

Savola Group

Q1 2017

Recommendation **Neutral**

Fair Value (SAR) **41.00**

Price as of May 25, 2017 40.91
Expected Return 0.00%

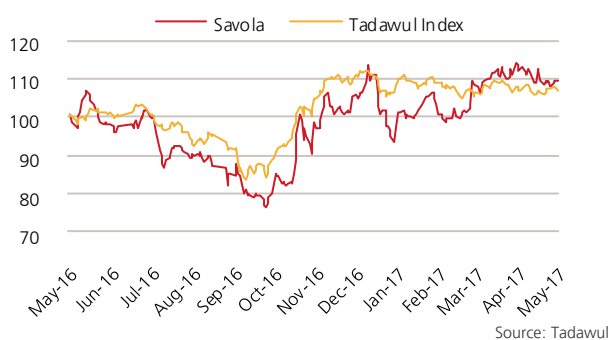
Company Data

Tadawul Symbol 2050.SE
52 Week High (SAR) 44.90
52 Week Low (SAR) 27.80
YTD Change -0.002%
3-Month Average Volume (Thousand Shares) 253
Market Cap. (SAR Million) 21,846
Market Cap. (USD Million) 5,825
Outstanding Shares (Million Shares) 534

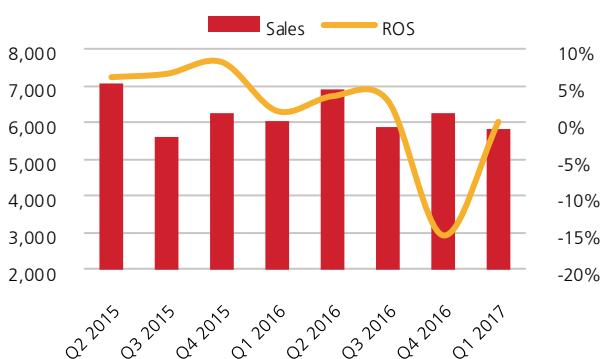
Major Shareholders (> 5%)

MASC Holding Company 11.23%
General Organization for Social Insurance 10.23%
Abdullah Mohammed A. Al-Rabiah 8.21%
Abdulkadir Al-Muhaidib & Sons Company 8.21%
Al-Muhaidib Holding Company 6.36%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

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Savola Group posted net earnings of SAR 5 million in Q1 2017 versus SAR 119 million in Q1 2016, and a staggering loss of SAR 914 million Q4 2016. Excluding a one-off gain in Q1 2017, Savola would post a net loss of SAR 20 million.

Compared to Q1 2016, the dip in profits is mainly fueled by lower sales and margins in the retail sector. Retail sales plummeted by 17% and gross margin slumped from 22.7% to 19%, while reporting a 616% increase in net loss to SAR 229 million. Furthermore, the gross and operating profits of the food sector shrank 5% and 17%, respectively. In Q1 2017, United Sugar Company-Egypt issued 12.8 million shares in favor of the European Bank for Reconstruction and Development and resulted in a non-recurrent gain of SAR 30 million for Savola.

The improvement in performance compared to Q4 2016 stemmed from non-recurring items in the previous quarter related to impairment of multiple assets, foreign exchange losses as well as the costs of inventory reduction in Panda.

For compliance with IFRS, Savola Group changed the accounting treatment of the investment in Herfy from the equity method to full consolidation, thus the financial statements included a new sector for food services.

Consolidated revenues slumped by 9% to SAR 5,833 million in Q1 2017 compared to SAR 6,422 million in Q1 2016 as retail sales tumbled 17% from SAR 3,271 million to SAR 2,721 million. Contrarily, food sales edged up 1% to SAR 2,954 million despite lower sales volume of pasta and oils in Egypt. The food services sector achieved sales of SAR 275 million compared to SAR 284 million in Q1 2016. As for bottom line, the food sector profit fell 55% from SAR 213 million to SAR 95 million, while the retail sector widened its loss from SAR 31.5 million to SAR 229 million. The food service sector reported a slight decrease in its bottom line to SAR 52.7 million compared to SAR 53.4 million in Q1 2016. The investment sector yielded net contribution of SAR 80 million up from SAR 37 million in Q1 2016, while discontinued operations posted a profit of SAR 15.6 million compared to a loss of SAR 107 million in Q1 2016.

The Group entered into an agreement to sell its sole hypermarket in Dubai, in a deal worth SAR 80 million. The deal is expected to be finalized in Q2 2017.

Panda has not shut down any outlets in Q1 2017, unlike last year which coincided with 102 closures distributed throughout the year. Furthermore, three new outlets were added in Q1 2017, including a supermarket in Egypt. We believe that the company's policy has become more conservative in the opening of new retail outlets, and we do not expect any significant closures in 2017 as the underperforming outlets were mostly closed last year. Savola also continues its plan to restructure the retail sector administratively, operationally and commercially, which may have some negative repercussions in the short term given the surrounding economic situation, however the process is expected to achieve long-term value.

