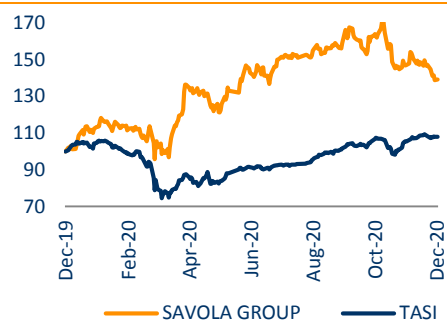


3Q20 Results Update
December 30, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	42.9
Target Price (SAR)	44.0
Upside/Downside (%)	2.7%

As of December 13, 2020
Key Data (Source: Bloomberg)

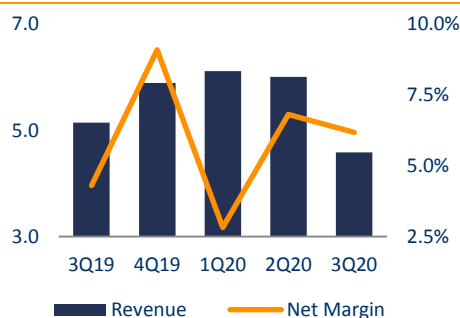
Market Cap (SAR bn)	22.9
52-Wk High (SAR)	54.0
52-Wk Low (SAR)	29.0
Total Outstanding shares (in mn)	534
Free Float (%)	59.3%

SAVOLA GROUP vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(5.3%)	(7.8%)
6m	(2.6%)	(20.9%)
12m	39.1%	31.1%

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 December 13, 2020

Lower operating and financing costs, higher profit share from associates boost bottom line in 3Q20

Savola's revenue for 3Q20 fell 10.9% YoY to SAR 4.6bn due to weaker performance recorded by the Retail and Food Processing segments. Gross profit decreased during the quarter as a reduced top line offset the fall in cost of sales. A decline in SG&A expense and higher profit contribution from associate companies increased operating income, which inched up 2.8% YoY to SAR 439.3mn. Together with these factors, lower finance charges and zakat expense in 3Q20 led to a 28.0% rise in net income to SAR 283.7mn. Consequently, net profit margin expanded to 6.2% from 4.3% in 3Q19.

Savola recorded a decline in top line during the quarter owing to lower revenue contribution from the Retail and Food Processing segments. The stocking up of products before the application of new VAT rate hurt Retail revenue in 3Q20, whereas lower oil and sugar volumes impacted Food Processing revenue. However, Frozen Food's revenue increased 27.5% YoY to SAR 181mn as consumers opted for in-house dining and preferred longer life products. Despite the unfavorable economic conditions, Savola managed to record a 2.1% YoY surge in revenue to SAR 16.5bn and 156.0% YoY rise in net income to SAR 866.1mn in 9M20. This was largely due to the turnaround in Retail segment performance, as the company realized a net profit of SAR 284mn in 3Q20 as against the net profit of SAR 222mn in 3Q19. The company managed to pare its debt during the quarter and lower its debt-to-equity ratio to 1.2x from 1.5x in 3Q19. However, Savola faces several headwinds in the form of higher VAT and the subsequently expected reduction in consumer spending. Moreover, weaker demand for oil and sugar products remains a concern for the company. Considering these factors, we maintain a "Neutral" rating on the stock.

- Revenue decreased 10.9% to SAR 4.6bn in 3Q20, primarily due to a 1.3% YoY and 24.3% YoY drop in the performance of the Retail and Food Processing segments, respectively. Retail accounted for 55.1% of total revenue in 3Q20 as against 49.7% in 3Q19.
- Gross profit (down 1.8% YoY to SAR 1.1bn) fell at a slower pace compared to top line owing to a 13.3% YoY drop in cost of sales to SAR 3.5bn. As a result, gross profit margin widened to 23.2% in 3Q20 from 21.1% in 3Q19.
- Lower SG&A expense and a higher share of profit from associates led to a 2.8% YoY rise in operating profit to SAR 439.3mn. In consequence, operating profit margin expanded to 9.6% in 3Q20 from 8.3% in 3Q19.
- In addition to the factors mentioned above, lower net finance cost, zakat expense and income attributable to minority shareholders supported Savola's net income, which soared 28.0% YoY to SAR 283.7mn. Consequently, net profit margin widened to 6.2% from 4.3% in 3Q19.
- On September 14, Savola completed the buyback of 341,675 shares worth SAR 16.51mn at a price of SAR 48.32 per share under the first tranche of its Employees Long-Term Incentive Program.
- On October 28, Savola announced the appointment of Waleed Khalid Fatani as CEO of the group, effective January 21, 2021, following the resignation of Anees Ahmed Moumina.

Valuation: We revise our target price to a fair value of SAR 44.0 per share and retain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	4,587	5,148	(10.9%)	22,317	22,243	0.3%
Gross Profit (SAR mn)	1,064	1,084	(1.8%)	4,820	4,538	6.2%
EBITDA (SAR mn)	725	724	0.2%	2,996	2,585	15.9%
Net Profit (SAR mn)	284	222	28.0%	1,065	476	123.9%
EPS Basic (SAR)	0.53	0.42	28.0%	1.99	0.89	123.9%
Gross Margin (%)	23.2%	21.1%	2.1%	21.6%	20.4%	1.2%
EBITDA Margin (%)	15.8%	14.1%	1.7%	13.4%	11.6%	1.8%
Net Profit Margin (%)	6.2%	4.3%	1.9%	4.8%	2.1%	2.6%

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.

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