

# Savola Group

Q4 2016

## Recommendation

**Neutral**

## Fair Value (SAR)

**41.00**

|                               |       |
|-------------------------------|-------|
| Price as of February 13, 2017 | 39.21 |
| Expected Return               | 4.6%  |

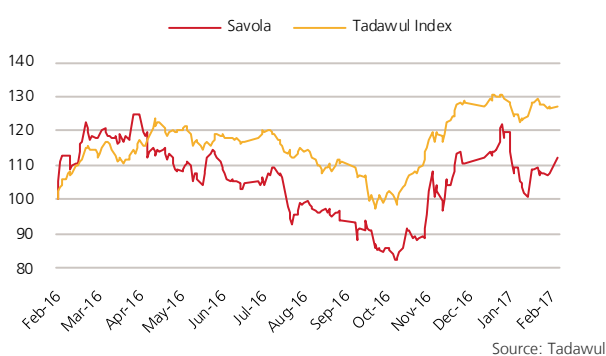
## Company Data

|  |         |
|--|---------|
| Tadawul Symbol                           | 2050.SE |
| 52 Week High (SAR)                       | 44.90   |
| 52 Week Low (SAR)                        | 27.80   |
| YTD Change                               | -4.4%   |
| 3-Month Average Volume (Thousand Shares) | 587     |
| Market Cap. (SAR Million)                | 20,719  |
| Market Cap. (USD Million)                | 5,525   |
| Outstanding Shares (Million Shares)      | 534     |

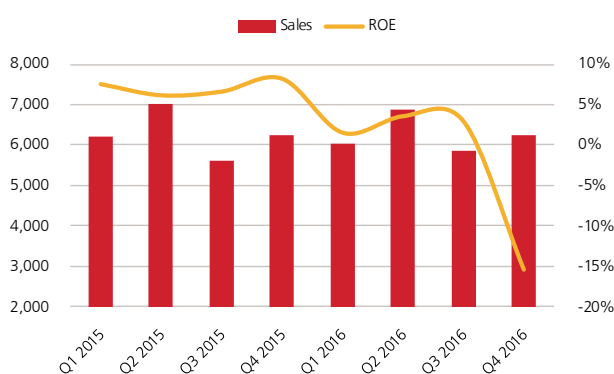
## Major Shareholders (> 5%)

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



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Savola swung to a net loss of SAR 964 million in Q4 2016 from net earnings of SAR 515 million in Q4 2015, and also net profit of SAR 173 million in Q3 2016 as Q4 2016 coincided with non-recurring items, as well as the dramatic depreciation of the Egyptian pound. Therefore, the group reported a net loss of SAR 451 million in 2016 compared to a net profit of SAR 1,792 million in 2015.

Excluding one-time impairment charges, currency losses and other unusual items, Savola will achieve an adjusted positive net income of SAR 810 million down from SAR 1,480 million in 2015, as the comparable year also included unusual gains from the sale of the plastic segment and land plot, and settlement proceeds.

The shift to losses in Q4 2016 was driven by the following factors:

- Recording a loss of SAR 302 million from impairment of assets and goodwill related to the Egyptian operations of Savola Foods Company (the impact on the group hit SAR 245 million).
- Inventory reduction costs incurred by Panda Retail Company hit SAR 377 million (the group's share netted SAR 343 million).
- Recording a total impairment charge of SAR 272 million for the noncore investments in Swicorp Arabian Co., Joussor Holding and Intaj Capital Ltd.
- Floating the Egyptian pound in Q4 2016 resulted in the aggravation of the Egyptian United Sugar company's losses, classified as discontinued operations, in addition to higher financing costs.

In Q4 2016, Savola recorded a nonrecurring gain of SAR 26 million for the reclassification of Savola Morocco to continuing operations instead of held for sale assets. It is worth noteworthy that Q4 2015 coincided with an exceptional gain of SAR 165 million from the sale of a land plot, and insurance proceeds.

