

Upgrading to Overweight with revised TP of SAR 21 on gradual revival in the travel sector; short-term challenges remain

We revise our TP for Seera to **SAR 21.0/share**. Although the company faces ST challenges due to the pandemic-related travel restrictions, we are positive about its LT prospects owing to rebound in the travel and tourism industry post the pandemic. With the availability of vaccines, the demand for this sector is expected to recover gradually, benefiting Seera. We upgrade our rating on Seera to **“Overweight”** from “Neutral”.

- COVID-19 pandemic adversely impacted business in FY20; exit from Careem provided timely liquidity: The company’s Gross Book Value (GBV) dropped by 64% to SAR 3.9bn in FY20 from SAR 10.8bn in FY19. The company’s exit from Careem provided the liquidity to maintain a strong balance sheet. Seera posted FY20 revenue of SAR 904.6mn (-58.7% Y/Y) and net income of SAR 18.2mn (-90.2% Y/Y). The results included a one-time pre-tax gain of SAR 1.57bn from the Careem stake sale and impairment charges of SAR 955.6mn. With travel restrictions still in place, the company would face ST challenges.
- Car rental business performed well in FY20; focus in FY21 likely on domestic travel and development of online platforms: In a tough year, Seera’s car rental business (Lumi) was the lone shining light, as its GBV increased by 27% to SAR 434mn in FY20 from SAR 343mn in FY19. Lumi mitigated the revenue decline, as it provided operating lease services to government and corporate sectors by delivering over 3,000 new vehicles in FY20. Seera plans to establish a used car marketplace in FY21 and FY22 to expand its mobile workshop by developing a dedicated app. It continues to transform into an omnichannel service provider from an online travel agency, the latest initiative being the launch of WhatsApp channel. As international travel restrictions are still in place, the company plans to focus on domestic tourism to grow its revenue.
- Uncertain near-term outlook due to multiple factors likely to be overcome via cost-saving initiatives: Although vaccination drives have commenced globally, the programs face logistical challenges. Moreover, the long-term effectiveness of the vaccines is not yet established. Several countries are witnessing second wave of infection, which is impacting the overall travel demand. These factors make the near-term outlook uncertain. Seera has implemented several policies to mitigate the current situation, including lowering operating expenses and reviewing budgets allocated to each segment.

AJC view and valuation: The travel industry in Saudi Arabia has favorable growth prospects in the LT due to improving employment rates driven by Saudization. However, the pandemic has severely impacted the travel and hospitality industry, in which Seera operates. If the company can successfully navigate through ST challenges, it would be able to boost its market share and capitalize on the growth opportunity. We have a positive outlook toward Seera from a LT perspective. However, we think few unknown variables would impact Seera in the near-term, such as opening up of international travel, effectiveness of vaccines and potential further waves of infection. While we are cautious from a ST perspective, the current price level provides an opportunity to invest in a stock that would perform well once the situation stabilizes.

We value Seera on 50% weight for DCF (3.0% terminal growth and 9.7% average WACC), and 50% weight for EV/EBITDA (12.1x FY22 EBITDA) based relative valuation. These yield a target price of SAR 21.0 per share, implying 9.4% upside from the current levels. The stock is currently trading at a P/E of 28.5x as per our FY22 EPS. We revise our recommendation to **“Overweight”** from “Neutral” rating on Seera with a positive outlook from a LT perspective and a revised TP of **SAR 21.0/share**.

Overweight

Target Price (SAR) 21.0

Upside / (Downside)* 9.4%

Source: Tadawul *prices as of 25th of April 2021

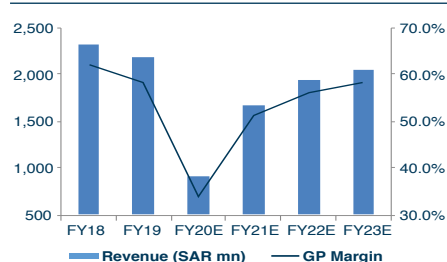
Key Financials

SARmn (unless specified)	FY20	FY21E	FY22E
Revenue	904.6	1,662.0	1,937.5
Growth %	-58.7%	83.7%	16.6%
Gross Profit	307.0	851.3	1,086.9
Net Profit	18.2	252.6	203.6
Growth %	-90.2%	NM	-19.4%
EPS	0.06	0.84	0.68

Source: Company reports, Aljazira Capital

Note: Net profit for FY21 include one-time gain from stake sale in Careem of SAR 241mn.

