

1Q19 Results Update

May 20, 2019

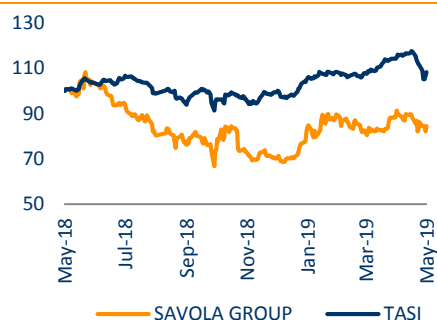
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	31.0
Target Price (SAR)	33.0
Upside/Downside (%)	6.4%

As of 19th May 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	16.6
52-Wk High (SAR)	42.0
52-Wk Low (SAR)	25.1
Total Outstanding shares (in mn)	534
Free Float (%)	73.2%

SAVOLA GROUP vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(7.5%)	(1.9%)
6m	15.3%	2.8%
12m	(15.5%)	(23.9%)

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 19th May 2019

Savola Group starts FY19 on a positive note

Savola Group reported SAR 6.3mn in net profit in 1Q19, against SAR 84mn in net loss in 1Q18, thereby beating street estimates by a huge margin. The company benefitted from higher revenues and gross profit, which also helped gross margins to improve to 19.8% in 1Q19 from 17.8% in 1Q18. Operating profit improved owing to a controlled rise in selling, and general and administrative expenses. Lower losses from associates and a non-recurring zakat and tax provision reversal helped offset the impact of higher finance and zakat expenses during the quarter, eventually helping raise the bottom line.

The company's retail business recovered on turnaround initiatives and overall improvement in consumer confidence. The company benefitted from double-digit growth in like-for-like sales and high single-digit growth in consumer count and basket size. Since 4Q18, the company closed 9 Super stores and opened 1, taking its total tally to 145 Super stores and maintaining the number of Hyper stores at 66. The food processing business, however, continues to suffer amid lower oil prices, along with higher promotion costs and increased competition from other core markets despite a rise in the sales volume. We expect the future growth prospects in the near term to remain subdued owing to lower expected revenue from retail operations due to several store closures. Besides, the food business volume growth is expected to remain weak which along with volatile commodity prices add to the concern. Thus we maintain our Neutral stance on the stock.

- Revenue increased 5.5% YoY to SAR 5.4bn in 1Q19, primarily owing to higher sales from the Retail and Food Services segment. The company also started reporting revenues from the Frozen segment following the acquisition of a 51% stake in Al Khabeer in 1Q19. Revenue from the Foods Processing segment declined 6.6% YoY to SAR 2.3bn.
- Gross profit jumped 17.3% YoY to SAR 1.1bn in 1Q19 owing to a smaller rise in the cost of sales compared to the revenue. Consequently, gross margins expanded around 200 bps YoY to 19.8% during the quarter from 17.8% a year ago.
- Operating profit grew to SAR 206mn as a contained rise in the selling, and general and administrative expenses added to gains at the gross profit level. As a result, operating margins expanded to 3.8% in 1Q19 from 1.2% in 1Q18.
- The company recovered to SAR 6.3mn in net profit, compared with SAR 84.3mn in net loss in 1Q18 as the share of losses from associates diminished, and the non-recurring zakat and tax provision relating to previous years' assessments was reversed. These aspects negated the impact of a higher net finance cost following the adoption of a new leasing standard (IFRS 16) during 1Q19 and marginally higher zakat- and tax- related expenses. The net profit margin for the quarter recovered to 0.1%, compared with net loss margins of 1.7% and 9.8% during 1Q18 and 4Q18, respectively.
- The company plans to issue riyal-denominated sukuk up to SAR 5.3bn by setting up a special purpose vehicle (SPV) inside or outside KSA. The first such issuance was approved by the board of directors on May 8, 2019, and would be used to fulfill the company's financial and strategic needs. The issuance is subject to approval from regulatory authorities.

Valuation: We revise our target price with a fair value of SAR 33.0 per share. We maintain our "Neutral" rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	5.4	5.1	5.5%	22.0	21.8	0.7%
Gross Profit (SAR bn)	1.1	0.9	17.3%	4.3	3.9	9.1%
EBITDA (SAR bn)	0.5	0.2	105.4%	2.0	1.2	62.9%
Net Profit (SAR bn)	0.0	(0.08)	NM	0.2	(0.5)	NM
EPS Basic (SAR)	0.01	(0.16)	NM	0.5	(1.0)	NM
Gross Margin (%)	19.8%	17.8%	2.0%	19.4%	17.9%	1.5%
EBITDA Margin (%)	9.4%	4.8%	4.6%	9.2%	5.7%	3.5%
Net Profit Margin (%)	0.1%	(1.7%)	1.8%	1.1%	(2.4%)	3.5%

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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