

# Saudi Airlines Catering Co

Food Service – Industrial

CATERING AB: Saudi Arabia

17 August 2017

الراجحي المالية  
Al Rajhi Capital



US\$1.893bn

Market cap

30%

Free float

US\$1.197mn

Avg. daily volume

Target price

89.0

3.5% over current

Current price

86.0

as at 15/8/2017

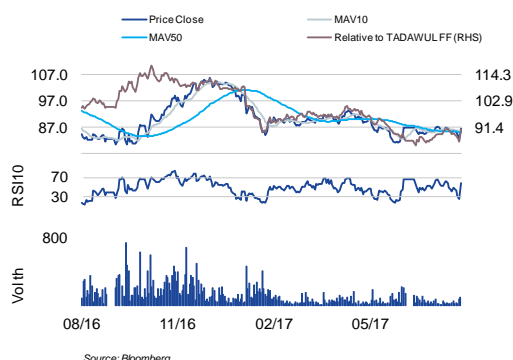
Existing rating

Underweight

Neutral

Overweight

## Performance



## Valuation

(SARmn)	2015	2016	2017e	2018e
Revenue	2,258	2,257	2,215	2,242
Growth	5.7%	-0.1%	-1.8%	1.2%
Operating profit	667	535	528	531
Net profit	652	505	492	498
Growth	7.2%	-22.5%	-2.6%	1.2%
Margin	28.9%	22.4%	22.2%	22.2%
EPS (SAR)	7.95	6.16	6.00	6.07
P/E (Curr)			14.3x	14.2x
P/E (Target)			14.8x	14.7x

Source: Company data, Al Rajhi Capital

# Saudi Airlines Catering Co

## Q2 earnings in-line, outlook subdued

Saudi Airlines Catering announced its Q2 2017 results, which came largely in line with our estimates. Revenue slipped 3.4% y-o-y to SAR551.1mn (our estimate: SAR568mn), while net profit fell 7.6% y-o-y to SAR131mn, in line with our SAR130mn estimate, but below consensus estimate of SAR139mn. The company's financials have been under pressure due to a weak economic scenario for the airline industry. There are further risks for the company with the planned launch of a budget carrier by Saudia, ongoing contract renewal negotiations and rising receivables, which we believe will remain an overhang on the stock performance in the near term. Nevertheless, with limited capex requirements, the company generates healthy free cash flows, and with no debt obligations, is able to maintain a strong dividend payout. Catering raised its dividend from the previous quarter to SAR1.5 per share in Q2, which we believe was the primary reason for yesterday's sharp stock price rise. Though growth is expected to remain subdued till the business cycle picks up, the stock offers an attractive dividend yield of ~6.4% (H1 dividend annualized) at the current market price. We have a Neutral rating on the stock with a target price of SAR89.

### Key takeaways:

- Revenue declined 3.4% y-o-y to SAR551.1mn, due to lower catering revenue from airlines other than Saudia and decline in airline equipment sales to Saudia.
- Despite the lower revenue, gross and operating profit improved slightly as fixed and variable costs declined, resulting in higher gross and operating margin.
- Nevertheless, net income fell 7.6% y-o-y to SAR131mn. In addition to SAR3.5mn zakat and tax provision related to prior years, we believe the lower net income was due to higher other expenditure.
- The company announced a dividend of SAR1.5 per share for Q2 2017, taking the H1 2017 dividend to SAR2.75, indicating an annualized dividend yield of ~6.4%.

### Valuation:

Saudi Airlines Catering stock has fallen sharply over the past few months, down ~16.5% YTD, despite the stock's surge yesterday. We have lowered our estimates on the company taking into account the potential increase in market share of budget airlines as well as the weak economic scenario for the airline industry. We rate the stock Neutral as our weighted average (DCF:50% and PE: 50%) target price on the stock comes to SAR89. However, with limited capex requirements, the company raised its quarterly dividend from SAR1.25 per share in Q1 2017 to SAR1.50 per share in Q2 2017 (down from SAR1.75 in Q2 2016), offering an attractive annualized dividend yield ~6.5%.

Research Department

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**Figure 1 SACC: summary of Q2 2017 results**

(SAR mn)	Q2 2016	Q1 2017	Q2 2017	% chg y-o-y	% chg q-o-q	ARC est
Revenue	570	534	551	-3.4%	3.2%	568
Gross profit	193	167	196	1.6%	17.5%	194
Gross profit margin	33.8%	31.3%	35.6%			34.1%
Operating profit	145	130	145	0.2%	11.6%	139
Net profit	142	121	131	-7.6%	7.9%	130

Source: Company data, Al Rajhi Capital

#### Risks/triggers:

- The company is already negotiating its contract renewal with Saudia. The current contract is effective till December 31, 2019. The outcome of negotiation will impact the stock depending on its difference from the current contract.
- Saudia is planning to start a budget carrier. This presents a potential threat for Catering's business, as it will take away market share from the full service airline.
- Rising receivables also remains a risk for the company.
- A sharp increase in religious tourists will be a catalyst for the company.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

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