

Saudi Airlines Catering Co

Food Service – Industrial
CATERING AB: Saudi Arabia
12 May 2019

الراجحي المالية
Al Rajhi Capital



US\$1.821bn Market cap
30% Free float
US\$2.821mn Avg. daily volume

Target price **86.00** 3.2% over current
Current price **83.30** as at 12/5/2019

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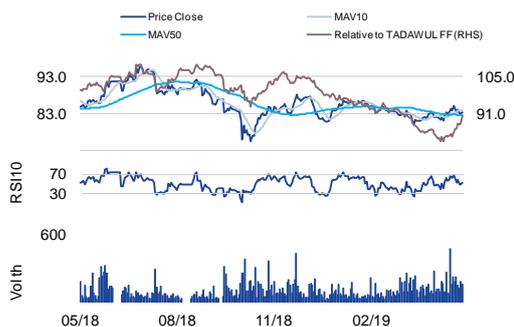
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	12/17A	12/18A	12/19E	12/20E
Revenue (mn)	1,952.6	2,035.8	2,115.9	2,238.8
Revenue Growth	-13.5%	4.3%	3.9%	5.8%
EBITDA	576.0	545.4	543.9	575.3
EBITDA Margin	29.5%	26.8%	25.7%	25.7%
Net profit	481.7	459.3	461.7	493.3
Net profit growth	-7.2%	-4.7%	0.5%	6.9%
EPS	5.9	5.6	5.6	6.0
DPS	5.6	5.6	5.6	5.9
Payout ratio	94.5%	99.1%	99.1%	97.3%

Source: Company data, Al Rajhi Capital

Saudi Airlines Catering Co

Q1 earnings miss; Remain neutral

Saudi Airlines Catering Co reported a net profit of SAR104mn (-13.8% y-o-y) in Q1 2019, missing our estimate of SAR116mn and consensus estimate of SAR111mn. While top-line and gross margins showed healthy improvement, likely driven by solid performance from in-flight catering and reduction in raw material and personnel cost, much of the bottom-line miss happened mainly due to higher than expected impairment on trade receivable under IFRS-9. However, the results were much better sequentially with bottom-line improving 36.1% q-o-q. Top-line continues to benefit from the rise in number of flyers and increasing tie-ups with companies providing privileged business lounge benefits to their customers. However, in the short-term, we expect growth in revenue to remain moderate till the business cycle picks up. For the longer-run we are more optimistic on the growth potential which is driven by rise in passenger traffic and higher commercial flights amid Saudi Airline strategic expansion plans and NTP initiatives encouraging pilgrimage. Meanwhile, the company's steady cash flows and low capex requirement allows it to maintain a healthy dividend payout ratio (~100% in Q1 2019), with an attractive dividend yield of ~6.2% (Q1 2019 annualised). However, elevated level of receivables remains a risk. We have a Neutral rating on the stock with a target price of SAR86.

- Q1 2019 Results:** Revenue increased 6.7% y-o-y (7.7% q-o-q) to SAR522mn, likely driven by solid performance from in-flight catering and business lounge services. Gross margin improved to 36.8% from 35.9% in Q1 2018 and 31.0% in Q4 2018, due to improved cost efficiency. Consequently, gross profit increased 9.5% y-o-y (27.8% q-o-q) to SAR192mn. However, operating profit declined 14.5% y-o-y to SAR113mn, mainly as the last year same quarter involved benefit from reversal of impairment on trade receivable. As such, net profit declined 13.8% y-o-y to SAR104mn. Further, the company announced a healthy dividend of SAR1.3 per share for Q1 2019, indicating an annualized dividend yield of ~6.2%.
- Valuation:** Post Q1 results, we revise our forward looking estimates. We rate the stock as Neutral with a target price of SAR86 per share (DCF:50% and PE: 50%) based on the revised estimates. The company continues to offer a healthy dividend yield, making the stock attractive for income seeking investors with any price gain coming as a bonus.

Figure 1 Saudi Airlines Catering Co: Summary of Q1 2019 results

(SAR mn)	Q1 2018	Q4 2018	Q1 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	489	484	522	6.7%	7.7%	542
Gross profit	175	150	192	9.5%	27.8%	171
Gross profit margin	35.9%	31.0%	36.8%			31.6%
Operating profit	133	88	113	-14.5%	29.2%	127
Net profit	120	76	104	-13.8%	36.1%	116

Source: Company data, Al Rajhi Capital

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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.

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