

# Saudi Airlines Catering Co

Food Service – Industrial  
CATERING AB: Saudi Arabia  
11 November 2019

الراجحي المالية  
Al Rajhi Capital



**US\$1.907bn** Market cap  
**30%** Free float  
**US\$2.391mn** Avg. daily volume

Target price **91.00** 1.9% over current  
Current price **89.20** as at 11/11/2019

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## Existing rating

Underweight

**Neutral**

Overweight

## Performance



## Earnings

Period End (SAR)	12/18A	12/19E	12/20E
Revenue (mn)	2,035.8	2,121.7	2,244.7
Revenue Growth	4.3%	4.2%	5.8%
EBITDA	545.4	546.4	577.8
EBITDA Margin	26.8%	25.8%	25.7%
Net profit	459.3	463.9	495.6
Net profit growth	-4.7%	1.0%	6.8%
EPS	5.6	5.7	6.0
DPS	5.6	5.6	5.9
Payout ratio	99.1%	99.1%	97.3%
Dividend Yield	6.6%	6.7%	7.0%
P/E	15.5	15.3	14.5
EV/EBITDA	12.7	12.68	11.99

Source: Company data, Al Rajhi Capital

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## Q3: Meet Estimates; Remain Neutral

Saudi Catering net profit came in line with our estimates of SAR142mn (-0.4% y-o-y). The main reason for flattish net profit was increase in finance cost as a result of IFRS 16 implementation. Gross margins improved by 227bps mainly due to IFRS16 adjustment where lease rentals are reported below COGS. Top-line continues to benefit from the rise in the number of passengers and increasing tie-ups with airlines providing privileged business lounge benefits to their customers. However, in the short-term, we expect growth in revenue to remain moderate. Going forward we expect company's revenue mix to change and share of non-airline segment to improve to ~15% to the total revenue by 2020e (currently airline segment consists of ~90% of the total revenue while non-airline segment contributes ~10%). The company announced a dividend of SAR1.5/sh indicating (pay-out ratio of ~87% in Q3 2019) an attractive dividend yield of ~6.7% (Q3 2019 annualised). Going forward we believe that the company can maintain the current level of pay-out ratio and therefore looks attractive for an income seeking investors with any price increase coming as a bonus. We remain neutral on stock with a target price of SAR91/sh.

Figure 2 Saudi Airlines Catering Co: Summary of Q3 2019 results

SARmn	3Q19	2Q19	3Q18	% chg y-o-y	% chg q-o-q	ARC est.
Revenue	585.20	545	551	11%	-11%	647.2
Gross Profit	230.20	193	204	17%	1%	208
G. margin	39%	35.4%	37.0%	-2.33%	1.61%	32.1%
Op. profit	161.40	134	154	88%	21%	156
Op. margin	28%	24.61%	27.93%	0.35%	3.32%	24.10%
Net profit	142.00	117	143	39%	28%	143
Net margin	24%	21.51%	25.87%	1.60%	4.36%	22.10%

Source: Company data, Al Rajhi Capital (The company restated the revenue numbers for Q3 18 for IFRS15 hence not comparable with our estimates)

**Valuation:** We keep our target price same as earlier SAR91 per share. Our DCF based target price is SAR91.2 per share, assuming 10.65% WACC (no debt in capital structure) and 2.5% terminal growth. The P/E based relative valuation at 14x FY20 EPS yields a target price of SAR91.5 per share. The equal weighted target price stands at SAR91 per share, implying a 1.9% upside from current price. We remain Neutral on SACC.

**Upside Risks:** Better than expected recovery in overall economy will lift the consumer sentiments and spending towards travel and tourism. This will increase the passenger traffic at airport and the top-line might increase at a faster pace than our assumption.

**Downside Risks:** SACC's contract with Saudia airlines is up for renewal in 2020e, if the company is unable to renew the contract at favourable prices then the margins will fall down amidst rising cost of goods sold and will have a downside risk to our valuation.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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