


Rating NEUTRAL

Target price **SAR36.8 (-3.8% upside)**

Current price **SAR38.2**
Key themes & implications

Savola's earnings were severely impacted in 2016 primarily due to one-offs recorded during Q4 2016 (inventory write-down and impairment of some associates and AFS investments). Further, fall in LFL sales in the retail segment, closure of Pandati stores, currency devaluation and increased competition in food segment also weighed on earnings in 2016.

Share information

Market cap (SAR/US\$)	20.40bn / 5.44bn		
52-week range	28.81 - 44.06		
Daily avg volume (US\$)	mn		
Shares outstanding	534.0mn		
Free float (est)	60%		

Performance	1M	3M	12M
Absolute	-3.4%	19.7%	6%
Relative to index	-3%	-1.5%	-20.6%

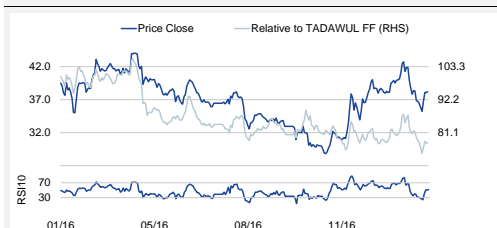
Major Shareholder:

Mohammed Ibrahim Alisa	11.9%
General Oraganistion for Social Insurance	10.9%

Valuation

	12/14A	12/15A	12/16A	12/17E
P/E (x)	10.9	11.4	na	19.8
P/B (x)	2.0	1.9	2.4	2.1
EV/EBITDA (x)	6.3	8.1	16.3	8.6
Dividend Yield	5.9%	5.2%	2.0%	0.0%

Source: Company data, Al Rajhi Capital

Performance


Source: Bloomberg, Company data, Al Rajhi Capital

Company summary

Savola is a conglomerate with market leading position in the Saudi food and grocery industry. The group operates its businesses through three broad sectors – 'Savola Foods Sector' comprising edible oil, sugar and pasta; 'Savola Retail Sector' comprising retail (Panda and Hyper Panda). Furthermore, Savola has made substantial investments in Almarai and Herfy holding 36.5% and 47.6% stakes, respectively.

Savola

Outlook remains mixed

Savola's Q4 has been impacted primarily by one-offs –inventory write-down , impairment of investments, and devaluation of Egyptian Pound, which resulted in SAR964mn quarterly loss. While such charges may recur in the future, we believe the magnitude of the same will not be material as management said that post the extended promotions/ discounted sales in the last quarter, the inventory levels have been mostly normalized. Also, post the impairment of few investments in Savola's portfolio (both associates and AFS investments) and assets/ good-will markdowns in Egypt operations of Savola Foods company (together net impact of SAR517mn in Q4), further significant impairments are unlikely in the short term. After floatation of the Egyptian Pound and its 100%+ devaluation thereafter, on a run rate basis, the translation impact on balance sheet and earnings volatility from FX related losses/ gains should also be lower in our view. These developments leads us to believe that the revenue/ earnings profile may normalize going forward. However, both retail and food segments will face headwinds from consumer spending slowdown in the Kingdom and higher competition respectively. Our revised target price stands at SAR36.8 per share (SAR37.4 per share earlier) and we maintain Neutral rating on the company. Turnaround of retail segment and margin uptick in food segment will be the key re-rating catalysts for Savola.

Retail segment transformation underway: Retail segment performance has been impacted by lower consumer spending, due to (a) exposure to discretionary products unlike some of its peers, and (b) selling space remaining flattish due to closures of Pandati stores. To arrest the decline in LFL sales and drive revenue growth and margin, the company initiated a transformation exercise which may start yielding results in H2 2017. Until this time, we believe the company will go slow on store footprint expansion.

Lower capex going forward: Capex for 2016 fell to SAR1.5bn from SAR2.1bn in 2015 as investment intensity recedes. For 2017, Capex will likely be lower than SAR1bn, which will likely aid in faster deleveraging.

Valuation: We continue to value Savola using separate metrics for core business (DCF) and value of associates (20% hold-co discount to Almarai and Herfy target price, plus book value of other investments). Our revised target price stands at SAR36.8 per share (SAR37.4 per share earlier) and given 4% downside from current market price, we remain Neutral on the company.

