



**Upgrade Seera to Overweight, with a revised TP of SAR 23.0/share on strong long term growth prospects led by boost in travel demand**

The Saudi tourism sector is experiencing significant resurgence aided by rising demand for travel and support from Saudi tourism policies. Seera witnessed a healthy expansion in its GBV (97% Y/Y in 9M-22) to SAR 6.8bn. Moreover, Lumi's potential IPO and establishment of REIT will act as other major growth drivers for Seera in the near future. Additionally, prospective investment by PIF amidst the government's spending plan on tourism will act as an important growth factor. The topline of the company is expected to grow at a 5-year CAGR of 17.3% during FY22E-FY26E. In our view, Seera is likely to continue materializing the boost in demand for travel. We upgrade our recommendation on Seera to "Overweight" with a revised TP of SAR 23.0/share.

Seera returned to profits in Q3-22; first quarterly profit post COVID supported by one time capital gain and reversal on impairment: Seera reported a net profit of SAR 54.0mn in Q3-22 (EPS: SAR 0.18) compared to the net loss of SAR 72.0mn in Q3-21. The company reported profit versus our estimate and consensus estimate of loss of SAR 26.9mn and SAR 24.6mn, respectively. The deviation was mainly due to the better-than-expected gross profit margin and operating profit margin. Additionally, the company also received deferred consideration on sale of Careem worth SAR 48.5mn and recorded a reversal on impairment of accounts receivable SAR 26.3mn which supported net profit in Q3-22. The company earned revenue of SAR 565.0mn in Q3-22 (+53.1% Y/Y, flat Q/Q), as the company successfully tapped on continuously rising demand for tourism, rebound in pilgrimage travel, renewed existing contracts, and onboarded new clients in corporate segment. The revenue in Q3-22 was broadly in line with our estimate of SAR 596.5mn. The group's gross booking value (GBV) increased by 93.0% Y/Y in Q3-22 to SAR 2.7bn given the rise in demand for travel and tourism. Seera's car rental business, Lumi's revenue increased by 35.0% Y/Y to SAR 188.0mn in Q3-22, driven by lease agreements serving private and public sector clients. Seera's travel segment, Almosafer's GBV increased 167.0% Y/Y to SAR 1.2bn in Q3-22 from SAR 0.5bn in Q3-21. Gross profit rose 34.4% Y/Y and 14.8% Q/Q to SAR 250.0mn, in line with our estimate of SAR 244.4mn. The company earned its first post-COVID operating profit of SAR 30.0mn in Q3-22 compared to loss of SAR 60.6mn in Q3-21. GP margin expanded by 598bps Q/Q to 44.2% in Q3-22 as compared to 38.3% in Q2-22 and was higher than our estimate of 41.0%.

Seera is expected to capitalize on travel demand; GBV to witness growth on back of rising demand for travel and tourism activities, consequently, GP margins are likely to improve: Going forward, 1) continued demand for inbound and outbound tourism 2) improvement in travel for corporate and business activities 3) higher pilgrim visits on account of removal of stringent restrictions and 4) strategies adopted by the Saudi government to boost tourism as the country aims to attract 100mn visitors by FY30E, are factors which will bode well for the company's topline growth. Seera group wide gross booking value (GBV) soared 97.0% to SAR 6.8bn in 9M-22 from SAR 3.4bn in 9M-21. The highest contribution to total GBV (67.9% in 9M-22) was from Seera's travel platform (includes Almosafer, Discover Saudi and Mawasim) followed by a 23.4% contribution from corporate ventures in 9M-22. Based on our estimates we expect the Tourism segment and Ticketing segment to grow at a 5-year CAGR of 27.7% and 13.1%, respectively. We forecast Seera to return to full year profit in FY23E and estimate the revenues to increase by 65.2% and 12.8% in FY22E and FY23E, respectively. GP margins are expected to expand from FY23E owing to support from topline. We forecast GP margins to reach 45.9% in FY23E and 48.8% in FY24E after dipping to 40.1% in FY22E.

