

# Saudi Airlines Catering Company

Q1 2018

## Recommendation

Neutral

## Fair Value (SAR)

91.00

Price as of May 29, 2018

86.30

Expected Return

%5.4

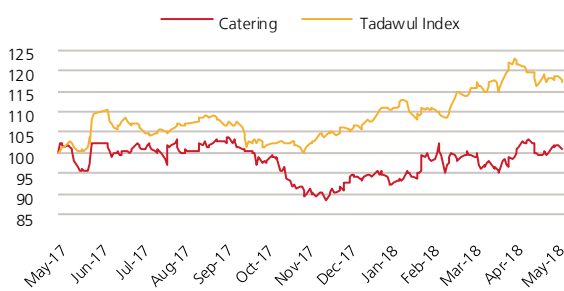
## Company Data

Tadawul Symbol	6004.SE
52 Week High (SAR)	89.30
52 Week Low (SAR)	75.20
YTD Change	%8
3-Month Average Volume (Thousand Shares)	144,202
Market Cap. (SAR Million)	7,077
Market Cap. (USD Million)	1,887
Outstanding Shares (Million Shares)	82

## Major Shareholders (> 5%)

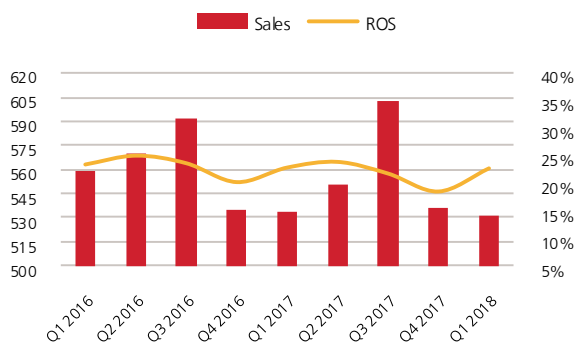
Saudi Arabian Airlines Corporation	35.70%
Strategic Catering Company	9.31%
Abdul Mohsen Al Hokair Holding group	8.67%

### 52-week Stock Price Movement



Source: Tadawul

### Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

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Saudi Airlines Catering Company (Catering) reported net profit of SAR 120 million in Q1 2018 down 1% from SAR 120 million in Q1 2017, however the bottom line surged by 22% QoQ from SAR 99 million in Q4 2017. This resulted in a net profit margin of 22.5% in Q1 2018 compared to 22.6% for Q1 2017 and 18.4% in Q4 2017.

The drop in Q1 2018 net profits compared to Q1 2017 was fueled by lower retail segment sales combined with a losses from a subsidiary, while net profit rose compared to Q4 2017 due to lower losses from investments.

In Q1 2018, the catering company reported sales of SAR 531 million compared to SAR 534 million for Q1 2017, a decrease of 0.5%. The top line slid 1% from SAR 536 million in Q4 2017.

On a segmental basis, flights sales - which accounted for about 72% of total sales - increased by 4%. It is noteworthy that Flynas returned to the customer list last November with a new five-year contract worth SAR 501 million. In the retail segment, the sales edged down 39% thus accounting for 7% of total sales. Non-airline catering sales surged by 18% and the segment contributed 6% of total sales. The business lounges segment was the main segment that achieved a strong positive performance reporting an increase of 21% and contributing 14.4% of the company's revenues.

On the other hand, gross profit for Q1 2018 leaped by 5% to SAR 175 million compared to SAR 167 million for Q1 2017, and increased by 12% QoQ from SAR 157 million. Operating profit for Q1 2018 was SAR 133 million compared to SAR 131 million in Q1 2017, a increase of 1% and climbed 12% from SAR 118 million in Q4 2017. Thus the operating margin reached 25% compared to 24.5% in Q1 2017 and 22% in Q4 2017.

The first-quarter profit matched our forecast of SAR 110 million, but exceeded the analysts' average forecast of SAR 104 million. Despite the increase in travel through Saudi Airlines by 8% in 2017 and the increase in the number of passengers through Saudi airports by about 9%, the growth did not reflect on the performance of the company owing to mounting travel through economic flights and reduced meals on some flights of Saudi Airlines. On the other hand, the retail segment is robustly linked to swings in consumer purchasing power despite the company's efforts in this segment. Our valuation is maintained at SAR 91 per share.

