

# Savola Group

Q1 2018

## Recommendation **Overweight**

Fair Value (SAR) **43**

Price as of May 22, 2018 38

Expected Return 13%

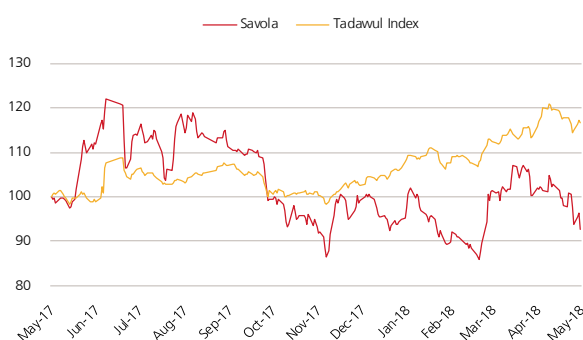
### Company Data

Tadawul Symbol	2050.SE
52 Week High (SAR)	51.00
52 Week Low (SAR)	35.15
YTD Change	-3.2%
3-Month Average Volume (Thousand Shares)	427.5
Market Cap. (SAR Million)	20,238
Market Cap. (USD Million)	5,386
Outstanding Shares (Million Shares)	534

### Major Shareholders (> 5%)

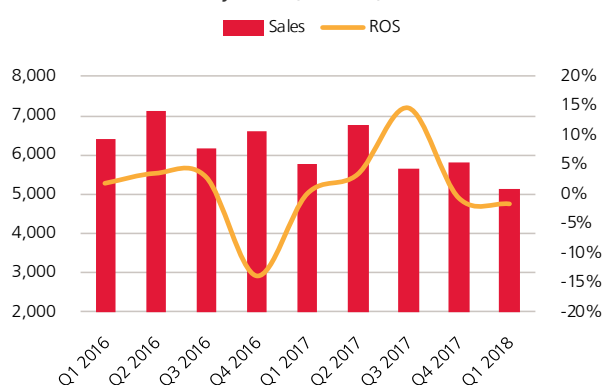
Assila Investment	11.23%
General Organization for Social Insurance	10.26%
Abdulkadir Al-Muhaidib & Sons Company	8.22%
Abdullah Mohammed A. Al-Rabiah	8.21%
Al-Muhaidib Holding Company	6.36%

### 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 reported a net loss of SAR 84 million in Q1 2018, the second in a row, compared to a net profit of SAR 5 million in Q1 2017, however the net loss worsened from SAR 37.5 million in Q4 2017 as the previous quarter was buffeted by a goodwill impairment charge of SAR 202 million pertaining to the retail business. Excluding one-off items, Savola would report an adjusted loss of SAR 57 million in Q1 2018 compared to a net loss of SAR 20 million a year earlier and a net profit of SAR 328 million in Q4 2017.

On the revenues level, total revenues slumped 11% to SAR 5,145 million as retail revenues dwindled 10% to SAR 2,415 million, while food manufacturing sales edged down 13% to SAR 2,572 million.

- **Retail Sector:** The performance was crimped by a dip in customers base and basket size, as well as lower purchasing power. Panda shuttered one supermarket and 6 Pandati outlets during the first quarter. The sector incurred a net loss of SAR 223 million, the ninth in a row. The management expects the sector to achieve a break-even point in 2020. It is worth mentioning that the general assembly of Panda endorsed a capital increase of SAR 1 billion to fund expansions and extinguish accumulated losses of SAR 625 million.

- **Food Manufacturing Sector:** sales of edible oils and sugar tumbled, while sales of pasta ameliorated significantly. The edible oils sales slumped 12.3%, despite a 2.5% increase in the sales volume, crimped by lower selling prices and exchange rate fluctuations in Iran and Sudan. Sales of edible oil in Iran fell by 28%, thus Iran accounted for 30% of edible oil revenues sliding from 36% in Q1 2017. Moreover, Savola's edible oil sales in Saudi Arabia plummeted 14%, however the company's sales in Egypt climbed 16% on improved economic conditions. In the sugar segment, the top line of the business inched down 22% as low selling prices offset the increase in the quantity sold by 4.4%. The Egypt-based pasta segment boosted its revenues by 56% on higher volumes and re-pricing of products. In general, the profits of food manufacturing amounted to SAR 8 million, tumbling from SAR 111 million in Q1 2017.

