

# Savola Group

Q1 2016

## Recommendation

**Overweight**

### Fair Value (SAR)

**49.80**

Price as of April 24, 2016 40.46

Expected Return 23.1%

### Company Data

Tadawul Symbol 2050.SE

52 Week High (SAR) 79.50

52 Week Low (SAR) 29.40

YTD Change -19.1%

3-Month Average Volume (Thousand Shares) 537

Market Cap. (SAR Million) 21,606

Market Cap. (USD Million) 5,762

Outstanding Shares (Million Shares) 534

### Major Shareholders (> 5%)

MASC Holding Company 11.23%

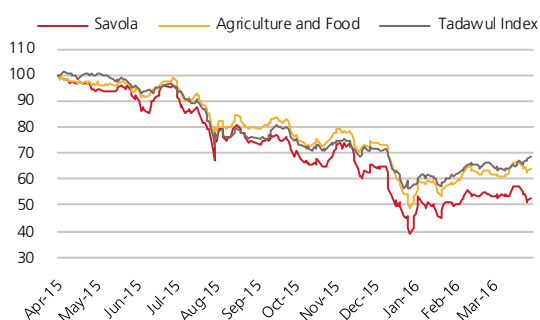
General Organization for Social Insurance 10.23%

Abdullah Mohammed A. Al-Rabiah 8.21%

Abdulkadir Al-Muhaidib & Sons Company 8.01%

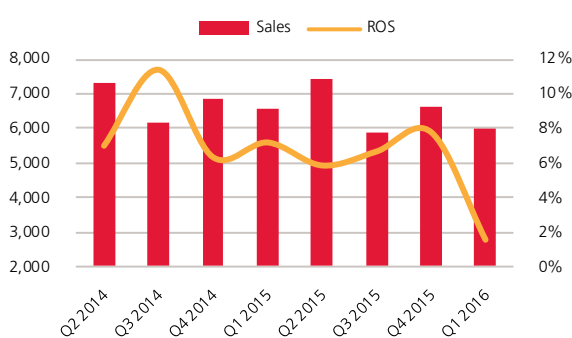
Al-Muhaidib Holding Company 6.36%

### 52-week Stock Price Movement



Source: Tadawul

### Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

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Savola Group revealed its unaudited financials for Q1 2016 reporting net earnings of SAR 93 million sliding 80% YoY from SAR 471 million. Furthermore, the figure dipped by 82% from SAR 515 million in Q4 2015.

The YoY slump in net income was triggered by: (a) EBIT slumped by 23% languishing at SAR 286 million fueled by sales drop, and mounting OPEX associated with the opening of new retail stores (b) a capital gain of SAR 265.2 million in Q1 2015 from the sale of Savola packaging systems, (c) a non-recurring loss in one of associates (c), staggering FOREX losses, especially in Egypt, thus exacerbating the losses of United Sugar Company—Egypt from SAR 38 million to SAR 107 million.

Compared with Q4 2015, net profit slump emanated from to the following factors: (a) the previous quarter included a net insurance gain of SAR 126.5 million for the fire that broke out in the sugar warehouse in Jeddah (b) the previous quarter also encompassed a capital gain of SAR 38.8 million from the sale of a land plot, (c) a seasonal decline in sales (d) low income from associated companies (e) higher financing expenses and losses arising from currency exchange rate, and the increase the losses of United Sugar Company—Egypt, (f) high zakat and income tax.

Q1 2016 revenues amounted to SAR 6 billion compared to SAR 6.2 billion in Q1 2015. The food and retail revenues hit SAR 2.8 billion and SAR 3.3 billion, respectively, thus food revenues fell 8.6%, while retail revenue rose 2.5%. Net profit for the food sector posted SAR 163.5 million compared to SAR 132.5 million in Q1 2015. Nevertheless, the retail segment incurred a net loss of SAR 21.3 million compared to net profit of SAR 18.4 million in Q1 2015. On a geographical basis, Saudi Arabia accounted for 68.4% of top line, followed by Iran and Egypt with 10.7% and 8.2%, respectively. Saudi revenues edged up 1.7%, versus declines of 16.7% and 8% in Iran and Egypt, respectively.

