

# Savola Group

Q3 2017

## Recommendation **Overweight**

**Fair Value (SAR) 44.00**

Price as of November 15, 2017 37.88  
Expected Return 16.2%

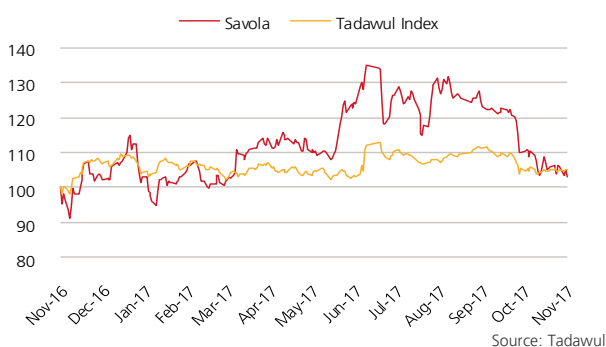
### Company Data

Tadawul Symbol	2050.SE
52 Week High (SAR)	51.00
52 Week Low (SAR)	32.30
YTD Change	-7.6%
3-Month Average Volume (Thousand Shares)	416
Market Cap. (SAR Million)	20,228
Market Cap. (USD Million)	5,394
Outstanding Shares (Million Shares)	534

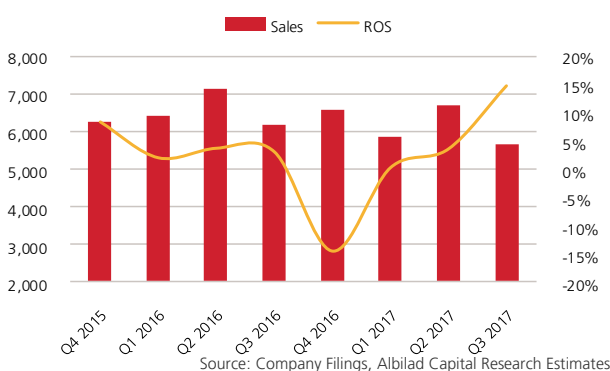
### Major Shareholders (> 5%)

Assila Investment	11.23%
General Organization for Social Insurance	10.26%
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



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Savola Group posted a net profit of SAR 829 million in Q3 2017 compared to SAR 180 million in Q3 2016, however excluding a non-recurring capital gain of SAR 694 million from divesting 2% of Savola's stake in Almarai, the normalized bottom line will amount to SAR 135 million. It is noteworthy that Savola reported net earnings of SAR 229 million in Q2 2017 which also coincided with a capital gain of SAR 62 million from divesting a Hyperpanda store in Dubai. The reported net earnings for 9M 2017 hit SAR 1,063 million leaping from SAR 552 million in 9M 2016, while the normalized figure dwindled from SAR 865 million in 9M 2016 to SAR 316 million. The quarterly earnings transcended our forecast and the analysts' mean estimate by 2.5% and 30%, respectively.

The group's nine-month revenues slid 8% to SAR 18,208 million as retail revenues slumped 15% to SAR 8,818 million with the segment crimped by lower shopping basket amid increased consumer demand for promotions. Sales of the food sector amounted to SAR 8,812 million, disclosing timid growth of 1% as edible oil sales, which accounted for two thirds of the segment revenues, increased only 0.5%. The company's sales of edible oils in Egypt plummeted by 26%, while volume sold tumbled 9% dented by the devaluation of the Egyptian pound. Sugar sales, which grabbed 28.5% of food sales, soared 6.2% as higher selling prices offset the decrease of 3.1% in sales volume. The revenues of Egypt-based pasta division also slipped 28% languishing at SAR 310 million. On the other hand, the food services sector (Herfy) achieved sales of SAR 859 million inching down 2% compared to SAR 876 million in 9M 2016.