- **Food Services Sector (Herfy):** Sales soared 4%, however the bottom line slid 9% on higher cost and operating expenses.

- **Investment sector:** Almarai's quarterly profit rose by 4.9% - despite a 4.7% decline in revenues - on a tightened grip on the cost structure and sustained improvement in the poultry and infant nutrition sectors.

The performance in Q1 2018 was contrary to expectations as we expected a net profit of SAR 67 million, while the analysts' mean forecast for net profit was SAR 75 million. The current year is tough for Savola's various sectors as the group grapples with weak demand and diminishing purchasing power following the adjustments in prices of energy, imposition of VAT and expats exodus, combined with high cost structure in Panda and reduced market share. However, the long-term picture is still positive for organized FMCG retailers. As for external markets, the food sector is encountering remarkable fluctuations in the exchange rate in some main markets particularly Iran, Turkey and Sudan, however the outlook for Egypt improved with the stability of the Egyptian pound exchange rate. Taking into consideration lower than expected performance in Q1 2018 especially in the food sector, we have trimmed our previously published estimates for top line and margins, and this triggered a downgrade for the share valuation from SAR 44 to SAR 43

FY - Ending December	2015A	2016A	2017A	2018F
EV/EBITDA	7.43	10.17	9.86	9.44
EV/Sales	0.71	0.68	0.75	0.80
P/E	11.30	n/a	19.73	44.62
Dividend Yield	5.3%	2.0%	2.6%	1.2%
P/BV	1.92	2.46	2.29	2.39
P/Revenue	0.81	0.77	0.85	0.91
Current Ratio	0.93	0.81	0.78	0.66

## Operating Segments

SAR million	Q1 2018			Q1 2017		
	Revenues	EBIT	Net Income	Revenues	EBIT	Net Income
<b>Foods</b>						
Oil	1,745	85	20	1,989	139	94
Sugar	702	19	(12)	885	47	16
Pasta	125	3	0	80	2	0
<b>Total Foods</b>	<b>2,572</b>	<b>107</b>	<b>8</b>	<b>2,954</b>	<b>188</b>	<b>111</b>
<b>Retail</b>						
KSA	2,393	(202)	(219)	2,582	(211)	(228)
Overseas	21	(5)	(5)	92	(1)	(2)
<b>Total Retail</b>	<b>2,415</b>	<b>(207)</b>	<b>(223)</b>	<b>2,674</b>	<b>(212)</b>	<b>(229)</b>
<b>Investments - Others</b>						
Herfy	286	52	48	275	56	53
Real Estate	-	7	7	-	2	2
Almarai - Savola Share	-	119	119	-	120	120
HQ/Elimination/Impairments	(127)	(22)	(43)	(116)	(15)	(51)
<b>Total</b>	<b>5,145</b>	<b>58</b>	<b>(84)</b>	<b>5,787</b>	<b>139</b>	<b>5</b>

SAR million	2017
<b>Q1 2018</b>	
<b>Reported Profit</b>	<b>(84)</b>
Capital Gain from Dar Eltamleek *	(3)
Currency translation	31
<b>Adjusted Profit</b>	<b>(57)</b>
<b>Q1 2017</b>	
<b>Reported Profit</b>	<b>5</b>
Gain from the dilution of the company's stake in United Sugar Company-Egypt	(25)
<b>Adjusted Profit</b>	<b>(20)</b>

\* Savola offloaded its stake in Dar Eltamleek in January 2018 and booked a capital gain of SAR 3.3 million.

