

**3Q19 Results Update**

**November 21, 2019**

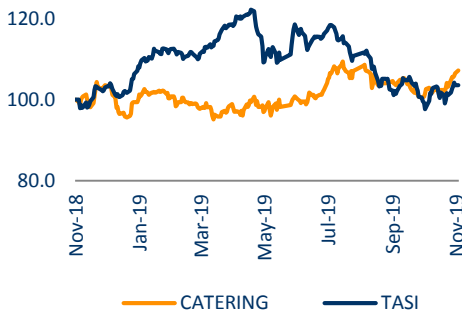
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	91.3
Target Price (SAR)	86.0
Upside/Downside (%)	(5.8%)

As of November 21<sup>st</sup> 2019

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	7.5
52-Wk High (SAR)	93.1
52-Wk Low (SAR)	79.9
Total Outstanding Shares (in mn)	82.0
Free Float (%)	64.3%

**CATERING vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	5.7%	1.8%
6m	11.3%	17.7%
12m	7.2%	(0.1%)

**Major Shareholders (%)**

Public Institution for Arab Airlines	35.70%
Abdul Mohsen Abdul Aziz Al-Hokair Holding Group	9.40%
Strategic Supply Co., Ltd.	8.58%

**Quarterly Sales (SAR mn) and Operating Margin**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 21<sup>st</sup> 2019

**Net income in 3Q19 continues to be impacted by IFRS 16 adoption**

Saudi Airlines Catering Co. (SACC)'s net profit declined 0.4% to SAR 142.0mn in 3Q19 from SAR142.6mn in 3Q18 due to the adoption of IFRS 16 from January 2019, which significantly increased interest costs. Conversely, on quarterly basis, net profit was up 21.3% owing to improved sales as well as lower operating and personnel costs. SACC's revenues grew 6.2% YoY and 7.5% QoQ to SAR 585.2mn, led by the rising number of passengers and higher contribution from the inflight and catering segments. The gross margin for the quarter was 39.3% compared with 35.4% and 37.0% in 2Q19 and 3Q18, respectively. SACC is the market leader in KSA with over 90% market share and more than 50 airlines and railway clients. The rising number of passengers and growing revenue contribution from inflight operations as well as the catering and facilities segment augur well for the company. In addition, deals with other airlines to provide better services to clients put the company in a good position. SACC boasts of strong fundamentals and has been expanding its footprint in the country by adding new contracts. The performance of the retail segment, however, continues to present problems with a consistent decline in revenues and widening losses. In addition, the company's business model faces an inherent threat from a volatile economic climate and challenging oil price environment due to the emergence of low-cost carriers and heightened price competition in the aviation industry. Given these countervailing factors, we maintain our "Neutral" rating on the stock.

- Revenues increased 6.2% YoY to SAR 585.2mn, while it increased 7.5% QoQ. During 9M19, external revenues from the catering and facilities segment gained 33.1% YoY to SAR 151.4mn, whereas the inflight segment revenues rose at 5.6% to SAR 1.2bn. However, the retail segment's revenue declined 7.7% YoY to SAR 127.2mn.
- Cost of sales were up 2.2% YoY and 0.9% QoQ to SAR 355.0mn; yet gross profit rose 12.8% YoY to SAR 230.2mn. Moreover, the gross margin for the quarter stood at 39.3% as against 35.4% in 2Q19 and 37.0% in 3Q18.
- Operating expense rose 37.7% YoY to SAR 68.8mn this quarter due to higher personnel and operating costs. Its operating income for the quarter stood at SAR 161.4mn compared with SAR 134.0mn in 2Q19 and SAR 154.0mn in 3Q18. The operating margin in 3Q19 was at 27.6% vis-à-vis 24.6% in 2Q19 and 27.9% in 3Q18.
- The rise in net finance costs following the adoption of IFRS 16 offset the gains at the operational level. Net income slipped marginally by 0.4% YoY to SAR 142.0mn. The company's net profit, however, jumped 21.3% QoQ.
- The board has recommended a cash dividend of SAR 1.5 per share for 3Q19, totaling SAR 123mn for its 82mn shareholders.

**Valuation:** We continue to maintain a "Neutral" rating on the stock with a fair price of SAR 86.0 per share.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	585.2	551.3	6.2%	2,138.8	2,035.8	5.1%
Gross Profit (SAR mn)	230.2	204.0	12.8%	801.3	696.5	15.1%
EBITDA (SAR mn)	202.0	170.4	18.5%	665.4	557.5	19.4%
Net Profit (SAR mn)	142.0	142.6	(0.4%)	496.6	459.3	8.1%
EPS Basic (SAR)	1.7	1.7	(0.4%)	6.1	5.6	8.1%
Gross Margin (%)	39.3%	37.0%	2.3%	37.5%	34.2%	3.3%
EBITDA Margin (%)	34.5%	30.9%	3.6%	31.1%	27.4%	3.7%
Net Profit Margin (%)	24.3%	25.9%	(1.6%)	23.2%	22.6%	0.7%

Source: Company Financials, FALCOM Research

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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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