

US\$7.8bn Market Cap. 85.4% Free Float US\$10.4mn Avg. Daily Value traded

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# Savola Group

## Maintaining a Neutral Rating

### Neutral

#### Price Target (SAR): 30.0

Adjusted market price of Savola: 27.78  
Upside: 8.0% above adjusted market price

Valuation Multiples	23A	24E	25E
P/E (x)**	-	-	14.5

Major Shareholders	% Ownership
Assila Investments Co.	11.24
Abdulkadir Al Muhaidib & Sons Co.	8.32
Mr. Abdullah M.A. Al Rabiah	8.22
Al Muhaidib Holding Co.	6.36

Price Performance	1M	3M	YTD
Absolute	5.1%	-9.3%	18.2%
Relative to TASI	2.4%	-10.9%	16.7%

### Earnings

SARmn	2023	2024E	2025E
Revenue	26,818	25,535	26,715
Revenue growth	-4.4%	-4.8%	4.6%
Gross profit	5,443	5,341	5,401
Gross margin	20.3%	20.9%	20.2%
EBITDA	3,455	3,176	2,457
EBITDA margin	12.9%	12.4%	9.2%
Net Income*	899	12,297	576
Net margin	3.4%	48.2%	2.2%
EPS	3.0	41.0	1.9
DPS	0.0	0.0	0.9
Payout ratio	0.0%	0.0%	45.0%
P/E (x)**	-	-	14.5x
ROE*	9.5%	147.9%	7.9%

Source: Company data, Al Rajhi Capital. \*Net income and ROE for 2024E includes capital gain from divestment of Almarai shares. \*\* Using adjusted market price and EPS other than Almarai

We update our investment case for Savola post recent approval by the company's Extraordinary General Assembly Meeting (EGM) to distribute the entire shareholding of Almarai shares and to reduce Savola's capital. We continue to maintain a Neutral rating on the stock (post the above transaction) with a fair value of SAR 30.0/sh. Our fair value implies a 2025 forward P/E multiple of 15.6x and offers an upside of 8.0% to the adjusted market price of SAR 27.78/sh (adjusted for the distribution of Almarai shares at the closing price of 12 December 2024). Our fair value and implied P/E multiple is reflective of 1) largely commodity based business whereby oil/sugar accounts for around 50% of the company's topline, 2) expectation of low single digit growth in the company's revenue/EBITDA of 2.6%/3.9% between 2025-28, and 3) concerns about the future profitability of Herfy. However, we remain optimistic about the ongoing CXR program at Panda and believe our valuation incorporates this positive.

**Commodity business with a low single digit growth:** Around 50% of Savola's topline comes from sugar /edible oil sales. In most of the markets in which it operates, Savola imports raw sugar (which is mostly sourced from Brazil or South Africa) and raw edible oil (palm oil is imported from Southeast Asia, corn oil from US, soy oil from Europe and South America, and sunflower is imported from Russia, Ukraine, and South America) which is later refined. As per our understanding, there is over-capacity for sugar and edible oil in almost all the markets and competition in this segment is fierce. Savola's sales volume in the sugar and edible oil segments has been on a declining trajectory since 2021 on account of market rationalization under-taken by the management and going forward, we expect sales volumes to remain relatively flattish. As a result, we expect overall revenue/EBITDA of the company to grow at a CAGR of 2.6%/3.9% between 2025-28 with around 70% of this sales growth being contributed by Panda.

**Panda positives priced-in:** Since the launch of Customer Experience Revival (CXR) program in 2022, Panda has made significant progress. The groceries retailer has seen a turnaround from a loss of SAR 587mn in 2021 to a profit of SAR 96mn in 9M24. Going forwards, we expect CXR program to positively contribute towards Panda's revenue growth and profitability on account of 1) higher store footfall, and 2) focus on higher margin fresh and consumer packaged goods. As a result, we expect Panda's sales to grow by around 4% between 2025-28 and its gross margins to improve by a further 100bps (after already improving by around 211bps since the start of the CXR program).

