

**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 26<sup>th</sup> 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 26<sup>th</sup> 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.

## FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

## Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.