

Savola Group

Q2 2016

Recommendation

Overweight

Fair Value (SAR)

43.80

Price as of August 3, 2016

32.58

Expected Return

34.4%

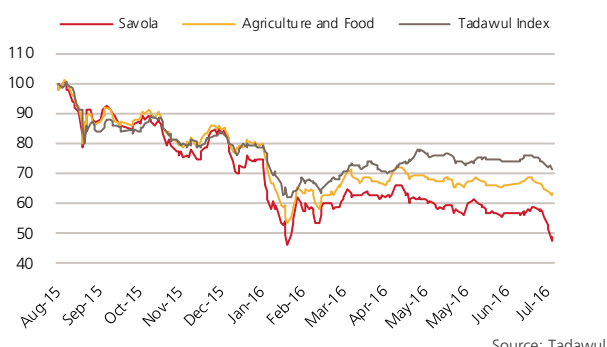
Company Data

Tadawul Symbol	2050.SE
52 Week High (SAR)	69.00
52 Week Low (SAR)	29.40
YTD Change	-34.8%
3-Month Average Volume (Thousand Shares)	522
Market Cap. (SAR Million)	17,398
Market Cap. (USD Million)	4,639
Outstanding Shares (Million Shares)	534

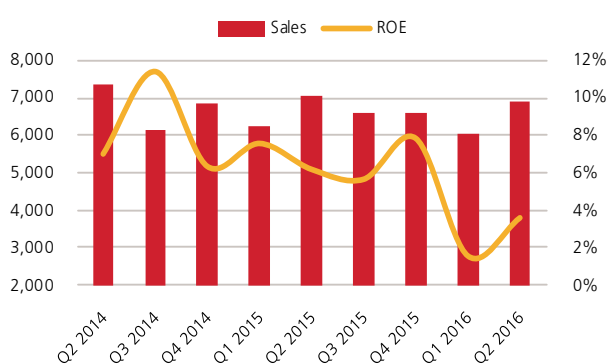
Major Shareholders (> 5%)

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



Quarterly Sales (SAR mn) and ROS



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Savola reported unaudited net earnings of SAR 247 million in Q2 2016 down 43% from SAR 434 million in Q2 2015, nevertheless the bottom line skyrocketed by 166% QoQ from SAR 93 million. The semiannual bottom line hit SAR 340 million sliding by 62.5% from SAR 905 million in H1 2015.

The decrease in net profit versus Q2 2016 was triggered by lower margins in the food and retail segments, increased operating expenses associated with the expansion of retail outlets and a new distribution center in the western region. Financing expenses also mounted in tandem with forex losses from Egyptian United Sugar company (classified as discontinued operations).

Compared with Q1 2016, the second quarter coincided with mounting seasonal demand for food products and the retail sector as also reflected in the investment income from associates. Furthermore, Egyptian United Sugar Company trimmed its net loss by 61% YoY in Q2 2016.

On a semiannual level, H1 2015 included a gain capital of SAR 265 million from the sale of the plastic segment. On the other side, Savola's first-half performance reflected higher operating expenses and exacerbating forex losses.

Savola's revenues languished at SAR 6.89 billion in Q2 2016 down 2.1% from SAR 7.04 billion in Q2 2015 as the sales of the food sector slumped by 8% whilst retail revenues stretched by 2.4%. On the contrary, the top line skyrocketed by 14.4% versus Q1 2016 on mounting seasonal demand for the food and retail segments. Food and retail revenues climbed by 10% and 18.4% QoQ, respectively. On the other hand, the semiannual sales fell 2.6% totaling SAR 12.9 billion with the food and retail segment posting sales of SAR 5.9 billion and SAR 7.1 billion, respectively, with the former edging down by 8.3%, while the latter increased by 2.5%. The food segment bottom line culminated at SAR 341 million in H1 2016 down from SAR 343 million in H1 2015. The retail segment incurred a net loss of SAR 101 million in H1 2016 compared to net profit of SAR 67 million in the comparable period. Geographically, Saudi Arabia accounted for 71.5% of top line followed by Egypt and Iran with 9.8% and 9.1%, respectively. Revenues from the local operations increased by 1.1%, while sales in Iran and Egypt shrank by 15.2% and 3.6%, respectively.

In H1 2016, Savola shut down 60 Pandati outlets; of which 51 outlets were closed in Q1 2016, thus the number of Pandati outlets tumbled from 282 in 2015 to 223 outlets by the end of June 2016 taking into account the opening of one outlet in the first half. The number of hypermarkets increased from 64 in December 2015 to 67 at the end of June, and the supermarkets base expanded from 152 to 158 outlets in H1 2016 in spite of shutting down two supermarkets.

The company's quarter net profits missed our estimate of SAR 286 million and the average analysts' estimate of SAR 328 million, therefore the share valuation is downgraded from SAR 49.8 to SAR 43.8.

