

FY20 Results Update
February 17, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	39.2
Target Price (SAR)	40.0
Upside/Downside (%)	2.0%

As of February 16, 2021
Key Data (Source: Bloomberg)

Market Cap (SAR bn)	20.9
52-Wk High (SAR)	54.0
52-Wk Low (SAR)	29.0
Total Outstanding shares (in mn)	534.0
Free Float (%)	59.3%

SAVOLA GROUP vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(7.7%)	(9.9%)
6m	(19.4%)	(36.7%)
12m	13.0%	(3.2%)

Major Shareholders (%)

Assilah Investment Co.	11.23%
Abdulqader Al Muhaidib & Sons Co.	8.23%
Abdullah M. A. Al Rabeia	8.21%
General Org. for Social Insurance	6.67%
Al Muhaidib Holding Co.	6.36%

Quarterly Sales (SAR bn) and Net Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of February 16, 2021

FY20 bottom line improves; 4Q20 performance deteriorates on lower top line and margins

Savola's revenue rose 1.4% YoY to SAR 21.7bn during FY20. However, top line fell 0.9% YoY to SAR 5.2bn in 4Q20 due to weaker revenue recorded by the Retail segment. Gross profit rose 2.9% YoY to SAR 4.6bn during FY20, as the higher top line offset the rise in the cost of sales. A decline in SG&A expenses and higher profit contribution from associate companies led to 26.6% YoY rise in operating profit to SAR 1.7bn. In addition, lower finance charges offset higher zakat expense in FY20, resulting in 91.5% YoY rise in net income to SAR 910.8mn. Consequently, net profit margin expanded to 4.2% from 2.2% in FY19.

Despite recording 91.5% YoY growth in net profit during FY20, Savola recorded 67.4% YoY decline in bottom line during 4Q20. This was attributed to weaker performance registered by the Retail segment during the quarter, leading to reduced margins. Although the increase in demand for groceries and preference for in-house dining led to higher Retail revenue during 1H20, the ongoing expat exodus and higher VAT rate hurt Retail revenues during 2H20. Revenues from Oil and Sugar categories remained hampered on account of lower volumes sold during FY20. However, the Frozen Food segment's revenue increased, driven by higher production and new product offerings. Though, Savola recorded higher revenue and net profit in FY20, despite the unfavorable economic conditions, it was largely driven by the turnaround in the Retail segment's performance. However, Savola faces headwinds in the form of higher VAT rate which could result in a reduction in consumer spending, and may suppress its profitability in the near term. Moreover, continued weakness in the sales of oil and sugar products due to lower demand remains a challenge for Savola. Considering these factors, we maintain a "Neutral" rating on the stock.

- Revenue increased 1.4% YoY to SAR 21.7bn in FY20, primarily due to 8.9% YoY and 18.8% YoY growth in revenue contribution from the Retail and Frozen Foods segments, respectively. The Retail segment accounted for 53.5% of total revenue in FY20 as against 49.8% in FY19.
- Revenue fell 0.9% YoY to SAR 5.2bn in 4Q20, owing to lower top line under the Retail segment during the quarter.
- Gross profit rose 2.9% YoY to SAR 4.6bn, as the 1.0% YoY increase in cost of sales to SAR 17.1bn was counterbalanced by the growth in top line. As a result, gross profit margin widened to 21.4% in FY20 from 21.0% in FY19.
- Lower SG&A expenses and impairment loss, coupled with higher share of profit from associates, led to 26.6% YoY rise in operating profit to SAR 1.7bn. Consequently, operating profit margin expanded to 7.6% in FY20 from 6.1% in FY19.
- Lower other income and higher zakat expense were offset by lower net finance costs, resulting in 91.5% YoY rise in Savola's net income for FY20 to SAR 910.8mn. Consequently, net profit margin widened to 4.2% from 2.2% in FY19.
- However, net profit fell 67.4% YoY to SAR 44.7mn in 4Q20, with net margin shrinking to 0.9% in the quarter from 2.6% in 4Q19 and 6.2% in 3Q20.
- On January 27, the company's Board of Directors recommended a cash dividend of SAR 0.75 per share for FY20, equivalent to SAR 400.5mn or 7.5% of its total share capital.

Valuation: We reduce our target price to a fair value of SAR 40.0 per share and retain our "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	5,183	5,232	(0.9%)	21,835	21,700	0.6%
Gross Profit (SAR mn)	1,070	1,192	(10.2%)	4,695	4,636	1.3%
EBITDA (SAR mn)	484	618	(21.6%)	2,829	2,775	2.0%
Net Profit (SAR mn)	45	137	(67.4%)	984	911	8.1%
EPS Basic (SAR)	0.08	0.26	(67.4%)	1.84	1.71	8.1%
Gross Margin (%)	20.6%	22.8%	(2.1%)	21.5%	21.4%	0.1%
EBITDA Margin (%)	9.3%	11.8%	(2.5%)	13.0%	12.8%	0.2%
Net Profit Margin (%)	0.9%	2.6%	(1.8%)	4.5%	4.2%	0.3%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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