

US\$7.3bn Market Cap. 77.1% Free Float US\$18.2mn Avg. Daily Value traded

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## Savola Group

### Positives priced in

#### Neutral

#### Price Target (SAR): 52.0

Current: 51.00  
Upside/Downside: 2.0% above current

Valuation Multiples	23A	24E	25E
P/E (x)	30.3	25.3	22.1
EV/EBITDA (x)	10.8	10.6	10.3

#### Major Shareholders % Ownership

Asilah Investment Co.	11.24
Abdul Qadir Al Muhaidib & Sons Co.	8.23
Al Rabiah Abdullah Mohammed Abdullah	8.22
Al Muhaidib Holding Co.	6.36

Price Performance	1M	3M	YTD
Absolute	-6.8%	14.5%	36.2%
Relative to TASI	-3.6%	13.7%	33.8%

#### Earnings

SARmn	2023	2024E	2025E
Revenue	26,818	27,137	28,007
Revenue growth	-4.4%	1.2%	3.2%
Gross profit	5,443	5,456	5,730
Gross margin	20.3%	20.1%	20.5%
EBITDA	3,455	3,523	3,668
EBITDA margin	12.9%	13.0%	13.1%
Net profit	899	1,077	1,233
Net margin	3.4%	4.0%	4.4%
EPS	1.7	2.0	2.3
DPS	0.0	0.9	1.0
Payout ratio	0.0%	45.0%	45.0%
P/E	30.3x	25.3x	22.1x
RoE	11.4%	12.8%	13.5%

Source: Company data, Al Rajhi Capital.

We revise up our Fair Value of Savola from SAR40/sh to SAR52/sh, offering an upside of 2.0% to last close and change our stance on the stock to Neutral. The upward revision in our fair value is reflective of the combined impact of 1) removal of portfolio discount on our Fair Value of Almarai (SAR58/sh), and 2) incorporation of the turnaround at Panda. As against a topline CAGR of ~7% witnessed between 2020-2023 (largely on the back of increase in prices of edible oil and sugar), we expect Savola's topline to grow by ~3% between 2024-2027 with over 50% of this growth being contributed by Panda. Furthermore, in addition to the improved performance at Panda, gradual decline in interest rates should also bode well for the company. However, in our opinion, the above positives have already been incorporated in the current market price with the stock currently trading at a 2024 forward P/E of 25.3x and offering a dividend yield of 1.8%.

**Turnaround at Panda:** Panda has come a long way from the SAR587mn loss the retailer booked in 2021 (to a profit of SAR47mn realized in 2023) on the back of successful implementation of the company's Customer Experience Renewal (CXR) program. Since, its launch in 2022, 74 stores have been redesigned as part of the CXR program that resulted in better customer traffic and sales at these stores. Additionally, the management has recently announced plans to modernize/redesign 28 additional stores. Furthermore, the company plans to open 14 new stores in 2024. Hence, going forward Panda's performance is expected to continue to improve on the back of 1) the ongoing CXR program, and 2) store expansions. However, the company's management is targeting 2% to 3% net margin for its Panda business (Vs. ~5% current net margins of Bindawood & Al Othaim) which in-turn limits our optimism on the business.

**Topline CAGR & 1Q24 preview:** As against a topline CAGR of 7% witnessed between 2020-2023 (largely on the back of increase in prices of edible oil and sugar), we expect Savola's topline to grow by 3% between 2024-2027 with over 50% of the growth being contributed by Panda. For 1Q24, we expect the company's earnings to decline by 7.4% YoY on account of expectation of normalized gross margin/ton in edible oil (as against the historical high number SAR1,158/ton seen in 1Q23). However, despite booking a net reversal of SAR112mn in 4Q23, company's earnings is expected to grow by 60% QoQ as a result of higher sales at Panda (due to Ramadan effect).

