Savola Group Company
Food-Diversified – Industrial
SAVOLA AB: Saudi Arabia
09 September 2021

الراجحي المالية
Al Rajhi Capital

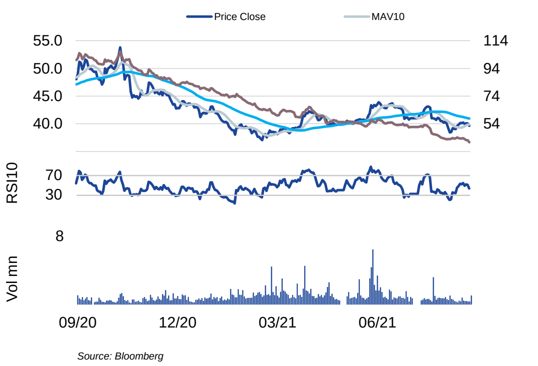
US$5.65bn	60%	US$10.30mn
Market cap	Free float	Avg. daily volume

Target price	40.00	3% over current
Current price	39.00	as at 9/9/2021

Existing rating

Underweight | **Neutral** | Overweight

Performance



Earnings

Period End (SARmn)	12/20A	12/21E	12/22E
Revenue	21,700	22,451	22,923
Revenue Growth %	1.4%	3.5%	2.1%
EBITDA	2,778	2,123	2,306
EBITDA Growth %	13%	9%	10%
Net Profit	911	809	942
Net Profit Margin	4.2%	3.6%	4.1%
EPS	1.71	1.52	1.76
EPS Growth %	91%	-11%	16%
DPS	0.75	0.45	0.53
Payout Ratio	44%	30%	30%
ROE	12%	10%	10%

Source: Company data, Al Rajhi Capital

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Savola Group

Below Estimates; Remain Neutral

Savola's net profit for Q2 2021 of SAR200mn came below our estimates of SAR225mn. The revenue came in at SAR5.183bn lower than our expectations of SAR5.954bn. The gross margins reduced 110bps y-o-y mainly due to 280bps margin dilution of food segment. The operating expenses declined by SAR40mn y-o-y thereby supporting the EBIT margins a little which declined almost 200 bps y-o-y but remained flat q-o-q. Savola's retail business continue to witness several macro related headwinds such as lower consumer spending, lower store traffic and a high base last year. In food segment, the company reported a 19% y-o-y growth led mainly by growth in edible oil segment in KSA and Egypt. We expect the near-term headwinds to continue for grocery business however we expect a consolidation in the food segment as many smaller players would exit due to rising commodity prices, this should benefit Savola over the longer term. Post Q2 2021 earnings we revise our forecast and slightly revise our tp upwards from SAR39/sh to SAR40/sh and maintain our "Neutral" Rating.

Q2 2021 earnings summary: The consolidated top-line declined 2% y-o-y to SAR5.901bn mainly due to decline in retail business which was impacted by lower consumer spending and a high base last year. The overall gross margins declined 110bps mainly impacted by retail business. The operating margins were impacted y-o-y due to lower gross margins and remained flat q-o-q due to operating efficiencies. Accordingly, the net profit declined 51% y-o-y to SAR200mn

Figure 1 Savola 2Q 2021 Earnings Summary

(SAR mn)	2Q 2021	2Q 2020	Y-o-Y	1Q 2021	Q-o-Q	ARC est	vs ARC
Revenue	5,901	6,007	-2%	5,954	-1%	6,048	-2%
Gross profit	1,118	1,279	-13%	1,212	-8%	1,270	-12%
Gross margin	19%	21%		20%		21%	
Operating profit	414	585	-29%	373	11%	725	-43%
Operating margin	7%	10%		6%		12%	
Net profit	200	410	-51%	154	30%	225	-11%
Net margin	3%	7%		3%		4%	

Source: Company data, Al Rajhi Capital

Retail business: The Q2 2021 revenue for the retail segment declined 18% y-o-y to SAR2.843bn from a high base last year. The gross margin for the segment declined 140 bps y-o-y. The adjusted EBITDA for retail segment was reported at SAR177mn in Q2 2021 v/s SAR378mn in Q2 2020 while the adjusted net loss was SAR27mn v/s an adjusted profit of SAR147mn.

Food business: In Q2 2021 the food business performed fairly strong despite challenging economic conditions in internationally. The top-line increased 19% y-o-y to SAR2.646bn driven mainly by volume growth of edible oil sales in Egypt and KSA. The gross margins diluted by 280bps y-o-y likely due to volatility in commodity prices, higher freights and rising B2B sales. The EBITDA increased 5% y-o-y to SAR239mn in Q2 2021. Overall, net profit for the food business decreased 23% y-o-y to SAR82mn.

Frozen food: Top-line for the segment declined 7% y-o-y to SAR159mn from a high base last year. The gross profit declined 230 bps y-o-y despite. The EBITDA declined 48% y-o-y to SAR27mn while the net profit decreased 52% y-o-y to SAR20mn.

Valuation and Key Risks: We value Savola using equal mix given to DCF and EV/EBITDA based relative valuation. Our DCF based target price based on 7.94% wacc and 2% terminal growth is SAR42/sh while EV/EBITDA based relative valuation based on 10.3x FY 2021E EBITDA is SAR38/sh thus equal weighted tp stands at SAR40/sh which implies 3% upside from CMP of SAR39/sh. We remain “Neutral” on Savola.

Key downside risks to our valuation includes:

Further expat exodus will reduce the overall population in the kingdom and will impact the revenue and profitability of the company. This will have a negative impact on our valuations.

Key upside risks to our valuation include:

Favourable sales mix and reduced competition due to rising commodity prices might boost the near-term profitability 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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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