

2Q19 Results Update

September 08, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	88.0
Target Price (SAR)	86.0
Upside/Downside (%)	(2.3%)

As of September 08th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.2
52-Wk High (SAR)	93.1
52-Wk Low (SAR)	75.0
Total Outstanding Shares (in mn)	82.0
Free Float (%)	64.3%

CATERING vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(1.0%)	7.6%
6m	10.3%	17.4%
12m	4.7%	4.9%

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 September 8th 2019

IFRS 16 adoption hurts net income in 2Q19, misses consensus estimate

Saudi Airlines Catering Co. (SACC)'s net profit declined 2.7% to SAR117.1mn in 2Q19 from SAR120.3mn in 2Q18, missing the consensus estimates by a small margin. A rise in interest costs after the adoption of IFRS16 pared the earnings for the quarter. Consequently, its net profit margin also slipped to 21.5% in 2Q19 from 23.6% a year ago. On the other hand, SACC's revenues were up 6.8% to SAR544.5mn due to higher sales from in flight operations, and catering and facilities. Its operating profit improved 2.2% YoY to SAR134.0mn. On a quarterly basis, SACC's operating income increased 10.4%, driven by lower operating expenses.

SACC leads KSA market with over 90% share and more than 50 airlines and railway clients. Higher revenue contribution from in-flight operations, and catering and facilities bodes well for the company, but the segmental profit from the catering segment remains a concern. A consistent decline in the retail segment continues to limit the gains from the other segments. The company boasts strong fundamentals and has been expanding its footprint in the country through adding new contracts. However, SACC's business model continues to face an inherent threat from a volatile economic climate and challenging oil price environment due to the emergence of low-cost carriers and heightened price competition in the aviation industry. Given these countervailing factors, we maintain our "Neutral" rating on the stock.

- Revenues increased 6.8% YoY and 4.4% QoQ to SAR544.5mn, driven by increased sales from in-flight operations, and catering and facilities. During 1H19, its revenue from the Catering segment rose 7.4% YoY to SAR771.9mn, the retail segment's revenue declined 8.5% YoY to SAR82.2mn.
- The company's cost of sales increased 9.8% YoY and 6.7% QoQ to SAR 351.8mn, yet the gross profit was marginally up to SAR192.7mn. Consequently, the gross margin for the quarter stood at 35.4% in 2Q19 as against 36.8% in 1Q19 and 37.2% in 2Q18.
- The company's operating expenses were almost in line with that in last year, but declined significantly compared with the previous quarter due to lower personnel and operating costs. Its operating income for the quarter stood at SAR134.0mn compared with SAR121.4mn in 1Q19 and SAR131.1mn in 2Q18. The operating margin in 2Q19 stood at 24.6% compared with 23.3% in 1Q19 and 25.7% in 2Q18.
- The Other income, comprising the interest cost after the adoption of IFRS 16, declined sharply in 2Q19 compared with that in the previous year, wiping out the gains at the operational level. Its net income slipped 2.7% YoY to SAR117.1mn. The company's net profit, however, jumped 13.1% on a quarterly basis.
- The board has recommended a cash dividend of SAR 1.35 per share for 2Q19, totaling SAR110.7mn for its 82mn shareholders.

Valuation: We continue to maintain a "Neutral" rating on the stock, with a fair price of SAR 86.0 per share.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	544.5	509.8	6.8%	2138.8	2035.8	5.1%
Gross Profit (SAR mn)	192.7	189.4	1.7%	769.2	696.5	10.4%
EBITDA (SAR mn)	152.3	146.9	3.7%	582.1	557.5	4.4%
Net Profit (SAR mn)	117.1	120.3	(2.7%)	464.9	459.3	1.2%
EPS Basic (SAR)	1.4	1.5	(2.7%)	5.7	5.6	1.2%
Gross Margin (%)	35.4%	37.2%	(1.8%)	36.0%	34.2%	1.7%
EBITDA Margin (%)	28.0%	28.8%	(0.9%)	27.2%	27.4%	(0.2%)
Net Profit Margin (%)	21.5%	23.6%	(2.1%)	21.7%	22.6%	(0.8%)

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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