We believe that Savola will continue to adopt more expansive expansionary policies in 2017, restructure the retail sector, reduce inventory volume to achieve financial liquidity of the company, reassess non-core activities and accordingly we maintain our previous valuation of SAR 41.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	6.72	8.60	13.09	11.54
EV/Sales	0.78	0.82	0.82	0.82
P/E	10.51	12.16	n/a	53.31
Dividend Yield	5.5%	4.8%	3.0%	0.0%
P/BV	2.19	2.07	2.57	2.68
P/Revenue	0.82	0.87	0.86	0.86
Current Ratio	1.01	0.93	0.81	0.70

Operating Segments

SAR million	Q1 2017			Q1 2016		
	Revenues	EBIT	Net Income (Loss)	Revenues	EBIT	Net Income (Loss)
Foods						
Oil	1,989	139	94	2,054	203	157
Sugar	885	47	16	733	9	(58)
Pasta	80	2	0	138	14	7
Total Foods	2,954	188	111	2,925	226	106
Retail						
KSA	2,629	(211)	(228)	3,191	(8)	(26)
Overseas	92	(1)	(2)	80	(1)	(5)
Total Retail	2,721	(212)	(229)	3,271	(9)	(32)
Investments - Others						
Herfy	275	56	53	284	56	53
Real Estate	0	2	2	0	16	16
Al Marai	0	120	120	0	105	105
HQ/Elimination/Impairments	(116)	(15)	(51)	(58)	(55)	(129)
Total	5,833	139	5	6,422	338	119

SAR million	Q1 2016	Q1 2017
Reported net income	93	5
IFRS adjustment	26	-
Share of associate's liability	20	-
Dilution gain on USCE	-	(25)
Adjusted net income	140	(20)

Panda store expansion

Years	2010	2011	2012	2013	2014	2015	2016	Q1 2017
Supermarkets	87	90	98	110	131	151	160	161
Hypermarkets	37	41	47	51	59	63	65	66
Pandati	0	0	0	23	155	282	181	181
Number of Outlets in KSA	124	131	145	184	345	496	406	408

In addition to 4 supermarkets in Egypt and one hypermarket in Dubai.

Income Statement (SAR mn)	2013A*	2014A*	2015A*	2016A	2017E**
Total Revenues	25,281	26,588	25,126	25,312	25,196
Revenues Growth	-7.7%	5.2%	-5.5%	0.7%	-0.5%
COGS	20,507	21,724	20,100	20,876	20,603
COGS/Sales	81.1%	81.7%	80.0%	82.5%	81.8%
Gross Margin	18.9%	18.3%	20.0%	17.5%	18.2%
SG&A	3,044	3,387	4,036	4,387	4,450
SG&A/Sales	12.0%	12.7%	16.1%	17.3%	17.7%
Income from Investments	760	978	796	783	790
EBITDA	3,147	3,082	2,409	1,584	1,796
EBITDA Margin	12.4%	11.6%	9.6%	6.3%	7.1%
Depreciation and amortization	657	628	624	751	863
EBIT	2,490	2,455	1,785	832	933
EBIT Margin	9.8%	9.2%	7.1%	3.3%	3.7%
Net Interest Income	(240)	(237)	(167)	(550)	(271)
Others (Net)	201	193	432	(750)	(44)
Pre-Tax Income	2,450	2,411	2,050	(467)	618
Tax and Zakat	303	180	139	157	80
Net Income	2,147	2,230	1,911	(624)	538
Minority	443	158	119	(173)	129
Net Income After Minority	1,704	2,072	1,792	(451)	409
ROS	6.7%	7.8%	7.1%	-1.8%	1.6%
Balance Sheet (SAR mn)					
	2013A*	2014A*	2015A*	2016A	2017E**
Cash and Marketable securities	1,364	1,635	2,067	1,332	1,446
Accounts Receivables	1,265	1,002	921	1,229	1,243
Inventory	4,488	4,413	4,853	3,204	3,161
Others	1,924	3,188	1,491	2,266	1,260
Total ST Assets	9,040	10,238	9,332	8,030	7,109
Property, Plant and Equipment (PP&E, net)	6,383	6,756	7,911	6,865	8,103
Intangible assets	1,344	1,166	1,114	662	622
Investments	7,943	7,921	8,430	8,527	8,613
Others	52	322	247	39	165
Total LT Assets	15,722	16,164	17,702	16,093	17,503
Total Assets	24,763	26,402	27,034	24,124	24,613
Short Term Debt and CPLTD	4,281	4,610	5,011	4,486	4,832
Accounts Payable	2,668	2,721	3,133	2,416	2,766
Others	2,153	2,830	1,882	3,023	2,520
Total ST Liabilities	9,102	10,161	10,026	9,925	10,118
Total Long Term Debt	4,126	4,603	4,579	4,217	4,165
Other Noncurrent Liabilities	643	709	923	864	1,028
Minority	1,241	962	956	634	1,162
Equity	9,651	9,966	10,550	8,483	8,141
Total Liabilities and Equity	24,763	26,402	27,034	24,124	24,613

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.. The FY 2015 was also adjusted to account for the new accounting treatment of United sugar Egypt.

** IFRS

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.

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