

# Savola Group

Q4 2017

## Recommendation **Overweight**

**Fair Value (SAR) 44.00**

Price as of March 5, 2018 35.64  
Expected Return 23.46%

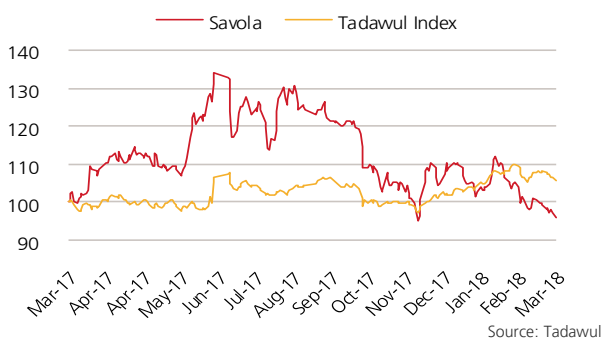
### Company Data

Tadawul Symbol	2050.SE
52 Week High (SAR)	51.00
52 Week Low (SAR)	35.15
YTD Change	-8.6%
3-Month Average Volume (Thousand Shares)	380
Market Cap. (SAR Million)	20,228
Market Cap. (USD Million)	5,394
Outstanding Shares (Million Shares)	534

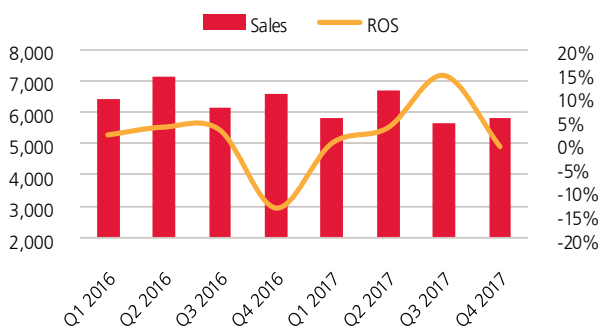
### Major Shareholders (> 5%)

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



Savola Group reported a net loss of SAR 38 million in Q4 2017 down from a loss of SAR 916 million in Q4 2016, and compared to a net profit of SAR 96 million in Q3 2017. The full-year net profit hits of SAR 1,026 million bouncing back from a net loss of SAR 363 million in 2016. Excluding non-recurring items, Savola would report a normalized profit of SAR 328 million in Q4 2017, an increase of 866% over Q4 2016. The full-year normalized profit stands at SAR 645 million sliding from SAR 898 million in 2016. As part of IFRS required changes, Savola restated the FY16 financial statements to account for a full consolidation of Herfy.

The financial statements for Q4 2017 included a goodwill impairment loss of SAR 202 million pertaining to Panda, compared to impairment charges of SAR 574 million in Q4 2016.

The group's full-year revenues slid 9.5% to SAR 23,832 million as retail revenues slumped 14% to SAR 11,644 million with the segment crimped by lower shopping basket amid increased consumer demand for promotions, the selective tax, as well as the new levies on dependents of foreign labor which also impacted the food sector. Sales of the food sector amounted to SAR 11,384 million, sliding 4% as edible oil tumbled 3.6% sales, while sugar and pasta sales edged down 3.4% and 21.6%, respectively. The edible oils segment accounted for 69% of total food revenues and was crimped by the drop in oils sales in Egypt by 22%, despite a lower decrease of 5% in the quantity sold, primarily as a result of the pound devaluation. Sugar sales, which grabbed 27.5% of food sales, dropped 3.4% as higher selling prices partially offset the decrease of 6.5% in sales volume. The revenues of Egypt-based pasta division also slipped 21.6% languishing at SAR 417 million. On the other hand, the food services sector (Herfy) achieved sales of SAR 1,158 million compared to SAR 1,157 million in 2016.

In terms of bottom line, the retail sector recorded a loss of SAR 1,016 million in 2017 against a loss of SAR 811 million in 2016 as local retail operations suffered a hefty loss of SAR 1,057 million, while posting a net profit of SAR 41 million in external markets fueled by the sale of leasing rights of the company's only store in UAE. The sector may reach a break-even point in 2019. In contrast, the food sector achieved a profit of SAR 607 million compared to SAR 126 million in 2016 fueled by non-recurring items in 2016.

In Q4 2017, the Group shuttered 37 Pandati branches and one supermarket, while 7 Pandati stores and three supermarkets were shutdown in 9M 2017 apart from the hypermarket in Dubai. The number of branches closed in 2017 totaled 49 stores compared with 106 in 2016.

To summarize, Savola continued to trim its store network in 2017, albeit at a more rapid rate in Q4 2017. As reiterated earlier, the retail business overhaul - which corrects previous errors - coincides with adverse circumstances, but necessary for the long-term interest. The current year is tough for the company'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 increasing the levies on foreign labor and their families. Taking into account the Q4 results and the maintained outlook for the company's performance, we cling to our previous valuation of the share at SAR 44.

