



RESULT ANALYSIS

Weak results on lower sales & higher opex

Savola reported a weaker than expected set of Q4 20 results, with net income declining -67.4% yoy to SAR44.7mn. This is significantly lower than our estimates of SAR216mn. The variance is due to combination of lower than expected revenue (-0.9% yoy), and higher than expected opex. We note that Q4 19 revenues were restated downward to SAR5.23bn from SAR5.5bn. The company also announced a DPS of SAR0.75 for 2020f, broadly inline with our expectation of SAR0.8 and higher than SAR0.3 paid in 2019 which translates into a dividend yield of 1.9%.

- Revenues stood at SAR5.18bn in Q4 20 (-0.9% yoy, +13.0% qoq) and was lower than our estimates of SAR5.63bn. We note that revenue for Q4 19 was restated downwards to SAR5.23bn from SAR5.5bn. We believe the negative variance is due to lower sales volume of edible oil and sugar along with weaker than expected revenues of the retail segment (Panda). Although we expected the VAT hike to negatively impact Panda's revenues, we believe the impact is higher than our estimates.
- Gross margins contracted by -214bps yoy to 20.6%, but came in-line with our estimates of 20.5%. We believe the yoy contraction in margins is due to 1) higher commodity prices resulting in lower margins due to fixed Riyal profit strategy and 2) higher discounts in the retail segment. Gross profit stood at SAR1.0bn (-10.2% yoy, +0.5% qoq), lower than our estimates of SAR1.15bn.
- Operating income came in at SAR224.4mn (-28.2% yoy, -48.9% qoq) vs our estimates of SAR400.8mn. The variance increased due to higher than expected operating cost, which we estimate it at SAR958mn (c-2.2% yoy), but is significantly higher than our estimates of SAR881mn. We believe the company has booked an impairment loss in Q4 20, similar to Q4 19. Opex-to-sales is estimated at c18.5% in Q4 20 vs Q4 19 levels of 18.7% and our estimates of 15.6%. Non-operating expenses marginally increased by +2.6% yoy to SAR180mn and came in-line with our estimates of SAR185mn.
- We are Neutral on Savola with PT of SAR46.3. We believe progress in Panda's profitability remains a key long term growth driver, while the food segment is expected to remain under pressure in 2021f due to demand weakness. The stock trades at 2021f P/E of 24.4x.

Q4 20 Results Summary

SAR mn	Q4 20	Q4 19	%yoy	Q4 20f	%Var^	% qoq
Revenues	5,183	5,232*	(0.9)%	5,629	(7.9)%	13.0%
Gross income	1,070	1,191*	(10.2)%	1,155	(7.4)%	0.5%
Gross margin (%)	20.6%	22.8%	(214)bps	20.5%	11bps	(257)bps
Operating income	224.4	312.3	(28.2)%	400.8	(44.0)%	(48.9)%
EBIT margin (%)	4.3%	6.0%	(164)bps	7.1%	(279)bps	(525)bps
Net income	44.7	137.3	(67.4)%	215.9	(79.3)%	(84.2)%
Net margin (%)	0.9%	2.6%	(176)bps	3.8%	(297)bps	(532)bps
EPS (SR)	0.08	0.26	(67.4)%	0.40	(79.3)%	(84.2)%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts; *: Restated

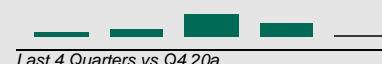
NEUTRAL

Price target (SAR) 46.3

Current price (SAR) 40.4

*PT last updated in June 2020

NET INCOME



Last 4 Quarters vs Q4 20a

STOCK DETAILS

M52-week range H/L (SAR)	54/30
Market cap (\$mn)	5,710
Shares outstanding (mn)	534
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(7.9)	(17.8)	17.3
Rel. to market	(8.4)	(25.0)	9.8

Avg daily turnover (mn)	SR	US\$
3m	27.9	7.4
12m	30.4	8.1

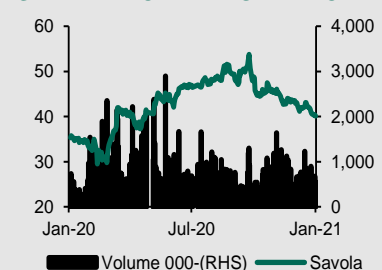
Reuters code	2050.SE
Bloomberg code	SAVOLA AB
	www.savola.com

VALUATION MULTIPLES

	19a	20f	21f
P/E (x)	45.3	23.6*	24.4
P/B (x)	2.8	2.6*	2.5
EV/EBITDA (x)	13.0	12.0	10.9
Div Yield (%)	0.7	1.9*	2.5

Source: NCBC Research estimates; *:Actuals

SHARE PRICE PERFORMANCE



Source: Tadawul

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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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