

## ALTAYYAR TRAVEL GROUP

الأهلي كابيتال  
NCB Capital



This is an extract of our published report, the full version of which can be found on the [ncbc.com](http://ncbc.com) website

## INITIATING COVERAGE

## Attractive valuation, despite the risks

We initiate coverage on Altayyar with an Overweight rating and a PT of SR40.0 (34.3% upside). Exposure to the growth in religious tourism, together with the expansion in hotels segment and E-businesses are the key advantages. Although net income declined 28.9% YoY in 2016, it is expected to grow steadily by an average of 2.5% going forward. Altayyar is trading 2017E P/E of 7.3x, 50.6% lower than the peer group average of 14.4x, which is not justified as we believe the valuation fully discounts MoE contract expiry.

- Growth driven by religious tourism:** Based on NTP 2020, the Hajj and Umrah sector is a strategic sector that the government will support. It is planning to increase the number of Hajj and Umrah pilgrims by 39% and 150% by 2020E. This will help Altayyar to grow its Ticketing & Tourism segment (excluding MoE contract) and occupancy at its 6 hotels in Makkah and Jeddah, whilst capitalizing on its strong global presence with travel agencies in 38 countries. We expect Ticketing & Tourism as well as Transportation & Others segment (including hotels) to grow at CAGRs (2016-2020E) of 0.9% and 9.0%, respectively.
- Hotels, a growth driver:** Altayyar has 6 hotels in Makkah and Jeddah, with a total of 2,080 rooms, ranging from 5 stars to affordable accommodation. Three hotels are operational; Mövenpick in Jeddah (228 rooms), Masafi (192 rooms) and Beer Balela (547 rooms) in Makkah. Three additional hotels are expected to commence operations in 2017E. The Sheraton, in Makkah, is expected to operate in 1Q17, The Prince Majed Hotel in Jeddah will start operations in 4Q17, while Sheab Quresh in Makkah will commence operations in 1Q17. In 2017E, hotels revenue is expected to reach SR115mn and to grow by 76% in 2020E.
- Renewal of MoE contract is a concern:** Altayyar is the sole provider of travel services for the Saudi scholarship program. It accounts for c.30-40% of revenues in the last 5 years. In March 2017, the contract was extended for 4 months until June 2017 with no clarity about long term renewal. We expect Altayyar to be able to renew the contract. However, a decline in prices and volumes is expected. We expect the contract contribution/revenues to drop to 8.2% by 2020E.
- Attractive valuation, pricing-in all the risks:** We initiate coverage on Altayyar with an Overweight rating and a PT of SR40.0. In 2017E, we expect a net income of SR862mn, increasing 4.3% YoY. This reflects a P/E ratio of 7.3x, vs. the peer average of 14.4x. We believe the current valuation fully discounts the MoE contract, and the discount is not justified due to 1) Altayyar competitive advantage through its global reach and expertise and 2) the strong growth in hospitality and e-business segments.

## Summary Financials

SR mn	2015	2016	2017E	2018E	2019E	2020E
Revenues	8,631	8,041	8,163	8,358	8,412	8,545
Gross Income	1,800	1,489	1,442	1,490	1,521	1,531
Gross margin (%)	20.9%	18.5%	17.7%	17.8%	18.1%	17.9%
Operating Income	1,203	876	924	942	958	963
Net Income	1,162	826	862	881	897	909
Net margin (%)	13.5%	10.3%	10.6%	10.5%	10.7%	10.6%
EPS (SR)	5.54	3.94	4.11	4.20	4.28	4.34

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

## OVERWEIGHT

Target price (SR)	40.0
Current price (SR)	29.9
Upside/Downside (%)	34.3%

## STOCK DETAILS

52-week range H/L (SR)	45/24
Market cap (\$mn)	1,669
Shares outstanding (mn)	210
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(18.0)	(13.2)	(19.1)
Rel. to market	(14.1)	(8.7)	(25.6)

Avg daily turnover (mn)	SR	US\$
3M	90.3	24.1
12M	83.0	22.1

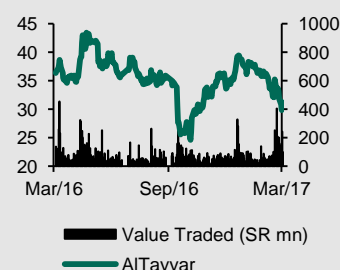
Reuters code	1810.SE
Bloomberg code	ALTAYYAR AB
	<a href="http://www.altayyargroup.com">www.altayyargroup.com</a>

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	7.6	7.3	7.1
P/B (x)	1.1	1.0	1.0
EV/EBITDA (x)	6.0	5.7	4.7
Div Yield (%)	0.0	5.0	8.4

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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## Investment Summary

### Investment View

- Altayyar is well positioned to capture the expected growth in religious tourism, capitalizing on its vertically integrated services which range from ticketing to hospitality.
- Diversified product mix across the travel and tourism industry. In addition to ticketing, Altayyar provides cargo, transportation and it owns and operates hotels in Makkah and Jeddah. It is also expanding its e-business segment through its Careem, Almosafer, Tajawal and Wadi platforms. This diversification will enable Altayyar to target different client segments and reduce its risks.
- The positive impact of the hotel segment is expected to start to be reflected in 2017E with the commercial operations of the Sheraton (422 rooms), Sheab Quresh and Prince Majed Road Hotel (491 and 200 rooms, respectively). The full year contribution in 2020E is expected to reach SR202mn.
- Altayyar has a wide travel agency network around the globe. It has a presence in 38 countries globally which we believe makes it the largest tourism company in the region. This large network is a key selling point for government entities and large corporates with the contract of the Ministry of Education (MoE) an endorsement of this strength. We believe this factor will continue to attract government and corporate clients going forward.
- Altayyar's balance sheet is strong with a cash balance of SR1.25bn and a low debt/equity ratio of 15.0%. A payout ratio of 36.5%, we believe, will enable the company to resume paying a dividend of SR1.5/share in 2017E, reflecting a dividend yield of 5.0%.

### Investment Risks

- The inability to renew MoE contract which represents around 32% of sales. The contract expired in February 2017 and was extended to the end of June 2017, with no clarity about the longer term renewal.
- Lower discretionary income to impact demand for travel following to the energy subsidy reforms and VAT taxes.
- Following to the economic slowdown in 2016, the receivables due to Altayyar increased substantially. The number of receivable days increased to 70 days in 2016 to reach SR1.54bn, the highest on record. With the government commitment to pay its receivables within 60 days, we expect this risk to be mitigated.

### Potential Catalysts

- Progress in Thakher project is a key long term growth driver.
- Commercial operations of three hotels in 2017E are short-term catalysts.
- Altayyar may sell some of the units in its Sheraton hotel. One-off gains might be reported and the proceeds might be invested in other Hajj and Umrah related investments.

MARCH 2017

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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

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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

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