Period End (SAR)	12/13A	12/14A	12/15A	12/16A	12/17E
Revenue (mn)	25,281	26,588	26,425	25,008	25,551
Revenue Growth	-7.7%	5.2%	-0.6%	-5.4%	2.2%
Gross profit margin	18.9%	18.3%	19.3%	17.7%	19.0%
EBITDA margin	9.4%	8.2%	6.3%	3.2%	5.8%
Net profit margin	5.9%	7.1%	6.8%	-1.8%	4.0%
EPS	2.91	3.52	3.36	(0.85)	1.93
EPS Growth	3.7%	21.0%	-4.7%	-125.2%	
ROE	16.8%	19.0%	17.4%	-4.7%	11.4%
ROCE	11.4%	9.3%	6.4%	0.4%	5.1%
Capex/Sales	4.0%	6.3%	7.3%	5.9%	3.0%

Source: Company data, Al Rajhi Capital



Income Statement (SARmn)	12/13A	12/14A	12/15A	12/16A	12/17E
Revenue	25,281	26,588	26,425	25,008	25,551
Cost of Goods Sold	(20,507)	(21,724)	(21,332)	(20,583)	(20,696)
Gross Profit	4,774	4,864	5,093	4,425	4,855
Government Charges					
S.G. & A. Costs	(3,044)	(3,387)	(4,064)	(4,373)	(4,152)
Operating EBIT	1,729	1,477	1,030	52	703
Cash Operating Costs	(22,894)	(24,403)	(24,748)	(24,213)	(24,064)
EBITDA	2,386	2,185	1,677	795	1,487
Depreciation and Amortisation	(657)	(708)	(648)	(743)	(784)
Operating Profit	1,729	1,477	1,030	52	703
Net financing income/(costs)	520	741	589	216	368
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	-	-	430	-	-
Other Expenses	-	-	-	(750)	(50)
Net Profit Before Taxes	2,250	2,218	2,049	(482)	1,020
Taxes	(303)	(158)	(138)	(139)	(90)
Minority Interests	(443)	(180)	(119)	170	100
Net profit	1,504	1,880	1,792	(451)	1,031
Dividends	(1,017)	(1,201)	(1,068)	(400)	-
Transfer to Capital Reserve	-	-	-	-	-
	12/13A	12/14A	12/15A	12/16A	12/17E
Adjusted Shares Out (mn)	534.0	534.0	534.0	534.0	534.0
CFPS (SAR)	5.04	5.18	4.79	0.23	3.21
EPS (SAR)	2.91	3.52	3.36	(0.85)	1.93
DPS (SAR)	1.90	2.25	2.00	0.75	-
	12/13A	12/14A	12/15A	12/16A	12/17E
Growth					
Revenue Growth	-7.7%	5.2%	-0.6%	-5.4%	2.2%
Gross Profit Growth	0.3%	1.9%	4.7%	-13.1%	9.7%
EBITDA Growth	0.8%	-8.5%	-23.2%	-52.6%	87.1%
Operating Profit Growth	-4.1%	-14.6%	-30.3%	-94.9%	1243.7%
Net Profit Growth	7.2%	25.0%	-4.7%	-125.2%	
EPS Growth	3.7%	21.0%	-4.7%	-125.2%	
	12/13A	12/14A	12/15A	12/16A	12/17E
Margins					
Gross profit margin	18.9%	18.3%	19.3%	17.7%	19.0%
EBITDA margin	9.4%	8.2%	6.3%	3.2%	5.8%
Operating Margin	6.8%	5.6%	3.9%	0.2%	2.8%
Pretax profit margin	8.9%	8.3%	7.8%	-1.9%	4.0%
Net profit margin	5.9%	7.1%	6.8%	-1.8%	4.0%
	12/13A	12/14A	12/15A	12/16A	12/17E
Other Ratios					
ROCE	11.4%	9.3%	6.4%	0.4%	5.1%
ROIC	15.8%	13.7%	9.1%	0.6%	8.0%
ROE	16.8%	19.0%	17.4%	-4.7%	11.4%
Effective Tax Rate	13.5%	7.1%	6.7%	-28.9%	8.8%
Capex/Sales	4.0%	6.3%	7.3%	5.9%	3.0%
Dividend Payout Ratio	67.6%	63.9%	59.6%	-88.7%	0.0%
	12/13A	12/14A	12/15A	12/16A	12/17E
Valuation Measures					
P/E (x)	13.1	10.9	11.4	na	19.8
P/CF (x)	7.6	7.4	8.0	168.5	11.9
P/B (x)	2.1	2.0	1.9	2.4	2.1
EV/Sales (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	5.7	6.3	8.1	16.3	8.6
EV/EBIT (x)	7.8	9.3	13.2	248.1	18.1
EV/IC (x)	1.4	1.3	1.3	1.6	1.6
Dividend Yield	5.0%	5.9%	5.2%	2.0%	0.0%