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FY - Ending December	2015A	2016A	2017A	2018F
EV/EBITDA	7.50	10.26	9.95	8.05
EV/Sales	0.72	0.69	0.76	0.71
P/E	11.41	n/a	19.94	26.20
Dividend Yield	5.2%	2.0%	2.6%	1.9%
P/BV	1.94	2.49	2.32	2.19
P/Revenue	0.81	0.78	0.86	0.81
Current Ratio	0.93	0.81	0.78	0.69

## Operating Segments

SAR million	FY 2017			FY 2016		
	Revenues	EBIT	Net Income	Revenues	EBIT	Net Income
<b>Foods</b>						
Oil	7,833	664	504	8,167	790	475
Sugar	3,084	216	86	3,188	108	(345)
Pasta	417	28	16	532	66	(4)
<b>Total Foods</b>	<b>11,384</b>	<b>908</b>	<b>607</b>	<b>11,887</b>	<b>964</b>	<b>126</b>
<b>Retail</b>						
KSA	11,472	(758)	(1,057)	13,233	(739)	(809)
Overseas	173	(25)	41	339	(2)	(2)
<b>Total Retail</b>	<b>11,644</b>	<b>(783)</b>	<b>(1,016)</b>	<b>13,572</b>	<b>(741)</b>	<b>(811)</b>
<b>Investments - Others</b>						
Herfy	1,158	215	200	1,157	230	218
Real Estate	0	(55)	(55)	0	(55)	(55)
Al Maral - Savola Share	0	785	785	0	786	786
HQ/Elimination/Impairments	(355)	(47)	505	(285)	(137)	(628)
<b>Total</b>	<b>23,832</b>	<b>1,023</b>	<b>1,026</b>	<b>26,331</b>	<b>1,047</b>	<b>(363)</b>

SAR million	2017	2016
<b>Reported Profit</b>	<b>1,025.6</b>	<b>(363.3)</b>
Non-Core Impairments	-	272
Foods impairments	-	245
Retail Inventory Reduction	-	343
Foods FX Loses	60	374
Store Closure and Project write-off	73	33
PANDA Goodwill Impairment-Geant	202	-
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	65	-
Morocco Reinstatement	-	(26)
Loss from Hosoon	-	20
<b>Adjusted Profit</b>	<b>645</b>	<b>898</b>

## Panda stores expansion

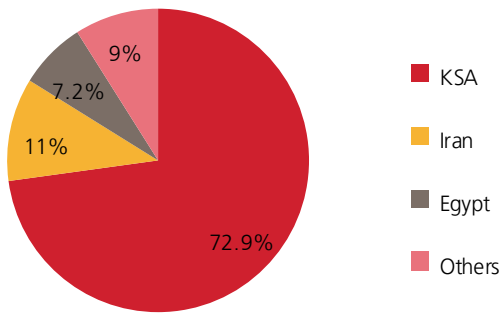
Years	2010	2011	2012	2013	2014	2015	2016	2017
Supermarkets	87	90	98	110	131	151	160	158
Hypermarkets	37	41	47	51	59	63	65	66
Pandati	0	0	0	23	155	282	181	138
<b>Number of Outlets in KSA</b>	<b>124</b>	<b>131</b>	<b>145</b>	<b>184</b>	<b>345</b>	<b>496</b>	<b>406</b>	<b>362</b>

