

Saudi Airlines Catering Company

Q1 2017

Recommendation Neutral

Fair Value (SAR) 98.00

Price as of May 7, 2017 90.25

Expected Return 8.6%

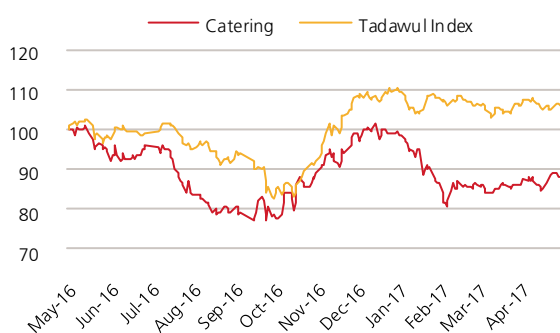
Company Data

Tadawul Symbol	6004.SE
52 Week High (SAR)	106.75
52 Week Low (SAR)	79.75
YTD Change	-12.8%
3-Month Average Volume (Thousand Shares)	71
Market Cap. (SAR Million)	7,401
Market Cap. (USD Million)	1,973
Outstanding Shares (Million Shares)	82

Major Shareholders (> 5%)

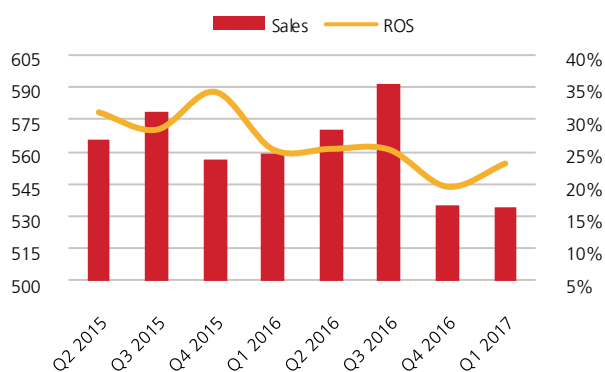
Saudi Arabian Airlines Corporation	35.70%
Strategic Catering Company	23.10%

52-week Stock Price Movement



Source: Tadawul

Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

Ahmed A. Hindawy, CFA
Senior Financial Analyst
AA.hindawy@albilad-capital.com

For more information, please contact:

Turki Fadaak
Research & Advisory Manager
tfadaak@albilad-capital.com



Saudi Airlines Catering Company (Catering) reported net profit of SAR 121 million in Q1 2016 sliding 6.9% from SAR 130 million in Q1 2016, however the bottom line surged by 26% QoQ from SAR 97 million in Q4 2016. This resulted in a net profit margin of 22.7% in Q1 2017 compared to 23.3% for Q1 2016 and 18% in Q4 2016.

On the revenues side, total revenues for the quarter shrank by 5% to SAR 534 million compared to SAR 559 million in Q1 2016 dragged by lower inflight catering revenues. The retail sector boosted its top line capitalizing on opening a number of retail outlets in some airports, which also led to higher sales costs as the retail sales costs are higher compared to the catering sector. Compared with Q4 2016, total revenues were almost unchanged but the net profit growth was fueled by the dip in general and administrative expenses by SAR 19.9 million due to the reversal of net provisions for doubtful debts, in addition to optimization of public utilities expenses and trimming employment of temporary workers.

On the other hand, gross profit for Q1 2017 fell by 13% to SAR 167 million compared to SAR 192 million for Q1 2016, and the gross profit margin shrank to 31% from 34% in Q1 2016. Operating profit for Q1 2017 was SAR 130 million compared to SAR 140 million in Q1 2016, a decrease of 7.2%, thus the operating margin squeezed to 24% compared to 25% in Q1 2016. Compared to Q4 2016, operating profit increased by 26% from SAR 103 million, while gross profit improved by 4.5% from SAR 160 million QoQ.

With regards to the first application of international financial reporting standards (IFRS), Catering said that the transition process would not have a material impact on the company's financial statements.

Overall, the first-quarter profit was lower than our forecast of SAR 132 million and below the analysts' average forecast of SAR 137 million. We believe that the royal decree to reinstate allowances, rewards and benefits for state employees will boost consumer spending, including increased demand for air travel, especially with the start of a long school vacation. However, we expect Catering to be negatively affected if the internal flight prices are liberalized if the government raises air fuel prices. We cling to our previous valuation at SAR 98 per share.

