

2Q21 Results Update

August 18, 2021

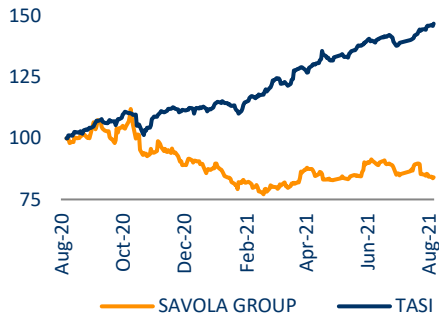
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	40.4
Target Price (SAR)	40.0
Upside/Downside (%)	(1.0%)

As of August 17, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	21.6
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)

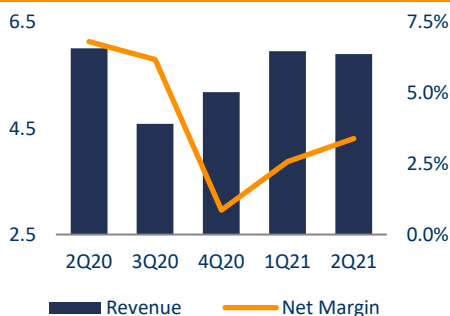


Price Performance (%)	Absolute	Relative
1m	(1.5%)	(7.0%)
6m	3.6%	(21.6%)
12m	(15.9%)	(62.7%)

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	10.99%
Al Muhaidib Holding Co.	6.36%

Quarterly Sales (SAR bn) and Net Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 17, 2021

Retail segment continues to drag down bottom line in 2Q21

Savola Group (Savola's revenue dipped 1.8% YoY to SAR 5.9bn in 2Q21, driven by lower revenue in the Retail and Frozen Foods segments. However, the decline in the top line was limited by higher revenue in the Food Processing segment. Gross profit slumped 12.6% YoY to SAR 1.1bn on higher cost of sales; gross margin shrank 235 bps YoY to 18.9% in 2Q21. Operating profit decreased 29.1% YoY to SAR 414.3mn while operating margin narrowed 271 bps YoY to 7.0%. Higher finance expense resulted in 51.2% YoY plummet in net income to SAR 200.0mn while net margin contracted 343 bps YoY to 3.4% in 2Q21.

Savola's performance in 1H21 was weak, with subdued top-line growth and reduction in bottom line during the period. The decline in performance was attributed to the weaker set of results reported by Retail and Frozen Foods, which led to margin contraction. YoY revenue growth in 1H21 in Retail was affected due to the high base in 1H20, as consumers started to stock their pantries during the pandemic. Moreover, higher VAT, lower consumer base, and smaller basket size weighed on revenue in the Retail segment. We believe the market environment for the segment would remain challenging in the near term due to stiff competition; this could result in discounting and promotional activity and in-turn reduce the company's margins. Revenue in the Foods segment improved during the quarter on account of higher sales volume the Oil (up 9.5% YoY) and Sugar (up 1.4% YoY) segments as well as better pricing of products. However, Savola could face headwinds in the form of reduction in consumer spending and downtrading by consumers due to the surge in commodity prices. This could hurt the top line and further narrow profit margins. Considering these factors, we maintain a "Neutral" rating on the stock.

- Revenue declined 1.8% YoY to SAR 5.9bn in 2Q21, primarily due to 17.9% YoY and 24.9% YoY drop in revenue in the Retail and the Frozen Foods segments, respectively.
- The Retail (48.2%) and the Food Processing (44.8%) segments contributed the most to total revenue in 2Q21.
- KSA continued to remain the primary market geographically for Savola and accounted for 69% of sales in 1H21. This was followed by Egypt, representing 15% of total sales in 1H21.
- Gross profit fell 12.6% YoY to SAR 1.1bn owing to 1.2% YoY increase in cost of sales to SAR 4.8bn. As a result, gross profit margin narrowed to 18.9% from 21.3% in 2Q20.
- Lower share of profits from associates led to 29.1% YoY dip in operating profit to SAR 414.3mn. Consequently, operating profit margin shrank to 7.0% in 2Q21 from 9.7% in 2Q20.
- Higher net finance cost led to 51.2% YoY plunge in Savola's net income to SAR 200.0mn. As a result, net profit margin contracted to 3.4% from 6.8% in 2Q20.
- On July 10, Savola's subsidiary Savola Foods Co. signed a share purchase agreement with a duration of 180 days to purchase 100% stake in Bayara Holding Limited for SAR 975mn. The acquisition will be paid in cash and financed through bank loans and internal cash flows.

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

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	5,901	6,007	(1.8%)	21,976	21,700	1.3%
Gross Profit (SAR mn)	1,118	1,279	(12.6%)	4,365	4,636	(5.8%)
EBITDA (SAR mn)	677	873	(22.4%)	2,561	2,778	(7.8%)
Net Profit (SAR mn)	200	410	(51.2%)	669	911	(26.6%)
EPS Basic (SAR)	0.37	0.77	(51.2%)	1.25	1.71	(26.6%)
Gross Margin (%)	18.9%	21.3%	(2.3%)	19.9%	21.4%	(1.5%)
EBITDA Margin (%)	11.5%	14.5%	(3.0%)	11.7%	12.8%	(1.1%)
Net Profit Margin (%)	3.4%	6.8%	(3.4%)	3.0%	4.2%	(1.2%)

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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