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

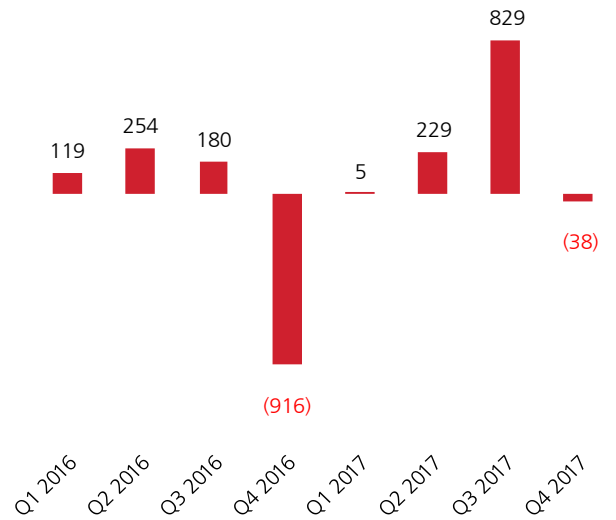
# Savola Group

Q4 2017

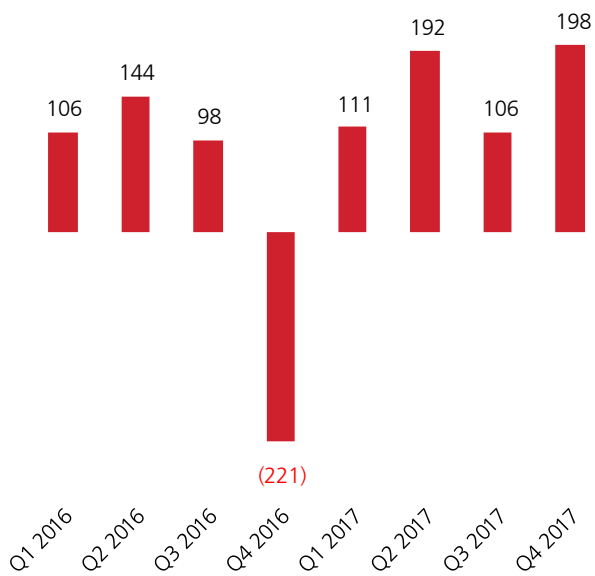
Sales Breakdown per Country - 2017



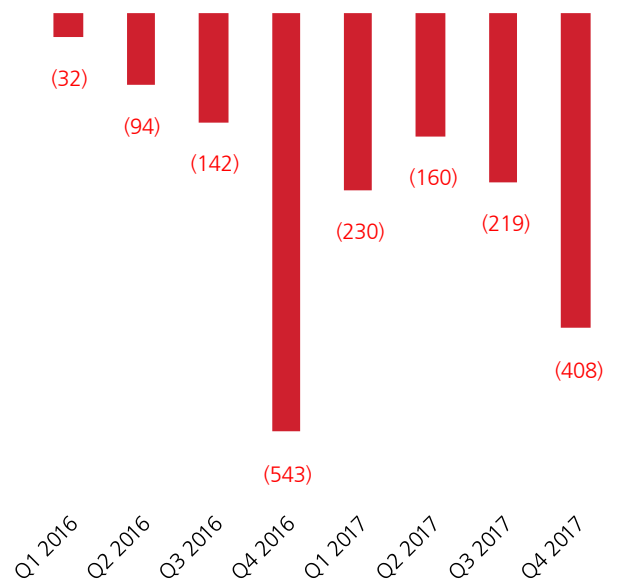
Net Income Growth (SAR million)



Net Income Growth for Foods Sector (SAR million)



Net Income Growth for Retail Sector (SAR million)



SAVOLA AB - 2050.SE

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018F
<b>Total Revenues</b>	<b>26,588</b>	<b>25,126</b>	<b>26,331</b>	<b>23,832</b>	<b>23,734</b>
Revenues Growth	5.2%	-5.5%	4.8%	-9.5%	-0.4%
COGS	21,724	20,100	21,626	19,446	19,194
COGS/Sales	81.7%	80.0%	82.1%	81.6%	80.9%
Gross Margin	18.3%	20.0%	17.9%	18.4%	19.1%
SG&A	3,387	4,036	4,360	4,116	3,976
SG&A/Sales	12.7%	16.1%	16.6%	17.3%	16.8%
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>2,085</b>
EBITDA Margin	11.6%	9.6%	6.7%	7.6%	8.8%
Depreciation and amortization	628	624	714	794	790
<b>EBIT</b>	<b>2,455</b>	<b>1,785</b>	<b>1,047</b>	<b>1,023</b>	<b>1,295</b>
EBIT Margin	9.2%	7.1%	4.0%	4.3%	5.5%
Net Interest Income	(237)	(167)	(559)	(381)	(354)
Others (Net)	193	432	(750)	556	0
<b>Pre-Tax Income</b>	<b>2,411</b>	<b>2,050</b>	<b>(262)</b>	<b>1,197</b>	<b>941</b>
Tax and Zakat	180	139	153	77	113
<b>Net Income</b>	<b>2,230</b>	<b>1,911</b>	<b>(415)</b>	<b>1,120</b>	<b>828</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>732</b>
ROS	7.8%	7.1%	-1.4%	4.3%	3.1%
<b>Balance Sheet (SAR mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>
Cash and Marketable securities	1,635	2,067	1,405	1,344	949
Accounts Receivables	1,002	921	1,271	979	1,120
Inventory	4,413	4,853	3,284	3,077	3,139
Others	3,188	1,491	2,476	1,149	1,145
<b>Total ST Assets</b>	<b>10,238</b>	<b>9,332</b>	<b>8,436</b>	<b>6,549</b>	<b>6,353</b>
Property, Plant and Equipment (PP&E, net)	6,756	7,911	7,951	7,560	7,600
Intangible assets	1,166	1,114	687	450	450
Investments	7,921	8,430	8,145	8,427	8,856
Others	322	247	39	112	81
<b>Total LT Assets</b>	<b>16,164</b>	<b>17,702</b>	<b>16,823</b>	<b>16,549</b>	<b>16,987</b>
<b>Total Assets</b>	<b>26,402</b>	<b>27,034</b>	<b>25,259</b>	<b>23,098</b>	<b>23,340</b>
Short Term Debt and CPLTD	4,610	5,011	4,608	3,862	4,700
Accounts Payable	2,721	3,133	2,518	2,319	2,339
Others	2,830	1,882	3,252	2,222	2,213
<b>Total ST Liabilities</b>	<b>10,161</b>	<b>10,026</b>	<b>10,378</b>	<b>8,403</b>	<b>9,252</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>8,758</b>
<b>Total Liabilities and Equity</b>	<b>26,402</b>	<b>27,034</b>	<b>25,259</b>	<b>23,098</b>	<b>23,340</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. The Historical Financial Statements for 2014 and 2015 were prepared according to SOCPA standards. 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

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