

Savola Group

Q2 2017

Recommendation **Neutral**

Fair Value (SAR) **44.00**

Price as of August 20, 2017 48.30

Expected Return -8.9%

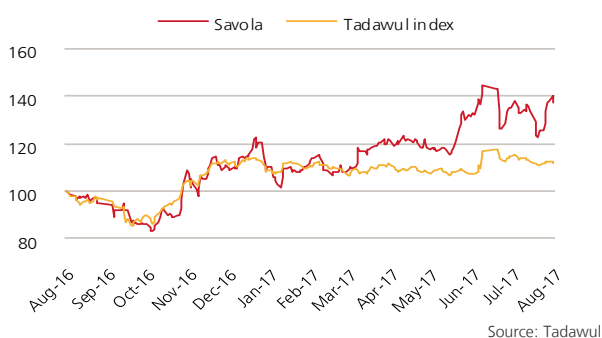
Company Data

| | |
|--|---------|
| Tadawul Symbol | 2050.SE |
| 52 Week High (SAR) | 51.00 |
| 52 Week Low (SAR) | 27.80 |
| YTD Change | 17.8% |
| 3-Month Average Volume (Thousand Shares) | 411 |
| Market Cap. (SAR Million) | 25,792 |
| Market Cap. (USD Million) | 6,878 |
| Outstanding Shares (Million Shares) | 534 |

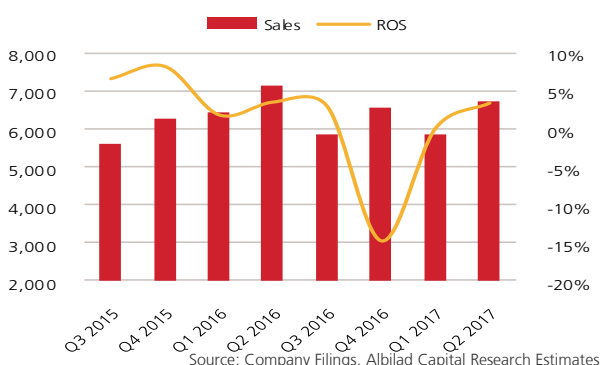
Major Shareholders (> 5%)

| | |
|---|--------|
| 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



Ahmed A. Hindawy, CFA
Senior Financial Analyst
AA.hindawy@albilad-capital.com

For more information, please contact:
Turki Fadaak
Research & Advisory Manager
tfadaak@albilad-capital.com



Savola Group posted a net profit of SAR 229 million in Q2 2017 compared to SAR 254 million in Q2 2016, a decrease of 10%. Nevertheless, the bottom line skyrocketed from SAR 5 million in Q1 2017 boosted by seasonality in demand, thus the first-half net earnings languished at SAR 234 million sliding 37%.

The second-quarter profit included a capital gain of SAR 62 million from the sale of lease rights pertaining to Hyper Panda in Dubai for SAR 80 million, as well as an impairment charge of SAR 34 million in an associate. Excluding extraordinary items, the normalized bottom line will stand at SAR 201 million in Q2 2017.

Consolidated revenues fell by 8% in H1 2017 to SAR 12,544 million versus SAR 13,563 million in H1 2016, predominantly driven by a 14% drop in retail sales to SAR 6,110 million crimped by the slump in the basket size amid mounting consumer appetite for promotions. On the other hand, sales of the food sector amounted to SAR 6,100 million compared to SAR 6,028 million in the corresponding half of last year, climbing 1%. The weak growth in the sector sales was driven by a slight increase of 0.2% in edible oils sales as the group's sales in Egypt were dented by the depreciation of the Egyptian pound. Sugar sales edged up 10% as higher selling prices offset the 7.7% dip in selling volume. The sale of pasta in Egypt inched down 34% amounting to SAR 200 million. Meanwhile, the food services sector (Herfy) reported sales of SAR 547 million compared to SAR 561 million in H1 2016 falling 2.5%.

The company's sales centered in Saudi Arabia in H1 2017 as the kingdom accounted for 72.7% of sales compared to 72.9% in H1 2016. Egypt's share shrank from 9.3% to 7.5%, while Iran lifted its share from 9.1% to 10.9%.

