

2Q20 Results Update

October 02, 2020

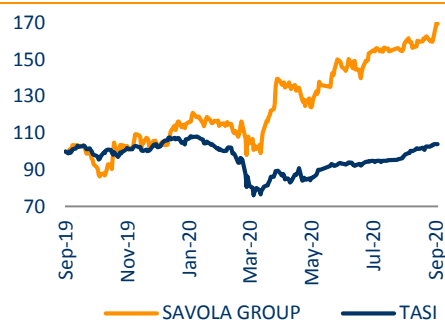
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	51.0
Target Price (SAR)	48.0
Upside/Downside (%)	(5.9%)

As of September 14, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	27.2
52-Wk High (SAR)	52.1
52-Wk Low (SAR)	25.5
Total Outstanding shares (in mn)	534
Free Float (%)	59.3%

SAVOLA GROUP vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	6.3%	0.7%
6m	62.2%	34.2%
12m	69.4%	65.6%

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 September 14, 2020

Stable revenues from Retail and Frozen Foods segments boosts top line in 2Q20

Savola's revenue for 2Q20 inched up 3.3% YoY to SAR 6.0bn due to the positive contribution from the retail and frozen foods segments. Lower SG&A expenses and a higher share of profit from associates boosted the operating income, which surged 60.8% YoY to SAR 584.6mn. Lower finance charges during 2Q20, combined with the factors mentioned above, resulted in a 271.6% rise in net income to SAR 409.6mn. Furthermore, net profit margin expanded to 6.8% from 1.9% in 2Q19.

Savola's top line grew steadily as the retail and frozen foods segments recorded 13.8% YoY and 16.2% YoY growth in revenue, respectively, during the quarter. The surge in revenue in these segments was driven by a shift in consumer preference to pantry loading and in-house cooking and dining during the lockdown. Moreover, the company managed to reduce its operating costs, which resulted in a sharp improvement in profit margins during the quarter. The company remained largely resilient to pressures from the COVID-19 pandemic in 1H20 as it recorded an 8.2% YoY surge in revenue to SAR 11.9bn and a 399.6% YoY rise in net income to SAR 582.3mn during the period. This was attributed primarily to the turnaround in the company's retail division, Panda, which realized a net profit of SAR 195mn in H120 against a net loss of SAR 198mn in 1H19. Although we anticipate the retail division to record steady growth, the performance of the foods division appears to remain muted due to expectations of reduced consumer spending and other external factors. Furthermore, due to the recent uptick in the company's stock performance, we maintain our Neutral rating on the stock.

- Revenue increased 3.3% to SAR 6.0bn in 2Q20, primarily supported by the stable performance of the retail and frozen foods segments. The retail segment accounted for 54.4% of the company's total revenue in 2Q20, up from 53.9% in 1Q20. The foods and Herfy segments contributed negatively to Savola's revenue during the quarter.
- Due to the limited rise in cost of sales (up 1.7% YoY to SAR 4.7bn), gross profit scaled up 9.9% YoY to SAR 1.3bn. This resulted in a 127.6 bps improvement in the gross profit margin to 21.3% in 2Q20 from 20.0% in 2Q19.
- With lower SG&A expenses and a higher share of profit from associates, operating profit surged 60.8% YoY to SAR 584.6mn. As a result, operating profit margin expanded to 9.7% in 2Q20 from 6.3% in 2Q19 and 6.7% in 1Q20.
- In addition to the factors mentioned above, lower net finance cost and a decline in income attributable to minority shareholders boosted Savola's net income, which surged 271.6% YoY to SAR 409.6mn. Consequently, the net profit margin improved to 6.8% from 1.9% in 2Q19 and 2.8% in 1Q20.
- Adjusted EBITDA for 1H20 stood at SAR 1.2bn vis-à-vis SAR 892mn a year earlier, whereas adjusted net income grew to SAR 618mn from SAR 191mn in 1H19 due to the implementation of IFRS, store closures, and project write-offs.
- During the quarter, the company opened another supermarket in KSA, taking its store count up to 206. Thus, total selling area increased to 630,275 sq. m from 628,578 sq. m in 1Q20.

Valuation: We revise our target price to a fair value of SAR 48.0 per share and retain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	6,007	5,813	3.3%	24,087	22,243	8.3%
Gross Profit (SAR mn)	1,279	1,163	9.9%	4,998	4,538	10.1%
EBITDA (SAR mn)	873	664	31.5%	2,787	2,585	7.8%
Net Profit (SAR mn)	410	110	271.6%	1,035	476	117.7%
EPS Basic (SAR)	0.77	0.21	271.6%	1.94	0.89	117.7%
Gross Margin (%)	21.3%	20.0%	1.3%	20.8%	20.4%	0.3%
EBITDA Margin (%)	14.5%	11.4%	3.1%	11.6%	11.6%	(0.0%)
Net Profit Margin (%)	6.8%	1.9%	4.9%	4.3%	2.1%	2.2%

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.

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

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.