## Panda stores in the kingdom

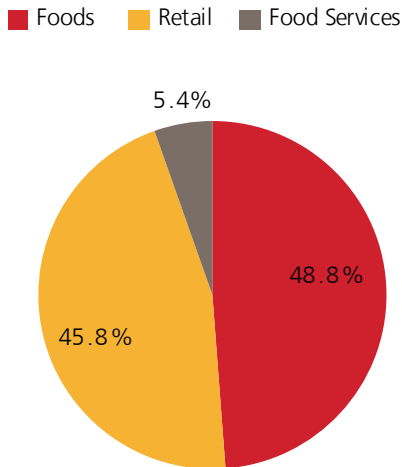
Years	2010	2011	2012	2013	2014	2015	2016	2017	Q1 2018
Supermarkets	87	90	98	110	131	151	160	158	157
Hypermarkets	37	41	47	51	59	63	65	66	66
Pandati	0	0	0	23	155	282	181	138	132
<b>Number of Outlets in KSA</b>	<b>124</b>	<b>131</b>	<b>145</b>	<b>184</b>	<b>345</b>	<b>496</b>	<b>406</b>	<b>362</b>	<b>355</b>

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

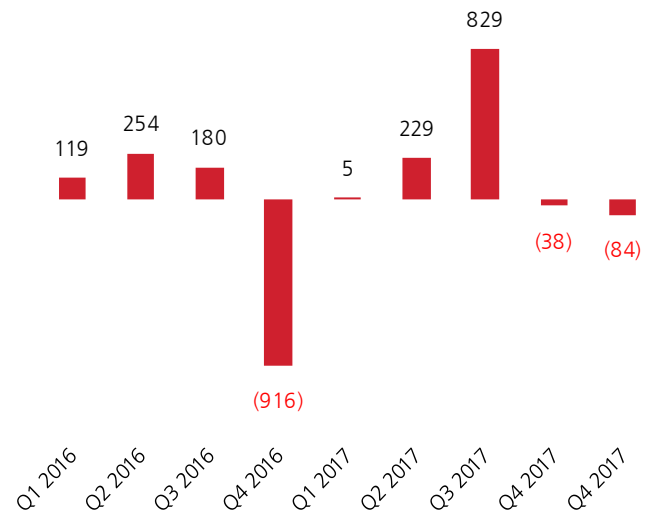
# Savola Group

Q1 2018

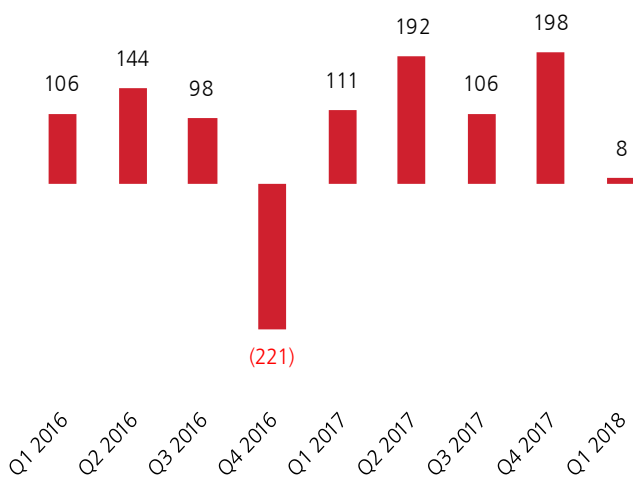
Sales Breakdown per Sector - Q1 2018



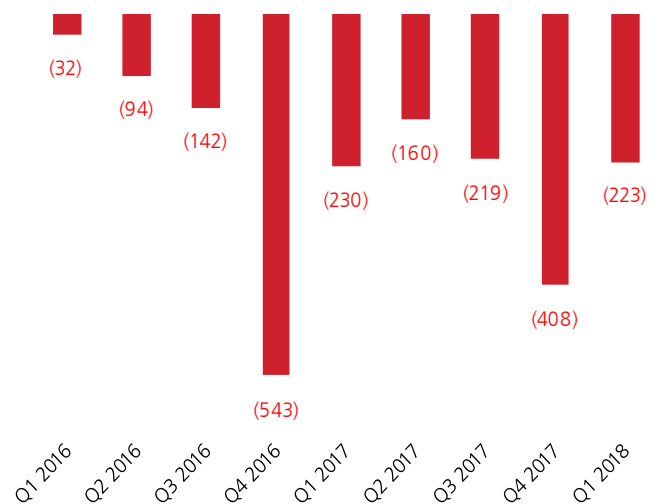
Net Income Growth (SAR million)



