

SAVOLA

الأهلي كابيتال
NCB Capital

EVENT FLASH

Second consecutive 4Q loss due to impairments

Savola reported a net loss of SR38mn in 4Q17. This is the 2nd consecutive 4Q loss. However excluding impairments, adjusted net income stood at SR185mn vs a loss of SR318mn in 4Q16. This compares to the NCBC estimates of SR144mn. We believe the YoY improvement is due to gross margin expansion from the Retail segment, lower Opex and financing expenses. Savola trades at a 2018E P/E of 13.6x vs sector at 23.2x.

- **NCBC view on the results:** Savola reported a net loss of SR38mn in 4Q17 vs a loss of SR915.7mn in 4Q16. Adjusting for impairments on the Retail segment, the company reported a net income of SR185mn in 4Q17 vs a loss of SR318.2mn in 4Q16. The adj. earnings are higher than the NCBC and consensus estimates of SR144mn and SR169mn, respectively. We believe the YoY improvement to profitability is largely due to 1) stronger gross margins at the Retail segment, 2) lower Opex due to the clearance promotional campaigns conducted in 4Q16 and 3) lower financing charges.
- Sales declined 15.7% YoY to SR5.80bn, coming broadly in-line with our estimates of SR6.25bn. We believe Food segment revenue was in-line with our expectations (+0.4% YoY), while Retail sales declined c.-18% YoY to SR2.8bn. We expected a relatively flat performance at the edible oil and sugar segments, while Pasta sales were expected to decline -14% YoY.
- Gross margins expanded 655bps YoY to 19.9%, higher than our estimates of 17.2%. We believe this is largely due to the Retail segment's inventory reduction campaign last year, which led to record low margins. We believe Savola was able to control discounts at the Retail segment, however this has not prevented the on-going impairments recorded on Panda.
- We believe the second consecutive impairment on Panda, amounting to SR222mn in 4Q17, signals weaknesses in the Retail segment beyond Pandati. Adjusting for that, we believe controlled store expansions led to a decline in Opex (Opex-to-sales at 14.5% in 4Q17 vs 14.8% in 4Q16), which is a key positive along with the decline in financing expenses.
- We are Overweight on Savola with a PT of SR47.0. The on-going impairments on the Retail segment is a cause of concern. However, the restructuring plans and Opex efficiencies are key positives. Savola trades at a 2018E P/E of 13.6x vs sector at 23.2x.

4Q17 Results Summary

SR mn	4Q17A	4Q16A	% YoY	4Q17E	%Var^	% QoQ
Revenues	5,800	6,878	(15.7)%	6,255	(7.3)%	2.4%
Gross income	1,152	916**	25.8%	1,074	7.2%	10.6%
Gross margin (%)	19.9%	13.3%	655bps	17.2%	268bps	147bps
EBIT	89	(679)**	NM	309	(71.3)%	(68.3)%
Adj. EBIT	311	(105)**	NM	309	0.5%	10.9%
Net income	(38)	(916)**	NM	144	NM	NM
EPS (SR)	(0.07)	(1.71)	NM	0.27	NM	NM
Adj. net income	185	(318)**	NM	144	28.2%	36.6%
Adj. EPS (SR)	0.35	(0.60)	NM	0.27	28.2%	36.6%

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

OVERWEIGHT

Target price (SR)	47.0
Current price (SR)	37.0
Upside/Downside (%)	27.1

STOCK DETAILS

M52-week range H/L (SR)	50/36
Market cap (\$mn)	5,273
Shares outstanding (mn)	534
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.5)	(6.2)	(3.7)
Rel. to market	(5.4)	(11.5)	(8.8)

Avg. daily turnover (mn)	SR	US\$
3M	11.5	3.1
12M	14.0	3.7

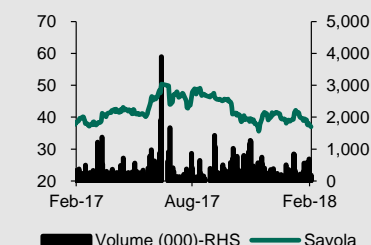
Reuters code	2050.SE
Bloomberg code	SAVOLA AB
	www.savola.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	NM	19.3*	13.6
P/B (x)	1.8	1.7	1.6
EV/EBITDA (x)	15.0	12.1	10.0
Div Yield (%)	2.7	2.7*	2.7

Source: NCBC Research estimates, *Actual

SHARE PRICE PERFORMANCE



Source: Tadawul

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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

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

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