

## SAVOLA

الأهلي كابيتال  
NCB Capital

## EVENT FLASH

## Lower Opex and FX losses lead to strong adj. earnings

Savola reported a strong set of 3Q17 results, with an adjusted net income declining -26.1% YoY to SR135mn. This compares to the NCBC estimates of a net loss of SR112mn. We believe the YoY declines came as a result of lower sales and margins while the variance from our estimates came mainly from Opex efficiencies and lower financing expenses.

- **NCBC view on results:** Savola reported a strong 3Q17 net income of SR829mn, increasing +361% YoY. This is higher than the NCBC and consensus estimates of SR582mn and SR756mn, respectively. Adjusting for the one-off capital gains of SR694mn from selling its 2% stake in Almarai, adj. net income decreased -26.1% YoY to SR135mn vs the NCBC estimates of a loss of SR112mn. We believe the higher than expected earnings came mainly as a result of lower than expected Opex and financial charges.
- Savola's sales declined -8.1% YoY to SR5.7bn, coming in-line with our estimates. We believe the decline was mainly due to the weakness in Panda sales, as a result of negative LFL and a declining basket size. We expected the sales of Panda to decline -12% YoY to SR2.8bn. We believe the food segment sales were broadly flat YoY, due to the 1) increasing competition in the Iranian market and 2) -1.0% YoY decline in Herfy's revenues. Herfy's financials were consolidated with Savola due to the IFRS conversion.
- Gross margins contracted -80bps YoY to 18.3%, coming broadly in-line with our estimates of 19.1%. We believe this weakness is largely due to lower margins of the retail segment to maintain Panda's market share. Moreover, we believe the promotional mix was higher than the 2015 and 2016 levels of 36% and 43%, respectively, due to the summer vacation season.
- Opex declined -8.1% YoY to SR762mn, below our estimates of SR909mn and SR828mn in 3Q16. Opex-to-sales ratio stood at 13.4% vs. our estimates of 15.9%. We believe Opex efficiencies and lower expenses led to the variance. Other expenses declined -15.3% YoY to SR145mn, coming below our estimates of SR175mn. We believe this is due to lower financing expenses, from lower FX losses at the United Sugar Company Egypt.
- We are Overweight on Savola with a PT of SR47.0. The continuous weakness in retail sales and margins is a cause of concern. However, the restructuring plans and Opex efficiencies achieved are a key positive from the results. Savola trades at a 2018E P/E of 14.5x vs sector at 23.0x.

## 3Q17 Results Summary

SR mn	3Q17A	3Q16A	% YoY	3Q17E	%Var^	% QoQ
Revenues	5,700	6,200	(8.1)%	5,718	(0.3)%	(15.1)%
Gross income	1,042	1,183	(11.9)%	972	7.2%	(8.6)%
Gross margin (%)	18.3%	19.1%	(80)bps	17.0%	128bps	129bps
EBIT	280	354	(20.9)%	63	345.5%	(4.2)%
Net income	829	180	361.8%	582	42.3%	261.5%
Adj. net income	135	183	(26.1)%	(112)	NM	(16.3)%
Adj. EPS (SR)	0.25	0.34	(26.1)%	(0.21)	NM	(16.3)%

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

Please refer to the last page for important disclaimer

## OVERWEIGHT

Target price (SR)	47.0
Current price (SR)	39.5
Upside/Downside (%)	19.0

## STOCK DETAILS

M52-week range H/L (SR)	50/31
Market cap (\$mn)	5,631
Shares outstanding (mn)	534
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(13.2)	(7.7)	27.6
Rel. to market	(9.5)	(5.9)	11.5

Avg. daily turnover (mn)	SR	US\$
3M	14.5	3.9
12M	17.4	4.7

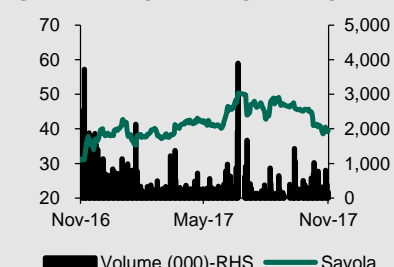
Reuters code	2050.SE
Bloomberg code	SAVOLA AB
	www.savola.com

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	NM	21.0	14.5
P/B (x)	2.0	1.8	1.7
EV/EBITDA (x)	13.9	12.6	10.5
Div Yield (%)	1.9	2.5	5.1

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635  
m.tomalieh@ncbc.com

Kindly send all mailing list requests to [research@ncbc.com](mailto:research@ncbc.com)

**NCBC Research website**

<http://research.ncbc.com>

**Brokerage website**

[www.alahlitadawul.com](http://www.alahlitadawul.com)  
[www.alahlibrokerage.com](http://www.alahlibrokerage.com)

**Corporate website**

[www.ncbc.com](http://www.ncbc.com)

---

**NCBC Investment Ratings**

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

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

**Important information**

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.