Seera Group Holding

Investment Update

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Seera Group Holding (Seera) posted Q1-20 earnings below estimates. Revenue is expected to decline significantly in FY20, as the pandemic has subdued the demand for most of Seera's market segments. Seera reported a gain of SAR 1.56bn from the disposal of its stake in Careem; the proceeds could be useful to manage cash flow during these tough times. We believe consumer demand will pick up only after a few quarters, as the rise in COVID-19 cases continues to impact the travel and hospitality sector. Margins are likely to decline significantly in FY20. To reflect the impact of the current scenario, we update our rating on Seera to "**Neutral**", with a revised TP of **SAR 17.40/share**.

- Most key segments to remain under pressure due to pandemic: Seera's principal business is related to travel, tourism, and hospitality. The growth prospects of these sectors are severely dented due to the pandemic, and some time would pass before these businesses revive. The reporting segments are ticketing, tourism, transportation, hospitality and property. Ticketing is the largest reporting segment (42.7% of FY19 revenue, and is expected to decline by 56.2% in FY20. Tourism (26.4% of FY19 revenue), the second largest contributor, is estimated to decline by 61.2% in FY20, followed by transportation (24.2% of FY19 revenue, projected to decrease by 1.3% in FY20), hospitality (3.5% of FY19 revenue, expected to fall by 45.3% in FY20) and property (3.2% of FY19 revenue, estimated to decline by 54.6% in FY20). The company could deploy additional capital after the pandemic subsides to increase its existing market share of 5-7% in consumer travel in the kingdom. Seera plans to develop the mid-market hotel segment, and gain from it in the long-term. Car rentals (within transportation segment) posted an increase of 140.8% Y/Y in Q1-20 revenue, rising to SAR 118.7mn. We expect car rental revenue to be a key revenue growth driver.
- Online business to drive long-term revenue growth: Seera posted earnings of SAR 1.1bn in Q1-20, which was below AJC's and the market consensus estimate of SAR 1.3bn. Revenue declined 22.2% Y/Y mainly due to travel restrictions imposed to contain the spread of COVID-19. The company's gross booking value (GBV) declined 18.0% Y/Y to SAR 1.9bn in Q1-20. The GBV of the online business improved 50.0% Y/Y to SAR 0.6bn and is expected to be a key growth driver in the long term. We expect the total revenue to significantly decline (42.8%) in FY20, followed by a strong recovery in FY21.
- GP margin expected to decline in short to medium term: Seera's GP Margin plummeted Y/Y in Q1-20 to 46.7% from 59.3%. The company reported an operating loss of SAR103mn in Q1-20 as compared to an operating profit of SAR65mn in Q1-19. We believe the decline in margin could be attributed to fixed costs incurred during the quarter, accompanied by a decline in revenue. The core segments (ticketing and tourism) posted net losses of SAR 267.6mn and SAR 181.1mn in Q1-20 as compared to a net profit of SAR 45.2mn and SAR 9.5mn, respectively in Q1-19, which was the key reason for the high operating loss. To deal with the current situation, the company plans to implement several measures to lower operating expenses and maintain its long-term competitiveness. We expect the GP margin to decline to 39.5% in FY20 from 58.1% in FY19 and expect the margins to recover strongly in FY21.
- Proceeds from Careem deal to provide much-required liquidity in current downturn: Seera recorded SAR 1.56bn in one-time gain from the sale of its stake in Careem, which enabled the company to post a net profit of SAR1.1bn in Q1-20. This comes at an opportune time, as Seera gains liquidity, and could partially alleviate the revenue dent caused by the pandemic. Seera could also utilize some of the proceeds to boost its online business. The company is yet to recognize gain of SAR 241mn, which would be accounted for after all regulatory and legal approvals are completed.