#### Recommendation and Valuation:

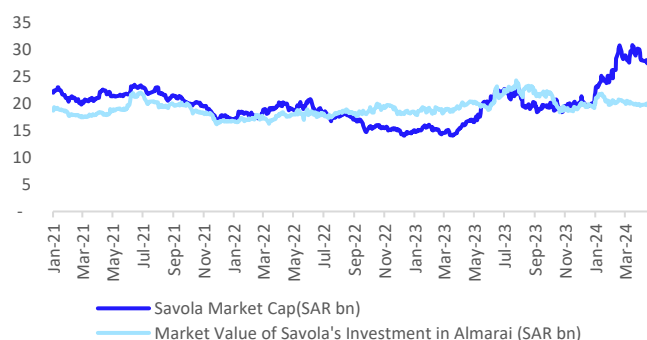
We have a Neutral stance on the stock with a Fair Value of SAR52 offering an upside of 2.0% to the last close. We value the core assets of the company apart from Almarai using Discounted cashflow-based valuation and target P/E multiple (For Almarai we use our Fair Value of SAR58/sh). For discounted cashflow, we use a cost of equity of 9% and a terminal growth rate of 2%. Additionally, our target P/E multiple of 25x takes into consideration the risk and return trade-off of the company.

Figure 1 Valuation table

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)
DCF Valuation	17	50.0%	8
P/E	13	50.0%	7
<b>Fair Value of Core Assets</b>			<b>15</b>
Contribution of Almarai to Fair Value			37
<b>Fair Value of Savola</b>			<b>52</b>
CMP			51
<b>Upside/(Downside)</b>			<b>2.0%</b>
Dividend yield			1.8%
<b>Total returns</b>			<b>3.7%</b>

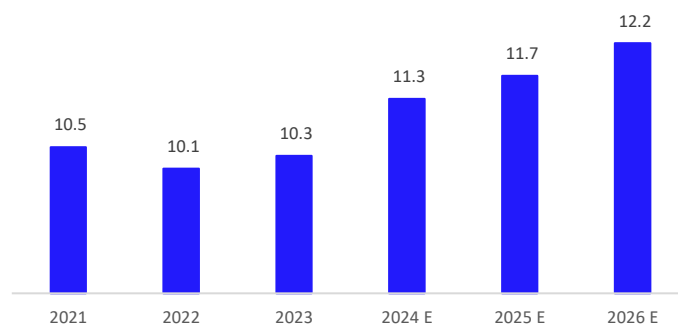
Source: Al Rajhi Capital estimates.

Figure 2 Savola Market Cap Vs. Market Value of Savola's Investment in Almarai (SAR bn)



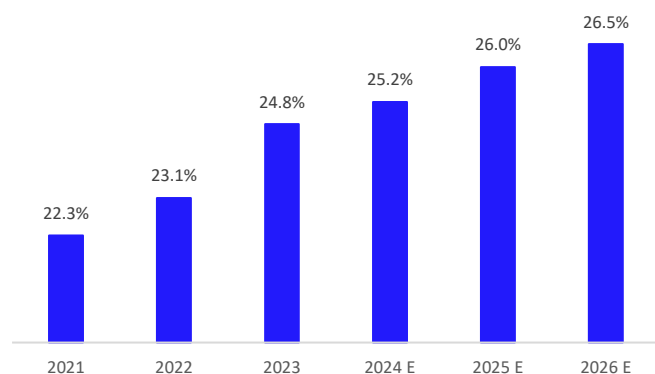
Source: Bloomberg. Al Rajhi Capital

Figure 3 Panda Gross Sales (SAR bn)



