

SAVOLA



EVENT FLASH

Adjusted loss driven by weak sales and margins

Savola reported a disappointing set of 1Q17 results with net income declining 96.0% YoY to SR4.8mn. However, adjusting for the one-off gain of SR30mn following the deconsolidation of USCE, Savola reported a loss of SR25.2mn. This is significantly lower than NCBC and consensus estimates of profit of SR141.0mn and SR123.0mn. We believe the weak results are mainly due to the declining sales and contracting margins of the retail segment, along with higher Zakat and minority interests.

- **NCBC view on the results:** Savola reported a weak set of 1Q17 results, with net income declining 96.0% YoY to SR4.8mn. However, adjusting for the one-off gain of SR30mn for the deconsolidation of United Sugar Company Egypt, Savola reported a net loss of SR25.2mn vs a profit of SR226.7mn in 1Q16. This is significantly lower than NCBC and consensus estimates of SR141.0mn and SR123.0mn, respectively. We believe the YoY decline is mainly due to 1) weakening sales and contracting margins of the retail segment, 2) higher than expected Zakat and 3) increase in minority interest.
- Savola's sales declined -9.4% YoY (-11.5% QoQ) to SR5.8bn, below our estimates of SR6.4bn. We believe this is due to the food segment, retail segment and Herfy. We believe food segment sales were impacted by the surplus in sugar cycle, increasing competition in the Iranian market. The decline in retail segment sales is mainly attributable to weak LFL and a declining basket size due to the allowance cuts.
- Gross margins contracted 196bps YoY to 17.9%, below our estimates of 19.1%. We believe this is largely due to a focus on promotions at Panda to gain market share. As a result, Savola's gross profit declined at a higher rate of -18.3% YoY to SR1,040mn, coming below our estimates of SR1,219mn.
- Opex declined -3.6% YoY to SR901mn, coming lower than our expectations of SR920mn. However as a result of the weakness in sales, Opex to sales ratio increased to 15.5% in 1Q17 from 14.6% in 1Q16. EBIT declined 58.9% YoY to SR139mn, while EBIT margin contracted 289bps YoY to 2.4%. This compares to our estimates of SR300mn and 4.7%, respectively.
- We are Overweight on Savola with a revised PT of SR47.0. The continuous weakness in sales in both the food and retail segments, as well as contracting retail margins are a cause of concern. Management's initiatives to turnaround retail operations as well as recovery in the key markets for food are critical to the overall earnings outlook.

1Q17 Results Summary

| SR mn | 1Q17A | 1Q16**A | % YoY | 1Q17E | %Var^ | % QoQ |
|-----------------|---------|---------|--------|---------|--------|--------|
| Revenues | 5,800.0 | 6,400.0 | (9.4) | 6,380.1 | (9.1) | (11.5) |
| Gross income | 1,040 | 1,273.1 | (18.3) | 1,219.4 | (14.7) | 30.6** |
| EBIT | 138.9 | 338.3 | (58.9) | 299.7 | (53.7) | NM** |
| Net income | 4.8 | 119.4 | (96.0) | 141.0 | (96.6) | NM |
| Adj. Net income | (25.2) | 226.7 | NM | 141.0 | NM | NM |
| EPS (SR) | 0.01 | 0.22 | NM | 0.26 | (96.6) | NM |

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

OVERWEIGHT

| | |
|---------------------|------|
| Target price (SR) | 47.0 |
| Current price (SR) | 42.3 |
| Upside/Downside (%) | 11.1 |

STOCK DETAILS

| | |
|-------------------------|---------|
| M52-week range H/L (SR) | 43/29 |
| Market cap (\$mn) | 6,031 |
| Shares outstanding (mn) | 534 |
| Listed on exchanges | TADAWUL |

| Price perform (%) | 1M | 3M | 12M |
|-------------------|-----|------|------|
| Absolute | 1.1 | 10.2 | 11.7 |
| Rel. to market | 3.0 | 10.7 | 7.4 |

| Avg. daily turnover (mn) | SR | US\$ |
|--------------------------|------|------|
| 3M | 9.7 | 2.6 |
| 12M | 17.7 | 4.7 |

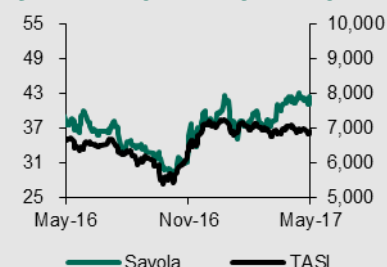
| | |
|----------------|----------------|
| Reuters code | 2050.SE |
| Bloomberg code | SAVOLA AB |
| | www.savola.com |

VALUATION MULTIPLES

| | 16A | 17E | 18E |
|---------------|------|------|------|
| P/E (x) | NM | 22.4 | 15.6 |
| P/B (x) | 2.5 | 1.9 | 1.9 |
| EV/EBITDA (x) | 18.9 | 13.3 | 11.0 |
| Div Yield (%) | 1.8 | 2.4 | 4.7 |

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

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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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

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