Neutral

Target Price (SAR)	**17.40**
Upside / (Downside)*	**5.6%**

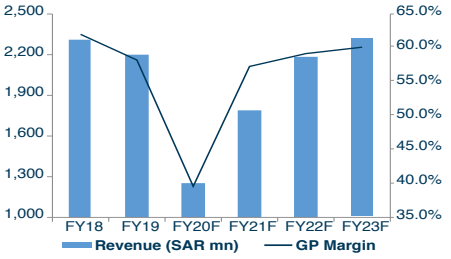
Source: Tadawul *prices as of 13th of July 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E	FY21E
Revenue	2,301.3	2,190.3	1,252.4	1,788.0
Growth %	9.2%	-4.8%	-42.8%	42.8%
Gross Profit	1,427.0	1,273.0	494.7	1,019.8
Net Profit	-145.0	185.6	795.8	402.5
Growth %	NM	NM	328.8%	-49.4%
EPS	-0.48	0.62	2.65	1.34

Source: Company reports, Aljazira Capital
Note: Net Profit for FY18 includes impairment loss of SAR 420.5mn related to disposal of equity accounted investees. Net profit for FY20 and FY21 include one time gain from stake sale in Careem of SAR 1,563mn and SAR 241mn respectively.

Revenue and GP Margin



Source: Bloomberg, Aljazira Capital, Company reports

Key Ratios

	FY18	FY19	FY20E	FY21E
Gross Margin	62.0%	58.1%	39.5%	57.0%
Net Margin	-6.3%	8.5%	63.5%	22.5%
P/E	NM	23.1x	6.2x	12.3x
P/B	0.7x	0.7x	0.7x	0.7x
EV/EBITDA (x)	6.0x	10.8x	NM	11.8x

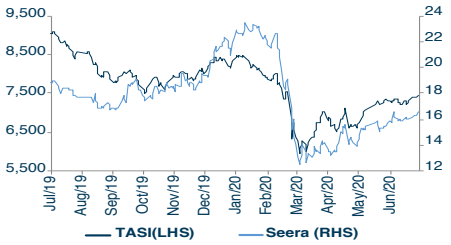
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	4.99
YTD %	-24.4%
52 Week (High / Low)	23.7/12.1
Share Outstanding (mn)	300.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital, Bloomberg

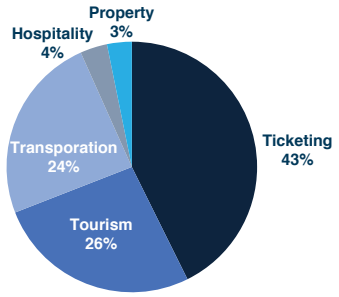
Senior Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

- Prudent cash flow management important to stem decline in demand: As most of the company's segments are impacted by the pandemic, revenues are expected to decline in the next few quarters, while certain fixed costs remain. To ensure that the company survives the current downturn in business and maintains its going concern position, Seera needs to prudently manage cash flow. A review of operating expenses and prioritizing these based by requirements would serve the need of the hour.
- Balance sheet remains strong, mainly due to Careem deal: Even though the company reported a 22.1% Y/Y decline in revenue in Q1-20, its balance sheet position remains strong. The strong balance sheet position is due to an increase in retained earnings driven by SAR 1.56bn proceeds from the Careem stake sale. As of Q1-20, the D/E ratio stood at 0.15x, which provides the company significant headroom to borrow, if required. We believe the strong balance sheet position provides the company a healthy cushion and would allow it to capitalize on its market position when the situation improves.
- Hospitality industry to take time to recover; recommend caution in near term: Consumer and credit card loans for the tourism and travel sector rose by 16.3% Y/Y in Q1-20. POS sales and the number of POS transactions increased 23.7% and 66.8% Y/Y, respectively, in Q1-20. However, we expect these indicators to decrease over the next few quarters due to the impact of the pandemic. This is reflected in the POS sales for April-May 2020, which declined 23.7% Y/Y.
- Due to its inherent nature of operation, the hospitality industry would be one of those sectors that would require most time to recover from the pandemic: A gradual opening is already underway in parts of the world, such as the EU where travelers from certain countries are permitted subject to applicable quarantine norms. While domestic flights have resumed in the kingdom, albeit on a low scale, international flights remain restricted. Thus, the growth prospects of the travel and hospitality industry remain subdued in the near term. A few more quarters could pass before the hospitality industry fully recovers. The two main factors in this context are: how the virus spread is contained; and how quickly a vaccine is developed. Until there is clarity on these factors, caution is advised for stocks in the hospitality sector.

