

Saudi Airlines Catering Co. (Catering) posted net profit of SAR 43.5mn in Q2-22 as against net loss of SAR 17.4mn in Q2-21. The net profit was below our and consensus estimates of SAR 48.8mn and SAR 49.4mn, respectively. The deviation from our estimate was primarily attributed to lower-than-expected gross margin. Gross margin stood at 27.3% vs. our estimate of 29.1%. Revenue of SAR 413.4mn (+60.8% Y/Y, +4.8% Q/Q) was in line with our estimate of SAR 420.1mn, as the topline continues to recover from the impact of the pandemic. We reiterate our **“Overweight”** recommendation and TP of SAR 91.0/share on the stock.

- Catering registered net profit of SAR 43.5mn in Q2-22 compared to net loss of SAR 17.4mn in Q2-21 and net profit of SAR 35.3mn in Q1-22. The net profit was below our estimate of SAR 48.8mn, mainly due to lower-than-expected gross margin. Gross margin stood at 27.3% vs. our estimate of 29.1%. Slightly lower-than-expected revenue also contributed to lower bottom line.
- Revenue surged 60.8% Y/Y to SAR 413.4mn in Q2-22, in-line with our estimate of SAR 420.1mn. The top line growth was 4.8% Q/Q. The increasing flight operations with easing of travel restrictions led the revenue growth during the quarter. We expect flight operations to improve further in H2-22, supporting the company’s revenue growth.
- The company’s gross profit more than doubled to SAR 112.9mn in Q2-22 as against SAR 53.8mn in Q2-21. Gross margin expanded 638bps Y/Y to 27.3% (below AJC estimate of 29.1%) due to strong revenue growth amid increased volumes of operation.
- Operating profit stood at SAR 55.5mn vs. operating loss of SAR 7.0mn in Q2-21 and below our estimate of SAR 63.5mn. Operating profit was supported by higher gross profits and lower OPEX. OPEX stood at SAR 57mn compared to SAR 61mn in Q2-21.

AJC view: Catering recorded a healthy revenue growth and was able to expand net profit further from the previous quarter. However, overall results were below our expectations. We suppose higher food inflation likely to have limited the gross margin expansion and would keep pressure to some extent going forward as well. However, we are positive on overall prospects of the company with short term drivers being 1) rising air travel and 2) better Hajj and Umrah season; while long term drivers are 1) expected boost to aviation and tourism under Vision 2030, 2) existing long term contracts and 3) traction in non-airline segment with diversification of revenue streams. Nevertheless, the recent increase in receivables in (81% from government and semi-government as of March 2022) is a concern for the company. The stock is currently trading at P/E of 15.8x and EV/EBITDA of 10.6x based on our FY23 estimates. We maintain our **“Overweight”** recommendation on Catering with TP of SAR 91.0/share.

Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	257.1	394.6	413.4	60.8%	4.8%	-1.6%
Gross Profit	53.8	103.1	112.9	109.9%	9.5%	-7.7%
<i>Gross Margin</i>	<i>20.9%</i>	<i>26.1%</i>	<i>27.3%</i>	-	-	-
EBIT	-7.0	46.1	55.5	NM	20.4%	-12.5%
Net Profit	-17.4	35.3	43.5	NM	23.2%	-10.9%
EPS	-0.21	0.43	0.53	-	-	-

Source: Company Reports, AlJazira Capital

Overweight

Target Price (SAR)	91.0
Upside / (Downside)*	17.1%

Source: Tadawul *prices as of 10th of August 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	926.6	1,212.5	1,791.5	2,213.1
Growth %	-57.0%	30.9%	47.8%	23.5%
Net Income	-334.7	14.1	275.7	402.1
Growth %	NM	NM	NM	45.8%
EPS	-4.08	0.17	3.36	4.90

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	4.6%	27.4%	31.1%	33.6%
Net Margin	-36.1%	1.2%	15.4%	18.2%
P/E (x)	NEG	HIGH	23.1	15.8
P/B (x)	7.4	7.3	6.7	6.2
EV/EBITDA (x)	NEG	29.2	14.5	10.6

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	6.4
YTD %	-0.3%
52 Week (High)/(Low)	97.2/67.7
Shares Outstanding (mn)	82.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Equity Analyst

Mashaal Al-Huthaily

+966 11 2256250

M.Alhuthayli@Aljaziracapital.com.sa



RESEARCH DIVISION

Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068