

**3Q 2018 Results Update**

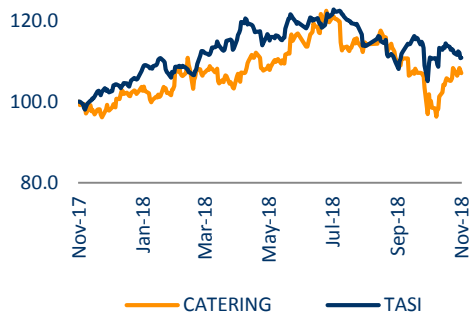
**November 16, 2018**

<b>Recommendation</b>	<b>Neutral</b>
Previous Recommendation	Neutral
Current Price (SAR)	84.0
Target Price (SAR)	91.0
Upside/Downside (%)	8.3%
<i>As of Nov 15<sup>th</sup> 2018</i>	

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	6.9
52 Wk High (SAR)	96.5
52 Wk Low (SAR)	75.0
Total Outstanding shares (in mn)	82.0
Free Float (%)	64.3%

**CATERING vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	5.1%	3.9%
6m	(1.8%)	2.9%
12m	7.0%	(3.8%)

**Major Shareholders (%)**

Public Institution for Arab Airlines	35.70%
Strategic Supply Co. Ltd.	9.31%
Abdul Mohsen Abdul Aziz Al-Hokair Holding Group	8.67%

**Quarterly Sales (SAR mn) and Operating Margin**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 15<sup>th</sup> Nov 2018

**Strong sales and efficient cost management boost profitability**

Saudi Airlines Catering Co.'s (Catering) net profit for 3Q18 came in higher than consensus estimates, rising 9.3% YoY to SAR 142.6mn. This strong performance was driven by higher revenues from in-flight catering and business lounge services. Additionally, efficient cost management by the company resulted in lower operating expenses, which further boosted profits. Operating profit increased 9.1% YoY to SAR 154.0mn due to lower account receivables provision and a reduction in professional service fees.

The company announced cash dividends of SAR4.25/share in 9M18, consistent with its dividend pay-out policy of more than 90%. Healthy balance sheet, steady cash flows and a strong dividend yield continue to support stock's attractiveness to the investors. However, growing receivables and the emergence of other low-cost carriers poses an inherent risk to Catering's business model and thus, limit the stock's upside potential. Given the countervailing factors, we retain our "Neutral" rating on the stock.

- Revenues grew 4.2% YoY to SAR 627.7mn driven by higher sales from in-flight catering, non-airline and other operating revenues. In-flight catering revenue grew 4.2% YoY to SAR 459.0mn, while revenue from the non-airline revenue segment was up 16.4% YoY to SAR 55.7mn. Other operating revenues grew 105.3% YoY to SAR 19.1mn, boosting the topline. However, retail segment's revenue declined 14.7% YoY to SAR 47.9mn, while revenue from business lounge segment dropped 4.9% annually to SAR 46.0mn. Sequentially, revenues grew 11.7% QoQ owing to higher sales from in-flight catering and the retail segment.
- Gross profit rose 0.8% YoY and 7.7% QoQ to SAR 204.0mn, in line with rising revenues, despite a rise in the cost of sales. The cost of sales increased 6.0% YoY to SAR 423.7mn as the cost of material, personnel, rent and maintenance, and other operating costs inflated in 3Q18. Consequently, gross margin for the quarter stood at 32.5%, contracting 111bps YoY and 121bps QoQ.
- Operating profit for the quarter came in at SAR 154.0mn (+9.1% YoY, +17.5% QoQ) as operating expenses contracted 18.4% YoY and 14.3% QoQ. G&A expenses decreased 10.5% YoY to SAR 52.4mn, while effective collection measures reduced accounts receivables provision. Operating margins, thus, expanded to 24.5% in 3Q18 vis-à-vis 23.4% in 3Q17 and 23.3% in 2Q18.
- Net income rose 9.3% YoY and 18.5% QoQ to SAR 142.6mn in 3Q18 on higher sales and lower SG&A expenses. Consequently, the net income margin during the quarter improved 105bps YoY and 131bps QoQ to 22.7%. EPS stood at SAR 1.74 per share for 3Q18.
- The board has recommended a cash dividend of SAR 1.50 per share for 3Q18, amounting to SAR 123mn.

**Valuation:** We continue to maintain a "Neutral" rating on the stock with an unchanged target price of SAR 91.0 per share.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	627.7	602.2	4.2%	2,326.2	2,223.4	4.6%
Gross Profit (SAR mn)	204.0	202.4	0.8%	771.5	722.8	6.7%
EBITDA (SAR mn)	170.4	153.6	10.9%	629.2	583.0	7.9%
Net Profit (SAR mn)	142.6	130.4	9.3%	519.1	481.7	7.8%
EPS basic (SAR)	1.7	1.6	9.3%	6.3	5.7	10.7%
Gross Margin (%)	32.5%	33.6%	-1.1%	33.2%	32.5%	0.7%
EBITDA Margin (%)	27.1%	25.5%	1.6%	27.0%	26.2%	0.8%
Net Profit Margin (%)	22.7%	21.7%	1.1%	22.3%	21.7%	0.6%

Source: Company Financials, FALCOM Research

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**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: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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