SAVOLA

NCB CAPITAL

EVENT FLASH

Earnings miss; guidance revised down as expected

Savola reported a lower than expected set of results with adjusted net income down 12.3% YoY to SR434.4mn. We believe this decline came mainly from operational difficulties faced by the international food division and higher SG&A expenses associated with new store openings. In our latest update, we expected Savola to miss its full year guidance. This has been reflected in the 10% downward revision in earnings guidance. According to guidance, 2H15 adjusted net income growth is expected to remain flat.

- **NCBC view on results:** Savola reported a lower than expected set of results, with adjusted net income declining by 12.3% YoY. This is 12% lower than the NCBC and consensus estimates. Despite gross profits increasing by 9.6% YoY on higher sales and margins, EBIT declined by 17.4% on higher Opex (up 41% YoY) from new store openings, specifically Pandati. On a reported basis, net income declined by 15.4% YoY (including SR17mn capital gains in 2Q14 from disposal of Kazakhstan operations).
- **Weak food segment impacts top-line growth:** We expected 2Q15 revenue growth to remain flat YoY, mainly on operational issues in the international food division. We expected food revenues to decline 1.4% YoY and retail segment to grow by 12% YoY. Accordingly, we believe the 9.6% YoY growth in gross profits came from higher margins in the food segment as commodity prices remain low.
- **Higher SG&A expenses impact bottom-line:** Despite a 9.6% YoY growth in gross profits, EBIT declined by 17.4% YoY to SR554.4mn. We believe this is mainly due to higher Opex from aggressive store openings in the retail segment (132 Pandati stores opened in 2014, 100 expected in 2015E).
- **Full-year guidance revised down, as expected:** Savola revised down its full-year guidance by 10%, to SR1.6bn. Provided the reported net profit for 1H15 was down 3.3% YoY, this implied that 2H15 adj. net profit will remain flat vs. our expectations of a growth of 2% YoY. Savola expects a net income of SR355mn for 3Q15E, a decline of 30.3% YoY.
- **Overweight on attractive valuations:** We are currently Overweight on the company with a PT of SR89.1. We believe the current set of results and decline in earnings guidance for 2015 is a concern. However, the stock trades at a 2015E P/E of 19.3x vs. food sector P/E of 21.1x which remains attractive.

2Q15 Result Summary

SR mn	2Q15A	2Q14A	% YoY	2Q15E	% Var^
Gross income	1,372	1,251	9.6	1,332	3.0
Operating income	554.4	671	(17.4)	658.4	(15.8)
Reported Net income	434.4	513.3	(15.4)	494.9	(12.2)
Adj. Net income	434.4	495.6	(12.3)	494.9	(12.2)
Adj. EPS (SR)	0.81	0.93	(12.3)	0.93	(12.2)

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

OVERWEIGHT

Target price (SR)	**89.1**
Current price (SR)	**71.4**

STOCK DETAILS

M52-week range H/L (SR)	88/67
Market cap ($mn)	10,183
Shares outstanding (mn)	534
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	5.5	(8.4)	2.5
Rel. to market	5.1	(1.1)	7.0

Avg daily turnover (mn)	SR	US$
3M	29.7	7.9
12M	37.3	10.0

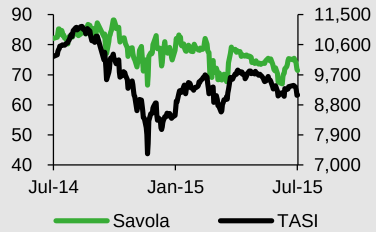
Reuters code	2050.SE
Bloomberg code	SAVOLA AB
	www.savola.com

VALUATION MULTIPLES

	14A	15E	16E
Reported P/E (x)	18.4	19.3	17.8
Adjusted P/E (x)	20.3	22.3	17.8
P/B (x)	3.6	3.3	3.1
EV/EBITDA (x)	14.8	14.6	12.8
Div Yield (%)	3.2	3.2	3.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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OVERWEIGHT: Target price represents expected returns in excess of 15% in the next 12 months

NEUTRAL: Target price represents expected returns 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

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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