target Price (SAR)	31.9
Upside/Downside (%)	6.0%

As of 12th September 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	16.1
52-Wk High (SAR)	34.95
52-Wk Low (SAR)	25.10
Total Outstanding shares (in mn)	534
Free Float (%)	76.8%

SAVOLA GROUP vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(7.6%)	(1.8%)
6m	(8.2%)	(3.2%)
12m	(1.3%)	(5.5%)

Major Shareholders (%)

Assilah Investment Co.	11.23%
Abdulqader Al Muhaidib & Sons Co.	8.23%
Abdullah M. A. Al Rabeia	8.21%
General Org. for Social Insurance	6.67%
Al Muhaidib Holding Co.	6.36%

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 12th September 2019

Weakness in the Food business segment continues to trouble Savola

Savola Group's net profit declined 21.6% YoY to SAR110.2mn, against SAR140.7mn in 2Q18, primarily due to decline in revenues and lower contribution from investments in affiliates. The store rationalization strategy helped the retail business, which recorded net revenue growth; however, the foods business continued to record lower volume, especially for edible oil. Gross profits improved on IFRS 16 adjustments, leading to a recovery in the operating profit as well. The focus on operating cost efficiency further aided the rise in operating income. EBITDA grew 51.8% YoY to SAR664mn, and the EBITDA margin improved to 11.0% from 7.1% in 2Q18 and 9.4% in 1Q19.

Improvement in the key operating metrics of the Retail segment during the quarter is testimony to the management's efforts towards turnaround initiatives for the sector. Despite store closures and lower selling space, the segment managed to record mid-single digit growth in revenues and shrink its net loss over the comparable period. However, Savola Foods segment's performance remains a concern due to shrinking revenues on lower volume in the edible oil segment, which continues to suffer due to supply challenges related to crude oil in Asia. The company is struggling to improve its topline and may lose market share with store closures. This is likely to offset the benefits from better operating costs efficiency which greatly helped in improving the operating income and net profit. Thus, in view of the mixed performance, we maintain our Neutral stance on the stock.

- Revenue declined 2.0% YoY to SAR 6.0bn in 2Q19 as decline in revenues from the Foods segment offset gains in the Retail segment. The Frozen Food segment reported SAR181.7mn in revenues in 2Q19 following Savola's acquisition of a 51% stake in Al Kabeer in 1Q19. Revenue from the Herfy segment was at SAR309.3mn, compared with SAR286.6mn a year ago.
- Gross profit surged 9.0% YoY to SAR 1.2bn in 2Q19 owing to 4.3% YoY decline in the cost of sales. Consequently, gross margins improved to 19.3%, against 17.4% in 2Q18.
- The company's SG&A expenses declined 5.4% YoY, leading to a 55.1% YoY increase in the operating profit to SAR364mn. Consequently, operating margins expanded to 6.0% in 2Q19 from 3.8% in 2Q18.
- The company posted a net profit for the second straight quarter. The net profit, however, declined 21.6% YoY to SAR 110mn due to a decrease in the share of profit from an associate and higher zakat and tax expense. The net profit slipped further on an increase in the net finance cost resulting from the adoption of new leasing standard (IFRS 16) applied in 2019 and the foreign exchange losses. The net profit margin for the quarter stood at 1.8%, compared with 2.3% and 0.1% during 2Q18 and 1Q19, respectively.
- The company closed 13 stores and opened 1 during 1H19, which led to decline in the total selling area to 646,581m² from 689,633m². The total tally for Super stores stood at 145 and Hyper stores was 62.

Valuation: We revise our target price to a fair value of SAR 31.8 per share. We maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	6.0	6.1	(2.0%)	22.0	21.8	0.7%
Gross Profit (SAR bn)	1.2	1.1	9.0%	4.2	3.9	7.7%
EBITDA (SAR bn)	0.7	0.4	51.8%	2.0	1.2	58.5%
Net Profit (SAR bn)	0.11	0.14	(21.6%)	0.2	(0.5)	NM
EPS Basic (SAR)	0.21	0.26	(21.6%)	0.4	(1.0)	NM
Gross Margin (%)	19.3%	17.4%	2.0%	19.1%	17.9%	1.3%
EBITDA Margin (%)	11.0%	7.1%	3.9%	8.9%	5.7%	3.3%
Net Profit Margin (%)	1.8%	2.3%	(0.5%)	0.9%	-2.4%	3.3%

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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