

# Saudi Airlines Catering Company

Q4 2017

## Recommendation **Neutral**

**Fair Value (SAR) 91.00**

Price as of April 8, 2018 83.48  
Expected Return %9.00

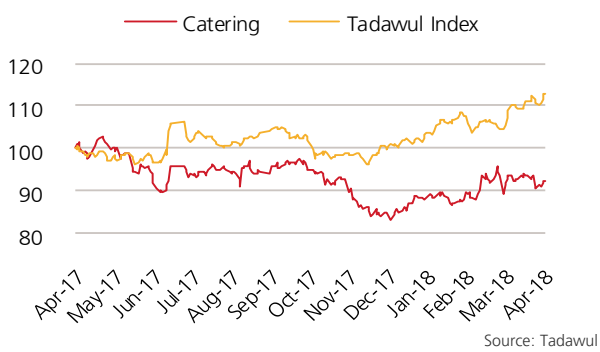
### Company Data

Tadawul Symbol	6004.SE
52 Week High (SAR)	94
52 Week Low (SAR)	75.20
YTD Change	4.50%
3-Month Average Volume (Thousand Shares)	161
Market Cap. (SAR Million)	6,845
Market Cap. (USD Million)	1,825
Outstanding Shares (Million Shares)	82

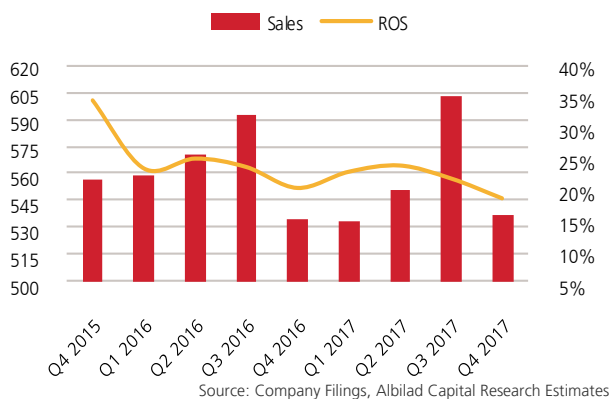
### Major Shareholders (> 5%)

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

### 52-week Stock Price Movement



### Quarterly Sales (SAR mn) and ROS



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The net profit of Saudi Airlines Catering company shrank 8% YoY in Q4 2017 hitting SAR 99 million compared to SAR 108 million in Q4 2016. Moreover, the net profit also slid from SAR 130 million in Q3 2017, thus the full-year bottom line plummeted from SAR 519 million to SAR 482 million.

The slump in annual profits was fueled by a 1.47% drop in revenues combined with an increase in operating expenses, in spite of provisions reversal early last year. The catering company also recorded a loss of SAR 10 million from its 40% stake in Saudi French Company for the operation and management of free markets. The stake was acquired in May 2017 at a cost of SAR 30.8 million.

On a segmental basis, flights sales - which accounted for about 70% of total sales - decreased by 1%. 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 3% thus accounting for 12% of total sales. The retail segment opened 13 new stores in 2017. Non-airline catering sales fell by 17% and the segment contributed 7% of total sales. The business lounges segment was the only main segment that achieved a positive performance reporting an increase of 9% and contributing 8% of the company's revenues. The segment opened the first Foursan Lounge at Cairo Airport and expanded its lounge at Madinah Airport.

Operating profit for the fourth quarter reached SAR 118 million, an increase of 3% Q4 2016, while tumbling 16% QoQ. Accordingly, the operating margin came in at 22% in Q4 2017 compared to 21.6% in Q4 2016 and 23.5% in Q3 2017. The full-year operating profit also fell 2.8%, thus the margin dwindled from 24.4% to 24.1%.

The fourth-quarter profit matched our forecast of SAR 102 million, but came below the analysts' average forecast of SAR 107 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	2018F
EV/EBITDA	9.34	11.00	11.01	10.94
EV/Sales	2.87	2.87	2.91	2.94
P/E	9.56	12.86	13.86	13.69
Dividend Yield	8.6%	8.0%	6.8%	6.8%
P/BV	5.06	5.29	5.20	5.06
P/Revenue	2.95	2.96	3.00	3.03
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

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018F
<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>2018F</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>2018F</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

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.

## 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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