

Saudi Airlines Catering Company

Q3 2017

Recommendation

Overweight

Fair Value (SAR)

91.00

Price as of November 5, 2017

81.40

Expected Return

11.8%

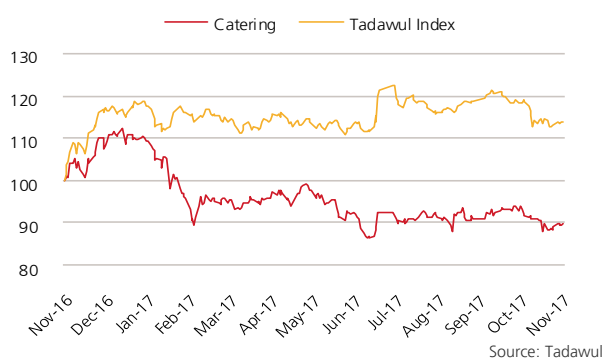
Company Data

Tadawul Symbol	6004.SE
52 Week High (SAR)	106.75
52 Week Low (SAR)	80.00
YTD Change	-21.4%
3-Month Average Volume (Thousand Shares)	47
Market Cap. (SAR Million)	6,675
Market Cap. (USD Million)	1,780
Outstanding Shares (Million Shares)	82

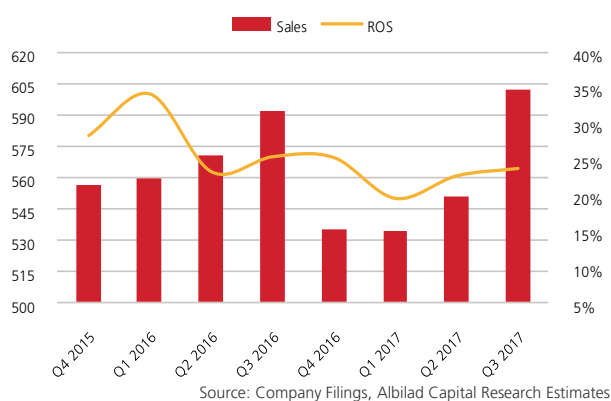
Major Shareholders (> 5%)

Saudi Arabian Airlines Corporation	35.70%
Strategic Catering Company	9.31%
Abdul Mohsen Al Hokair Holding group	8.67%
Enjaz Company for Projects	5.11%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



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Saudi Catering Company (SCC) posted net earnings of SAR 130 million in Q3 2017 edging down 6.3% YoY and 0.46% QoQ, therefore the nine-month bottom line languished at SAR 383 million sliding 7% from SAR 411 million in the corresponding period last year.

SCC blamed the YoY plunge in the third-quarter profit on the upsurge in operating cost, especially salaries and wages which soared by SAR 9.2 million or 14%. The top line shifted up 1.7% standing at SAR 602 million compared to SAR 592 million in Q3 2017. Compared with Q2 2017, the net profit was crimped by increases in the cost of materials and wages, which offset the 9.3% growth in total sales.

The nine-month sales were mainly dented by lower sales of catering to airlines (excluding the Saudi Arabian Airlines), a decrease in sales of aviation equipment to the Saudi Arabian Airlines as well as the termination of some non-profitable contracts for some customers in remote areas. This was partly offset by higher catering sales to Saudi Airlines. Total revenues edged down 2% coming in at SAR 1,687 million compared to SAR 1,722 million for 9M 2016.

Operating profit for Q3 2017 amounted to SAR 138 million, dipping 8% YoY and 5% QoQ, thus the operating profit margin narrowed to 22.9% versus 25.3% in Q3 2016 and 26.6% in Q2 2017. On the nine-month level, the operating profit dwindled by 5%, thus the operating margin hit 24.5% compared to 25.3% in 9M 2016.

SCC disclosed a cash dividend of SAR 1.5 for Q3 2017. The dividend will be paid on December 11, 2017 to shareholders of record on November 21, 2017. Thus, the total payment for 9M 2017 hit SAR 4.25 per share compared to SAR 5.25 in 9M 2016.

The third-quarter profit missed our estimate of SAR 146 million and the analysts' average forecast of SAR 143 million. In spite of the growth in revenues in the third quarter, the increase on operating cost and expenses weighed on profit margins. With the results falling short of expectations, our valuation is downgraded from SAR 94 to SAR 91 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	9.77	9.19	11.11	10.98
EV/Sales	2.98	2.82	2.82	2.86
P/E	10.21	9.56	12.33	13.79
Dividend Yield	8.3%	8.6%	8.0%	7.1%
P/BV	5.45	5.06	5.29	5.19
P/Revenue	3.12	2.95	2.96	2.99
Revenue Growth	14.4%	5.8%	-0.2%	-1.1%
EPS (SAR)	7.97	8.52	6.60	5.90

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E*
Total Revenues	1,867.5	2,135.9	2,260.8	2,256.7	2,231.0
COGS	1,162.7	1,346.1	1,415.8	1,468.2	1,452.2
COGS/Sales	62.3%	63.0%	62.6%	65.1%	65.1%
SG&A	148.7	169.1	167.7	188.3	212.6
SG&A/Sales	8.0%	7.9%	7.4%	8.3%	9.5%
Provisions	(5.3)	(31.1)	(16.2)	26.6	(14.1)
EBITDA	561.3	651.8	693.6	573.6	580.2
EBITDA Margin	30.1%	30.5%	30.7%	25.4%	26.0%
Depreciation and Amortization	15.5	18.5	24.7	39.3	56.6
EBIT	545.8	633.3	668.9	534.3	523.6
EBIT Margin	29.2%	29.7%	29.6%	23.7%	23.5%
Others (Net)	23.5	20.6	29.6	6.9	(0.3)
Pre-Tax Income	569.4	653.9	698.5	541.1	523.3
Tax and Zakat	0.0	0.0	0.0	0.0	39.2
NAI	569.4	653.9	698.5	541.1	484.1
ROS	30.5%	30.6%	30.9%	24.0%	21.7%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash and Marketable securities	882.8	780.0	509.4	236.4	263.3
Accounts Receivables	419.1	549.7	553.4	730.7	751.9
Inventory	76.6	86.8	142.4	149.1	148.1
Others	68.6	151.1	130.2	143.1	142.6
Total ST Assets	1,447.1	1,567.6	1,335.4	1,259.3	1,305.9
Net Fixed Assets	98.1	191.5	458.1	563.8	546.2
Others	150.2	50.2	54.8	82.3	82.3
Total LT Assets	248.3	241.7	512.9	646.0	628.5
Total Assets	1,695.4	1,809.3	1,848.2	1,905.3	1,934.4
Accounts Payable & Accrued Expenses	371.2	403.5	330.9	444.4	417.4
Others	53.2	56.3	53.6	36.5	42.5
Total ST Liabilities	424.4	459.8	384.4	481.0	459.9
Other Noncurrent Liabilities	112.4	123.8	145.6	163.3	189.5
Equity	1,158.6	1,225.7	1,318.2	1,261.1	1,284.9
Total Liabilities and Equity	1,695.4	1,809.3	1,848.2	1,905.3	1,934.4

Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash flow from Operations	500.4	442.5	580.6	430.8	526.2
Cash flow from Financing	(467.0)	(539.9)	(564.9)	(564.4)	(460.2)
Cash flow from Investing	(162.5)	(8.9)	(188.0)	(18.9)	(39.1)
Change in Cash	(129.1)	(106.3)	(172.3)	(152.5)	26.9

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 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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