

1Q21 Results Update

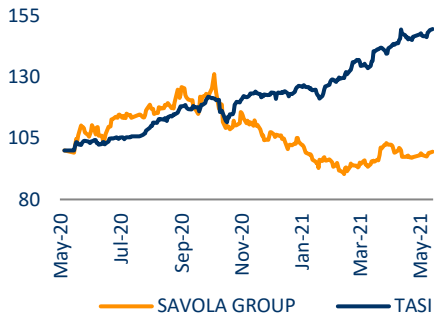
May 31, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	40.8
Target Price (SAR)	40.0
Upside/Downside (%)	(2.0%)
As of May 31, 2021	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	21.8
52-Wk High (SAR)	54.0
52-Wk Low (SAR)	37.0
Total Outstanding shares (in mn)	534.0
Free Float (%)	59.3%

SAVOLA GROUP vs. TASI (Rebased)

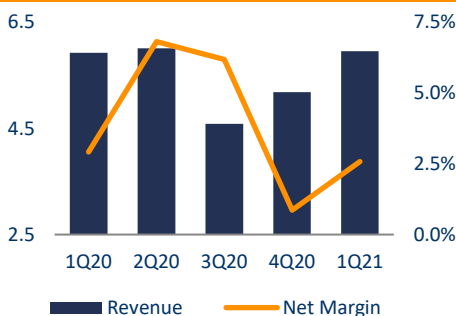


Price Performance (%)	Absolute	Relative
1m	2.1%	0.9%
6m	(11.4%)	(32.5%)
12m	(0.5%)	(50.1%)

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 Net Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of May 31, 2021

Decline in Retail segment's performance, lower profit share from associates hurt 1Q21 bottom line

Savola's revenue scaled up 0.5% YoY to SAR 6.0bn in 1Q21 on growth in revenue in the Food Processing and Food Services segments. However, the increase in top line was limited due to weaker revenue recorded by the Retail segment. Gross profit declined 0.9% YoY to SAR 1.2bn due to the rise in cost of sales; gross margin shrank 30 bps YoY to 20.4% in 1Q21. Operating profit fell 8.8% YoY to SAR 372.7mn, while operating margin narrowed 64 bps YoY to 6.3%. Higher zakat expense in 1Q21 resulted in an 11.0% YoY drop in net income to SAR 153.8mn and 33 bps YoY contraction in net margin to 2.6% in 1Q21.

Savola's performance in 1Q21 was weak, with subdued top-line growth and a drop in bottom line during the quarter. The decline in performance was attributed to weaker results reported by the Retail and Frozen Foods segments, resulting in a dip in margins. Revenue in the Retail segment declined in 1Q21 compared to 1Q20 due to limited food stocking by consumers. Moreover, higher VAT, expat exodus and lower basket size also weighed on revenues in the Retail segment. We believe the turnaround in retail business in FY20 was aided by the change in consumer behavior due to COVID-19 and believe consumption patterns have normalized in 1Q21. Revenue in the Foods segment improved during the quarter on account of better sales volume and pricing of products. Sales volume in the Oil and Sugar segments rose 8% YoY and 10% YoY, respectively, in 1Q21. However, Savola could face headwinds in the near term in the form of reduction in consumer spending and down trading by consumers which could hurt profitability and further weigh on profit margins. Considering these factors, we maintain a "Neutral" rating on the stock.

- Revenue inched up 0.5% YoY to SAR 6.0bn in 1Q21, primarily due to 17.4% YoY and 4.4% YoY growth in revenue in the Food Processing and Food Services segments, respectively.
- Food Processing segment accounted for 48% of total revenue in 1Q21 as against 41% in 1Q20. This was followed by Retail, which accounted for 45% of revenue in 1Q21 (51% in 1Q20).
- KSA continued to remain the primary market geographically for Savola and accounted for 69% of sales in 1Q21. This was followed by Egypt, representing 17% of total sales in 1Q21.
- Gross profit dipped 0.9% YoY to SAR 1.2bn owing to 0.9% YoY increase in cost of sales to SAR 4.7bn. As a result, gross profit margin narrowed to 20.4% from 20.6% in 1Q20.
- Higher administrative expenses, coupled with lower share of profits from associates, led to an 8.8% YoY drop in operating profit to SAR 372.7mn. Consequently, operating profit margin shrank to 6.3% in 1Q21 from 6.9% in 1Q20.
- Higher zakat expense offset the decline in net finance cost and resulted in an 11.0% YoY plunge in Savola's net income to SAR 153.8mn. Consequently, net profit margin contracted to 2.6% from 2.9% in 1Q20.
- On April 28, Savola's Board approved the buyback of 1.2mn shares (0.22% of total shares) and holding them as treasury shares under its Employees Long Term Incentive Program.
- On April 28, Savola's shareholders approved the Board's recommendation of a SAR 0.75 per share cash dividend for FY20, equivalent to SAR 400.5mn (7.5% of Savola's share capital).

Valuation: We maintain our target price at a fair value of SAR 40.0 per share as well as "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	5,954	5,923	0.5%	21,976	21,700	1.3%
Gross Profit (SAR mn)	1,212	1,223	(0.9%)	4,560	4,636	(1.6%)
EBITDA (SAR mn)	641	693	(7.4%)	2,663	2,778	(4.1%)
Net Profit (SAR mn)	154	173	(11.0%)	889	911	(2.3%)
EPS Basic (SAR)	0.29	0.32	(11.0%)	1.67	1.71	(2.3%)
Gross Margin (%)	20.4%	20.6%	(0.3%)	20.8%	21.4%	(0.6%)
EBITDA Margin (%)	10.8%	11.7%	(0.9%)	12.1%	12.8%	(0.7%)
Net Profit Margin (%)	2.6%	2.9%	(0.3%)	4.0%	4.2%	(0.1%)

Source: Company Financials, FALCOM Research

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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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