FY - Ending December	2014A	2015A	2016A	2017F
EV/EBITDA	10.88	10.22	12.36	12.43
EV/Sales	3.32	3.14	3.14	3.13
P/E	11.41	10.68	13.79	14.19
Dividend Yield	7.4%	7.7%	7.2%	6.6%
P/B	6.09	5.66	5.92	5.69
Price/sales	3.49	3.30	3.31	3.29
Revenues growth	14.4%	5.8%	-0.2%	0.4%
EPS (SAR)	7.97	8.52	6.60	6.41

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E
Total Revenues	1,867.5	2,135.9	2,260.8	2,256.7	2,265.2
Growth Rate	10.7%	14.4%	5.8%	-0.2%	0.4%
COGS	1,162.7	1,346.1	1,415.8	1,468.2	1,481.1
COGS/Sales	62.3%	63.0%	62.6%	65.1%	65.4%
SG&A	148.7	169.1	167.7	188.3	190.9
SG&A/Sales	8.0%	7.9%	7.4%	8.3%	8.4%
Provisions	(5.3)	(31.1)	(16.2)	26.6	22.7
EBITDA	561.3	651.8	693.6	573.6	570.5
EBITDA Margin	30.1%	30.5%	30.7%	25.4%	25.2%
Depreciation and Amortization	15.5	18.5	24.7	39.3	51.6
EBIT	545.8	633.3	668.9	534.3	518.9
EBIT Margin	29.2%	29.7%	29.6%	23.7%	22.9%
Others (Net)	23.5	20.6	29.6	6.9	6.9
NAI	569.4	653.9	698.5	541.1	525.8
ROS	30.5%	30.6%	30.9%	24.0%	23.2%
Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash and Marketable securities	882.8	780.0	509.4	236.4	331.3
Accounts Receivables	56.7	85.0	103.5	108.9	109.5
Inventory	76.6	86.8	142.4	149.1	150.4
Others	431.0	615.9	580.1	764.9	762.7
Total ST Assets	1,447.1	1,567.6	1,335.4	1,259.3	1,353.8
Net Fixed Assets	98.1	191.5	458.1	563.8	552.1
Others	150.2	50.2	54.8	82.3	82.3
Total LT Assets	248.3	241.7	512.9	646.0	634.3
Total Assets	1,695.4	1,809.3	1,848.2	1,905.3	1,988.2
Short Term Debt and CPLTD	0.0	0.0	0.0	0.0	0.0
Accounts Payable	140.5	162.4	194.4	201.7	198.4
Accrued Expenses	230.7	241.1	136.5	242.7	246.1
Others	53.2	56.3	53.6	36.5	42.8
Total ST Liabilities	424.4	459.8	384.4	481.0	487.3
Other Noncurrent Liabilities	112.4	123.8	145.6	163.3	189.5
Equity	1,158.6	1,225.7	1,318.2	1,261.1	1,311.3
Total Liabilities and Equity	1,695.4	1,809.3	1,848.2	1,905.3	1,988.2
Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash flow from Operations	500.4	442.5	580.6	430.8	610.3
Cash flow from Financing	(467.0)	(539.9)	(564.9)	(564.4)	(475.6)
Cash flow from Investing	(162.5)	(8.9)	(188.0)	(18.9)	(39.9)
Change in Cash	(129.1)	(106.3)	(172.3)	(152.5)	94.8

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

Albilad Capital Rating Methodology

Al-Bilad 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 $\geq 10\%$.

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: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

Albilad Capital

Client Services

E-mail: clientservices@albilad-capital.com
Tel: +966-11-203-9888
Toll-free: 800-116-0001

Research & Advisory

E-mail: research@albilad-capital.com
Tel: +966-11-290-6250
Website: www.albilad-capital.com/en/research

Asset Management

E-mail: abicaset@albilad-capital.com
Tel: +966-11-290-6280

Brokerage

E-mail: abicccto@albilad-capital.com
Tel: +966-11-290-6230

Custody

E-mail: custody@albilad-capital.com
Tel: +966-11-290-6259

Investment Banking

E-mail: investmentbanking@albilad-capital.com
Tel: +966-11-290-6256

Disclaimer

Albilad Capital exerted utmost efforts to ensure that the information included in this report is accurate and correct. However, Albilad Capital Co., its managers, and staff bear no liability whether explicitly or implicitly for the content of the report and no legal responsibility, whether directly or indirectly, for any results based on it.

This report should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Albilad Capital.

We would also like to note that this information in no way constitutes a recommendation to buy or sell banknotes or make any investment decisions.

Any investment act taken by an investor based fully or partially on this report is the complete responsibility of the investor.

This report is not meant to be used or seen as advice or an option or any other measure to be taken in the future. We recommend consulting a qualified investment advisor before investing in these investment tools.

Albilad Capital preserves all rights associated with this report.