2Q 2018 Results Update **August 16, 2018**

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	23.4
Target Price (SAR)	29.5
Upside/Downside (%)	26.2%

As of August 15th, 2018

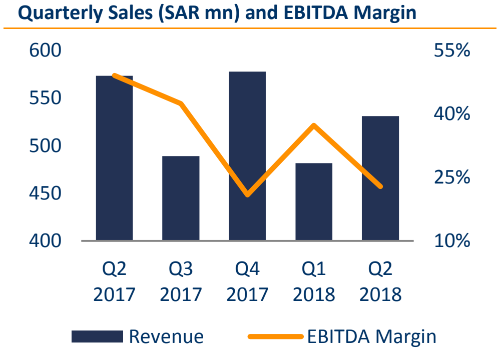
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	4.9
52 Wk High (SAR)	36.7
52 Wk Low (SAR)	22.2
Total Outstanding shares (in mn)	209.7
Free Float (%)	84.2%

ALTAYYAR vs. TASI (Rebased)

Price Performance (%)	Absolute	Relative
1m	(9.6%)	(3.2%)
6m	(17.3%)	(22.0%)
12m	(30.1%)	(40.8%)

Major Shareholders (%)	
Nasser Okail Abdullah AlTayyar	11.36%

Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 15th 2018

Weak 2Q18 results on lower sales and higher expenses

Altayyar's net income for 2Q18 fell short of consensus estimates, declining 49% YoY to SAR 107mn. The decline was ascribed to competitive pricing for some services to protect and grow market share, change in product mix, and change in terms with major government clients along with higher operating and zakat expenses. Revenue for 2Q18 declined 7.4% YoY to SAR 531mn, mainly due to a decline in core government business resulting from a change in terms with key clients. Gross profit for 2Q18 stood at SAR 405mn, down 7% YoY. Operating income declined 14.9% YoY to SAR 218mn, as higher selling, administrative and other operating expenses were only partially offset by a SAR 71mn reversal of impairment.

During the quarter, Altayyar paid early installments on SAR 307mn worth of loans due in 2019-20 and in 1H21. It also reduced its short term loans by over SAR 530mn, reducing its total debt to SAR 761mn in 2Q18 from SAR 1.6bn in 1Q18. The company financed these prepayments using its own funds, as it received payments for receivables from government contracts, adding strength to its balancing sheet and liquidity position. Altayyar recently formed a strategic alliance with the Dubai's Department of Tourism and Commerce Marketing (Dubai Tourism) to promote Dubai as a preferred destination for Saudi travelers. A boost in tourism driven by government efforts (as part of Vision 2030), is likely to translate into top-line expansion for Altayyar. However, high operational costs, growing competition, and restricted consumer spending due to subsidy removal may squeeze margins. Given the stock is trading close to its 52-week low; we believe this could be a good entry point for long term investors. Thus, we maintain our 'Overweight' rating on the stock

- Revenue for 2Q18 declined 7.4% YoY to SAR 531mn mainly due to change in terms with major clients in its core government business. Revenue from ticketing commissions declined 10.8% YoY to SAR 327mn. However, this was partially offset by an increase in revenue from car rentals (+44% YoY to SAR 35mn) and hospitality segment (+90% YoY to SAR 27mn).
- Gross profit declined 7% YoY to SAR 405mn, while gross margin improved 36bps YoY and 248bps QoQ to 76.3%, which we believe is attributable to the change in product mix.
- Selling and administrative expenses rose 21% YoY to SAR 226mn, due to increase in online business and realization (start of commercial operations) of operating expenses related to hospitality assets that started operations in 4Q17. Additionally, Altayyar reported a SAR 32mn loss from disposal of its chartered airplane as other expenses in 2Q18, as compared to net other income of SAR 7mn in 2Q17.
- This increase in operating expenses was only partially offset by a SAR 71mn reversal of impairment on trade receivables. Consequently, operating income declined 14.9% YoY to SAR 218mn, and operating margin shrank 361bps YoY to 41.0%.
- Net finance expenses increased to SAR 15mn in 2Q18 from SAR 9mn in 2Q17. However, we expect this to reduce in coming quarters, following the early payments made in 2Q18.
- Altayyar reported SAR 83mn as provisions for Zakat in 2Q18, as compared to SAR 6mn in 2Q17. This increase was ascribed to reassessment of Zakat for previous years. Thus, net profit for the quarter declined 49.4% YoY to SAR 107mn.

Valuation: We revise our target price slightly downward, with a fair value of SAR 29.5 per share, in light of weak 2Q18 results and change in terms with major government clients. We maintain our 'Overweight' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	531	574	-7.4%	2,206	2,107	4.7%
Gross Profit (SAR mn)	405	435	-7.0%	1,667	1,603	4.0%
EBITDA (SAR mn)	122	281	-56.8%	748	805	-7.1%
Net Profit (SAR mn)	107	212	-49.4%	534	497	7.4%
EPS basic (SAR)	0.51	1.01	-49.4%	2.55	2.37	7.4%
Gross Margin (%)	76.3%	75.9%	0.4%	75.6%	76.1%	-0.5%
EBITDA Margin (%)	22.9%	49.1%	-26.2%	33.9%	38.2%	-4.3%
Net Profit Margin (%)	20.2%	37.0%	-16.8%	24.2%	23.6%	0.6%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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Disclaimer and Risks Warning:

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