

## SAUDI GROUND SERVICES

الأهلي كابيتال  
NCB Capital



## EVENT FLASH

## Sales weakness mitigated by higher other income

SGS reported a weaker than expected set of 1Q17 results with a net income of SR155mn. This is 8.0% lower than our estimates but broadly in-line with the consensus of SR147mn. Net income declined 19.3% YoY but grew 48.6% QoQ. We believe lower than expected results is due to lower flights activity, lower average prices and higher than expected operating expenses.

- SGS reported a weaker than expected results with a net income of SR155mn, 8.0% lower than our estimates. Net income declined 19.3% YoY (+48.6% QoQ). We believe the weak earnings is due to lower flights activity, lower average prices and higher than expected operating expenses.
- Revenue was SR643mn, down 6.1% YoY but increasing 5.9% QoQ. This is 7.4% lower than our estimates of SR694mn. We believe the variance is due to lower number of flights and a decline in average prices due to a change in the mix of airplane types. Based on our calculations, we believe SGS serviced 78,394 flights during 1Q17 which is 4.1% lower than our estimates. We believe the lower than expected number of flights is attributed to slower Umrah season activity. We estimate the average price/flight in 1Q17 at SR8,119 in 1Q17, vs. our estimate of SR8,490 and 2016 of SR7,918
- Gross margin stood at 34.6%, higher than our estimate of 33.4% and 4Q16 of 27.0%. However, it is lower than 1Q16 margins by 3.3%. This has reduced the variance at the gross profit line to only 4.1%. We believe lower than expected flights and prices were mitigated by better cost control.
- SG&A stood at SR80.1mn, significantly higher than our estimates of SR65.8. This was also higher than SR68mn in 4Q16 and SR60.9mn in 1Q16. Operating margin came in at 23.2% vs. our estimate of 24.9%.
- The variance at the net income level declined to 8.0% on higher than expected other income. We believe other income stood at SR14.6mn, compared to SR1mn in 1Q16 and SR14.1mn in 4Q16.
- Based on GACA, the number of flights was 159,987 with 21.2mn passengers in 1Q17. If annualized, it reflects a flat growth YoY vs. our estimates of 6.5% YoY growth in 2017. Moreover, Saudia announced a record-high passengers of 2.3mn in April 2017.
- We are overweight on SGS with a PT of SR60.8. The stock is trading at 2017E P/E of 12.0x, lower than the peer average of 14.3x. Growth in Umrah and Hajj and an attractive dividend yield of 5.6% are the stock key strengths.

## 1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	%Var^	% QoQ
Revenues	643	685	(6.1)	694	(7.4)	5.9
Gross income	223	257	(13.4)	232	(4.1)	36.1
Gross margin (%)	34.6%	37.5%	(2.89)	33.4%	1.18	7.68
Operating income	149	196	(23.8)	173	(13.7)	55.1
Net income	155	192	(19.3)	169	(8.0)	48.6
EPS (SR)	0.83	1.02	(19.3)	0.90	(8.0)	48.6

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

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## OVERWEIGHT

Target price (SR)	60.8
Current price (SR)	49.0
Upside/Downside (%)	24.2

## STOCK DETAILS

M52-week range H/L (SR)	69/38
Market cap (\$mn)	2,455
Shares outstanding (mn)	188
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.4)	(7.0)	(1.2)
Rel. to market	(3.6)	(6.5)	(5.5)

Avg daily turnover (mn)	SR	US\$
3M	9.6	2.6
12M	14.5	3.9

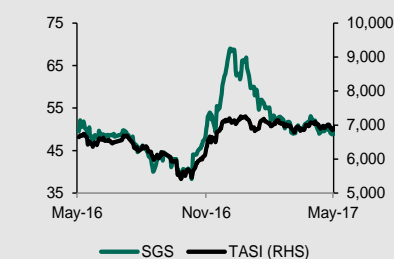
Reuters code	4031.SE
Bloomberg code	SGS AB
	www.saudiags.com

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	13.4	12.0	11.0
P/B (x)	3.0	2.8	2.6
EV/EBITDA (x)	10.6	9.2	8.2
Div. Yield (%)	5.3	5.6	5.6

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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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

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