

SACO posted an in-line set of Q2-2017 results. Net income came at SAR 40.36mn (SAR1.68 EPS) against AJC estimates of SAR 38.8mn, the deviation is mainly due to higher than expected contribution from the recently acquired MEDSCAN. Stable LFL sales growth, estimated at 2% for the quarter. The reversal of public employees' allowance cuts is estimated to have a relatively larger impact throughout H2-FY2017 compared to Q2-2017. We remain Neutral on the company with a revised PT of 96.0 SAR per share.

- SACO reported net income of SAR 40.36mn (EPS SAR 1.68), posting 8.9% growth YoY and 31.2% QoQ. The result was supported by MEDSCAN's contribution to top line along with the addition of 1 store YoY to a total of 27 branches by the end of Q2-2017.
- Revenue for the quarter stood at SAR 376.3mn; posting an increase of 7.0%YoY and a 15.3% QoQ respectively. The YoY growth in revenues was mainly due to the added store as well as a SAR4.72mn quarterly contribution to revenues from MEDSCAN. LFL sales growth is estimated to be stable for the quarter at around 2% YoY. Revenues are estimated to continue the current trajectory for the following quarters. Revised top line growth stand at SAR 1,413mn for FY2017 (6.7% growth YoY). The reversal of allowance cut for public employees (Announced on April 2017) support our revised view on top line growth.
- Gross profit for the quarter stood at SAR 76.6mn depicting a 7.0% growth YoY and 23.6%QoQ. Gross margins for the quarter stood at 20.3%, exactly in-line with the same quarter last year (0.0% change). Gross margins for 1H-2017 stood at 19.7% compared to 20.2% for the same period last year (down 48Bps). Gross margins are estimated to stabilize around current levels (at 19.7% for FY2017) before going under slight pressure in FY2018. Operating margins showed slight expansion YoY for the quarter (up 24Bps) supported by declining Opex, albeit at a slower pace and scale compared to previous quarters. Operating income ended the quarter at SAR 43.5mn, posting 9.34% growth YoY.

AJC view: The reversal of public employees' allowance cuts (announced on April 2017) is estimated to have a relatively larger impact throughout H2-FY2017 compared to Q2-2017. LT market share gains in a highly fragmented market remain as SACO's main LT positive catalyst. Upside and downside risks to valuation rest mainly on macro and industry wide conditions. Visibility and scale of impact on FY2018 from higher utility and transportation costs is low. VAT is estimated to slightly soften the positive trajectory in FY2018. Revised FY2017 EPS is estimated to stand at SAR 5.77 per share (c. 3.0%) growing 7.3% YoY. The company currently trades at TTM PE of 18.6x and an estimated forward PE multiple of 17.8x. SACO announced 1H-2017 DPS of SAR 1.75 per share, an increase from SAR 1.50 DPS for the same period last year. We remain "Neutral" on SACO with an updated PT of SAR 96.0 per share.

Results Summary

| SARmn (unless specified) | Q2-2016 | Q1-2017 | Q2-2017 | Change YoY | Change QoQ | Deviation from AJC Estimates |
|--------------------------|--------------|--------------|--------------|------------|------------|------------------------------|
| Sales | 351.5 | 326.3 | 376.3 | 7.07% | 15.34% | 2.14% |
| Gross Profit | 71.6 | 62.0 | 76.6 | 7.07% | 23.6% | 5.9% |
| Gross Margin | 20.3% | 19.0% | 20.3% | - | - | - |
| EBIT | 39.8 | 33.4 | 43.5 | 9.34% | 30.4% | - |
| Net Profit | 37.0 | 30.8 | 40.3 | 8.93% | 31.2% | 3.87% |
| EPS | 1.54 | 1.28 | 1.68 | - | - | - |

Source: Company reports, Aljazira Capital

| | |
|----------------------|------------------|
| Recommendation | 'Neutral' |
| Current Price* (SAR) | 103.0 |
| Target Price (SAR) | 96.0 |
| Upside / (Downside) | -6.80% |

Source: Tadawul *prices as of 26th of July 2017

Key Financials

| SARmn (unless specified) | FY15 | FY16 | FY17E |
|--------------------------|-------|-------|-------|
| Revenue | 1,276 | 1,324 | 1,413 |
| Gross Profit | 259.5 | 260.6 | 278.3 |
| Net Profit | 126.1 | 128.9 | 138.4 |
| EPS | 5.25 | 5.37 | 5.77 |

Source: Company reports, Aljazira Capital

Key Market Data

| | |
|-------------------------|---------|
| Market Cap (mn) | 2,472.0 |
| YTD % | 19.7% |
| Shares Outstanding (mn) | 24.0 |
| 52 Week (High) | 109.0 |
| 52 Week (Low) | 54.0 |

Source: Company reports, Aljazira Capital

Key Ratios

| SARmn (unless specified) | FY15 | FY16 | FY17E |
|--------------------------|-------|-------|-------|
| Gross Margin | 20.3% | 19.7% | 19.7% |
| Net Margin | 9.8% | 9.7% | 9.8% |
| P/E | 18.9x | 15.9x | 17.8x |
| P/BV | 5.2x | 4.0x | 3.7x |
| Dividend Yield | 2.0% | 3.5% | 3.4% |

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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- Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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