EBIT fell 23% coming in at SAR 286 million down from SAR 371 million in Q1 2015, while tumbling 29.5% QoQ from SAR 405 million in Q4 2015.

Savola announced a cash dividend of SAR 133.5 million for Q1 2016 which is equivalent to SAR 0.25 per share versus SAR 0.5 per share in Q1 2015. The record and payment dates are April 21, 2016 and May 5, 2016.

The net profit in Q1 2015 missed our estimate of SAR 380 million and the analysts' consensus of SAR 369 million. The interim financials reflected poor retail operations as well as intensification of competitive and economic pressures in some countries of operations mainly Egypt and Iran, thus we reduce our valuation to SAR 49.8 per share.

FY - Ending December	2012A	2013A	2014A	2015A
EV/EBITDA	10.91	10.80	12.50	15.85
EV/Sales	0.94	1.02	0.99	0.99
P/E	13.36	10.99	9.04	10.46
Dividend Yield	4.0%	5.7%	6.4%	5.7%
P/BV	2.26	1.94	1.88	1.78
P/Revenue	0.68	0.74	0.70	0.71
Current Ratio	0.92	0.99	1.01	0.92
Revenue Growth	8.7%	(7.7%)	5.2%	(0.5%)

Source: Company Filings, Albilad Capital Research Estimates

## Operating Segments

SAR million	Food	United Sugar Company -	Retail	Investments - Others**	Eliminations	Total
<b>Q1 2016</b>						
Revenues	2,820	-	3,271	14	(81)	6,023
Net Income (Losses)	163	(107)	(21)	79	(21)	93
<b>Q1 2015</b>						
Revenues	3,087	-	3,192	15	(70)	6,224
Net Income (Losses)	133	(38)	18	368	(10)	471
Revenues Growth	-8.6%	-	2.5%	-6.4%	16.2%	-3.2%
Net Income Growth	23.4%	184.2%	-215.4%	-78.5%	102.0%	-80.3%

SAR million	KSA	Egypt	Iran	Other Countries	Total
<b>Q1 2016</b>					
Revenues	4,263	512	665	584	6,023
Net Income (Losses)	179	(140)	39	15	93
<b>Q1 2015</b>					
Revenues	4,192	557	799	676	6,224
Net Income (Losses)	487	(77)	35	26	471
Revenues Growth	1.7%	-8.2%	-16.7%	-13.7%	-3.2%
Net Income Growth	-63.2%	82.0%	10.1%	-40.3%	-80.3%

\*At the end of March 2016, Savola Group and other shareholders of United Sugar Company - Egypt (USCE - an indirect subsidiary of Savola) disclosed an agreement with European Bank for Reconstruction and Development (EBRD), whereby EBRD will invest USD 100 Million in USCE, through fresh injection of USD 50 million as well as converting the existing debt of USD 50 Million to equity. Through this investment, the share capital of USCE will be increased and consequently new shares will be issued to EBRD. The deal will cut the stake of Savola Group and United Sugar Company (also an indirect subsidiary of Savola) from 19.32% and 56.65% to 10.37% and 30.42%, respectively, in the increased share capital, whereas EBRD will own 46.32% of USCE. The agreement provides for a Put option in favor of EBRD and Call option in favor of Savola on agreed terms. Savola will book the investment in USCE using the equity method instead of full consolidation. Furthermore, until the deal is concluded, the assets and liabilities of USCE will be classified as (held for sale) and net income of USCE will be disclosed as (Income from discontinued operations) in Savola's interim consolidated financial statements, in accordance with the generally accepted accounting standards in Saudi Arabia.

\*\*Not including investments that are not fully controlled by Savola such as Almarai and Herfy.

