

# Saudi Marketing Co. (Farm Superstores)

## Q1 2018

### Recommendation

**Neutral**

### Fair Value (SAR)

**24.00**

Price as of May 22, 2018

22.96

Expected Return

4.5%

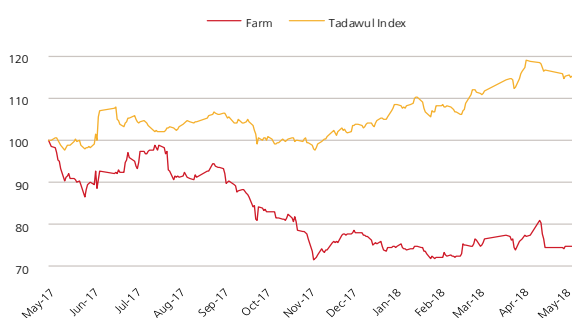
### Company Data

Tadawul Symbol	4006.SE
52 Week High (SAR)	30.85
52 Week Low (SAR)	21.90
YTD Change	-0.21%
3-Month Average Volume (Thousand Shares)	236
Market Cap. (SAR Million)	1,033
Market Cap. (USD Million)	276
Outstanding Shares (Million Shares)	45

### Major Shareholders (> 5%)

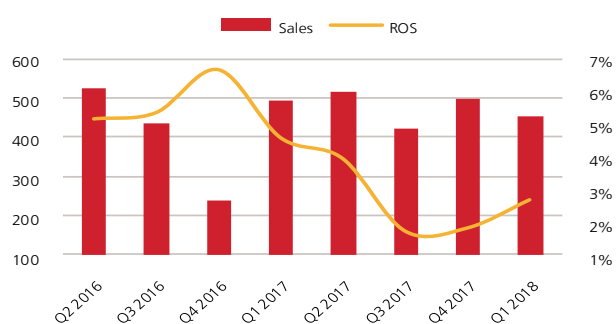
Hazem Fayed Khalid Al Aswad	52.5%
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### 52-week Stock Price Movement



Source: Tadawul

### Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

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Farm Superstores reported net earnings of SAR 12.1 million in Q1 2018 down 46% from SAR 22.5 million in Q1 2017, nevertheless the bottom line surged by 34% from SAR 9 million in Q4 2017. This resulted in a net profit margin of 2.7% in Q1 2018 compared to 4.6% for Q1 2017 and 2% for the previous quarter.

The YoY drop in net profit for Q1 2018 resulted from mounting operating expenses and the decrease in revenues, while the net profit remarkably rose from the previous quarter of the last year driven by higher sales and lower operating expenses.

In Q1 2018, the retailing company reported sales of SAR 452 million compared to SAR 492 million for Q1 2017, a decrease of 8%. The top line climbed 9% from SAR 499 million in Q4 2017.

Gross profit remained unchanged in Q1 2018 at SAR 127 million, however the figure shrank by 2% from SAR 129 million in Q4 2017. Operating income (EBIT) hit SAR 16 million in Q1 2018 compared to SAR 26 million in Q1 2017, falling 34%, while leaping 24% from SAR 13 million in Q4 2017. Therefore, the operating profit margin in Q1 2017 hit 3.5% versus 5.2% in Q1 2017 and 2.6% in Q4 2017.

The number of super stores reached 76 by the end of Q1 2018 compared to 67 stores at the end of Q1 2017. Moreover, the company added two stores this year as of this report. The number of Adventure World outlets reached 11 branches compared to 10 branches by the end of March 2017. According to the annual Board of Directors' report, 9 superstores and 2 branches of the Adventure World will be opened this year, bringing the total to 82 superstores and 13 Adventure World outlets.

The first-quarter net earnings came in line with our estimate of SAR 13 million. The company performance was affected by the decrease in the purchasing power which reflected on the inflated inventory capacity. Moreover, operating expenses are forecasted to surge this year fueled by expansions and mounting labor costs. On other side, the company received a request from the Chairman of the Board to purchase the entire share of the company in its wholly-owned subsidiary in Lebanon. The divestment of Beirut Mall, taking into consideration the financial indicators of the subsidiary, is forecasted to bode well for Farm Superstores with the possibility of directing the proceeds to repay a part of the debt load, which amounted to SAR 539 million at the end of March. Our fair value estimate is maintained at SAR 24.

