

Saudi Airlines Catering Company

Q3 2016

Recommendation

Overweight

Fair Value (SAR)

108.00

Price as of October 20, 2016 89.74

Expected Return 20.3%

Company Data

Tadawul Symbol 6004.SE

52 Week High (SAR) 127.25

52 Week Low (SAR) 79.75

YTD Change -26.4%

3-Month Average Volume (Thousand Shares) 189

Market Cap. (SAR Million) 7,359

Market Cap. (USD Million) 1,962

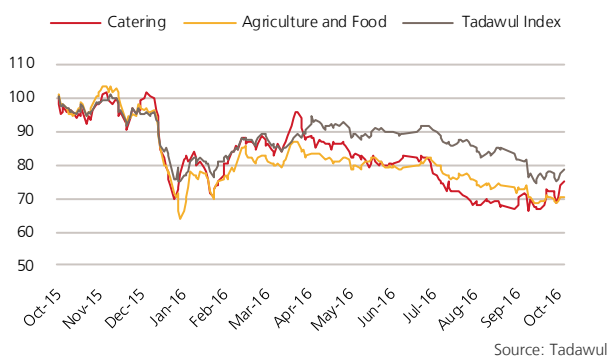
Outstanding Shares (Million Shares) 82

Major Shareholders (> 5%)

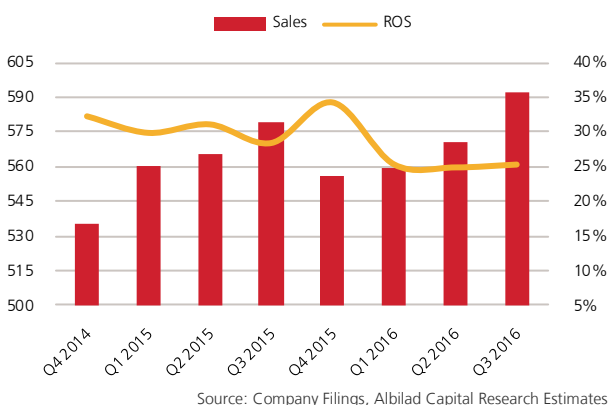
Saudi Arabian Airlines Corporation 35.70%

Strategic Catering Company 23.10%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



Turki Fadaak
Research & Advisory Manager
tfadaak@albilad-capital.com

Ahmed A. Hindawy, CFA
Senior Financial Analyst
AA.hindawy@albilad-capital.com



The unaudited financials of Saudi Airlines Catering Company (SACC) unveiled net earnings of SAR 149.6 million in Q3 2016 plunging 9% from SAR 164.5 million in Q3 2015, however the figure climbed by 3% QoQ. The nine-month bottom line plummeted by 14% culminating at SAR 436 million compared with SAR 508 million in 9M 2015.

The slump in the quarter bottom line was fueled by increased doubtful debt provisions, salaries, rent and depreciation charges. The company stated that its revenues increased 2.3% YoY in Q3 2016 as revenues from business lounges grew by 16.4% and non-airline sales expanded by 12% while sky sales increased by 1%. On the other hand, inflight catering sales fell by 1.1% due to the termination of a contract to export frozen meals.

Compared with Q2 2016, sales grew 3.8% as non-airline sales edged up 11% along with a 5.8% increase in inflight catering sales.

The decrease in nine-month profits was mainly fueled by provisions reversal in the comparable period and mounting labor cost. Total revenues increased 1% as business lounges sales nudged up 23.7% while sky sales mounted 13.6%. In contrast, the inflight catering sales fell by 2.4% after terminating a contract to export frozen meals. Non-airline sales dwindled by 3.5% due to an invoicing related to 2014 activities, but issued during Q2 2015 to Saudia Ground Services and due to closure of operations at Princess Noura University during Q1 2015

Operating income languished at SAR 149 million in Q3 2016 compared to SAR 160 million in the same period of last year slipping 7%, thus the nine-month operating income reached SAR 431.6 million plummeting 11% compared to the same period of last year.

The board of directors endorsed a cash dividend of SAR 1.75 per share for Q3 2016, thus raising the total payment for the nine months to SAR 5.25 per share. The holders of the share at the end of the trading session on November 15 will obtain the dividends on December 13, 2016. We forecast a similar payment for Q4 2016, thus raising the full-year dividend to SAR 7 per share.

The third-quarter profit fell short of our estimate of SAR 154 million and the market consensus of SAR 157 million. We downgrade the share valuation to SAR 108 from SAR 119 to reflect more muted future growth in top line especially in-flight catering revenues which represent 71% of top line.

