

SAUDI CATERING

الأهلي كابيتال
NCB Capital

EVENT FLASH

Weaker than expected results but 2Q17 DPS increases

Catering reported a weaker than expected 2Q17 results, with net income declining -7.5% YoY (+7.9% QoQ) to SR131mn. This is significantly lower than the NCBC estimate of SR163mn. We believe lower than expected sales and higher Zakat expenses were the key reasons behind the variance. Catering increased its quarterly DPS to SR1.5 from SR1.25 which is a key positive.

- Revenues stood at SR551mn in 2Q17, down -3.4% YoY (+3.2% QoQ). This is -11.6% lower than our estimates of SR624mn. We believe the variance is due to 1) lower than expected number of flights, although Umrah activity was strong in 1H17, 2) a decline in catering sales to other airlines (3.1% of revenues in 2016) and 3) a decrease in airline equipment sales (1.6% of 2016 revenues) which could be attributed to Saudia initiative to control its costs. Catering said that the decline was partially mitigated by a growth in catering to Saudia and higher contribution of Skysales and lounges.
- Gross margin was 35.6% in 2Q17. This is higher than our estimate of 34%, 31.3% in 1Q17 and 33.8% in 2Q16. We believe lower than expected revenue was partially mitigated by better cost controls. We believe margin expansion is a key positive and will support earnings growth in the coming quarters.
- EBIT was SR145mn in 2Q17, broadly flat YoY but was 10.9% lower than our estimates. Opex stood at SR51.4mn in 2Q17 vs our estimate of SR50.3mn with an EBIT margin of 26.3%, in-line with our estimate and compared to 25.3% in 2Q16. A one-off Zakat charges of SR3.5mn was recorded related to prior years which expanded the variance at the bottom-line.
- Based on data from GACA, the number of flights in Saudi was 165,300 in 2Q17 (+3.2% QoQ) with 21.8mn passengers. If annualized, it reflects a flat growth YoY (+2.1% YoY). We expect the number of flights to grow 6.5% YoY in 2017E. For 1H17, the number of passengers increased +0.9% YoY.
- Catering announced a DPS of SR1.5 for 2Q17, higher than 1Q17 and 4Q16 DPS of SR1.25. Although this is lower than our estimate of SR1.75, we believe the first increase in dividends in two quarters is positive and highlights Catering strong balance sheet.
- We are Overweight on Catering with a PT of SR103.4. The stock is trading at an attractive 2018E P/E of 10.4x, lower than the peer average of 16.0x. Growth in Umrah and Hajj and an attractive dividend yield of 8.2% are the stock key strengths. However, slower than expected growth in the number of flights and the increasing receivables from Saudia are the key concerns.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var^	% QoQ
Revenues	551	570	(3.4)	624	(11.6)	3.2
Gross income	196	193	1.6	212	(7.4)	17.5
Gross margin (%)	35.6%	33.8%	1.8	34.0%	1.6	4.3
Operating income	145	145	0.3	163	(10.9)	11.6
Net income	131	142	(7.5)	163	(19.5)	7.9
EPS (SR)	1.6	1.7	(7.5)	2.0	(19.5)	7.9

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

OVERWEIGHT

Target price (SR) 103.4

Current price (SR) 82.5

Upside/Downside (%) 25.3

STOCK DETAILS

M52-week range H/L (SR)	107/80
Market cap (\$mn)	1,874
Shares outstanding (mn)	82
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.5)	(6.8)	(4.0)
Rel. to market	(0.9)	(10.8)	(16.7)

Avg daily turnover (mn)	SR	US\$
3M	5.6	1.5
12M	12.1	3.2

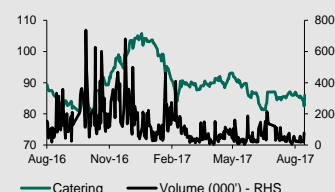
Reuters code	6004.SE
Bloomberg code	CATERING AB
	www.saudicatering.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	13.0	11.0	10.4
P/B (x)	5.5	5.3	4.9
EV/EBITDA (x)	11.3	10.1	9.6
Div. Yield (%)	8.1	8.2	8.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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