FY - Ending December	2012A	2013A	2014A	2015A
EV/EBITDA	10.35	10.24	11.87	14.54
EV/Sales	0.89	0.97	0.94	0.94
P/E	12.41	10.21	8.39	9.71
Dividend Yield	4.3%	6.1%	6.9%	6.1%
P/BV	1.76	1.60	1.59	1.52
P/Revenue	0.64	0.69	0.65	0.66
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
H1 2016						
Revenues	5,922	-	7,145	27**	(182)	12,913
Net Income (Losses)	341	(150)	(101)	273	(23)	340
H1 2015						
Revenues	6,456	-	6,974	29**	(199)	13,260
Net Income (Losses)	343	(38)	67	548	(15)	905
Revenues Growth	-8.3%	-	2.5%	-6.4%	8.7%	-2.6%
Net Income Growth	-0.7%	-55.9%	-	-50.3%	-55.9%	-62.5%

SAR million	KSA	Egypt	Iran	Other Countries	Total
H1 2016					
Revenues	9,235	1,261	1,237	1,181	12,913
Net Income (Losses)	411	(150)	50	28	340
H1 2015					
Revenues	9,131	1,308	1,460	1,362	13,260
Net Income (Losses)	841	(59)	70	52	905
Revenues Growth	1.1%	-3.6%	-15.2%	-13.3%	-2.6%
Net Income Growth	-51.1%	154.3%	-29.1%	-45.5%	-62.5%

*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)	H1 2015	H1 2016	Growth
Total Revenues	13,260	12,913	-2.6%
COGS	10,748	10,401	-3.2%
SG&A	1,958	2,196	12.1%
Investment Income	359	383	6.5%
EBITDA	1,231	1,068	-13.2%
EBITDA Margin	9.3%	8.3%	-1.0%
Depreciation and Amortization	317	368	16.0%
EBIT	913	700	-23.4%
EBITDA Margin	6.9%	5.4%	-1.5%
Net Interest Income	(134)	(192)	43.7%
Others	227	(150)	-166.0%
Pre-Tax Income	1,006	358	-64.4%
Tax and Zakat	81	70	-13.2%
Net Income before Minority	925	288	-68.9%
Minority	20	(52)	-353.8%
NAI	905	340	-62.5%
ROS	6.8%	2.6%	-4.2%

Balance Sheet (SAR mn)	H1 2015	H1 2016	Growth
Cash and Marketable Securities	2,144	1,485	-30.7%
Accounts Receivables	1,315	1,061	-19.3%
Inventory	4,785	4,527	-5.4%
Others	2,014	2,159	7.2%
Total ST Assets	10,260	9,233	-10.0%
Net Fixed Assets	7,222	7,779	7.7%
Projects Under Implementation	1,152	1,076	-6.6%
Intangible assets	8,331	8,507	2.1%
Others	327	171	-47.8%
Total LT Assets	17,032	17,533	2.9%
Total Assets	27,292	26,765	-1.9%
Short Term Debt and CPLTD	4,631	4,454	-3.8%
Accounts Payable	3,616	3,057	-15.5%
Others	2,444	3,035	24.2%
Total ST Liabilities	10,691	10,545	-1.4%
Total Long Term Debt	4,413	448	-89.9%
Other Noncurrent Liabilities	713	738	3.6%
Minority	999	824	-17.5%
Equity	10,475	10,210	-2.5%
Total Liabilities and Equity	27,292	22,765	-16.6%

Cash Flow (SAR mn)	H1 2015	H1 2016	Growth
Cash flow from Operations	1,074	898	-16.4%
Cash flow from Financing	(707)	(834)	18.0%
Cash flow from Investing	242	(535)	
Change in Cash	609	(471)	

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.

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
EBITDA	1,822	2,368	2,386	2,105	1,707
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
EBIT	1,801	2,456	2,490	2,455	1,982
Net Interest Income	(317)	(427)	(240)	(237)	(241)
Others	117	47	131	142	304
Pre-Tax Income	1,601	2,076	2,381	2,360	2,046
Tax and Zakat	132	268	303	180	138
Net Income before Discontinued Operations	1,469	1,807	2,078	2,180	1,908
Income from Discontinued Operations	0	0	70	50	0
Net Income before Minority	1,469	1,807	2,147	2,230	1,908
Minority	266	405	443	158	116
NAI	1,202	1,402	1,704	2,072	1,792
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
Total ST Assets	7,774	8,545	9,040	10,238	9,502
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
Total LT Assets	12,328	14,797	15,722	16,164	17,627
Total Assets	20,101	23,342	24,763	26,402	27,128
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
Total ST Liabilities	7,740	9,303	9,102	10,161	10,288
Total Long Term Debt	2,821	3,612	4,126	4,603	4,617
Other Noncurrent Liabilities	469	544	643	709	755
Equity	9,071	9,882	10,892	10,928	11,469
Total Liabilities and Equity	20,101	23,342	24,763	26,402	27,128

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.

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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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