

SAUDI GROUND SERVICES

الأهلي كابيتال
NCB Capital

EVENT FLASH

Weak result on lower sales and higher provisions

SGS reported a weaker than expected set of 2Q17 results, with net income declining -37.6% YoY (-21.2% QoQ) to SR122mn. This is significantly lower than the NCBC and consensus estimate of SR197.5mn and SR184mn, respectively. We believe provisions were the key reason behind the variance.

- Revenues stood at SR659mn in 2Q17, declining -4.8% YoY (+2.5% QoQ). This is -10.6% lower than our estimates of SR737.5mn. We believe the variance is due to 1) lower than expected number of flights, although Umrah activity was strong in 1H17 and 2) revised service charges following the contract revision with Saudia in April 2017. Based on our calculations, SGS serviced 81,824 flights during 2Q17, 5.8% lower than our estimate. We believe the average price/flight was at SR8,058 in 2Q17 vs. our estimate of SR8,493 and 1Q17 at SR8,119. In April 2017, SGS revised its service agreement with Saudi Airlines whereby basic service prices will remain unchanged, while optional service prices will be revised lower. This will reduce revenues by SR31mn, based on the 2016 figures.
- Gross margin stood at 37.4% in 2Q17. This is higher than our estimate of 35.1%, 34.6% in 1Q17 and 36.4% in 2Q16. We believe lower than expected flights were mitigated by better cost controls. We believe margin expansion is a key positive and will help support earnings growth in the coming quarters. In our initiation report published in March 2017, we estimated 2017E gross margin at 34.8% in 2017E vs 33.9% in 2016.
- EBIT stood at SR120mn in 2Q17 (-37.6% YoY), lower than our estimate of SR202mn, due to provisions and higher operating expenses. Opex stood at SR132.9mn in 2Q17 vs. our estimate of SR63.3mn. We believe this is due to higher provisions which could be related to other airlines excluding Saudia.
- Based on GACA, the total number of flights in Saudi was 165,300 in 2Q17 (+3.2% QoQ) with 21.8mn passengers traveling. If annualized, it reflects a flat growth YoY (+2.1% YoY).
- We remain Overweight on SGS with a price target of SR60.8. The stock is trading at 2018E P/E of 9.9x, lower than the peer average of 17.1x. Growth in Umrah and Hajj and an attractive dividend yield of 6.3% are key positives. However, slower than expected growth in the number of flights and the increasing receivables from Saudi Airlines are the key concerns. Moreover, we believe any on-going provisions on receivables may impact the company's ability to maintain higher dividends in the near term.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var^	% QoQ
Revenues	659	692	(4.8)	738	(10.6)	2.5
Gross income	247	252	(2.3)	259	(4.6)	10.7
Gross margin (%)	37.4%	36.4%	0.96	35.1%	2.34	2.77
Operating Profit	120	193	(37.6)	202	(40.4)	(19.4)
Net income	122	196	(37.6)	197	(38.1)	(21.2)
EPS (SR)	0.65	1.04	(37.6)	1.05	(38.1)	(21.2)

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

OVERWEIGHT

Target price (SR)	60.8
Current price (SR)	44.0
Upside/Downside (%)	38.2

STOCK DETAILS

M52-week range H/L (SR)	69/38
Market cap (\$mn)	2,205
Shares outstanding (mn)	188
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.5	(11.8)	(1.5)
Rel. to market	5.9	(12.8)	(14.4)

Avg daily turnover (mn)	SR	US\$
3M	10.6	2.8
12M	14.5	3.9

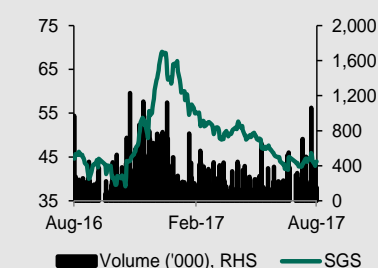
Reuters code	4031.SE
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	12.1	10.8	9.9
P/B (x)	2.7	2.5	2.3
EV/EBITDA (x)	9.4	8.1	7.2
Div. Yield (%)	5.9	6.3	6.3

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam

+966 12 690 7811
i.ghulam@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

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

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