<b>Recommendation</b>	<b>Overweight</b>
<b>Target Price (SAR)</b>	<b>23.0</b>
<b>Upside / (Downside)*</b>	<b>21.1%</b>

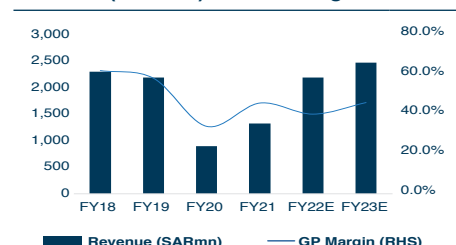
Source: Tadawul \*prices as of 30<sup>th</sup> November 2022

#### Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	904.6	1,327.9	2,194.1	2,474.9
Growth %	-58.7%	46.8%	65.2%	12.8%
Gross Profit	307.0	606.3	879.5	1,136.1
Net Profit	18.2	-376.4	-82.2	102.6
Growth %	-90.2%	NM	NM	NM
EPS	0.06	-1.25	-0.27	0.34

Source: Company reports, Aljazira Capital

#### Revenue (SAR mn) and GP Margin



Source: Aljazira Capital, Company reports

#### Key Ratios

	FY20	FY21	FY22E	FY23E
GP Margin	33.9%	45.7%	40.4%	44.8%
Net Margin	2.0%	-28.3%	-1.8%	4.3%
P/E (x)	High	NM	NM	High
P/B (x)	1.0	0.9	1.0	1.0
EV/EBITDA (x)	NM	High	22.4	13.3
Div Yield (%)	0.0%	0.0%	0.0%	0.0%

Source: Company reports, Aljazira Capital

#### Key Market Data

Market Cap (SAR bn)	5.7
YTD%	10.1%
52 weeks (High)/(Low)	15.1/22.3
Share Outstanding (mn)	300.0

Source: Company reports, Aljazira Capital

#### Price Performance



Source: Tadawul, Aljazira Capital

Head of Sell-Side Research

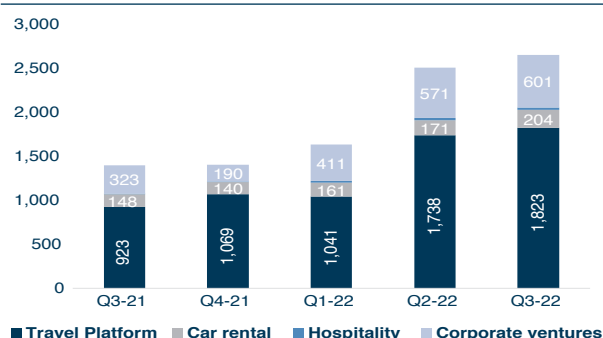
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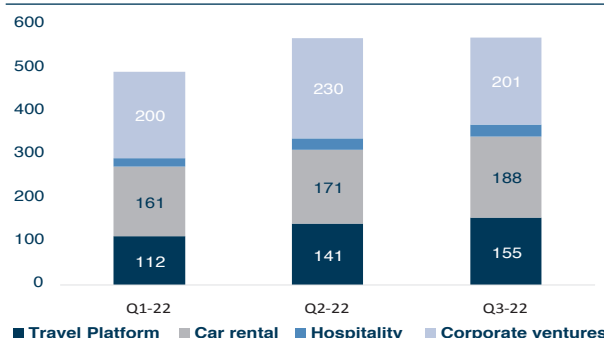
#### Travel platform's contribution to GBV is highest



Source: Company filings, AJC analysis

Travel platform's GBV increased 97.5% Y/Y to SAR 1.8bn in Q3-22 and remains the highest contributor to total GBV (68.7% as of Q3-22)

#### Topline witnesses an improving trajectory



Source: Company filings, AJC analysis

The travel business unit's revenue increased by 75% Y/Y to SAR 155mn. Combined revenue from corporate ventures represented 35.2% of total revenue as of Q3-22

**Lumi's prospective IPO a value unlocking opportunity for Seera; while PIF's potential investment to act as an important growth catalyst:** Seera completed a feasibility study to list its car rental business, Lumi. As of Q3-22, Lumi had a total fleet of 19,700 vehicles (65% lease fleet and 35% rental fleet) and its revenue in 9M-22 was SAR 525.0mn, an increase 39.6% Y/Y. As per the lease agreement, a fleet of c.12,000 is leased with residual contract value of SAR 465mn. We believe that the IPO, if successful, would help unlock value for Seera's shareholders. In order to estimate Lumi's valuation, we used an average EV/Car of the peer group (Budget and Theeb) at SAR 140.9K. This translates to SAR 2.8bn as Lumi's enterprise value.

PIF's potential investment of 30.0% in Almosafer for consideration of SAR 1.6bn (which includes earn out amount of SAR 386mn), if successful, will prove to be a catalyst for growth. The pre-money valuation for Almosafer is SAR 3.8bn, while we determine the post money valuation to be SAR 5.3bn. As part of this agreement, Seera will also restructure its business such that its travel and tourism businesses; Discover Saudi and Mawasim will come under Almosafer. The capital infusion would enable the company to ramp up domestic, international, religious, and inbound tourism operations. The company also established a REIT fund and contributed three of its real estate assets to the same. The company will receive 40% of the value of the three assets in cash and remaining 60% will be converted into tradable REITs units. Thus, we foresee that the company's strategy of converting these assets into tradable investments will not only help reduce the asset burden but will also boost the company's liquidity.