Top line fell 0.5% in 2016 hitting SAR 25 billion as sales of food and retail segments amounted to SAR 11.8 billion and SAR 13.5 billion, respectively, thus food sales shrank 0.26% and retail sales edged down 0.43%. The food segment earned SAR 191 million versus SAR 686 million in 2015, nevertheless the retail segment incurred a net loss of SAR 733 million compared to net profit of SAR 146 million in 2015. Moreover, Savola gained SAR 762 million and SAR 105 million from its investments in Almarai and Herfy, respectively.

In 2016, Savola shut down 102 Pandati outlets, and opened only one outlet. The direct cost from Pandati stores closure reached SAR 37 million. Savola also closed one hypermarket and three supermarkets during the year.

The financial results for 2016 encompassed staggering non-cash and nonrecurring losses, coupled with adverse external circumstances and the focus of operations on Saudi Arabia, Iran and Egypt. In spite of this, we believe the results entail long-term positive impacts from the redirection of the company's strategy by adopting more cautious expansionary policies, the closure of branches that do not achieve the desired yield, reduction of inventory to boost liquidity, re-evaluation of non-core investments. Accordingly, we expect the performance to remarkably recover through 2017 despite the persistence of unfavorable economic conditions; we maintain our fair value estimate at SAR 41 per share.

| FY - Ending December | 2014A | 2015A | 2016A  | 2017F |
|----------------------|-------|-------|--------|-------|
| EV/EBITDA            | 6.42  | 8.22  | 12.55  | 8.95  |
| EV/Sales             | 0.74  | 0.79  | 0.79   | 0.79  |
| P/E                  | 10.10 | 11.69 | -46.39 | 28.08 |
| Dividend Yield       | 5.7%  | 5.0%  | 1.9%   | 1.7%  |
| P/BV                 | 2.10  | 1.98  | 2.47   | 2.23  |
| P/Revenue            | 0.79  | 0.83  | 0.84   | 0.84  |
| Current Ratio        | 1.01  | 0.93  | 0.80   | 0.76  |

Source: Company Filings, Albilad Capital Research Estimates

| SAR million                  | FY 2016      | FY 2015      |
|------------------------------|--------------|--------------|
| <b>Reported net income</b>   | <b>(451)</b> | <b>1,792</b> |
| Gain on sale of SPS and Land | -            | (304)        |
| Non-Core impairments         | 272          | -            |
| Loss from Hosoon             | 20           | -            |
| Foods impairments            | 245          | -            |
| Foods FX impact              | 374          | 86           |
| Insurance gain               | -            | (94)         |
| Morocco reinstatement        | (26)         | -            |
| Inventory reduction          | 343          | -            |
| Pandati store closure        | 33           | -            |
| <b>Adjusted net income</b>   | <b>810</b>   | <b>1,480</b> |

## Operating Segments

| SAR million                   | FY 2016       |              |                   | FY 2015       |              |                   |
|-------------------------------|---------------|--------------|-------------------|---------------|--------------|-------------------|
|                               | Revenues      | EBIT         | Net Income (Loss) | Revenues      | EBIT         | Net Income (Loss) |
| <b>Foods</b>                  |               |              |                   |               |              |                   |
| Oil                           | 8,062         | 727          | 408               | 8,482         | 849          | 626               |
| Sugar                         | 3,188         | 48           | (212)             | 2,803         | (60)         | 20                |
| Pasta                         | 532           | 62           | (7)               | 527           | 59           | 40                |
| <b>Total Foods</b>            | <b>11,782</b> | <b>838</b>   | <b>14</b>         | <b>11,812</b> | <b>848</b>   | <b>688</b>        |
| United Sugar Company - Egypt* | -             | -            | (176)             | -             | -            | 1.2               |
| <b>Retail</b>                 |               |              |                   |               |              |                   |
| KSA                           | 13,134        | (700)        | (770)             | 13,210        | 191          | 145               |
| Overseas                      | 341           | (2)          | (2)               | 323           | 2            | 1                 |
| <b>Total Retail</b>           | <b>13,475</b> | <b>(702)</b> | <b>(773)</b>      | <b>13,533</b> | <b>193</b>   | <b>146</b>        |
| <b>Investments - Others</b>   |               |              |                   |               |              |                   |
| Real Estate                   | 0             | (55)         | (55)              | 0             | 20           | 20                |
| Herfy                         | 0             | 105          | 105               | 0             | 101          | 101               |
| Al Marai                      | 0             | 762          | 762               | 0             | 698          | 698               |
| HQ/Elimination/Impairments    | (248)         | (112)        | (505)             | (219)         | (75)         | 139               |
| <b>Total</b>                  | <b>25,008</b> | <b>835</b>   | <b>(451)</b>      | <b>25,126</b> | <b>1,785</b> | <b>1,792</b>      |

