

US\$2.05bn Market Cap. 85.25% Free Float US\$8.54mn Avg. Daily Value traded

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Savola Group

Neutral

Price Target (SAR): 28.0

Current : (28th May 2025) 25.6
Upside/Downside: 9.4% above current

Valuation Multiples	24A	25E	26E
P/E (x)**	8.8	13.3	12.6
EV/EBITDA (x)	4.6	5.0	4.8

Major Shareholders % Ownership

Assila Investments Company	11.24%
Abdulkadir Al-Muhaidib & Sons Co.	8.32%
Mohammed Abdullah Al-Rabiah & Partners Company	8.22%
Al Muhaidib Holding Company	6.36%

Price Performance	1M	3M	YTD
Absolute	-19.2%	-28.0%	-30.2%
Relative to TASI	-13.0%	-19.2%	-22.1%

Financial Summary

(SAR Mn)	2024	2025E	2026E	2027E
Revenue	23,987	26,893	27,534	28,114
Revenue growth	-10.6%	12.1%	2.4%	2.1%
Gross profit	4,957	5,380	5,538	5,694
Gross margin	20.7%	20.0%	20.1%	20.3%
EBITDA	2,610	2,418	2,478	2,501
EBITDA margin	10.9%	9.0%	9.0%	8.9%
Adj. NI to Shareholder	873	576	610	638
Adj. Net margin	3.6%	2.1%	2.2%	2.3%
Adj. EPS	2.91	1.92	2.03	2.13
DPS	0.00	0.86	0.92	0.96
Payout ratio	0.0%	45.0%	45.0%	45.0%
P/E**	8.8x	13.3x	12.6x	12.0x
ROE*	11.6%	10.0%	10.0%	9.8%

Source: Company data, Al Rajhi Capital. *ROE=Adj. Earnings/Avg. Equity, **P/E: CMP/Adj. EPS

Neutral Maintained

- We update our investment case for Savola with a Neutral rating and a fair value of SAR28/sh, having an upside of 9.4% to the last close
- Our investment thesis is premised on expectation of 34.0% YoY decline in the company's earnings during 2025 (due to divestment of Almarai shares) and single-digit earnings growth in the medium-term
- We expect the margins for Savola foods to remain range bound on the back of 1) influx of lower-tier brands, 2) introduction of private label by retailers, and 3) pressure on consumer purchasing power
- While the net finance cost of the company is expected to reduce from SAR1bn last year to SAR0.5bn in 2025 (on account of debt repayments financed through 1) right issue, and 2) proceeds from sale of assets), going forward net finance cost is expected to remain relatively sticky (not decline significantly)

Investment Thesis: Our Neutral rating on Savola is based on the following:

- Margins for Savola foods (largely commodity-based business that account for around 50% of the company's topline) is expected to remain range bound on the back of 1) influx of lower-tier brands, 2) introduction of private label by retailers, and 3) pressure on consumer purchasing power
- The gross margin for the oil segment of Savola foods (oil segment accounts for ~30% of the company's topline) is expected to gradually decline from its current levels (of ~SAR900/ton) as the management plans to increase its presence in the relatively low margin BTB segment (However, this should be supplemented by lower marketing expense associated with the BTB channel, partially negating the impact of lower gross margins)
- While the net finance cost of the company is expected to reduce from SAR1bn last year to SAR0.5bn in 2025 (on account of debt repayments financed through 1) right issue, and 2) proceeds from sale of assets), going forward net finance cost is expected to remain relatively sticky (not decline significantly)
- However, Panda's ongoing CXR program which has strengthened the gross margins of the grocery retailer by around 300bps from its low (and by around 150bps from pre-COVID levels) is expected to continue its positive contribution towards Savola's profitability. However, given the intensity of competition within the grocery retailers in KSA we remain cautious about the ability of the company to significantly improve its gross margins in the medium-term.

2025/2026 Expectations & Assumptions: On the back of above highlighted factors Savola's earnings is expected to grow by single-digits in the medium-term.

- In 2025 earnings are expected to decline by 34.0% since the positive impact of decline in net finance cost is not expected to net-off the impact of absence of share of profit from Almarai.
- In 2026, the positive impact of Panda's CXR program (CXR program is expected to be rolled-out in an additional 25 stores in 2025) is expected to deliver a 6.0% YoY growth in company's earnings.

Recommendation and Valuation:

We value the company using the discounted cashflow method, using a cost of equity of 10.5% and terminal growth rate of 2.0%, to arrive at our fair value of SAR28/sh. Our fair value offers an upside of 9.4% to the current market price and hence we maintain a Neutral rating on the stock. Our investment thesis is premised on expectation of 34.0% YoY decline in the company's earnings during 2025 and single-digit earnings growth in the medium-term.