Income Statement (SAR mn)	2011A	2012A	2013A*	2014A*	2015A*
Total Revenues	25,196	27,391	25,281	26,588	26,461
COGS	20,942	22,366	20,158	21,097	20,691
SG&A	2,432	2,657	2,737	3,387	4,062
<b>EBITDA</b>	<b>1,822</b>	<b>2,368</b>	<b>2,386</b>	<b>2,105</b>	<b>1,707</b>
EBITDA Margin	7.2%	8.6%	9.4%	7.9%	6.5%
Depreciation and Amortization	558	564	657	628	648
Investment Income	537	652	760	978	923
<b>EBIT</b>	<b>1,801</b>	<b>2,456</b>	<b>2,490</b>	<b>2,455</b>	<b>1,982</b>
Net Interest Income	(317)	(427)	(240)	(237)	(241)
Others	117	47	131	142	304
<b>Pre-Tax Income</b>	<b>1,601</b>	<b>2,076</b>	<b>2,381</b>	<b>2,360</b>	<b>2,046</b>
Tax and Zakat	132	268	303	180	138
<b>Net Income before Discontinued Operations</b>	<b>1,469</b>	<b>1,807</b>	<b>2,078</b>	<b>2,180</b>	<b>1,908</b>
Income from Discontinued Operations	0	0	70	50	0
<b>Net Income before Minority</b>	<b>1,469</b>	<b>1,807</b>	<b>2,147</b>	<b>2,230</b>	<b>1,908</b>
Minority	266	405	443	158	116
<b>NAI</b>	<b>1,202</b>	<b>1,402</b>	<b>1,704</b>	<b>2,072</b>	<b>1,792</b>
ROS	4.8%	5.1%	6.7%	7.8%	6.8%

Balance Sheet (SAR mn)	2011A	2012A	2013A*	2014A*	2015A*
Cash and Marketable Securities	1,214	943	1,364	1,635	2,095
Accounts Receivables	1,816	1,448	1,265	1,059	933
Inventory	3,152	3,973	4,488	4,413	4,881
Others	1,592	2,180	1,924	3,131	1,593
<b>Total ST Assets</b>	<b>7,774</b>	<b>8,545</b>	<b>9,040</b>	<b>10,238</b>	<b>9,502</b>
Net Fixed Assets	4,485	4,387	4,564	4,586	7,900
Projects Under Implementation	900	1,393	1,819	2,170	-
Intangible assets	1,302	1,322	1,344	1,166	1,124
Others	5,641	7,695	7,996	8,243	8,603
<b>Total LT Assets</b>	<b>12,328</b>	<b>14,797</b>	<b>15,722</b>	<b>16,164</b>	<b>17,627</b>
<b>Total Assets</b>	<b>20,101</b>	<b>23,342</b>	<b>24,763</b>	<b>26,402</b>	<b>27,128</b>
Short Term Debt and CPLTD	3,412	4,438	4,281	4,610	4,909
Accounts Payable	2,719	2,744	2,668	2,721	3,072
Accrued Expenses	1,429	1,961	2,060	2,073	2,213
Others	181	159	93	758	94
<b>Total ST Liabilities</b>	<b>7,740</b>	<b>9,303</b>	<b>9,102</b>	<b>10,161</b>	<b>10,288</b>
Total Long Term Debt	2,821	3,612	4,126	4,603	4,617
Other Noncurrent Liabilities	469	544	643	709	755
<b>Equity</b>	<b>9,071</b>	<b>9,882</b>	<b>10,892</b>	<b>10,928</b>	<b>11,469</b>
<b>Total Liabilities and Equity</b>	<b>20,101</b>	<b>23,342</b>	<b>24,763</b>	<b>26,402</b>	<b>27,128</b>

Cash Flow (SAR mn)	2011A	2012A	2013A*	2014A*	2015A*
Cash flow from Operations	1,573	1,691	1,520	2,122	2,059
Cash flow from Financing	(169)	498	(919)	(694)	(770)
Cash flow from Investing	(768)	(2,460)	91	(1,017)	(670)
Change in Cash	637	(271)	420	272	461

Source: Company Filings, Albilad Capital Research Estimates

\* The company restated its financials for 2013 and 2014 to account for the sale of Savola Packaging Systems Co.

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.

<b>Overweight:</b>	The Target share price exceeds the current share price by $\geq 10\%$ .
<b>Neutral:</b>	The Target share price is either more or less than the current share price by $< 10\%$
<b>Underweight:</b>	The Target share price is less than the current share price by $\geq 10\%$ .
<b>To be Revised:</b>	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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