Savola Group Company

Food-Diversified – Industrial
SAVOLA AB: Saudi Arabia
22 January 2017

الراجحي المالية
Al Rajhi Capital

US$5.23bn	60%	US$7.88mn
Market cap	Free float	Avg. daily volume

Target price	UR*	
Current price	35.7	as at 19/1/2017

*UR: Under review

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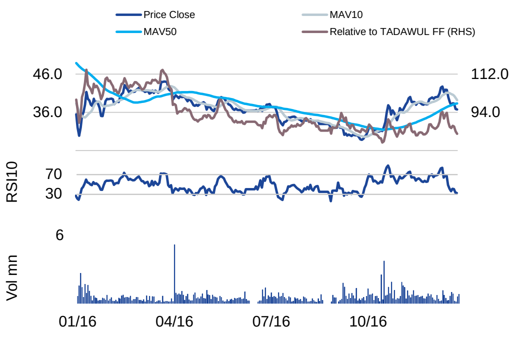
Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/13A	12/14A	12/15A	12/16A
Revenue (mn)	25,281	26,588	25,100	25,010
Revenue growth	-7.7%	5.2%	-5.6%	-0.4%
EBIT (mn)	1,729	1,477	1,785	835
EBIT growth	-4.1%	-14.6%	20.9%	-53.2%
EPS	3.19	3.88	3.36	(0.85)
EPS growth	21.6%	21.6%	-13.6%	n.a.

Source: Company data, Al Rajhi Capital; Note: Financials for FY14/15 are not comparable y-o-y due to restatement of USCE

*USCE: United Sugar Company Egypt

Savola

Q4: Weak margin, one-offs mar performance

Savola's Q4 net loss of SAR964mn was due to a string of one-offs and lower gross margin. The one-offs/ write-downs were mainly related to impairment of assets and goodwill related to Egypt operations, inventory reduction costs in Panda, and impairment of non-core investments. Together the net impact of these exceptional items stood at SAR860mn. According to the company release, adjusted net profit stood at SAR74mn after adding back one-off costs, currency losses, extraordinary inventory impact and other exceptional items, which is lower than our adjusted net profit estimate of SAR234mn. Q4 retail revenue at SAR3.2bn was lower than our estimate of SAR3.5bn and likely points to some market share loss given the stronger performance of peers in this segment. Overall, the retail segment profitability contributed to majority of Savola's underperformance in 2016, while food segment profitability declined relatively lower, owing to its defensive nature. We place Savola "under review" and look to revise our estimates and rating post the earnings call on Wednesday, Jan 25.

- **Revenue:** Revenue for both the food and retail segments was flattish y-o-y. While the food segment revenue was impacted by FX losses in Egypt, the retail revenue was primarily impacted due to decline in LFL sales, attributable to basket size reduction in both supermarket and hypermarket formats, according to the company.

- **Margins and net profit:** Gross margin, adjusted for inventory write down, stood at 18.1%, which is 230bps lower y-o-y and lower than our estimate of 19.5%. SG&A expenses were slightly higher than our estimates. Apart from lower gross margins and the exceptional items discussed above, net profit was also impacted by lower share of income from associate, higher financial charges and higher losses in USCE*.

- **Other:** The company mentioned that it will not pay quarterly dividends during the year 2017. For USCE (an indirect subsidiary of Savola), the shareholders agreement with European Bank for Reconstruction and Development (EBRD) and other legal formalities will be completed in Q1 2017, post which Savola will account for USCE investment on equity basis.

- **Valuation:** We place Savola "under review" and look to revise our estimates and rating post the earnings call on Wednesday, Jan 25. Earlier we had "Neutral" rating on the company with target price of SAR37.4 per share.

Figure 1 Savola: Summary of Q4 2016 results

(SAR mn)	Q4 2015	Q3 2016	Q4 2016	% chg y-o-y	% chg q-o-q	ARC Est
Revenue	6,260	5,847	6,250.0	-0.2%	6.9%	6,500
Gross profit	1,274	1,157	755	-40.7%	-34.8%	1,269
Gross margin	20.4%	19.8%	12.1%	-	-	19.5%
Operating profit	378	311	(176)	-146.6%	-156.6%	143
Net profit	515	173	(964)	-287.1%	-656.1%	234

Source: Company data, Al Rajhi Capital

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"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.

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