

2Q20 Results Update

October 02, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	51.0
Target Price (SAR)	48.0
Upside/Downside (%)	(5.9%)

As of September 14, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	27.2
52-Wk High (SAR)	52.1
52-Wk Low (SAR)	25.5
Total Outstanding shares (in mn)	534
Free Float (%)	59.3%

SAVOLA GROUP vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	6.3%	0.7%
6m	62.2%	34.2%
12m	69.4%	65.6%

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 Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 14, 2020

Stable revenues from Retail and Frozen Foods segments boosts top line in 2Q20

Savola's revenue for 2Q20 inched up 3.3% YoY to SAR 6.0bn due to the positive contribution from the retail and frozen foods segments. Lower SG&A expenses and a higher share of profit from associates boosted the operating income, which surged 60.8% YoY to SAR 584.6mn. Lower finance charges during 2Q20, combined with the factors mentioned above, resulted in a 271.6% rise in net income to SAR 409.6mn. Furthermore, net profit margin expanded to 6.8% from 1.9% in 2Q19.

Savola's top line grew steadily as the retail and frozen foods segments recorded 13.8% YoY and 16.2% YoY growth in revenue, respectively, during the quarter. The surge in revenue in these segments was driven by a shift in consumer preference to pantry loading and in-house cooking and dining during the lockdown. Moreover, the company managed to reduce its operating costs, which resulted in a sharp improvement in profit margins during the quarter. The company remained largely resilient to pressures from the COVID-19 pandemic in 1H20 as it recorded an 8.2% YoY surge in revenue to SAR 11.9bn and a 399.6% YoY rise in net income to SAR 582.3mn during the period. This was attributed primarily to the turnaround in the company's retail division, Panda, which realized a net profit of SAR 195mn in H120 against a net loss of SAR 198mn in 1H19. Although we anticipate the retail division to record steady growth, the performance of the foods division appears to remain muted due to expectations of reduced consumer spending and other external factors. Furthermore, due to the recent uptick in the company's stock performance, we maintain our Neutral rating on the stock.

- Revenue increased 3.3% to SAR 6.0bn in 2Q20, primarily supported by the stable performance of the retail and frozen foods segments. The retail segment accounted for 54.4% of the company's total revenue in 2Q20, up from 53.9% in 1Q20. The foods and Herfy segments contributed negatively to Savola's revenue during the quarter.
- Due to the limited rise in cost of sales (up 1.7% YoY to SAR 4.7bn), gross profit scaled up 9.9% YoY to SAR 1.3bn. This resulted in a 127.6 bps improvement in the gross profit margin to 21.3% in 2Q20 from 20.0% in 2Q19.
- With lower SG&A expenses and a higher share of profit from associates, operating profit surged 60.8% YoY to SAR 584.6mn. As a result, operating profit margin expanded to 9.7% in 2Q20 from 6.3% in 2Q19 and 6.7% in 1Q20.
- In addition to the factors mentioned above, lower net finance cost and a decline in income attributable to minority shareholders boosted Savola's net income, which surged 271.6% YoY to SAR 409.6mn. Consequently, the net profit margin improved to 6.8% from 1.9% in 2Q19 and 2.8% in 1Q20.
- Adjusted EBITDA for 1H20 stood at SAR 1.2bn vis-à-vis SAR 892mn a year earlier, whereas adjusted net income grew to SAR 618mn from SAR 191mn in 1H19 due to the implementation of IFRS, store closures, and project write-offs.
- During the quarter, the company opened another supermarket in KSA, taking its store count up to 206. Thus, total selling area increased to 630,275 sq. m from 628,578 sq. m in 1Q20.

Valuation: We revise our target price to a fair value of SAR 48.0 per share and retain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	6,007	5,813	3.3%	24,087	22,243	8.3%
Gross Profit (SAR mn)	1,279	1,163	9.9%	4,998	4,538	10.1%
EBITDA (SAR mn)	873	664	31.5%	2,787	2,585	7.8%
Net Profit (SAR mn)	410	110	271.6%	1,035	476	117.7%
EPS Basic (SAR)	0.77	0.21	271.6%	1.94	0.89	117.7%
Gross Margin (%)	21.3%	20.0%	1.3%	20.8%	20.4%	0.3%
EBITDA Margin (%)	14.5%	11.4%	3.1%	11.6%	11.6%	(0.0%)
Net Profit Margin (%)	6.8%	1.9%	4.9%	4.3%	2.1%	2.2%

Source: Company Financials, FALCOM Research

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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.

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