Source: Company data, Al Rajhi Capital



Balance Sheet (SARmn)	12/13A	12/14A	12/15A	12/16A	12/17E
Cash and Cash Equivalents	1,364	1,684	2,067	1,320	1,031
Current Receivables	1,265	1,013	915	861	869
Inventories	4,488	4,518	4,840	3,251	3,577
Other current assets	1,924	3,021	1,584	2,335	2,335
Total Current Assets	9,040	10,237	9,406	7,766	7,812
Fixed Assets	6,383	6,733	7,907	6,822	6,804
Investments	7,943	8,015	8,430	8,527	9,396
Goodwill	1,344	1,233	1,114	662	662
Other Intangible Assets	-	-	-	-	-
Total Other Assets	52	322	177	49	49
Total Non-current Assets	15,722	16,302	17,628	16,060	16,911
Total Assets	24,763	26,539	27,034	23,826	24,722
Short Term Debt	4,281	4,410	4,962	4,607	4,770
Trade Payables	4,739	4,861	5,136	4,552	4,855
Dividends Payable	-	-	-	-	-
Other Current Liabilities	93	758	94	543	543
Total Current Liabilities	9,113	10,030	10,192	9,703	10,168
Long-Term Debt	4,126	4,803	4,579	4,098	3,598
Other LT Payables	101	133	66	216	216
Provisions	531	565	690	657	657
Total Non-current Liabilities	4,758	5,501	5,336	4,972	4,472
Minority interests	1,241	911	956	661	561
Paid-up share capital	5,340	5,340	5,340	5,340	5,340
Total Reserves	4,311	4,758	5,210	3,151	4,182
Total Shareholders' Equity	9,651	10,098	10,550	8,491	9,522
Total Equity	10,892	11,009	11,506	9,152	10,083
Total Liabilities & Shareholders' Equity	24,763	26,539	27,034	23,826	24,722
Ratios	12/13A	12/14A	12/15A	12/16A	12/17E
Net Debt (SARmn)	7,044	7,529	7,474	7,386	7,337
Net Debt/EBITDA (x)	2.95	3.45	4.46	9.29	4.93
Net Debt to Equity	64.7%	68.4%	65.0%	80.7%	72.8%
EBITDA Interest Cover (x)	(4.6)	(2.9)	(2.8)	(3.7)	(4.0)
BVPS (SAR)	18.07	18.91	19.76	15.90	17.83
Cashflow Statement (SARmn)	12/13A	12/14A	12/15A	12/16A	12/17E
Net Income before Tax & Minority Interest	2,250	2,218	2,049	(482)	1,020
Depreciation & Amortisation	657	708	648	743	784
Decrease in Working Capital	(560)	174	603	1,245	(32)
Other Operating Cashflow	(724)	(910)	(1,018)	341	(958)
Cashflow from Operations	1,622	2,189	2,281	1,846	815
Capital Expenditure	(1,008)	(1,671)	(1,942)	(1,482)	(767)
New Investments	672	323	985	-	-
Others	427	381	430	741	-
Cashflow from investing activities	91	(968)	(527)	(741)	(767)
Net Operating Cashflow	1,713	1,222	1,754	1,106	49
Dividends paid to ordinary shareholders	(993)	(1,192)	(1,051)	(655)	-
Proceeds from issue of shares	-	-	-	-	-
Increase in Loans	617	1,280	496	115	(337)
Effects of Exchange Rates on Cash	(271)	(140)	(159)	(196)	-
Other Financing Cashflow	(543)	(782)	(446)	(978)	-
Cashflow from financing activities	(1,190)	(834)	(1,160)	(1,714)	(337)
Total cash generated	523	388	594	(608)	(288)
Cash at beginning of period	943	1,364	1,684	2,067	1,320
Implied cash at end of year	1,466	1,752	2,278	1,459	1,031
Ratios	12/13A	12/14A	12/15A	12/16A	12/17E
Capex/Sales	4.0%	6.3%	7.3%	5.9%	3.0%

Source: Company data, Al Rajhi Capital



IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"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.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Jithesh Gopi, CFA
Head of Research and Financial Institutions
Tel : +966 1 211 9332
Email: gopij@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.