AJC view and valuation: The travel industry in Saudi Arabia has favorable growth prospects in the long term due to improving employment rates driven by Saudization. However, the COVID-19 pandemic has created a ripple across sectors, of which the travel and hospitality industry, in which Seera operates, has been severely hit. If the company can successfully navigate the next few quarters, it would be able to boost its market share and capitalize on the long-term growth opportunity. Even as concerns remain in the short term, the hospitality business represents a key growth driver for Seera as 1,000 additional rooms are expected to be operational in the next two years. We anticipate medium-term pressure on margins due to travel restrictions imposed to contain the spread of the pandemic and a reluctance on the part of people to travel to avoid the risk of contracting the infection. We are positive on Seera from a long-term perspective. However, there are several unknown variables in the near-term, such as extent of spread of the virus and the time taken to develop vaccine.

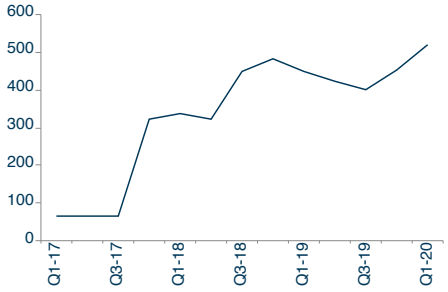
We value Seera on 60% weight for DCF (3.0% terminal growth and 9.6% average WACC), and 20% weight each for P/E (11.0x FY21 EPS) and EV/EBITDA (9.5x FY21 EBITDA) based relative valuation. These yield a target price of SAR 17.40 per share, implying an 5.6% upside from the current levels. The stock is currently trading at a P/E of 12.3x as per our FY21 EPS. We revise our recommendation to "**Neutral**" rating on Seera with a positive outlook from a long-term perspective and a revised PT of **SAR 17.40/share.**

Segmental Revenue mix (FY-19)



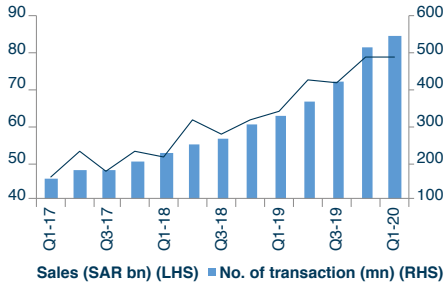
Source: Company reports, Aljazira Capital, Bloomberg

Consumer Loans (Tourism & Travel sector) (SAR mn)



