FY21 Results Update

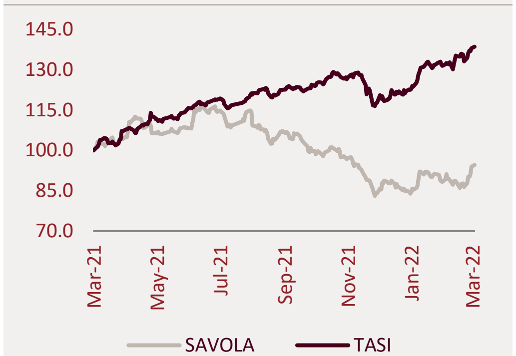
March 7, 2022

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	35.5
Target Price (SAR)	35.0
Upside/Downside (%)	(1.4%)

As of March 6, 2022

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	19.0
52-wk High (SAR)	44.2
52-wk Low (SAR)	31.2
Total Outstanding shares (in mn)	534.0
Free Float (%)	66.0%

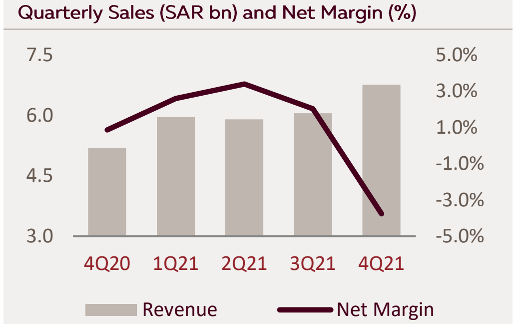
SAVOLA GROUP vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	6.1%	1.2%
6m	(11.0%)	(24.0%)
12m	(5.3%)	(43.9%)

Major Shareholders (%)	
Assilah Investment Co.	11.23%
Abdulqader Al Muhaidib & Sons Co.	8.23%
Abdullah M. A. Al Rabeia	8.21%
Al Muhaidib Holding Co.	6.36%

Quarterly Sales (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of March 6, 2022

One-off impairment expense impacts bottom line in FY21

Savola Group (Savola)'s revenue rose 13.6% YoY to SAR 24.7bn in FY21, driven by higher revenue from the Food Processing and Food Services segments; however, it was slightly offset by a 9.8% YoY fall in revenue in the retail segment in FY21, largely due to increase in VAT to 15%. Cost of sales increased 18.3% YoY in FY21, resulting in a 3.5% YoY dip in gross profit to SAR 4.5bn, while gross margin shrank 322 bps YoY to 18.2% in FY21. SG&A expenses fell marginally by 1.0% YoY. However, impairment loss stood at SAR 421.9mn in FY21 as against SAR 49.6mn in FY20; as a result, operating profit slumped 38.9% YoY to SAR 1.0bn, while operating margin narrowed 354 bps YoY to 4.1%. Consequently, the company's net income slipped by 75.6% YoY to SAR 221.9mn, while net margin contracted 330 bps YoY to 0.9% in FY21.

Savola's results weakened in FY21, reflected in subdued growth in top line and reduction in net income during the year. Bottom line declined primarily due to a one-off impairment charge of SAR 421.9mn. The company's weak performance is also attributed to higher commodity prices in the food segment and lower margins in the retail segment. The retail segment was impacted largely due to lower basket size on account of down-trading activities, increase in VAT rate and higher base effect of last year. The segment was also affected by rise in inflation, increase in promotional activities, and higher discounts offered. Despite the higher commodity prices and challenging market conditions, Savola's food segment delivered a strong performance owing to higher volumes and better pricing. In the frozen food segment, regulatory changes and supply chain challenges led to a rise in input cost. The company's recent acquisition of Bayara Holding Limited is likely to boost its top line, going forward. However, we believe market conditions for the segment would remain challenging in the near term due to stiff competition; this could prompt the company to offer discounts and undertake promotional activities which, in turn, would impact its margins. Considering these factors, we revise our rating to 'neutral' on the stock.

- Revenue rose 13.6% YoY to SAR 24.7bn in FY21, largely driven by 46.1% YoY and 22.1% YoY rise in revenue from the Food Processing and Food Service segments, respectively.
- The food processing and retail segments contributed 51.2% and 42.5%, respectively, to total revenue in FY21.
- KSA remained the primary market geographically for Savola, accounting for 69% of sales in FY21, followed by other countries and Egypt that accounted for 14% and 12%, respectively, of total sales during the year.
- Gross profit dropped 3.5% YoY to SAR 4.5bn due to increase in cost of sales. As a result, gross profit margin narrowed to 18.2% from 21.4% in FY20.
- Higher impairment loss, along with lower share of profits from associates, led to a 38.9% YoY dip in operating profit to SAR 1.0bn. Consequently, operating profit margin shrank to 4.1% in FY21 from 7.7% in FY20.
- Lower margins led to a 75.6% YoY fall in Savola's net income to SAR 221.9mn. As a result, net profit margin contracted to 0.9% from 4.2% in FY20.
- Savola Group's Board of Directors recommended a cash dividend of SAR 0.2 per share for FY21, amounting to SAR 106.8mn.

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

	4Q21	4Q20	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	6,757	5,185	30.3%	23,991	24,660	(2.7%)
Gross Profit (SAR mn)	1,125	1,074	4.7%	4,476	4,478	(0.0%)
EBITDA (SAR mn)	201	492	(59.1%)	2,217	2,084	6.4%
Net Profit (SAR mn)	(254)	45	NM	803	222	261.9%
EPS Basic (SAR)	-0.48	0.08	NM	1.50	0.42	261.9%
Gross Margin (%)	16.6%	20.7%	(4.1%)	18.7%	18.2%	0.5%
EBITDA Margin (%)	3.0%	9.5%	(6.5%)	9.2%	8.5%	0.8%
Net Profit Margin (%)	(3.8%)	0.9%	(4.6%)	3.3%	0.9%	2.4%

Source: Company Financials, Yaqeen Capital

Yaqeen Capital Rating Methodology

Yaqeen Capital 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 ≥ 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 ≥ 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 Yaqeen Capital.

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