The profit margins reflected economic pressures and challenges facing Savola. Although sales slid 8% in H1 2017, the decline in gross profit was double approaching 16% as the gross profit of the retail sector plummeted by 24%, coupled with a decrease of 7% in the food sector despite higher revenues.

On the net profit level, the losses of the retail sector widened to SAR 390 million compared to SAR 126 million in H1 2016, while the food sector recorded a net profit of SAR 303 million, expanding by 21% driven by non-operating items. Herfy reported net earnings of SAR 96 million, while Savola's share in Almarai's bottom line approached SAR 366 million.

The Group closed a branch of Pandati in Q2 2017, and opened another outlet, thus the number of Pandati outlets remained unchanged at 181 branches. Meanwhile, Savola launched its first hypermarket in Egypt and kept the number of supermarkets unchanged, as the strategy has become more conservative in retail expansions. Savola also continues to focus on restructuring 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. Panda maintained a negative working capital in the first half, and overall capital expenditure of the group shrank 74% from SAR 928 million to SAR 239 million. Therefore, factoring in the second-quarter net profit which beat the average estimate by about 41%, we raise our valuation from SAR 41 to SAR 44 per share.

| FY - Ending December | 2014A | 2015A | 2016A | 2017E |
|----------------------|-------|-------|-------|-------|
| EV/EBITDA | 7.81 | 9.99 | 15.20 | 15.06 |
| EV/Sales | 0.91 | 0.96 | 0.95 | 0.97 |
| P/E | 12.45 | 14.39 | n/a | 55.91 |
| Dividend Yield | 4.6% | 4.1% | 2.5% | 0.0% |
| P/BV | 2.59 | 2.44 | 3.04 | 3.13 |
| P/Revenue | 0.97 | 1.03 | 1.02 | 1.04 |
| Current Ratio | 1.01 | 0.93 | 0.81 | 0.71 |

Operating Segments

| SAR million | H1 2017 | | | H1 2016 | | |
|-----------------------------|---------------|--------------|-------------------|---------------|-------------|-------------------|
| | Revenues | EBIT | Net Income (Loss) | Revenues | EBIT | Net Income (Loss) |
| Foods | | | | | | |
| Oil | 4,115 | 308 | 232 | 4,107 | 437 | 304 |
| Sugar | 1,785 | 136 | 65 | 1,619 | 25 | (81) |
| Pasta | 200 | 10 | 5 | 302 | 38 | 26 |
| Total Foods | 6,100 | 454 | 303 | 6,027 | 500 | 249 |
| Retail | | | | | | |
| KSA | 5,987 | (417) | (447) | 6,978 | (83) | (120) |
| Overseas | 123 | (10) | 57 | 167 | (2) | (5) |
| Total Retail | 6,110 | (427) | (390) | 7,145 | (85) | (125) |
| Investments - Others | | | | | | |
| Herfy | 547 | 103 | 96 | 561 | 108 | 103 |
| Real Estate | 0 | (33) | (33) | 0 | 16 | 16 |
| Al Marai | 0 | 366 | 366 | 0 | 348 | 348 |
| HQ/Elimination/Impairments | (213) | (32) | (109) | (171) | (89) | (217) |
| Total | 12,544 | 431 | 234 | 13,563 | 797 | 373 |

| SAR million | H1 2017 | H1 2016 |
|--|------------|------------|
| Gain on Sale of USCE | (25) | - |
| Share of Associate Liability | - | 20 |
| Gain on Sale of Hyper Panda UAE | (62) | - |
| Share of impairment Loss from an Associate | 34 | - |
| Adjusted Profit | 181 | 393 |

Panda stores expansion

| Years | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Q2 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 Egypt.