**AJC view and valuation:** Seera returned to profits in Q3-22 aided by improvement in revenue attributed to healthy demand for international and domestic tourism, further boosted by deferred consideration on sale of Careem and reversal on impairment of accounts receivable. Although the GP margin was not as high as the pre-COVID average (62%), cost control alongside enhancement of revenues would be key to support improvement in margins in MT. As of Q3-22, Seera's debt balance (loans and lease liabilities) stands at SAR 1.3bn while having a cash balance of SAR 304.0mn. The FCF yield for FY23E and FY24E is estimated at 6.3% and 9.4%, respectively. The group's investments in technology during Covid-19 and development of systems helped retain market position. The Saudi government is investing in its target to attract 100mn tourists a year by FY30E and expects the sector to contribute up to 15% of the GDP by FY30E. Moreover, the World Travel and Tourism Council has planned to invest USD 10.5bn (SAR 38.5bn) over the next five years in Saudi Arabia. We believe Seera is well positioned to capture these opportunities, given the government's ambitious plans to boost tourism. Our positive outlook on Seera is driven by current recovery in tourism and the government's support to boost inbound tourism, while outbound tourism is expected to continue witnessing demand from businesses as well as individuals.

We value Seera on 50.0% weight for DCF (2.5% terminal growth and 8.8% average WACC), and 50% weight for EV/EBITDA (12.5x FY23E). This yields a target price of SAR 23.0 per share, implying 21.1% upside from current levels. We upgrade our recommendation to **"Overweight"** on Seera with a revised TP of **SAR 23.0/share**.

#### Blended valuation summary

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	28.2	50%	14.1
Relative Valuation - EV/EBITDA	17.7	50%	8.8
<b>Weighted average 12-month price target</b>			<b>23.0</b>
<b>Current Price (SAR/share)</b>			<b>19.0</b>
<b>Expected Capital Gain</b>			<b>21.1%</b>