| SAR million     | FY 2016       |                   | FY 2015       |                   |
|-----------------|---------------|-------------------|---------------|-------------------|
|                 | Revenues      | Net Income (Loss) | Revenues      | Net Income (Loss) |
| KSA             | 17,956        | (225)             | 17,558        | 1,483             |
| Egypt           | 2,018         | (487)             | 2,165         | (29)              |
| Iran            | 2,756         | 136               | 2,702         | 232               |
| Other Countries | 2,279         | 124               | 2,702         | 105               |
| <b>Total</b>    | <b>25,008</b> | <b>(451)</b>      | <b>25,126</b> | <b>1,792</b>      |

\*In March 2016, Savola and other shareholders of United Sugar Company - Egypt (USCE) 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. EBRD will own 46.32% of USCE. Savola will book the investment in USCE using the equity method instead of full consolidation. 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 consolidated financial statements. The financial statements for 2015 were also restated.

| Income Statement (SAR mn)        | 2013A*        | 2014A*        | 2015A*        | 2016A         | 2017F         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total Revenues</b>            | <b>25,281</b> | <b>26,588</b> | <b>25,126</b> | <b>25,008</b> | <b>25,043</b> |
| Revenues Growth                  | -7.7%         | 5.2%          | -5.5%         | -0.5%         | 0.1%          |
| COGS                             | 20,507        | 21,724        | 20,100        | 20,583        | 20,395        |
| COGS/Sales                       | 81.1%         | 81.7%         | 80.0%         | 82.3%         | 81.4%         |
| Gross Margin                     | 18.9%         | 18.3%         | 20.0%         | 17.7%         | 18.6%         |
| SG&A                             | 3,044         | 3,387         | 4,036         | 4,373         | 4,248         |
| SG&A/Sales                       | 12.0%         | 12.7%         | 16.1%         | 17.5%         | 17.0%         |
| Income from Investments          | 760           | 978           | 796           | 783           | 904           |
| <b>EBITDA</b>                    | <b>3,147</b>  | <b>3,082</b>  | <b>2,409</b>  | <b>1,577</b>  | <b>2,211</b>  |
| EBITDA Margin                    | 12.4%         | 11.6%         | 9.6%          | 6.3%          | 8.8%          |
| Depreciation and amortization    | 657           | 628           | 624           | 743           | 907           |
| <b>EBIT</b>                      | <b>2,490</b>  | <b>2,455</b>  | <b>1,785</b>  | <b>835</b>    | <b>1,304</b>  |
| EBIT Margin                      | 9.8%          | 9.2%          | 7.1%          | 3.3%          | 5.2%          |
| Net Interest Income              | (240)         | (237)         | (167)         | (567)         | (346)         |
| Others (Net)                     | 201           | 193           | 432           | (750)         | (44)          |
| <b>Pre-Tax Income</b>            | <b>2,450</b>  | <b>2,411</b>  | <b>2,050</b>  | <b>(482)</b>  | <b>914</b>    |
| Tax and Zakat                    | 303           | 180           | 139           | 139           | 119           |
| <b>Net Income</b>                | <b>2,147</b>  | <b>2,230</b>  | <b>1,911</b>  | <b>(622)</b>  | <b>795</b>    |
| Minority                         | 443           | 158           | 119           | (170)         | 50            |
| <b>Net Income After Minority</b> | <b>1,704</b>  | <b>2,072</b>  | <b>1,792</b>  | <b>(451)</b>  | <b>746</b>    |
| ROS                              | 6.7%          | 7.8%          | 7.1%          | -1.8%         | 3.0%          |