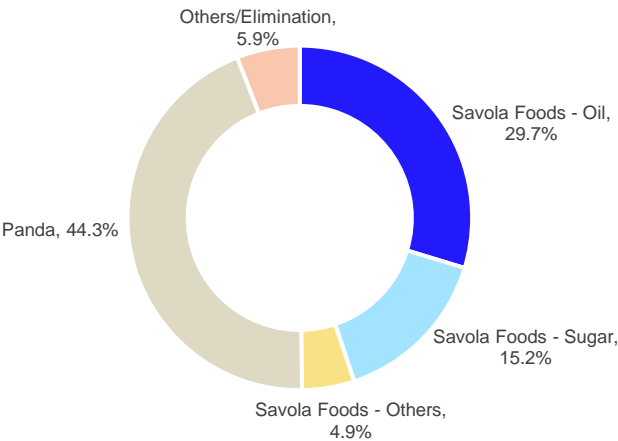
Figure 1 Valuation

DCF Valuation

DCF Valuation	SAR/sh	28.0
CMP	SAR/sh	25.6
Upside/(Downside)	%	9.4%
Dividend yield	%	3.4%
Total returns	%	12.7%

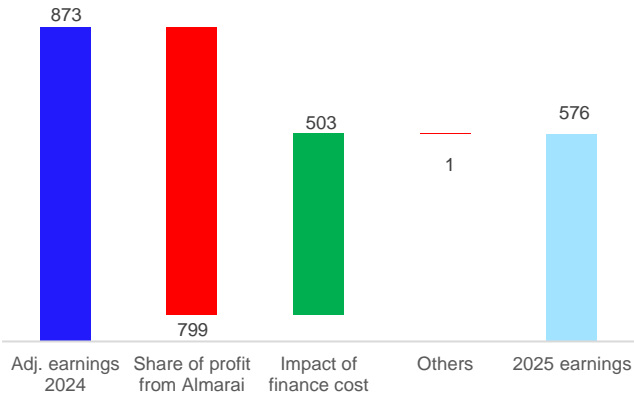
Source: Company Data, Al Rajhi Capital estimates

Figure 2 Topline Contribution (as of 2024)



Source: Company data, Al Rajhi Capital.

Figure 3 Net Income Bridge of Savola (SAR Mn)



Source: Company data, Al Rajhi Capital.

Financials

Figure 4 Income Statement

SAR Mn	2023	2024	2025E	2026E	2027E
Revenue	26,818	23,987	26,893	27,534	28,114
<i>y-o-y growth</i>	-4.4%	-10.6%	12.1%	2.4%	2.1%
Cost of Sales	21,375	19,030	21,513	21,995	22,420
Gross Profit	5,443	4,957	5,380	5,538	5,694
<i>y-o-y growth</i>	11.7%	-8.9%	8.5%	2.9%	2.8%
<i>margins</i>	20.3%	20.7%	20.0%	20.1%	20.3%
Operating Profit	2,331	1,455	1,306	1,352	1,376
<i>y-o-y growth</i>	39.8%	-37.6%	-10.2%	3.5%	1.8%
<i>margins</i>	8.7%	6.1%	4.9%	4.9%	4.9%
Net Income to Shareholders	899	9,974	576	610	638
<i>y-o-y growth</i>	21.1%	NM*	NM	6.0%	4.5%
<i>margins</i>	3.4%	41.6%	2.1%	2.2%	2.3%
EPS	3.00	33.25	1.92	2.03	2.13
Adj. Net Income to Shareholders	912	873	576	610	638
<i>y-o-y growth</i>	-	-4.3%	-34.0%	6.0%	4.5%
<i>Adj. margins</i>	3.4%	3.6%	2.1%	2.2%	2.3%
Adj. EPS	3.04	2.91	1.92	2.03	2.13

Source: Company Data, Al Rajhi Capital estimates. *Net income includes non-cash gain from distribution of Almarai shares

Figure 5 **Balance Sheet**

SAR Mn	2023	2024	2025E	2026E	2027E
Cash and Term deposit	1,952	2,782	1,817	1,869	1,859
Receivables & others	3,320	3,595	3,942	4,149	4,236
Inventories	4,252	4,171	3,970	4,218	4,300
Others	23	238	181	181	181
Current Assets	9,546	10,786	9,910	10,417	10,577
PPE & Intangible assets	7,725	6,838	7,002	7,117	7,174
Right-of-use assets	3,040	3,058	3,074	3,013	2,953
Investment property	193	152	151	151	151
Equity-accounted investments	9,309	409	420	420	420
Investments	98	108	94	94	94
Others	51	43	45	45	45
Total Assets	29,963	21,394	20,694	21,255	21,412
Loans and borrowings	3,888	3,374	2,500	2,500	2,250
Lease liabilities	430	426	471	467	460
Trade payables	3,508	3,679	3,686	3,917	3,993
Others	3,504	4,110	3,933	3,933	3,933
Current Liability	11,329	11,590	10,591	10,817	10,636
Long-term loan	4,700	29	-	-	-
Lease liabilities	3,093	3,167	3,155	3,123	3,076
Others	1,306	1,029	1,032	1,032	1,032
Total Liability	20,428	15,815	14,779	14,972	14,745
Share Capital	5,340	3,000	3,000	3,000	3,000
Share premium	343	343	343	343	343
Retained earnings	4,143	2,807	3,154	3,522	3,906
Reserves & Forex & Others	(292)	(571)	(582)	(582)	(582)
Total shareholders' equity	9,535	5,579	5,915	6,283	6,668
Total Liabilities & Equity	29,963	21,394	20,694	21,255	21,412

Source: Company Data, Al Rajhi Capital estimates

Figure 6 **Ratios and Multiples**

	2023	2024	2025E	2026E	2027E
ROE*	9.7%	11.6%	10.0%	10.0%	9.8%
(Debt+Lease)/EBITDA (x)	3.5	2.7	2.5	2.5	2.3
P/E (x)**	8.4	8.8	13.3	12.6	12.0
D/Y	0.0%	0.0%	3.4%	3.6%	3.7%
EV/EBITDA (x)	5.2	4.6	5.0	4.8	4.6

Source: Company Data, Al Rajhi Capital estimates. *ROE=Adj. Earnings/Avg. Equity, **P/E: CMP/Adj. EPS

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