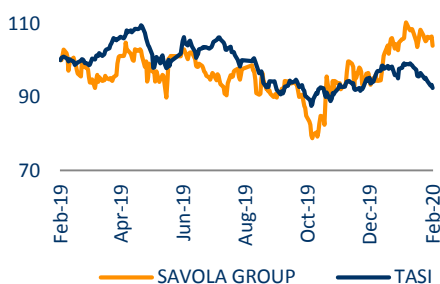


**FY19 Results Update**
**February 17, 2020**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	34.3
Target Price (SAR)	32.0
Upside/Downside (%)	(6.6%)

*As of 17<sup>th</sup> February 2020*
**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	18.3
52-Wk High (SAR)	36.50
52-Wk Low (SAR)	25.50
Total Outstanding shares (in mn)	534
Free Float (%)	59.2%

**SAVOLA GROUP vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	(0.9%)	4.5%
6m	6.5%	14.2%
12m	3.9%	11.5%

**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 17<sup>th</sup> February 2020

**Savola bounces back to profitability on improvements in food and retail businesses**

Savola swung to a net profit of SAR 475.6mn in FY19, against a net loss of SAR 520.4mn in FY18, mainly driven by lower losses in the retail segment and profitability of the food segment. The retail segment's net loss shrank to SAR 342mn in FY19 compared with the net loss of SAR 917mn in FY18, while the food business recorded a net profit of SAR 292mn compared with the net loss of SAR 17mn a year ago. Revenues were up 2.0% YoY to SAR 22.2bn, with higher contribution from the frozen foods segment. Gross profit improved 16.4% YoY to SAR 4.5bn owing to performance enhancements in all segments. Operating income more than tripled to SAR 1.4bn owing to a decline in operating costs. EBITDA more than doubled to SAR 2.6bn, and the EBITDA margin improved significantly to 11.6% in FY19 from 5.7% in FY18.

In FY19, Savola managed to steer its foods segment to profitability and cut retail losses, even as the macroeconomic environment remained challenging. Savola's revenue mix showed a higher contribution from the retail segment, despite the company closing 14 stores during the period. Revenues from the food segment shrank on weakness in edible oil operations and lower pasta volumes; however, a strong recovery was recorded in margins and profitability in edible oil and sugar operations. Following the integration of the Al Kabeer - Frozen Foods business, the company reported positive revenues and profit contribution. During the year, the company managed to pare its debt to SAR 6.6bn. Despite efficient management of business operating costs and turnaround milestones, the company struggles to improve its top line. Thus, in view of the mixed performance, we maintain our Neutral stance on the stock.

- Revenues rose 2.0% YoY to SAR 22.2bn FY19, supported by contributions from the frozen foods segment. Revenues from the foods segment declined 5% YoY to SAR 9.2bn, whereas retail revenues improved 3.0% YoY to SAR 11.5bn.
- Gross profit increased 16.4% YoY to SAR 4.5bn in FY19, owing to lower average cost of sales. Consequently, gross margins improved to 20.4% compared with 17.9% in FY18.
- Lower SG&A expenses and impairment losses and higher profit shares from associates coupled with gains at the gross level led to a manifold rise in the operating profit to SAR 1.3bn in FY19 compared with SAR 277.3mn in FY18. As a result, operating margins advanced to 5.9% in FY19 from 1.3% a year ago.
- Savola remained profitable during all the quarters of FY19 and reported a net profit of SAR 475.6mn for the year against a net loss of SAR 520.4mn last year. The net profit margin for the year stood at 2.1%, reflecting significant growth compared with the net loss margin of 2.4% in FY18.
- During FY19, the board recommended a 3% cash dividend of par value at SAR 0.30 per share, amounting to SAR 160.2mn.
- As part of a long-term incentive program, the company approved the repurchase of 700,000 shares and retained them as treasury shares.
- By December 2019, the company had a total of 205 stores, with net closure of 14 stores. The total selling area as of December 2019 was 634,399sq. m compared with 689,633 sq. m a year ago.

**Valuation:** We maintain our target price at a fair value of SAR32.0 per share and retain our "Neutral" rating on the stock.

	Q4'19	Q4'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	5.5	5.3	2.8%	22.6	22.2	1.5%
Gross Profit (SAR bn)	1.2	1.0	23.6%	4.4	4.5	(3.0%)
EBITDA (SAR bn)	0.7	0.2	236.7%	2.3	2.6	(9.4%)
Net Profit (SAR bn)	0.1	(0.5)	NM	0.5	0.5	8.9%
EPS Basic (SAR)	0.26	(0.99)	NM	1.0	0.9	8.9%
Gross Margin (%)	22.3%	18.5%	3.8%	19.5%	20.4%	(0.9%)
EBITDA Margin (%)	12.6%	3.8%	8.7%	10.4%	11.6%	(1.2%)
Net Profit Margin (%)	2.5%	(9.8%)	NM	2.3%	2.1%	0.2%

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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