FY - Ending December	2015A	2016A	2017A	2018E
EV/EBITDA	6.51	7.01	8.28	7.58
EV/Sales	0.55	0.62	0.63	0.61
P/E	9.64	11.28	17.47	17.08
Dividend Yield	5.1%	4.4%	3.3%	3.3%
P/BV	1.88	1.63	1.59	1.53
P/Revenue	0.63	0.63	0.64	0.62
Current Ratio	1.16	0.98	1.07	1.10
Revenue Growth	8.7%	-11.4%	-1.7%	3.6%
EPS	2.38	2.04	1.31	1.34

Source: Company Filings, Albilad Capital Research Estimates

## SMARKETI AB - 4006.SE

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018E
<b>Total Revenues</b>	<b>1,741.0</b>	<b>1,892.3</b>	<b>1,677.0</b>	<b>1,648.0</b>	<b>1,706.7</b>
COGS	1,337.7	1,436.1	1,183.9	1,149.1	1,190.6
SG&A	259.3	297.5	345.8	374.2	379.7
<b>EBITDA</b>	<b>144.0</b>	<b>158.7</b>	<b>147.3</b>	<b>124.7</b>	<b>136.4</b>
EBITDA Margin	8.3%	8.4%	8.8%	7.6%	8.0%
Depreciation and Amortization	31.8	38.9	43.8	51.7	61.6
<b>EBIT</b>	<b>112.1</b>	<b>119.8</b>	<b>103.6</b>	<b>73.0</b>	<b>74.8</b>
Net Interest Income	(6.1)	(7.7)	(9.5)	(13.7)	(14.0)
Others (Net)	2.72	(1.51)	1.71	1.68	1.74
<b>Pre-Tax Income</b>	<b>108.8</b>	<b>110.6</b>	<b>95.8</b>	<b>61.0</b>	<b>62.5</b>
Tax and Zakat	4.0	3.2	4.2	1.8	1.9
<b>Net Income</b>	<b>104.7</b>	<b>107.4</b>	<b>91.6</b>	<b>59.2</b>	<b>60.6</b>
Minority	0.3	0.2	0.0	0.1	0.1
<b>NAI</b>	<b>104.5</b>	<b>107.1</b>	<b>91.6</b>	<b>59.1</b>	<b>60.5</b>
ROS	6.0%	5.7%	5.5%	3.6%	3.5%
<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	20.6	16.7	29.8	20.0	20.7
Accounts Receivables	26.7	31.7	38.8	39.6	41.0
Inventory	365.5	485.8	530.5	617.9	629.9
Others	36.3	55.8	44.5	55.8	57.6
<b>Total ST Assets</b>	<b>449.0</b>	<b>589.9</b>	<b>643.6</b>	<b>733.3</b>	<b>749.2</b>
Net Fixed Assets and Projects Under Implementation	627.9	717.1	846.3	880.4	937.9
Intangible assets	2.0	1.2	0.9	3.3	4.8
Others	6.4	4.9	2.9	2.3	2.4
<b>Total LT Assets</b>	<b>636.3</b>	<b>723.1</b>	<b>850.1</b>	<b>886.1</b>	<b>945.1</b>
<b>Total Assets</b>	<b>1,085.4</b>	<b>1,313.0</b>	<b>1,493.7</b>	<b>1,619.3</b>	<b>1,694.3</b>
Short Term Debt and CPLTD	148.5	172.2	299.3	312.6	299.5
Accrued Expenses	312.9	338.3	357.6	370.8	380.1
<b>Total ST Liabilities</b>	<b>461.5</b>	<b>510.5</b>	<b>656.9</b>	<b>683.4</b>	<b>679.6</b>
Total Long Term Debt	89.6	213.1	155.8	235.7	281.6
Other Non-Current Liabilities	37.56	39.55	47.01	51.67	57.70
<b>Equity</b>	<b>496.7</b>	<b>549.9</b>	<b>634.0</b>	<b>648.6</b>	<b>675.4</b>
<b>Total Liabilities and Equity</b>	<b>1,085.4</b>	<b>1,313.0</b>	<b>1,493.7</b>	<b>1,619.3</b>	<b>1,694.3</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	60.3	28.9	116.8	30.1	122.2
Cash flow from Investing	46.2	94.6	69.9	48.1	(0.9)
Cash flow from Financing	(109.1)	(127.4)	(173.6)	(88.0)	(120.7)
Change in Cash	(2.6)	(3.9)	13.1	(9.8)	0.7

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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