



4Q 2017 Results Update

March 28, 2018

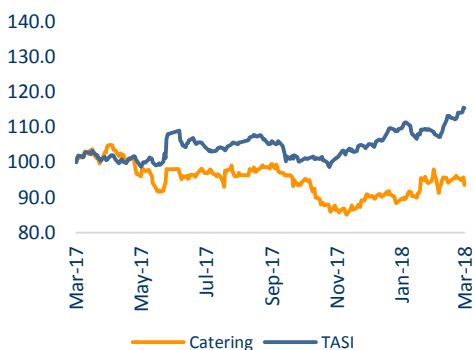
| Recommendation | Neutral |
|---------------------|---------|
| Current Price (SAR) | 82.5 |
| Target Price (SAR) | 82.6 |
| Upside/Downside (%) | 0.1% |

As of March 28, 2018

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 6.8 |
| 52 Wk High (SAR) | 94.0 |
| 52 Wk Low (SAR) | 75.2 |
| Total Outstanding shares (in mn) | 82.0 |
| Free Float (%) | 63.8% |

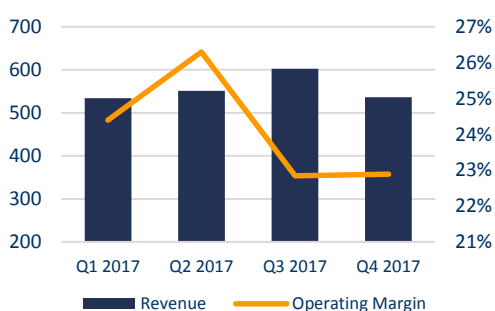
Catering Vs TASI (Rebased)



| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | (3.1%) | (10.0%) |
| 6m | (6.0%) | (14.9%) |
| 12m | (6.5%) | (21.9%) |

| Major Shareholders (%) | % |
|------------------------|-------|
| Saudi Airlines | 35.7% |
| Altamween Strategy Ltd | 9.3% |
| Abdul Mohsen Alhokair | 8.7% |

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 28th March 2018

Muted earnings amid subdued economic scenario

Saudi Airlines Catering (Catering) reported weak results for 4Q17 with the revenues declining 11.0% QoQ to SAR 536mn, driven by muted sales in retail and catering segments. For FY17, the total revenues dropped 1.5% YoY to SAR 2,223mn, while the net profit plunged 7.2% to SAR 481.7mn. We believe that the company's financials remained under pressure due to subdued economic scenario for the airlines industry.

- Revenues stood at SAR 536mn in 4Q17, up 0.2% from SAR 535mn in 4Q16 (down 11.0% QoQ from SAR 602mn in 3Q17). The decline in top line can be attributable to seasonality. Catering's top line declined despite signing a contract with FlyNas for inflight catering services which the management believed would have had a positive impact on 4Q earnings.
- 4Q17 gross profit came in at SAR 157mn, down 1.6% YoY from SAR 160mn in 4Q16 (down 22.2% QoQ from SAR 202mn in 3Q17). Gross margin declined to 29.3% in 4Q17 vis-à-vis 33.6% in 3Q17 on weak sales in catering and retail segments due to seasonality.
- Net profit for 4Q17 stood at SAR 98.9mn, down 24.2% QoQ from SAR 130.4mn in 3Q17.
- During FY17, the revenues slipped 1.5% YoY to SAR 2,223mn due to lower sales in catering and retail segment. The termination of some non-profitable contracts in remote areas also weighed on the company's sales. Gross profit for the year plunged 5.6% YoY to SAR 722.8mn from SAR 765.8mn in FY16, thereby resulting in a 1.4ppt decline in the gross margins to 32.5%.
- Operating income for FY17 receded 2.8% YoY to SAR 535.4mn, while the net profit for the fiscal stood at SAR 481.7mn (down 7.2% YoY from SAR 519.0mn in FY16), driven by lower sales, higher zakat and income tax in addition to losses from associates.
- Catering has announced a dividend distribution of SAR 106.6mn for 4Q17, resulting in the dividend per share of SAR 1.3. Total dividends announced for FY17 stood at SAR 455.1mn vis-à-vis the FY16 dividend payout of SAR 537.1mn.
- In November 2017, Catering has signed a five-year contract worth SAR 501mn with FlyNas for providing inflight catering services, selling onboard food, beverage, and other products apart from providing some logistics services. Catering's management expects that the deal would ensure sustainability by bolstering company's cash flows.
- The FY17 results of catering were weighed down by weak economic scenario triggered by low oil prices. Moreover, the emergence of low cost carriers in Saudi Arabia pose an inherent threat to Catering's business model as these airlines do not offer inflight meals. However, considering the positives like company's diverse service portfolio, zero financial leverage and consistent dividend payouts, we give a 'neutral' rating to the stock.

Valuation: We maintain 'neutral' rating on Catering with a fair value of SAR 82.6 per share. However, we will review our ratings post the announcement of detailed results.

| | 4Q'17 | 4Q'16 | % YoY | FY17 | FY16 | %YoY |
|---------------------------|-------|-------|--------|-------|-------|--------|
| Revenues (SAR bn) | 0.54 | 0.54 | 0.2% | 2.22 | 2.26 | (1.5%) |
| Gross Profit (SAR bn) | 0.16 | 0.16 | (1.6%) | 0.72 | 0.77 | (5.6%) |
| Operating Profit (SAR bn) | 0.12 | 0.10 | 19.4% | 0.54 | 0.55 | (2.8%) |
| Net Profit (SAR bn) | 0.10 | 0.11 | (5.7%) | 0.48 | 0.52 | (7.2%) |
| EPS (SAR) | 1.21 | 1.28 | (5.7%) | 5.87 | 6.33 | (7.2%) |
| Gross Margin (%) | 29.3% | 29.9% | (0.6%) | 32.5% | 33.9% | (1.4%) |
| Operating Margin (%) | 22.9% | 19.2% | 3.7% | 24.1% | 24.4% | (0.3%) |
| Net Profit Margin (%) | 18.5% | 19.6% | (1.2%) | 21.7% | 23.0% | (1.3%) |

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.

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

This research report provides general information only. Information and opinions contained in this report have been obtained from sources believed to be reliable, but FALCOM Financial Services has not independently verified the contents of this document and such information may be considered incomplete. Also, the securities prices indicated as a target or a fair price can be never ever achieved and it was reached purely based on fundamental calculations and other analysis which can be inaccurate at any time without any notice. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information mentioned here is not considered as an advice to buy, sell, or commit any investment actions. Investors should seek advice from their investment adviser before making investment decision. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Any investment action based on the contents of this report is entirely the responsibility of the investor.

All rights reserved.