

1Q20 Results Update
May 12, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	38.2
Target Price (SAR)	35.0
Upside/Downside (%)	(8.4%)

As of 7th May 2020
Key Data (Source: Bloomberg)

Market Cap (SAR bn)	20.4
52-Wk High (SAR)	42.95
52-Wk Low (SAR)	25.50
Total Outstanding shares (in mn)	534
Free Float (%)	59.3%

SAVOLA GROUP vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(6.4%)	(1.3%)
6m	22.6%	37.6%
12m	22.8%	48.9%

Major Shareholders (%)

Assilah Investment Co.	11.23%
Abdulqader Al Muhaidib & Sons Co.	8.23%
Abdullah M. A. Al Rabeia	8.21%
General Org. for Social Insurance	6.67%
Al Muhaidib Holding Co.	6.36%

Quarterly Sales (SAR bn) and Operating Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 7th May 2020

Improved margins and higher sales push up Savola's profit in 1Q20

Savola's net profit soared in 1Q20, as the company recorded robust growth in the top line along with considerable decrease in operating costs. Barring the food segment (Herfy), the company recorded growth in revenue across all business segments. Due to lower SG&A expenses, coupled with higher contribution to profit by associates, net profit increased to SAR 172.8mn in 1Q20 from SAR 6.3mn in 1Q19.

Savola recorded the highest revenues in 1Q20 since 2Q18 as it catered effectively to the strong demand for grocery items, fortified with a well-stocked inventory. Also, efficient supply chain management in the food and retail segments, while complying with the necessary safety measures amid the COVID-19 pandemic, ensured continuity of business. The company managed to do this as it has been working toward restructuring and creating a leaner and more efficient organization, alongside taking steps to increase customer count and add new products. The company also launched its online channel Panda click to expand the scale and breadth of Panda's operations. Besides, except food services, no other segment is likely to face any adverse impact, as Savola is engaged in the food processing and grocery retail space, which falls under essential services. However, the positives seem to be well priced in and, therefore, we maintain our Neutral rating on the stock.

- Revenues jumped 13.6% to SAR 6.1bn in 1Q20, supported by the performance of the retail segment, which recorded 23.4% growth in revenue due to higher customer footfall and bigger basket size owing to bulk buying in different grocery categories. In fact, retail's contribution to revenue was the highest at 53.9% compared to 49.6% a year earlier.
- On the other hand, food processing's share declined to 40.5% from 44.7% the previous year. Barring Herfy, all segments recorded positive revenue growth.
- Owing to controlled rise in cost of sales, gross profit grew 14.8% YoY to SAR 1.2bn. Gross profit margin rose slightly to 20.0% in 1Q20 from 19.8% in 1Q19.
- Due to lower SG&A expenses, higher share of profit from associates, and gains at the gross profit level, operating profit increased to SAR 408.5mn from SAR 205.9mn a year earlier.
- Net profit surged to SAR 172.8mn due to the factors mentioned above, despite a marginal rise in net finance cost owing to foreign currency exchange losses. Net profit margin jumped to 2.8% from 0.1% in the previous year.
- EBITDA stood at SAR 693mn vis-à-vis SAR 505mn a year earlier, whereas net income grew to SAR 173mn from SAR 6mn in 1Q19 due to the implementation of IFRS, store closures and project write-offs.
- During FY19, the Board recommended a 3% cash dividend of par value at SAR 0.30 per share, totaling SAR 160.2mn. Shareholders also approved the buyback of 700,000 shares to be retained as treasury shares under the Employees Long Term Incentive Program (LTIP).

Valuation: We revise our target price to a fair value of SAR 35.0 per share and retain our "Neutral" rating on the stock.

	Q1'20	Q1'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	6,119.8	5,387.9	13.6%	23,028.2	22,243.3	3.5%
Gross Profit (SAR bn)	1,223.0	1,065.5	14.8%	4,490.5	4,537.7	(1.0%)
EBITDA (SAR bn)	692.8	504.9	37.2%	2,355.6	2,584.9	(8.9%)
Net Profit (SAR bn)	172.8	6.3	NM	530.5	475.6	11.5%
EPS Basic (SAR)	0.32	0.01	NM	1.0	0.9	11.5%
Gross Margin (%)	20.0%	19.8%	0.2%	19.5%	20.4%	(0.9%)
EBITDA Margin (%)	11.3%	9.4%	1.9%	10.2%	11.6%	(1.4%)
Net Profit Margin (%)	2.8%	0.1%	2.7%	2.3%	2.1%	0.2%

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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