#### Recommendation and Valuation:

We have a Neutral stance on the stock with a fair value of SAR 30.0/sh, offering an upside of 8.0% to the adjusted market price of SAR 27.78/sh (adjusted for the distribution of Almarai shares). We value the company using discounted cashflow method, using a terminal WACC of 9.6% and a terminal growth rate of 2.0%. Our Neutral stance on the stock is reflective of 1) largely commodity-based business, 2) expectation of low single digit growth in the company's revenue/EBITDA, and 3) concerns about the future profitability of Herfy. However, we remain optimistic on the ongoing CXR program at Panda.

## Financials

Figure 1 **Income Statement**

SAR mn	2023	2024E	2025E
<b>Revenue</b>	<b>26,818</b>	<b>25,535</b>	<b>26,715</b>
<i>y-o-y growth</i>	-4.4%	-4.8%	4.6%
Cost of Sales	21,375	20,194	21,314
<b>Gross Profit</b>	<b>5,443</b>	<b>5,341</b>	<b>5,401</b>
<i>y-o-y growth</i>	11.7%	-1.9%	1.1%
<i>margins</i>	20.3%	20.9%	20.2%
<b>Operating Profit</b>	<b>2,331</b>	<b>2,048</b>	<b>1,333</b>
<i>y-o-y growth</i>	39.8%	-12.1%	-34.9%
<i>margins</i>	8.7%	8.0%	5.0%
<b>Net Income</b>	<b>899</b>	<b>11,927</b>	<b>576</b>
<i>margins</i>	3.4%	46.7%	2.2%
<b>Adjusted Net Income*</b>	<b>881</b>	<b>924</b>	<b>576</b>
<i>margins</i>	3.3%	3.6%	2.2%
EPS other than Almarai	0.6	0.6	1.9
Almarai	2.4	39.2	0.0
<b>EPS</b>	<b>3.0</b>	<b>39.8</b>	<b>1.9</b>
<b>Adjusted EPS*</b>	<b>2.9</b>	<b>3.1</b>	<b>1.9</b>

Source: Company data, Al Rajhi Capital. \* Adjusted for one-off gain

Figure 3 **Ratios and Multiples**

	2023	2024E	2025E
ROE*	9.5%	147.9%	7.9%
Debt/EBITDA (x)	3.5	1.4	1.5
P/E (x)**	-	-	14.5
D/Y	0.0%	0.0%	3.1%

Source: Company data, Al Rajhi Capital. \*ROE for 2024E includes capital gain from divestment of Almarai shares \*\* Using adjusted market price and EPS other than Almarai

Figure 2 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash and Term deposit	1,952	1,478	1,147
Receivables & Prepayments	3,320	3,433	3,660
Inventories	4,252	3,973	4,263
Others	23	17	17
<b>Current Assets</b>	<b>9,546</b>	<b>8,901</b>	<b>9,086</b>
PPE & Intangible assets	7,725	7,605	7,597
Right-of-use assets	3,040	2,902	2,761
Investment property	193	196	205
Equity-accounted investments	9,309	611	631
Investments at fair value	98	109	109
Others	51	66	66
<b>Total Assets</b>	<b>29,963</b>	<b>20,391</b>	<b>20,455</b>
Loans and borrowings	3,888	1,000	500
Lease liabilities	430	439	425
Trade payables	3,508	3,537	3,796
Others	3,504	4,092	4,092
<b>Current Liability</b>	<b>11,329</b>	<b>9,068</b>	<b>8,812</b>
Long-term loan	4,700	-	-
Lease liabilities	3,093	2,940	2,842
Others	1,306	1,293	1,293
<b>Total Liability</b>	<b>20,428</b>	<b>13,301</b>	<b>12,947</b>
<b>Total Equity</b>	<b>9,535</b>	<b>7,090</b>	<b>7,508</b>
<b>Total Liabilities &amp; Equity</b>	<b>29,963</b>	<b>20,391</b>	<b>20,455</b>

Source: Company data, Al Rajhi Capital.

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