| Balance Sheet (SAR mn)                    | 2013A*        | 2014A*        | 2015A*        | 2016A         | 2017F         |
|---|---------------|---------------|---------------|---------------|---------------|
| Cash and Marketable securities            | 1,364         | 1,635         | 2,067         | 1,320         | 911           |
| Accounts Receivables                      | 1,265         | 1,002         | 921           | 861           | 892           |
| Inventory                                 | 4,488         | 4,413         | 4,853         | 3,251         | 3,576         |
| Others                                    | 1,924         | 3,188         | 1,491         | 2,335         | 2,362         |
| <b>Total ST Assets</b>                    | <b>9,040</b>  | <b>10,238</b> | <b>9,332</b>  | <b>7,766</b>  | <b>7,741</b>  |
| Property, Plant and Equipment (PP&E, net) | 6,383         | 6,756         | 7,911         | 6,822         | 8,080         |
| Intangible assets                         | 1,344         | 1,166         | 1,114         | 662           | 622           |
| Investments                               | 7,943         | 7,921         | 8,430         | 8,527         | 9,087         |
| Others                                    | 52            | 322           | 247           | 49            | 148           |
| <b>Total LT Assets</b>                    | <b>15,722</b> | <b>16,164</b> | <b>17,702</b> | <b>16,060</b> | <b>17,936</b> |
| <b>Total Assets</b>                       | <b>24,763</b> | <b>26,402</b> | <b>27,034</b> | <b>23,826</b> | <b>25,678</b> |
| Short Term Debt and CPLTD                 | 4,281         | 4,610         | 5,011         | 4,607         | 4,587         |
| Accounts Payable                          | 2,668         | 2,721         | 3,133         | 2,021         | 2,570         |
| Others                                    | 2,153         | 2,830         | 1,882         | 3,075         | 3,110         |
| <b>Total ST Liabilities</b>               | <b>9,102</b>  | <b>10,161</b> | <b>10,026</b> | <b>9,703</b>  | <b>10,267</b> |
| Total Long Term Debt                      | 4,126         | 4,603         | 4,579         | 4,098         | 3,998         |
| Other Noncurrent Liabilities              | 643           | 709           | 923           | 874           | 1,329         |
| Minority                                  | 1,241         | 962           | 956           | 661           | 710           |
| <b>Equity</b>                             | <b>9,651</b>  | <b>9,966</b>  | <b>10,550</b> | <b>8,491</b>  | <b>9,373</b>  |
| <b>Total Liabilities and Equity</b>       | <b>24,763</b> | <b>26,402</b> | <b>27,034</b> | <b>23,826</b> | <b>25,678</b> |

| Cash Flow (SAR mn)                        | 2013A* | 2014A*  | 2015A* | 2016A   | 2017F   |
|---|--------|---------|--------|---------|---------|
| Operating Cash Flow                       | 1,520  | 2,122   | 2,062  | 1,707   | 1,420   |
| Financing Cash Flow                       | (919)  | (694)   | (943)  | (1,196) | (801)   |
| Investing Cash Flow                       | 91     | (1,017) | (527)  | (741)   | (1,002) |
| Change in Cash from continuing operations | 692    | 411     | 592    | (230)   | (382)   |

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., 2015 top line also adjusted to account for the new accounting treatment of united sugar Egypt. 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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