

3Q19 Results Update

November 5, 2019

Recommendation Neutral

Previous Recommendation	Neutral
Current Price (SAR)	31.2
Target Price (SAR)	32.0
Upside/Downside (%)	2.7%

As of 5th November 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	16.6
52-Wk High (SAR)	34.95
52-Wk Low (SAR)	25.25
Total Outstanding shares (in mn)	534
Free Float (%)	80.0%

SAVOLA GROUP vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.2%	4.6%
6m	(7.3%)	9.4%
12m	(5.1%)	(2.6%)

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 5th November 2019

Strong retail business segment and operating cost efficiency improved bottom line

Net profit came in at SAR 221.8mn in 3Q18, against SAR 50.7mn in net loss in the same quarter a year ago, mainly attributed to higher sales and margins, an increase in the share of profit from associates, and lower currency exchange losses. Retail segment revenues improved significantly over the last year; however, the food business continued to remain under pressure impacted by lower volume, mainly for edible oil. Gross profits surged 16.3% YoY to SAR 1.1bn in 3Q19 mainly owing to a decrease in the cost of sales. The operating income more than doubled on account of lower operating costs. EBITDA jumped two-fold to SAR 723.6mn, and the EBITDA margin improved significantly to 13.6% from 6.7% in 3Q18. Strength in the performance of retail segment was a result of the management's continuous focus towards turnaround initiatives to boost top-line growth. The company benefitted from like-for-like growth in consumer count and basket size. The number of store count in this quarter remained flat at 207. However, the foods segment's performance remains a major concern as volume of edible oil remained subdued primarily due to weak demand from Central Asia. However, profitability improved owing to lower-than-expected operating costs. Thus, in view of the mixed performance, we maintain our Neutral stance on the stock.

- Revenues grew 2.4% YoY to SAR 5.3bn in 3Q19, supported by an improvement in revenues from the retail segment. Growth is mainly driven by like-for-like growth in customer count and basket size. Revenue from the Herfy segment rose to SAR 339.1mn, compared with SAR 329.2mn a year ago.
- Gross profit increased 16.3% YoY to SAR 1.1bn in 3Q19 owing to decline in the cost of sales. Consequently, gross margins improved to 20.3%, compared with 17.9% in 3Q18.
- The SG&A expenses fell 9.9% YoY, resulting in a sharp rise of 151.1% YoY growth in the operating profit to SAR 427.1mn. As a result, operating margins expanded to 8.0% in 3Q19 from 3.3% in the same quarter the previous year.
- The company posted net profit for the third straight quarter. On a YoY basis, the company reported profit of SAR 221.8mn in 3Q19, against SAR 50.7mn in net loss in the same quarter last year. The net profit improvement was a result of a significant decrease in the foreign exchange losses linked to overseas subsidiaries, decrease in the share of other comprehensive losses from investments in equity accounted investees, and decrease in losses resulting from the fair value change through other comprehensive income. The net profit margin for the quarter stood at 4.2%, recording significant growth since the past two quarters.
- During the quarter, the company successfully raised SAR 1.0bn through sukuk issuance with the aim of reducing its debt.

Valuation: We revise our target price slightly upward to a fair value of SAR32.0 per share. We maintain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	5.3	5.2	2.4%	22.0	21.8	0.9%
Gross Profit (SAR bn)	1.1	0.9	16.3%	4.2	3.9	8.0%
EBITDA (SAR bn)	0.7	0.4	106.5%	2.1	1.2	73.0%
Net Profit (SAR bn)	0.22	(0.05)	NM	0.4	(0.5)	NM
EPS Basic (SAR)	0.42	(0.09)	NM	0.7	(1.0)	NM
Gross Margin (%)	20.3%	17.9%	2.4%	19.1%	17.9%	1.3%
EBITDA Margin (%)	13.6%	6.7%	6.8%	9.7%	5.7%	4.1%
Net Profit Margin (%)	4.2%	(1.0%)	5.1%	1.6%	(2.4%)	4.0%

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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