

Saudi Ground Services Co. (SGS) posted a net loss of SAR 51.5mn due to the impact of COVID-19, against our estimate of a net profit of SAR 82.6mn and consensus estimate of SAR 68.3mn. The deviation of net loss from our estimate of net profit was due to lower-than-expected revenue, higher impairment loss on trade receivables (SAR 47mn Y/Y), net loss of SAR 18.6mn on investments, and a loss of SAR 16.2mn from an equity accounted investment. Revenue decreased 15.9% Y/Y to SAR 512mn due to suspension of flights, 6.6% below our estimate of SAR 548mn. We downgrade our recommendation to “Neutral” on the stock and lower TP to **SAR 27.9/share** from the rating of “Overweight” and TP of SAR 35.3/share earlier.

- SGS registered its first net loss of SAR 51.5mn in Q1-20, below AJC’s estimate of a net profit of SAR 82.6mn. The company’s net loss was due to a 15.9% decline in revenue, further impacted by a SAR 47mn increase in impairment loss on trade receivables, unrealized net loss of SAR 18.6mn on FVTPL investment and a loss of SAR 16.2mn from an equity accounted investment. Excluding the one-time losses, net profit would have been close to SAR 30.2mn.
- The company’s revenue declined 15.9% Y/Y in Q1-20 to SAR 512mn, 6.6% below our estimate of SAR 548mn. The top line was impacted as domestic and international flights were suspended in the second half of March to control the spread of COVID-19. Both international and domestic flights remained suspended until May 31, due to which a larger impact is likely to be seen on Q2-20 revenue.
- Gross profit plunged to SAR 100.6mn (-41.9% Y/Y) against our estimate of SAR 144.9mn. GP margin contracted by ~880bps to 19.7%, as the decline in cost of revenue (-5.6% Y/Y) could not match the steep revenue decrease due to the fixed nature of certain expenses. We expect the GP margin to return to normal once flights resume.
- Operating loss stood at SAR 8.2mn in Q1-20 versus an operating profit of SAR 105.8mn in Q1-19. However, operating loss was limited by cost reduction efforts, thus lowering operating expenses by SAR 24.4mn Y/Y and administration expenses by SAR 5.0mn Y/Y.

AJC View: SGS recorded its first quarterly loss in Q1-20 as performance was hit by the COVID-19 outbreak amid subsequent precautionary measures from the government and certain one-time expenses. The impact was two-pronged: the direct impact in terms of lower revenue and higher impairment loss on trade receivables, while the indirect impact on investment. The impact of COVID-19 likely to weigh in more heavily in Q2-20 on top line, as flights were grounded for almost two months during the quarter. Further, impairment loss on trade receivables is also anticipated to remain high. With flights resuming from May 31, the company’s operating conditions are expected to improve. However, the rate of recovery is likely to be slow as the number of flights would increase gradually, and it may take longer to return to normal conditions amid rising cases of coronavirus in the country. Nevertheless, in the long run, we see great potential for the expansion of aviation and related businesses in KSA, given the government’s focus on attracting tourists, increasing the number of flights at different airports, and improving airports to serve a larger number of visitors. We downgrade our recommendation on SGS to “Neutral” with a TP of **SAR 27.9/share**.

SARmn (unless specified)	Q1-19	Q4-19	Q1-20	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	609	599	512	-15.9%	-14.5%	-6.6%
Gross Profit	173	119	101	-41.9%	-15.7%	-30.5%
Gross Margin	28.4%	19.9%	19.7%	-	-	-
EBIT	106	63	-8	NM	NM	NM
Net Profit	104	74	-52	NM	NM	NM

Source: Company reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR) 27.9

Upside / (Downside)* 1.1%

Source: Tadawul *prices as of 21st of June 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenues	2,554	2,540	1,792
Growth %	-1.2%	-0.6%	-29.4%
Net Income	368	455	44
Growth %	-26.5%	23.5%	-90.4%
EPS	1.96	2.42	0.23

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E
Gross Margin	26.8%	27.0%	15.9%
Net Margin	14.4%	17.9%	2.4%
P/E	15.8x	14.5x	High
P/B	2.0x	2.2x	1.8x
EV/EBITDA (x)	10.7x	10.2x	15.6x

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	5.2
YTD %	-20.1%
52 Week (High / Low)	37.9/20.3
Shares Outstanding (mn)	188.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa



RESEARCH DIVISION

AGM-Head of Research

Talha Nazar

+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst

Faisal Alsuwelimy

+966 11 2256115
F.alsuwelimy@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutions

Ahmad Salman, CFA

+966 11 2256201
a.salman@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Central & Western Region

Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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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.
2. **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.
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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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068