FY - Ending December	2015A	2016A	2017A	2018E
EV/EBITDA	9.34	11.00	11.01	11.64
EV/Sales	2.87	2.87	2.91	3.13
P/E	9.56	12.86	13.86	14.55
Dividend Yield	8.6%	8.0%	6.8%	6.4%
P/BV	5.06	5.29	5.20	5.38
P/Revenue	2.95	2.96	3.00	3.22
Revenue Growth	5.8%	-0.2%	-1.5%	-0.9%
EPS (SAR)	8.52	6.33	5.87	5.95

Source: Company Filings, Albilad Capital Research Estimates

## Operating segments (SAR million)

Q1 2018	Inflight	Retail	Catering and Facilities	All other Segments	Total
Revenues	451	45	35	89	620
Pre-Tax Income	223	3	2	99-	129
Tax and Zakat	-	-	-	-	9
Net Income	-	-	-	-	120
Q1 2017	Inflight	Retail	Catering and Facilities	All other Segments	Total
Revenues	433	75	29	74	611
Pre-Tax Income	161	10	4-	35-	132
Tax and Zakat	-	-	-	-	10
Net Income	-	-	-	-	122

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

\*The historical financial statements for 2014-2015 were prepared according to SOCPA standards, while the financials statements for 2016-2018 are prepared according to IFRS.

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018E
<b>Total Revenues</b>	<b>2,135.9</b>	<b>2,260.8</b>	<b>2,256.7</b>	<b>2,223.4</b>	<b>2,203.2</b>
COGS	1,346.1	1,415.8	1,458.4	1,453.0	1,411.0
COGS/Sales	63.0%	62.6%	64.6%	65.4%	64.0%
SG&A	169.1	167.7	178.6	192.4	188.7
SG&A/Sales	7.9%	7.4%	7.9%	8.7%	8.6%
Provisions	(31.1)	(16.2)	29.4	(14.9)	7.0
<b>EBITDA</b>	<b>651.8</b>	<b>693.6</b>	<b>590.2</b>	<b>592.9</b>	<b>596.5</b>
EBITDA Margin	30.5%	30.7%	26.2%	26.7%	27.1%
Depreciation and Amortization	18.5	24.7	39.3	57.5	69.8
<b>EBIT</b>	<b>633.3</b>	<b>668.9</b>	<b>550.9</b>	<b>535.4</b>	<b>526.7</b>
EBIT Margin	29.7%	29.6%	24.4%	24.1%	23.9%
Net Interest income	-	-	1.7	(1.9)	3.0
Others (Net)	20.6	29.6	0.0	(10.1)	0.0
<b>Pre-Tax Income</b>	<b>653.9</b>	<b>698.5</b>	<b>552.6</b>	<b>523.4</b>	<b>529.7</b>
Tax and Zakat	0.0	0.0	33.5	41.7	42.2
<b>NAI</b>	<b>653.9</b>	<b>698.5</b>	<b>519.1</b>	<b>481.7</b>	<b>487.5</b>
ROS	30.6%	30.9%	23.0%	21.7%	22.1%
<b>Balance Sheet (SAR mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>
Cash and Marketable securities	780.0	509.4	236.4	101.5	139.0
Accounts Receivables	549.7	553.4	730.7	854.9	825.8
Inventory	86.8	142.4	125.5	110.0	109.0
Others	151.1	130.2	143.1	126.2	125.1
<b>Total ST Assets</b>	<b>1,567.6</b>	<b>1,335.4</b>	<b>1,235.8</b>	<b>1,192.7</b>	<b>1,198.9</b>
Net Fixed Assets	191.5	458.1	525.1	554.5	568.3
Others	50.2	54.8	120.9	135.8	134.5
<b>Total LT Assets</b>	<b>241.7</b>	<b>512.9</b>	<b>646.0</b>	<b>690.3</b>	<b>702.8</b>
<b>Total Assets</b>	<b>1,809.3</b>	<b>1,848.2</b>	<b>1,881.8</b>	<b>1,883.0</b>	<b>1,901.7</b>
Accounts Payable & Accrued Expenses	403.5	330.9	424.6	360.0	356.7
Others	56.3	53.6	33.4	71.0	56.1
<b>Total ST Liabilities</b>	<b>459.8</b>	<b>384.4</b>	<b>457.9</b>	<b>431.0</b>	<b>412.8</b>
Other Noncurrent Liabilities	123.8	145.6	163.3	169.0	170.4
<b>Equity</b>	<b>1,225.7</b>	<b>1,318.2</b>	<b>1,260.6</b>	<b>1,282.9</b>	<b>1,318.5</b>
<b>Total Liabilities and Equity</b>	<b>1,809.3</b>	<b>1,848.2</b>	<b>1,881.8</b>	<b>1,883.0</b>	<b>1,901.7</b>
<b>Cash Flow (SAR mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>
Cash flow from Operations	442.5	580.6	432.1	430.7	570.1
Cash flow from Financing	(539.9)	(564.9)	(564.4)	(446.5)	(452.0)
Cash flow from Investing	(8.9)	(188.0)	(20.2)	(34.4)	(83.6)
Change in Cash	(106.3)	(172.3)	(152.5)	(50.2)	34.5

Source: Company Filings, Albilad Capital Research Estimates

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**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: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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CMA Authorization Number 08100-37