

Savola Group Company

Food-Diversified – Industrial

SAVOLA AB: Saudi Arabia

05 November 2020

الراجحي المالية
Al Rajhi Capital



US\$6.39bn Market cap
60% Free float
US\$7.63mn Avg. daily volume

Target price **47.00** +4% over current
Current price **45.00** as at 4/11/2020

Research Department

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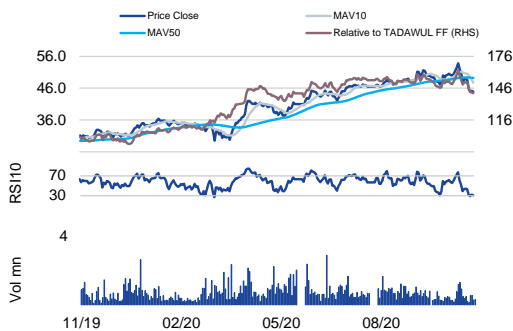
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	12/19A	12/20E	12/21E
Revenue (mn)	22,243	21,802	21,889
Revenue growth	2%	-2%	0%
EBITDA (mn)	2,585	2,541	2,099
EBITDA growth	109%	1%	-17%
Net Profit	476	750	494
Net Profit Margin	2%	3%	2%
EPS	0.89	1.41	0.93
EPS growth	NM	58%	-34%
DPS	0.30	0.42	0.28
Payout Ratio	34%	30%	30%
ROE	9%	13%	8%

Source: Company data, Al Rajhi Capital

Savola Group

Favourable sales mix led to margin accretion; Remain Neutral with a tp of SAR47/sh

Savola group reported a net profit of SAR284mn a growth of 28% y-o-y in Q3 2020 driven by higher gross margin and operating efficiencies. It missed our estimates of SAR296mn due to lower revenue compared to our forecast. The company's revenue dipped 11% y-o-y to SAR4.59bn due to 1% decline in retail business as the pantry loading normalized in Q3 and 24% y-o-y decline in the food segment. The food segment revenue was impacted due to 33% and 14% y-o-y decline in oil and sugar segment revenue respectively. Pasta segment witnessed a 6% y-o-y increase in revenue driven by 16% y-o-y volume growth while frozen food business revenue grew 27% y-o-y. The gross margins witnessed a notable improvement in both retail (+130bps y-o-y) and food business (+170bps) due to favourable product mix. The opex continued to reduce as Savola aims to achieve operational efficiencies especially in the retail business leading to a 170bps increase in the EBITDA margin. Going forward the reduced purchasing power due to vat increment and commodity price volatility creates a headwind for near term growth. However, improvement in operating margins and deleveraging should improve the overall net margins in our view. Accordingly, we revise our forecast and increase our tp to SAR47/sh from SAR41/sh but remain "neutral" on Savola.

Figure 1 Earnings Summary

(SAR mn)	Q3 2020	Q2 2020	Q3 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	4,587	6,007	5,148	-11%	-24%	5,571
Gross profit	1,064	1,279	1,084	-2%	-17%	1,142
Gross margin	23%	21%	21%	NM	NM	20%
Operating profit	439	585	427	3%	-25%	473
Net profit	284	410	222	28%	-31%	296
Net Margin	6%	7%	4%	NM	NM	5%

Source: Company data, Al Rajhi Capital

Valuation and outlook: We value Savola using equal mix given to DCF and EV/EBITDA based relative valuation. Our DCF based target price based on 2% terminal growth and 7.95% WACC is SAR47/sh while relative valuation based on 12.8x (average of other food retailers in KSA) FY2021E EBITDA is SAR46/sh thus equal weighted tp stands at SAR47/sh which implies 4% upside from CMP of SAR45/sh. We remain "Neutral" on Savola.

Key Downside risk: If the demand in B2B segment for oil and sugar continues to remain depressed then this will have a negative impact on our forecast and valuation.

Key Upside risk: If the company open new retail stores in the next one year then the retail segment revenue might improve and poses an upside risk to our valuation.



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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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