## Key Financial Table

Amount in SAR mn, unless otherwise specified	FY16	FY17	FY18	FY19	FY20F	FY21	FY22F	FY23F	FY24F	FY25F	FY26F
<b>Income statement</b>											
Revenues	2,144	2,107	2,301	2,190	905	1,328	2,194	2,475	2,677	2,826	2,946
Y/Y	NM	-1.7%	9.2%	-4.8%	-58.7%	46.8%	65.2%	12.8%	8.2%	5.6%	4.2%
Cost of Sales	(474)	(504)	(874)	(917)	(598)	(722)	(1,315)	(1,339)	(1,370)	(1,429)	(1,463)
Gross profit	1,671	1,603	1,427	1,273	307	606	879	1,136	1,307	1,397	1,483
Selling expenses	(276)	(333)	(374)	(411)	(318)	(336)	(386)	(393)	(398)	(400)	(392)
Administrative expenses	(400)	(495)	(473)	(511)	(510)	(553)	(588)	(581)	(579)	(585)	(589)
Other (expense)/income	(90)	33	33	(13)	(14)	(17)	13	14	15	16	18
Operating profit	905	808	613	339	(534)	(282)	(60)	176	345	429	519
Y/Y	-24.7%	-10.7%	-24.1%	-44.7%	-257.2%	-47.1%	-78.8%	-394.2%	95.8%	24.4%	21.0%
Net Financial cost	(1)	(35)	(54)	(67)	(45)	(53)	(65)	(70)	(59)	(59)	(58)
Profit before zakat	846	520	(58)	216	36	(326)	(66)	116	294	378	469
Zakat	(30)	(31)	(84)	(33)	(27)	(52)	(17)	(12)	(31)	(40)	(49)
Net income	814	497	(145)	186	18	(376)	(82)	103	259	334	414
Y/Y	-29.9%	-39.0%	-129.2%	-228.0%	-90.2%	-2170.1%	-78.2%	-224.8%	152.3%	28.8%	24.0%
<b>Balance sheet</b>											
<b>Assets</b>											
Cash & bank balance	1,250	981	264	350	249	318	571	548	452	706	781
Other current assets	2,110	2,352	2,477	2,013	1,891	1,613	2,076	2,275	2,407	2,495	2,593
Property & Equipment	1,290	3,384	3,373	3,695	3,423	3,524	3,497	3,460	3,400	3,311	3,215
Other non-current assets	4,726	2,646	1,879	2,220	2,242	2,433	2,435	2,437	2,437	2,434	2,426
Total assets	9,376	9,363	7,993	8,278	7,805	7,888	8,579	8,720	8,696	8,945	9,015
<b>Liabilities &amp; owners' equity</b>											
Total current liabilities	2,777	2,335	1,763	1,775	1,367	1,962	1,870	1,896	1,832	1,882	1,808
Total non-current liabilities	966	983	596	658	561	452	1,317	1,330	1,111	977	708
Paid -up capital	2,097	2,097	2,097	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Statutory reserves	618	629	629	451	453	453	445	455	481	514	556
Other reserve	689.1	715.3	691.7	645.8	665.4	651.8	651.8	651.8	651.8	651.8	651.8
Retained earnings	2,198	2,595	2,211	1,738	1,758	1,370	1,296	1,389	1,622	1,922	2,294
Total owners' equity	5,602	6,035	5,628	5,836	5,877	5,475	5,393	5,496	5,755	6,088	6,502
Non-controlling interest	32	9	7	9	0	(2)	(2)	(2)	(2)	(2)	(2)
Total equity & liabilities	9,376	9,363	7,993	8,278	7,805	7,888	8,579	8,720	8,696	8,945	9,015
<b>Cashflow statement</b>											
Operating activities	104	(93)	752	103	(233)	241	(48)	366	540	775	781
Investing activities	(457)	(373)	(699)	(409)	389	(322)	(326)	(340)	(339)	(329)	(343)
Financing activities	(374)	180	(787)	404	(253)	140	626	(49)	(297)	(192)	(363)
Change in cash	(727)	(287)	(734)	99	(97)	60	252	(22)	(96)	254	75
Ending cash balance	1,240	971	229	345	248	313	571	548	452	706	781
<b>Key fundamental ratios</b>											
<b>Liquidity ratios</b>											
Current ratio (x)	1.2	1.4	1.6	1.3	1.6	1.0	1.4	1.5	1.6	1.7	1.9
Quick ratio (x)	1.2	1.4	1.6	1.3	1.6	1.0	1.4	1.5	1.6	1.7	1.9
<b>Profitability ratios</b>											
GP Margin	77.9%	76.1%	62.0%	58.1%	33.9%	45.7%	40.1%	45.9%	48.8%	49.4%	50.3%
Operating Margins	42.2%	38.4%	26.7%	15.5%	-59.0%	-21.3%	-2.7%	7.1%	12.9%	15.2%	17.6%
EBITDA Margin	46.9%	44.3%	33.7%	25.8%	-26.8%	2.9%	12.1%	20.9%	26.2%	28.4%	30.3%
Net Margins	37.9%	23.6%	-6.3%	8.5%	2.0%	-28.3%	-3.7%	4.1%	9.7%	11.8%	14.0%
Return on assets	9.1%	5.3%	-1.7%	2.3%	0.2%	-4.8%	-1.0%	1.2%	3.0%	3.8%	4.6%
Return on equity	15.2%	8.2%	-2.4%	3.2%	0.3%	-6.9%	-1.6%	1.9%	4.5%	5.6%	6.4%
<b>Market/valuation ratios</b>											
EV/sales (x)	3.5	2.9	2.0	2.7	7.1	4.5	3.2	2.8	2.5	2.2	1.9
EV/EBITDA (x)	7.5	6.5	6.0	10.6	(26.5)	155.7	26.0	13.3	9.5	7.8	6.3
EPS (SAR)	3.88	2.37	(0.48)	0.62	0.06	(1.3)	(0.27)	0.34	0.86	1.11	1.42
BVPS (SAR)	26.9	28.8	18.8	19.5	19.6	18.2	18.0	18.3	19.2	20.3	22.3
Market price (SAR)*	36.7	27.0	14.0	21.9	19.0	17.3	19.0	19.0	19.0	19.0	19.0
Market-Cap (SAR mn)	7,685.8	5,664.7	4,193.0	5,070.0	5,694.0	5,178.0	5,700.0	5,700.0	5,700.0	5,700.0	5,527.3
Dividend yield	0.0%	0.0%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	9.4	11.4	NM	23.1	313.2	(13.8)	(69.4)	55.6	22.0	17.1	13.4
P/BV ratio (x)	1.4	0.9	0.7	0.7	1.0	0.9	1.1	1.0	1.0	0.9	0.9

Source: Company filings, AlJazira Capital Research



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RATING  
TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
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3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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