

# Saudi Airlines Catering Company

Q2 2017

**Recommendation** **Neutral**

**Fair Value (SAR)** **94.00**

Price as of August 16, 2017 86.31

Expected Return 8.9%

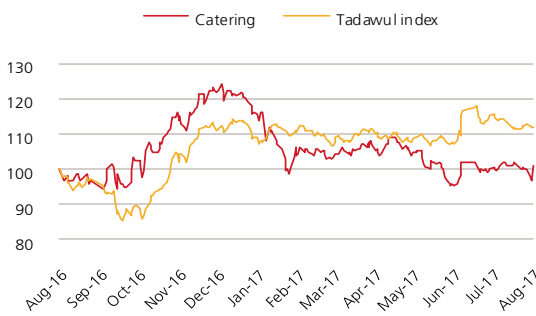
**Company Data**

Tadawul Symbol	6004.SE
52 Week High (SAR)	106.75
52 Week Low (SAR)	79.75
YTD Change	-16.6%
3-Month Average Volume (Thousand Shares)	58
Market Cap. (SAR Million)	7,077
Market Cap. (USD Million)	1,887
Outstanding Shares (Million Shares)	82

**Major Shareholders (> 5%)**

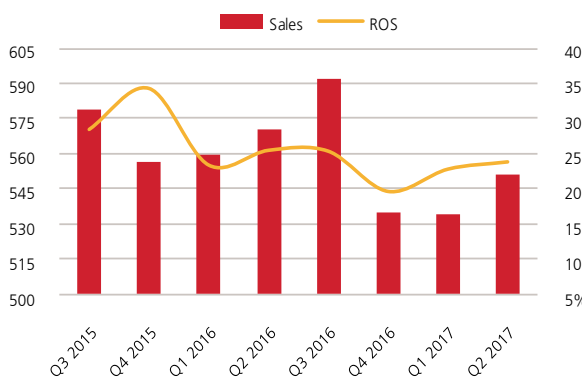
Saudi Arabian Airlines Corporation	35.70%
Strategic Catering Company	23.10%

**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 Catering Company posted a net profit of SAR 131 million for Q2 2017, thus the second-quarter earnings were in line with our estimate. Accordingly, the second-quarter profit fell 7.6% YoY from SAR 142 million in Q2 2016, however the bottom line surged 7.9% from SAR 121 million in Q1 2017. The net profits of the first half hit SAR 142 million compared to SAR 272 million in H1 2016, a decrease of 7.3%.

The company's sales in the second quarter amounted to SAR 551 million compared to SAR 570 million in Q2 2016 plummeting 3.4%. Compared to Q1 2017, the top line edged up 3.2%, thus the catering company reported net revenues of SAR 1,085 million sliding from SAR 1,130 million in the first half of 2016.

The YoY dip in the second-quarter profits stemmed mainly from non-operating items especially the adjustment of zakat and income tax related to previous years, with a negative impact in the amount of SAR 3.5 million. Despite the 3.4% decline in revenues, the company managed to maintain slight growth of 0.25% in operating profit in Q2 2017, boosted by lower cost of sales.

In terms of first-half profit, the figure was negatively impacted by lower sales of catering to other airlines and foreign airlines, as well as reduced sales of aviation equipment to the General Organization of Saudi Airlines. The decrease was offset in part by the increase in-catering sales to Saudi Airlines as well as the rise in retail sales.

Operating profit for the second quarter remained unchanged at SAR 145 million compared to Q2 2016, while inching up 11.6% over the first quarter. Operating margin for the second quarter increased to 26.3% compared to 25.4% in Q2 2016 and 24.4% in Q1 2017. Over the first half, the operating profit dwindled 3%, thus the operating margin posted 25.5% up from 25% in H1 2016.

The Board of Directors recommended a cash dividend of SAR 1.5. The dividend will be paid on September 10, 2017 to shareholders of record on August 21, 2017.