| Income Statement (SAR mn) | 2013A* | 2014A* | 2015A* | 2016A | 2017E** |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Revenues | 25,281 | 26,588 | 25,126 | 25,312 | 24,749 |
| Revenues Growth | -7.7% | 5.2% | -5.5% | 0.7% | -2.2% |
| COGS | 20,507 | 21,724 | 20,100 | 20,876 | 20,327 |
| COGS/Sales | 81.1% | 81.7% | 80.0% | 82.5% | 82.1% |
| Gross Margin | 18.9% | 18.3% | 20.0% | 17.5% | 17.9% |
| SG&A | 3,044 | 3,387 | 4,036 | 4,387 | 4,293 |
| SG&A/Sales | 12.0% | 12.7% | 16.1% | 17.3% | 17.3% |
| Income from Investments | 760 | 978 | 796 | 783 | 790 |
| EBITDA | 3,147 | 3,082 | 2,409 | 1,584 | 1,598 |
| EBITDA Margin | 12.4% | 11.6% | 9.6% | 6.3% | 6.5% |
| Depreciation and amortization | 657 | 628 | 624 | 751 | 679 |
| EBIT | 2,490 | 2,455 | 1,785 | 832 | 919 |
| EBIT Margin | 9.8% | 9.2% | 7.1% | 3.3% | 3.7% |
| Net Interest Income | (240) | (237) | (167) | (550) | (307) |
| Others (Net) | 201 | 193 | 432 | (750) | 84 |
| Pre-Tax Income | 2,450 | 2,411 | 2,050 | (467) | 696 |
| Tax and Zakat | 303 | 180 | 139 | 157 | 104 |
| Net Income | 2,147 | 2,230 | 1,911 | (624) | 591 |
| Minority | 443 | 158 | 119 | (173) | 130 |
| Net Income After Minority | 1,704 | 2,072 | 1,792 | (451) | 461 |
| ROS | 6.7% | 7.8% | 7.1% | -1.8% | 1.9% |

| Balance Sheet (SAR mn) | 2013A* | 2014A* | 2015A* | 2016A | 2017E** |
|---|---------------|---------------|---------------|---------------|---------------|
| Cash and Marketable securities | 1,364 | 1,635 | 2,067 | 1,332 | 1,609 |
| Accounts Receivables | 1,265 | 1,002 | 921 | 1,229 | 1,221 |
| Inventory | 4,488 | 4,413 | 4,853 | 3,204 | 3,119 |
| Others | 1,924 | 3,188 | 1,491 | 2,266 | 1,237 |
| Total ST Assets | 9,040 | 10,238 | 9,332 | 8,030 | 7,185 |
| Property, Plant and Equipment (PP&E, net) | 6,383 | 6,756 | 7,911 | 6,865 | 7,722 |
| Intangible assets | 1,344 | 1,166 | 1,114 | 662 | 687 |
| 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 | 17,187 |
| Total Assets | 24,763 | 26,402 | 27,034 | 24,124 | 24,373 |
| Short Term Debt and CPLTD | 4,281 | 4,610 | 5,011 | 4,486 | 4,632 |
| Accounts Payable | 2,668 | 2,721 | 3,133 | 2,416 | 2,757 |
| Others | 2,153 | 2,830 | 1,882 | 3,023 | 2,722 |
| Total ST Liabilities | 9,102 | 10,161 | 10,026 | 9,925 | 10,111 |
| Total Long Term Debt | 4,126 | 4,603 | 4,579 | 4,217 | 3,865 |
| Other Noncurrent Liabilities | 643 | 709 | 923 | 864 | 991 |
| Minority | 1,241 | 962 | 956 | 634 | 1,163 |
| Equity | 9,651 | 9,966 | 10,550 | 8,483 | 8,243 |
| Total Liabilities and Equity | 24,763 | 26,402 | 27,034 | 24,124 | 24,373 |

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.

Albilad Capital

Client Services

E-mail: clientservices@albilad-capital.com

Tel: +966-11-203-9888

Toll-free: 800-116-0001

Research & Advisory

E-mail: research@albilad-capital.com

Tel: +966-11-290-6250

Website: www.albilad-capital.com/en/research

Asset Management

E-mail: abiccasset@albilad-capital.com

Tel: +966-11-290-6280

Brokerage

E-mail: abiccctu@albilad-capital.com

Tel: +966-11-290-6230

Custody

E-mail: custody@albilad-capital.com

Tel: +966-11-290-6259

Investment Banking

E-mail: investmentbanking@albilad-capital.com

Tel: +966-11-290-6256

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