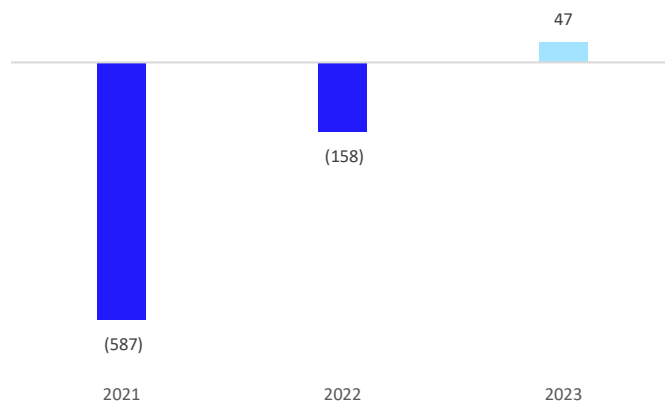
Source: Company data, Al Rajhi Capital.

Figure 4 Panda Gross margins



Source: Company data, Al Rajhi Capital.

Figure 5 Panda Net Income (SAR mn)



Source: Company data, Al Rajhi Capital.

## Financials

Figure 6 **Income Statement**

SAR mn	2023	2024E	2025E
<b>Revenue</b>	<b>26,818</b>	<b>27,137</b>	<b>28,007</b>
<i>y-o-y growth</i>	-4.4%	1.2%	3.2%
Cost of Sales	21,375	21,681	22,277
<b>Gross Profit</b>	<b>5,443</b>	<b>5,456</b>	<b>5,730</b>
<i>y-o-y growth</i>	11.7%	0.2%	5.0%
<i>margins</i>	20.3%	20.1%	20.5%
<b>Operating Profit</b>	<b>2,331</b>	<b>2,348</b>	<b>2,503</b>
<i>y-o-y growth</i>	39.8%	0.7%	6.6%
<i>margins</i>	8.7%	8.7%	8.9%
<b>Net Income*</b>	<b>899</b>	<b>1,077</b>	<b>1,233</b>
<i>y-o-y growth</i>	21.1%	19.8%	14.5%
<i>margins</i>	3.4%	4.0%	4.4%
EPS	1.7	2.0	2.3

Source: Company data, Al Rajhi Capital. \* Net Income attributable to shareholders

Figure 8 **Ratios and Multiples**

	2023	2024E	2025E
RoE	11.4%	12.8%	13.5%
Debt/EBITDA (x)	2.5	2.6	2.5
P/E (x)	30.3	25.3	22.1
D/Y	0.0%	1.8%	2.0%
EV/EBITDA (x)	10.8	10.6	10.3

Source: Company data, Al Rajhi Capital.

Figure 7 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash and Term deposit	1,952	2,240	1,759
Receivables & Prepayments	3,343	3,193	3,453
Inventories	4,236	4,175	4,577
Others	23	23	23
<b>Current Assets</b>	<b>9,554</b>	<b>9,631</b>	<b>9,812</b>
PPE & Intangible assets	7,723	7,936	8,133
Right-of-use assets	3,040	2,779	2,514
Investment property	193	207	221
Equity-accounted investments	9,309	10,110	11,000
Investments at fair value	98	98	98
Others	51	51	51
<b>Total Assets</b>	<b>29,968</b>	<b>30,811</b>	<b>31,829</b>
Loans and borrowings	3,935	4,000	4,000
Lease liabilities	422	507	477
Trade payables	3,505	3,340	3,662
Others	3,468	3,468	3,468
<b>Current Liability</b>	<b>11,331</b>	<b>11,316</b>	<b>11,608</b>
Long-term loan	4,700	5,000	5,000
Lease liabilities	3,098	2,874	2,704
Others	1,306	1,306	1,306
<b>Total Liability</b>	<b>20,435</b>	<b>20,496</b>	<b>20,618</b>
Share Capital	5,340	5,340	5,340
Share premium	343	343	343
Retained earnings	4,143	4,926	5,822
Reserves & Others	(293)	(293)	(293)
<b>Total Equity</b>	<b>9,533</b>	<b>10,315</b>	<b>11,211</b>

Source: Company data, Al Rajhi Capital.

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