In spite of the dip in revenues in H1 2017, Saudi Catering Company boosted profit margins. The company's profits were in line with our expectations, but we cut our share price from SAR 98 to SAR 94 per share, factoring in a more conservative stance on the company's revenues.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	10.38	9.76	11.80	11.52
EV/Sales	3.17	2.99	3.00	3.08
P/E	10.86	10.17	13.12	14.15
Dividend Yield	7.8%	8.1%	7.6%	6.9%
P/BV	5.79	5.39	5.63	5.52
P/Revenue	3.32	3.14	3.15	3.23
Revenue Growth	14.4%	5.8%	-0.2%	-2.7%
EPS (SAR)	7.97	8.52	6.60	6.12

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E*
<b>Total Revenues</b>	<b>1,867.5</b>	<b>2,135.9</b>	<b>2,260.8</b>	<b>2,256.7</b>	<b>2,196.0</b>
COGS	1,162.7	1,346.1	1,415.8	1,468.2	1,414.5
COGS/Sales	62.3%	63.0%	62.6%	65.1%	64.4%
SG&A	148.7	169.1	167.7	188.3	188.7
SG&A/Sales	8.0%	7.9%	7.4%	8.3%	8.6%
Provisions	(5.3)	(31.1)	(16.2)	26.6	5.5
<b>EBITDA</b>	<b>561.3</b>	<b>651.8</b>	<b>693.6</b>	<b>573.6</b>	<b>587.4</b>
EBITDA Margin	30.1%	30.5%	30.7%	25.4%	26.7%
Depreciation and Amortization	15.5	18.5	24.7	39.3	51.5
<b>EBIT</b>	<b>545.8</b>	<b>633.3</b>	<b>668.9</b>	<b>534.3</b>	<b>535.9</b>
EBIT Margin	29.2%	29.7%	29.6%	23.7%	24.4%
Others (Net)	23.5	20.6	29.6	6.9	6.7
<b>Pre-Tax Income</b>	<b>569.4</b>	<b>653.9</b>	<b>698.5</b>	<b>541.1</b>	<b>542.6</b>
Tax and Zakat	-	-	-	-	40.7*
<b>NAI</b>	<b>569.4</b>	<b>653.9</b>	<b>698.5</b>	<b>541.1</b>	<b>501.9</b>
ROS	30.5%	30.6%	30.9%	24.0%	22.9%
<b>Balance Sheet (SAR mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>
Cash and Marketable securities	882.8	780.0	509.4	236.4	291.6
Accounts Receivables	419.1	549.7	553.4	730.7	719.7
Inventory	76.6	86.8	142.4	149.1	145.8
Others	68.6	151.1	130.2	143.1	140.4
<b>Total ST Assets</b>	<b>1,447.1</b>	<b>1,567.6</b>	<b>1,335.4</b>	<b>1,259.3</b>	<b>1,297.4</b>
Net Fixed Assets	98.1	191.5	458.1	563.8	550.5
Others	150.2	50.2	54.8	82.3	82.3
<b>Total LT Assets</b>	<b>248.3</b>	<b>241.7</b>	<b>512.9</b>	<b>646.0</b>	<b>632.8</b>
<b>Total Assets</b>	<b>1,695.4</b>	<b>1,809.3</b>	<b>1,848.2</b>	<b>1,905.3</b>	<b>1,930.2</b>
Accounts Payable & Accrued Expenses	371.2	403.5	330.9	444.4	410.9
Others	53.2	56.3	53.6	36.5	42.4
<b>Total ST Liabilities</b>	<b>424.4</b>	<b>459.8</b>	<b>384.4</b>	<b>481.0</b>	<b>453.3</b>
Other Noncurrent Liabilities	112.4	123.8	145.6	163.3	189.5
<b>Equity</b>	<b>1,158.6</b>	<b>1,225.7</b>	<b>1,318.2</b>	<b>1,261.1</b>	<b>1,287.4</b>
<b>Total Liabilities and Equity</b>	<b>1,695.4</b>	<b>1,809.3</b>	<b>1,848.2</b>	<b>1,905.3</b>	<b>1,930.2</b>
<b>Cash Flow (SAR mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>
Cash flow from Operations	500.4	442.5	580.6	430.8	569.0
Cash flow from Financing	(467.0)	(539.9)	(564.9)	(564.4)	(475.6)
Cash flow from Investing	(162.5)	(8.9)	(188.0)	(18.9)	(38.3)
Change in Cash	(129.1)	(106.3)	(172.3)	(152.5)	55.1

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.

\*Some items in the financials statements for 2017 are reclassified according to IFRS.

## Albilad Capital Rating Methodology

Al-Bilad Capital 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: 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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