2Q22 Results Update

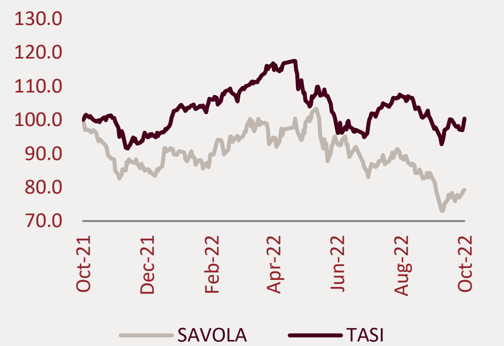
October 19, 2022

Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	29.9
Target Price (SAR)	34.0
Upside/Downside (%)	13.7%

As of October 18, 2022

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	16.0
52-wk High (SAR)	39.0
52-wk Low (SAR)	27.5
Total Outstanding shares (in mn)	534.0
Free Float (%)	65.9%

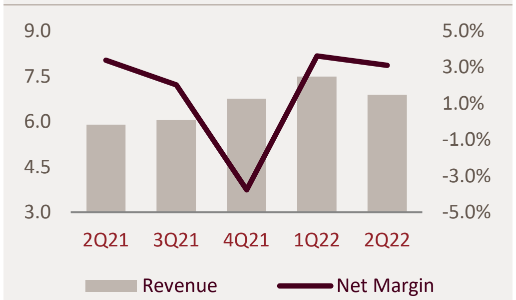
SAVOLA GROUP vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(3.9%)	(5.9%)
6m	(16.5%)	(2.5%)
12m	(20.8%)	(21.2%)

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 October 18, 2022

Topline advanced driven by improved revenue contribution from food processing segment in 2Q22

Savola Group (Savola)'s revenue increased 16.7% YoY to SAR 6.9bn in 2Q22, driven by high sales volumes from the food processing segment. Cost of sales grew faster than the topline and led to an 11.6% YoY increase in gross profit to SAR 1.2bn in 2Q22. Consequently, gross margin shrank 83bps YoY to 18.1% during the quarter. High share of results from associates offset the rise in selling general and administrative (SG&A) expenses and resulted in a 21.6% YoY surge in operating profit to SAR 503.6mn, while operating margin improved 29bps YoY to 7.3%. Despite the rise in zakat and finance expenses, the company's net income swelled 6.9% YoY to SAR 213.8mn. However, net margin narrowed 29bps YoY to 3.1% in 2Q22.

Savola reported an improved performance in 2Q22, backed by a surge in topline and profitability. The advancement in topline was supported by higher revenue contribution from the food processing and frozen food segments, which grew 53.8% YoY and 4.1% YoY, respectively. The rise in the food processing segment was attributed to the increase in sales volumes and prices of processed foods due to higher commodity prices. Despite improved topline, gross margin contracted during the quarter due to low profitability across the retail segment. The decline in retail segment was attributed to continued Customer Experience Program and closure of some stores. Additionally, expansion in inflationary rate led to tightened consumer wallets and shoppers becoming price sensitive. Net income rose during the quarter supported by improved topline and increased share in net results of associates and dividend income of available-for-sale investments. Savola's subsidiary, Savola Foods Limited's recent agreement with Egyptian Belgian Co. (Egybelg) will help expand manufacturing and distribution footprint in Egypt. The United Nations Development Programme in Egypt signed an MoU with Savola Foods Limited to help advance Egypt's Vision 2030. The company plans to invest in Egypt over the next two years to upgrade factories and increase production capacity, which is expected to support its topline growth going forward. Considering these factors, we revise our rating to "Overweight" on the stock.

- Revenue surged 16.7% YoY to SAR 6.9bn in 2Q22, led by 53.8% YoY and 4.1% YoY growth in revenue from the food processing and frozen foods segments, respectively, slightly offset by 14.5% YoY decline in retail segment.
- The food processing and retail segments contributed 59.1% and 35.3%, respectively, to the total revenue in 2Q22.
- The KSA remained the primary market geographically for Savola, accounting for 64% of the sales, followed by Egypt and other countries, accounting for 16% and 14% of the total sales, respectively, during 1H22.
- The growth in topline was partly offset by a 17.9% YoY rise in cost of sales to SAR 5.6bn. Gross profit increased 11.6% YoY to SAR 1.2bn during the quarter. Gross profit margin narrowed to 18.1% in 2Q22 from 18.9% in 2Q21.
- Rise in SG&A was countervailed by increased share in net results of associates and dividend income of available-for-sale investments and led to a 21.6% YoY rise in operating profit to SAR 503.6mn. Consequently, operating profit margin expanded to 7.3% in 2Q22 from 7.0% in 2Q21.
- Savola's net income rose 6.9% YoY to SAR 213.8mn, despite a rise in finance and zakat expenses. However, net profit margin contracted to 3.1% in 2Q22 from 3.4% in 2Q21.

Valuation: We revise our target price to a fair value of SAR 34.0 per share and change our rating to "Overweight" on the stock.

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	6,888	5,901	16.7%	28,811	24,660	16.8%
Gross Profit (SAR mn)	1,248	1,118	11.6%	5,087	4,478	13.6%
EBITDA (SAR mn)	759	677	12.0%	2,979	2,084	43.0%
Net Profit (SAR mn)	214	200	6.9%	858	222	286.8%
EPS Basic (SAR)	0.40	0.37	6.9%	1.61	0.42	286.8%
Gross Margin (%)	18.1%	18.9%	(0.8%)	17.7%	18.2%	(0.5%)
EBITDA Margin (%)	11.0%	11.5%	(0.5%)	10.3%	8.5%	1.9%
Net Profit Margin (%)	3.1%	3.4%	(0.3%)	3.0%	0.9%	2.1%

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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