

1Q19 Results Update

May 27, 2019

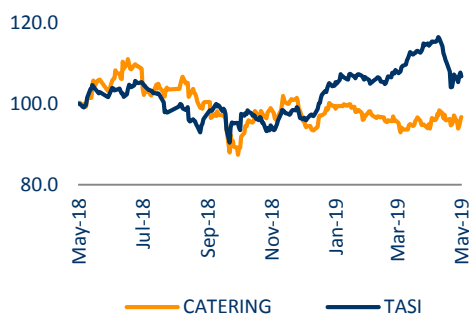
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	82.4
Target Price (SAR)	83.0
Upside/Downside (%)	0.8%

As of May 26th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	6.8
52-Wk High (SAR)	96.5
52-Wk Low (SAR)	75.0
Total Outstanding Shares (in mn)	82.0
Free Float (%)	63.8%

CATERING vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(3.1%)	(2.0%)
6m	(5.1%)	(17.4%)
12m	(1.1%)	(10.8%)

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 May 26th 2019

Impairments and financial cost impact bottom-line earnings; SACC misses' consensus estimate

Saudi Airlines Catering Co. (SACC)'s net profit for 1Q19 declined 13.9% to SAR 104mn in 1Q19 from SAR 120mn in 1Q18. The company missed the consensus estimate owing to a surge in finance cost and other operating expenses. The net profit margin also declined to 19.8% in 1Q19 from 24.6% a year ago. Conversely, revenue increased 6.8% YoY to SAR 522mn from SAR 489mn in 1Q18, primarily driven by the outperformance of the Inflight Catering segment. Operating profit declined 8.5% YoY to SAR 121mn as allowances for credit loss significantly raised operating expense during the quarter.

SACC boasts over 90% market share in Saudi Arabia, where it serves more than 50 airlines and railway clients. The company continues to be an attractive investment prospect given its healthy fundamentals and strong dividend yield. Additionally, the company has been expanding its footprint in the country through new contracts; a prudent strategy remains in place given the company's long-term contracts with a number of airlines. However, the company's business model faces an inherent threat from a volatile economic climate and challenging oil price environment due to the emergence of low-cost carriers and heightened price competition in the aviation industry. Given these countervailing factors, we retain our "Neutral" rating on the stock.

- Revenues increased 6.8% YoY to SAR 522mn, driven by higher sales from in-flight operations, and catering and facilities offsetting revenue decline from the retail segment. In-flight catering segment revenues increased 7.2% YoY to SAR 376mn, The Other operating revenues rose 47.1% YoY to SAR 64.8mn. However, the retail segment's and the Business Lounge segment revenue declined 13.4% YoY to SAR 38.9mn, 3.5% YOY to SAR 41.7mn respectively.
- The company managed to contain a rise in cost of sales, vis-à-vis growth in revenues, resulting in a 9.4% YoY increase in gross profit to SAR 192mn. Consequently, the gross margin for the year expanded to 36.8% in 1Q19, versus 35.9% in 1Q18.
- The company's operating expenses surged 65.2% YoY to SAR 70mn during the comparable period. This increase can largely be attributed to high allowance for expected credit loss, leading to an 8.5% YoY drop in operating profit to SAR 121 mn in 1Q19. The operating margin for the year contracted to 23.3% in 1Q19 from 27.2% in 1Q18.
- The aforementioned reasons coupled with an increase in other losses and higher zakat expenses led to a 13.9% YoY contraction in the company's net profit to SAR 104mn. Therefore, the net income margin declined to 19.8% in 1Q19 from 24.6% in 1Q18. The company's net profit, however, grew 35.9% on a quarterly basis.
- The board has recommended a cash dividend of SAR 1.30 per share for 1Q19, amounting to SAR 106.6mn for its 82mn shareholders.

Valuation: We continue to maintain a "Neutral" rating on the stock, with a fair price of SAR 83.0 per share.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	521.6	488.5	6.8%	2,253.8	2,035.8	10.7%
Gross Profit (SAR mn)	191.9	175.3	9.4%	778.4	696.5	11.8%
EBITDA (SAR mn)	84.5	116.9	(27.8%)	643.1	557.5	15.4%
Net Profit (SAR mn)	103.5	120.3	(13.9%)	529.1	459.3	15.2%
EPS Basic (SAR)	1.3	1.5	(13.9%)	6.5	5.6	15.2%
Gross Margin (%)	36.8%	35.9%	0.9%	34.5%	34.2%	0.3%
EBITDA Margin (%)	16.2%	23.9%	(7.7%)	28.5%	27.4%	1.2%
Net Profit Margin (%)	19.8%	24.6%	(4.8%)	23.5%	22.6%	0.9%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services 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: (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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