FY - Ending December	2014A	2015A	2016E	2017F
EV/EBITDA	10.03	9.82	10.95	10.53
EV/Sales	3.06	3.01	2.98	2.86
P/E	11.25	10.54	12.52	12.15
Dividend Yield	7.5%	7.8%	7.8%	7.8%
P/BV	6.00	5.58	5.52	5.40
P/Revenue	3.45	3.26	3.22	3.12
Revenue Growth	14.4%	5.8%	1.0%	3.2%

Source: Company Filings, Albilad Capital Research Estimates

Revenues Breakdown

SAR million	Q3 2016	Q3 2015	Growth	9M 2016	9M 2015	Growth
Inflight catering	420	425	-1.1%	1,216	1,245	-2.4%
Sky sales	62	61	0.9%	197	173	13.6%
Business lounges	39	33	16.4%	117	95	23.7%
Non-airline	53	47	12.0%	151	157	-3.5%
Camp facilities	5	0	-	11	0	-
Exclusive purchase income and services to suppliers	0	4	-97.1%	1	11	-87.7%
Transfer of airline equipment	13	8	64.2%	29	23	26.3%
Total	592	579	2.3%	1,722	1,704	1.0%

Income Statement (SAR mn)	2013A	2014A	2015A	2016E	2017F
Total Revenues	1,867.5	2,135.9	2,260.8	2,283.4	2,357.0
COGS	1,162.7	1,346.1	1,415.8	1,452.8	1,501.1
COGS/Sales	62.3%	63.0%	62.6%	63.6%	63.7%
SG&A	148.7	169.1	167.7	194.1	199.9
SG&A/Sales	8.0%	7.9%	7.4%	8.5%	8.5%
Provisions	(5.3)	(31.1)	(16.2)	16.0	14.8
EBITDA	561.3	651.8	693.6	620.6	641.1
EBITDA Margin	30.1%	30.5%	30.7%	27.2%	27.2%
Depreciation and Amortization	15.5	18.5	24.7	38.5	41.4
EBIT	545.8	633.3	668.9	582.1	599.7
Others	23.5	20.6	29.6	6.0	6.2
NAI	569.4	653.9	698.5	588.0	605.9
ROS	30.5%	30.6%	30.9%	25.8%	25.7%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016E	2017F
Cash and marketable securities	882.8	780.0	509.4	524.0	571.0
Accounts Receivables	56.7	85.0	103.5	111.3	124.2
Investments	76.6	86.8	142.4	139.8	144.8
Inventory	431.0	615.9	580.1	591.9	594.0
Others	1,447.1	1,567.6	1,335.4	1,367.0	1,434.0
Total ST Assets					
	98.1	191.5	458.1	466.2	473.1
Net Fixed Assets	150.2	50.2	54.8	54.8	54.8
Others	248.3	241.7	512.9	521.0	527.9
Total LT Assets	1,695.4	1,809.3	1,848.2	1,888.0	1,961.9
Total Assets					
Accounts Payable	140.5	162.4	194.4	192.4	194.6
Accrued Expenses	230.7	241.1	136.5	137.9	142.3
Others	53.2	56.3	53.6	52.5	53.6
Total ST Liabilities	424.4	459.8	384.4	382.8	390.5
Noncurrent Liabilities	112.4	123.8	145.6	173.1	207.3
Equity	1,158.6	1,225.7	1,318.2	1,332.2	1,364.1
Total Liabilities and Equity	1,695.4	1,809.3	1,848.2	1,888.0	1,961.9

Cash Flow (SAR mn)	2013A	2014A	2015A	2016E	2017F
Cash flow from Operations	500.4	442.5	580.6	635.3	669.3
Cash flow from Financing	(467.0)	(539.9)	(564.9)	(574.0)	(574.0)
Cash flow from Investing	(162.5)	(8.9)	(188.0)	(46.7)	(48.3)
Change in Cash	(129.1)	(106.3)	(172.3)	14.6	47.0

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.

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.

Albilad Capital

Client Services

E-mail: clientservices@albilad-capital.com

Tel: +966-11-203-9888

Toll-free: 800-116-0001

Research & Advisory

E-mail: research@albilad-capital.com

Tel: +966-11-290-6250

Website: www.albilad-capital.com/en/research

Asset Management

E-mail: abiccasset@albilad-capital.com

Tel: +966-11-290-6280

Brokerage

E-mail: abiccctu@albilad-capital.com

Tel: +966-11-290-6230

Custody

E-mail: custody@albilad-capital.com

Tel: +966-11-290-6259

Investment Banking

E-mail: investmentbanking@albilad-capital.com

Tel: +966-11-290-6256

Disclaimer

Albilad Capital exerted utmost efforts to ensure that the information included in this report is accurate and correct. However, Albilad Capital Co., its managers, and staff bear no liability whether explicitly or implicitly for the content of the report and no legal responsibility, whether directly or indirectly, for any results based on it.

This report should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Albilad Capital.

We would also like to note that this information in no way constitutes a recommendation to buy or sell banknotes or make any investment decisions.

Any investment act taken by an investor based fully or partially on this report is the complete responsibility of the investor.

This report is not meant to be used or seen as advice or an option or any other measure to be taken in the future. We recommend consulting a qualified investment advisor before investing in these investment tools.

Albilad Capital preserves all rights associated with this report.

CMA Authorization Number 08100-37