The company's sales centered in Saudi Arabia in 9M 2017 as the kingdom accounted for 72.6% of sales compared to 73.3% in 9M 2016. Egypt's share shrank from 8.4% to 7.5%, while Iran lifted its share from 9.6% to 11.1%.

Profit margins underscored economic and operational headwinds, with sales sliding 8% in 9M 2017, however the gross profit slump approached 15% as the gross profit of the retail sector plummeted by 22%, coupled with a decrease of 7% in the food sector despite higher revenues.

On the net profit level, the losses of the retail sector stretched by 127% to SAR 608 million in 9M 2017, while the food sector recorded a net profit of SAR 409 million, expanding by 16.5% driven by non-operating items. Herfy reported net earnings of SAR 152 million, sliding 6%, while Savola's share in Almarai's bottom line plateaued at SAR 607 million, climbing 3%.

Savola shutdown 6 Pandati outlets and three supermarkets in Q3 2017 compared with two closures in the first half. Savola has adopted a conservative strategy in retail expansions, amid continuing efforts to restructure the retail sector with painful repercussions in the short term, factoring in surrounding economic challenges, nevertheless the process may bode well in the long term. Panda booked a negative working capital in 9M 2017, and overall capital expenditure of the group shrank 68% to SAR 357 million. Cash and equivalents shrank 3% QoQ in spite of cash inflows worth SAR 1,120 million from selling shares in Almarai as Savola trimmed its outstanding debts and liabilities compared to June 2017. Our valuation for Savola is maintained at SAR 44 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	6.02	7.71	11.72	10.69
EV/Sales	0.70	0.74	0.73	0.76
P/E	9.87	11.41	n/a	17.54
Dividend Yield	5.8%	5.1%	3.2%	0.0%
P/BV	2.05	1.94	2.41	2.18
P/Revenue	0.77	0.81	0.81	0.84
Current Ratio	1.01	0.93	0.81	0.79

## Operating Segments

SAR million	9M 2017			9M 2016		
	Revenues	EBIT	Net Income (Loss)	Revenues	EBIT	Net Income (Loss)
<b>Foods</b>						
Oil	5,978	424	298	5949	597	390
Sugar	2,523	201	102	2,367	53	(77)
Pasta	310	17	9	429	55	37
<b>Total Foods</b>	<b>8,812</b>	<b>641</b>	<b>409</b>	<b>8,745,</b>	<b>705</b>	<b>351</b>
<b>Retail</b>						
KSA	8,669	(609)	(656)	10,068	(207)	(264)
Overseas	149	(19)	48	252	(2)	(4)
<b>Total Retail</b>	<b>8,818</b>	<b>(627)</b>	<b>(608)</b>	<b>10,320</b>	<b>(209)</b>	<b>(268)</b>
<b>Investments - Others</b>						
Herfy	859	163	152	876	170	162
Real Estate	0	(26)	(26)	0	16	16
Al Marai	0	607	607	0	590	590
HQ/Elimination/Impairments	(281)	(47)	529	(224)	(121)	(299)
<b>Total</b>	<b>18,208</b>	<b>712</b>	<b>1,063</b>	<b>19,717</b>	<b>1,151</b>	<b>552</b>

SAR million	9M 2017
Gain on Sale of USCE	(25)
Gain on Sale of Hyper Panda UAE	(62)
Gain on Sale of 2% of Al Marai	(694)
Share of impairment Loss from an Associate	34
<b>Adjusted Profit</b>	<b>316</b>

## Panda stores expansion

Years	2010	2011	2012	2013	2014	2015	2016	Q3 2017
Supermarkets	87	90	98	110	131	151	160	158
Hypermarkets	37	41	47	51	59	63	65	66
Pandati	0	0	0	23	155	282	181	175
<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>399</b>