Net Income Growth for Foods Sector (SAR million)



Net Income Growth for Retail Sector (SAR million)



Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018E
<b>Total Revenues</b>	<b>26,588</b>	<b>25,126</b>	<b>26,331</b>	<b>23,832</b>	<b>22,325</b>
Revenues Growth	5.2%	-5.5%	4.8%	%9.5-	-6.3%
COGS	21,724	20,100	21,626	19,446	18,088
COGS/Sales	81.7%	80.0%	82.1%	%81.6	81.0%
Gross Margin	18.3%	20.0%	17.9%	%18.4	19.0%
SG&A	3,387	4,036	4,360	4,116	3,859
SG&A/Sales	12.7%	16.1%	16.6%	%17.3	17.3%
Income from Investments	978	796	702	752	731
<b>EBITDA</b>	<b>3,082</b>	<b>2,409</b>	<b>1,761</b>	<b>1,817</b>	<b>1,897</b>
EBITDA Margin	11.6%	9.6%	6.7%	%7.6	8.5%
Depreciation and amortization	628	624	714	794	788
<b>EBIT</b>	<b>2,455</b>	<b>1,785</b>	<b>1,047</b>	<b>1,023</b>	<b>1,109</b>
EBIT Margin	9.2%	7.1%	4.0%	%4.3	5.0%
Net Interest Income	(237)	(167)	(559)	(381)	(487)
Others (Net)	193	432	(750)	556	3
<b>Pre-Tax Income</b>	<b>2,411</b>	<b>2,050</b>	<b>(262)</b>	<b>1,197</b>	<b>625</b>
Tax and Zakat	180	139	153	77	75
<b>Net Income</b>	<b>2,230</b>	<b>1,911</b>	<b>(415)</b>	<b>1,120</b>	<b>550</b>
Minority	158	119	(52)	95	96
<b>Net Income After Minority</b>	<b>2,072</b>	<b>1,792</b>	<b>(363)</b>	<b>1,026</b>	<b>454</b>
ROS	7.8%	7.1%	-1.4%	%4.3	2.0%
<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	1,635	2,067	1,405	1,298	968
Accounts Receivables	1,002	921	1,271	971	1,050
Inventory	4,413	4,853	3,284	3,126	2,981
Others	3,188	1,491	2,476	1,259	1,182
<b>Total ST Assets</b>	<b>10,238</b>	<b>9,332</b>	<b>8,436</b>	<b>6,653</b>	<b>6,181</b>
Property, Plant and Equipment (PP&E, net)	6,756	7,911	7,951	7,562	7,553
Intangible assets	1,166	1,114	687	450	450
Investments	7,921	8,430	8,145	8,427	8,856
Others	322	247	39	117	83
<b>Total LT Assets</b>	<b>16,164</b>	<b>17,702</b>	<b>16,823</b>	<b>16,555</b>	<b>16,942</b>
<b>Total Assets</b>	<b>26,402</b>	<b>27,034</b>	<b>25,259</b>	<b>23,209</b>	<b>23,122</b>
Short Term Debt and CPLTD	4,610	5,011	4,608	3,867	5,006
Accounts Payable	2,721	3,133	2,518	2,471	2,274
Others	2,830	1,882	3,252	2,175	2,038
<b>Total ST Liabilities</b>	<b>10,161</b>	<b>10,026</b>	<b>10,378</b>	<b>8,514</b>	<b>9,317</b>
Total Long Term Debt	4,603	4,579	4,456	3,530	2,818
Other Noncurrent Liabilities	709	923	1,175	1,458	1,537
Minority	962	956	1,033	879	976
<b>Equity</b>	<b>9,966</b>	<b>10,550</b>	<b>8,217</b>	<b>8,829</b>	<b>8,475</b>
<b>Total Liabilities and Equity</b>	<b>26,402</b>	<b>27,034</b>	<b>25,259</b>	<b>23,209</b>	<b>23,122</b>

Source: Company Filings, Albilad Capital Research Estimates

The Historical Financial Statements for 2014 and 2015 were prepared according to SOCPA standards, while the following financials are in line with 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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