Revenue (SAR mn) and GP Margin



Source: Bloomberg, Aljazira Capital, Company reports

Key Ratios

	FY20	FY21E	FY22E
Gross Margin	33.9%	51.2%	56.1%
Net Margin	2.0%	15.2%	10.5%
P/E	NM	23.0x	28.5x
P/B	1.0x	0.9x	0.9x
EV/EBITDA (x)	NM	18.3x	11.5x

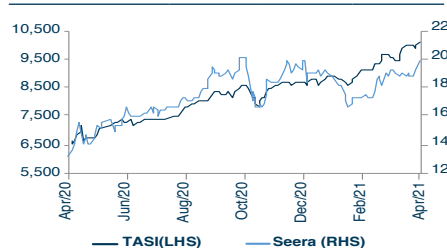
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	5.8
YTD %	1.9%
52 Week (High / Low)	20.4/13.2
Share Outstanding (mn)	300.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital, Bloomberg

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Key Financial Data

Amount in SAR mn, unless otherwise specified	FY18	FY19	FY20	FY21F	FY22F	FY23F	FY24F
Income statement							
Revenues	2,301	2,190	905	1,662	1,938	2,040	2,086
Y/Y	9.2%	-4.8%	-58.7%	83.7%	16.6%	5.3%	2.3%
Cost of Sales	(874)	(917)	(598)	(811)	(851)	(852)	(820)
Gross profit	1,427	1,273	307	851	1,087	1,187	1,265
Selling expenses	(374)	(411)	(318)	(301)	(331)	(377)	(409)
Administrative expenses	(473)	(511)	(510)	(470)	(487)	(506)	(512)
Other (expense)/income	33	(13)	(14)	(4)	(1)	(1)	(1)
Operating profit	613	339	(534)	77	268	304	343
Y/Y	-24.1%	-44.7%	-257.2%	-114.4%	249.2%	13.3%	13.1%
Net Financial cost	(54)	(67)	(45)	(40)	(44)	(47)	(43)
Profit before zakat	(58)	216	36	276	222	255	299
Zakat	(84)	(33)	(27)	(19)	(16)	(18)	(21)
Net income	(145)	186	18	253	204	233	274
Y/Y	-129.2%	-228.0%	-90.2%	1289.3%	-19.4%	14.5%	17.3%
Balance sheet							
Assets							
Cash & bank balance	264	350	249	473	639	578	553
Other current assets	2,477	2,013	1,891	2,013	2,257	2,352	2,377
Property & Equipment	3,373	3,695	3,423	3,414	3,390	3,369	3,349
Other non-current assets	1,879	2,220	2,242	2,281	2,342	2,431	2,555
Total assets	7,993	8,278	7,805	8,181	8,628	8,731	8,835
Liabilities & owners' equity							
Total current liabilities	1,763	1,775	1,367	1,136	1,277	1,334	1,278
Total non-current liabilities	596	658	561	916	1,018	831	716
Paid -up capital	2,097	3,000	3,000	3,000	3,000	3,000	3,000
Statutory reserves	629	451	453	478	499	522	549
Other reserve	691.7	645.8	665.4	665.4	665.4	665.4	665.4
Retained earnings	2,211	1,738	1,758	1,986	2,169	2,379	2,625
Total owners' equity	5,628	5,836	5,877	6,129	6,333	6,566	6,840
Non-controlling interest	7	9	0	0	0	0	0
Total equity & liabilities	7,993	8,278	7,805	8,181	8,628	8,731	8,835
Cashflow statement							
Operating activities	752	103	(233)	621	296	442	508
Investing activities	(699)	(409)	389	(310)	(329)	(348)	(378)
Financing activities	(787)	404	(253)	(86)	199	(155)	(155)
Change in cash	(734)	99	(97)	224	165	(61)	(25)
Ending cash balance	229	345	248	473	639	578	553
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.6	1.3	1.6	2.2	2.3	2.2	2.3
Quick ratio (x)	1.6	1.3	1.6	2.2	2.3	2.2	2.3
Profitability ratios							
GP Margin	62.0%	58.1%	33.9%	51.2%	56.1%	58.2%	60.7%
Operating Margins	26.7%	15.5%	-59.0%	4.6%	13.8%	14.9%	16.5%
EBITDA Margin	33.7%	25.8%	-26.8%	20.5%	28.0%	27.6%	28.6%
Net Margins	-6.3%	8.5%	2.0%	15.2%	10.5%	11.4%	13.1%
Return on assets	-1.7%	2.3%	0.2%	3.2%	2.4%	2.7%	3.1%
Return on equity	-2.4%	3.2%	0.3%	4.2%	3.3%	3.6%	4.0%
Market/valuation ratios							
EV/sales (x)	2.0	2.7	7.1	3.8	3.2	3.0	2.9
EV/EBITDA (x)	6.0	10.6	NM	18.3	11.5	10.9	10.1
EPS (SAR)	(0.48)	0.62	0.06	0.8	0.7	0.8	0.9
BVPS (SAR)	18.8	19.5	19.6	20.4	21.1	21.9	22.8
Market price (SAR)*	14.0	21.9	19.0	19.3	19.3	19.3	19.3
Market-Cap (SAR mn)	4,193.0	5,070.0	5,694.0	5,802.0	5,802.0	5,802.0	5,802.0
P/E ratio (x)	NM	23.1	NM	23.0	28.5	24.9	21.2
P/BV ratio (x)	0.7	0.7	1.0	0.9	0.9	0.9	0.8

Source: Company financials, AlJazira research



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- 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.
- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- 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.
- 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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