Source: Company reports, Aljazira Capital, Bloomberg

POS Transactions



Source: SAMA monthly bulletin

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY17	FY18	FY19	FY20F	FY21F	FY22F	FY23F
Income statement							
Revenues	2,107	2,301	2,190	1,252	1,788	2,171	2,311
Y/Y	**-1.7%**	**9.2%**	**-4.8%**	**-42.8%**	**42.8%**	**21.4%**	**6.5%**
Cost of Sales	(504)	(874)	(917)	(758)	(768)	(890)	(922)
Gross profit	**1,603**	**1,427**	**1,273**	**495**	**1,020**	**1,281**	**1,389**
Selling expenses	(333)	(374)	(411)	(394)	(398)	(423)	(450)
Administrative expenses	(495)	(473)	(511)	(467)	(453)	(519)	(549)
Other (expense)/income	33	33	(11)	1	3	5	6
Operating profit	**808**	**613**	**339**	**(366)**	**173**	**344**	**396**
Y/Y	**-10.7%**	**-24.1%**	**-44.7%**	**-207.7%**	**-147.3%**	**99.1%**	**15.1%**
Net Financial cost	(35)	(54)	(67)	(51)	(30)	(29)	(24)
Profit before zakat	**520**	**(58)**	**216**	**816**	**382**	**314**	**370**
Zakat	(31)	(84)	(33)	(26)	27	22	26
Net income	**497**	**(145)**	**186**	**796**	**403**	**331**	**390**
Y/Y	**-39.0%**	**-129.2%**	**-228.0%**	**328.8%**	**-49.4%**	**-17.8%**	**18.0%**
Balance sheet							
Assets							
Cash & bank balance	981	264	350	1,138	1,091	1,118	1,341
Other current assets	2,352	2,477	2,013	1,289	1,809	2,095	2,154
Property & Equipment	3,384	3,373	3,695	3,709	3,765	3,815	3,835
Other non-current assets	2,646	1,879	2,220	2,184	2,149	2,116	2,083
Total assets	**9,363**	**7,993**	**8,278**	**8,320**	**8,814**	**9,143**	**9,413**
Liabilities & owners' equity							
Total current liabilities	2,335	1,763	1,775	1,104	1,119	1,220	1,223
Total non-current liabilities	983	596	658	575	653	550	427
Paid -up capital	2,097	2,097	3,000	3,000	3,000	3,000	3,000
Statutory reserves	629	629	451	531	571	604	643
Other reserve	715.3	691.7	645.8	645.8	645.8	645.8	645.8
Retained earnings	2,595	2,211	1,738	2,455	2,817	3,115	3,466
Total owners' equity	6,035	5,628	5,836	6,631	7,034	7,365	7,755
Non-controlling interest	9	7	9	9	9	9	9
Total equity & liabilities	9,363	7,993	8,278	8,320	8,814	9,143	9,413
Cashflow statement							
Operating activities	(93)	752	92	1,615	133	351	594
Investing activities	(373)	(699)	(409)	(189)	(243)	(247)	(228)
Financing activities	180	(787)	415	(637)	64	(77)	(143)
Change in cash	**(287)**	**(734)**	**99**	**788**	**(47)**	**27**	**223**
Ending cash balance	971	229	345	1,138	1,091	1,118	1,341
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.4	1.6	1.3	2.2	2.6	2.6	2.9
Quick ratio (x)	1.4	1.6	1.3	2.2	2.6	2.6	2.9
Profitability ratios							
GP Margin	76.1%	62.0%	58.1%	39.5%	57.0%	59.0%	60.1%
Operating Margins	38.4%	26.7%	15.5%	-29.2%	9.7%	15.9%	17.2%
EBITDA Margin	44.3%	33.7%	25.2%	-13.2%	21.4%	26.0%	27.0%
Net Margins	23.6%	-6.3%	8.5%	63.5%	22.5%	15.2%	16.9%
Return on assets	5.3%	-1.7%	2.3%	9.6%	4.7%	3.7%	4.2%
Return on equity	8.2%	-2.4%	3.2%	12.0%	5.9%	4.6%	5.1%
Market/valuation ratios							
EV/sales (x)	2.9	2.0	2.7	3.5	2.5	2.0	1.7
EV/EBITDA (x)	6.5	6.0	10.8	(26.8)	11.8	7.8	6.4
EPS (SAR)	2.37	(0.48)	0.62	2.65	1.3	1.1	1.3
BVPS (SAR)	28.8	18.8	19.5	22.1	23.5	24.6	25.9
Market price (SAR)*	27.0	14.0	16.5	16.5	16.5	16.5	16.5
Market-Cap (SAR mn)	5,664.7	4,193.0	5,070.0	4,944.0	4,944.0	4,944.0	4,944.0
Dividend yield	0.0%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	11.4	NM	23.1	6.2	12.3	14.9	12.7
P/BV ratio (x)	0.9	0.7	0.7	0.7	0.7	0.7	0.6

Source: Company financials, AlJazira research

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

AGM-Head of Research
Talha Nazar
+966 11 2256250
t.nazar@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

Analyst
Faisal Alsuwelimy
+966 11 2256115
F.alsuweilmy@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

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.
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.

Disclaimer