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

Income Statement (SAR mn)	2013A*	2014A*	2015A*	2016A	2017E**
<b>Total Revenues</b>	<b>25,281</b>	<b>26,588</b>	<b>25,126</b>	<b>25,312</b>	<b>24,314</b>
Revenues Growth	-7.7%	5.2%	-5.5%	0.7%	-3.9%
COGS	20,507	21,724	20,100	20,876	19,943
COGS/Sales	81.1%	81.7%	80.0%	82.5%	82.0%
Gross Margin	18.9%	18.3%	20.0%	17.5%	18.0%
SG&A	3,044	3,387	4,036	4,387	4,146
SG&A/Sales	12.0%	12.7%	16.1%	17.3%	17.1%
Income from Investments	760	978	796	783	748
<b>EBITDA</b>	<b>3,147</b>	<b>3,082</b>	<b>2,409</b>	<b>1,584</b>	<b>1,737</b>
EBITDA Margin	12.4%	11.6%	9.6%	6.3%	7.1%
Depreciation and amortization	657	628	624	751	763
<b>EBIT</b>	<b>2,490</b>	<b>2,455</b>	<b>1,785</b>	<b>832</b>	<b>974</b>
EBIT Margin	9.8%	9.2%	7.1%	3.3%	4.0%
Net Interest Income	(240)	(237)	(167)	(550)	(333)
Others (Net)	201	193	432	(750)	778
<b>Pre-Tax Income</b>	<b>2,450</b>	<b>2,411</b>	<b>2,050</b>	<b>(467)</b>	<b>1,418</b>
Tax and Zakat	303	180	139	157	113
<b>Net Income</b>	<b>2,147</b>	<b>2,230</b>	<b>1,911</b>	<b>(624)</b>	<b>1,304</b>
Minority	443	158	119	(173)	138
<b>Net Income After Minority</b>	<b>1,704</b>	<b>2,072</b>	<b>1,792</b>	<b>(451)</b>	<b>1,166</b>
ROS	6.7%	7.8%	7.1%	-1.8%	4.8%
<b>Balance Sheet (SAR mn)</b>	<b>2013A*</b>	<b>2014A*</b>	<b>2015A*</b>	<b>2016A</b>	<b>2017E**</b>
Cash and Marketable securities	1,364	1,635	2,067	1,332	1,446
Accounts Receivables	1,265	1,002	921	1,229	1,199
Inventory	4,488	4,413	4,853	3,204	3,278
Others	1,924	3,188	1,491	2,266	1,313
<b>Total ST Assets</b>	<b>9,040</b>	<b>10,238</b>	<b>9,332</b>	<b>8,030</b>	<b>7,237</b>
Property, Plant and Equipment (PP&E, net)	6,383	6,756	7,911	6,865	7,751
Intangible assets	1,344	1,166	1,114	662	687
Investments	7,943	7,921	8,430	8,527	8,478
Others	52	322	247	39	165
<b>Total LT Assets</b>	<b>15,722</b>	<b>16,164</b>	<b>17,702</b>	<b>16,093</b>	<b>17,081</b>
<b>Total Assets</b>	<b>24,763</b>	<b>26,402</b>	<b>27,034</b>	<b>24,124</b>	<b>24,317</b>
Short Term Debt and CPLTD	4,281	4,610	5,011	4,486	4,330
Accounts Payable	2,668	2,721	3,133	2,416	2,295
Others	2,153	2,830	1,882	3,023	2,553
<b>Total ST Liabilities</b>	<b>9,102</b>	<b>10,161</b>	<b>10,026</b>	<b>9,925</b>	<b>9,177</b>
Total Long Term Debt	4,126	4,603	4,579	4,217	3,707
Other Noncurrent Liabilities	643	709	923	864	991
Minority	1,241	962	956	634	1,040
<b>Equity</b>	<b>9,651</b>	<b>9,966</b>	<b>10,550</b>	<b>8,483</b>	<b>9,402</b>
<b>Total Liabilities and Equity</b>	<b>24,763</b>	<b>26,402</b>	<b>27,034</b>	<b>24,124</b>	<b>24,317</b>

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.

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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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