

SAUDI GROUND SERVICES

OVERWEIGHT
CURRENT PRICE SAR35.8

UPSIDE +24.3%
TARGET PRICE SAR44.5

EVENT FLASH

Weak results on record low margins

SGS reported a weak set of Q3 18 results with a net income of SAR92.7mn, declining 42.1% yoy and 17.8% qoq. This is significantly lower than the NCBC and consensus estimates of SR157mn and SR132mn, respectively. With top-line coming in-line with our estimates, we believe the variance came from the lowest gross margin in record due to higher employee costs.

- NCBC View on Results:** Revenues stood at SAR701mn, broadly flat yoy (+6.2% qoq). This is in-line with our estimates. We estimate that SGS serviced c96,644 flights in Q3 18 vs c94,700 flights in Q3 17 and c92,650 in Q2 18. We believe the average revenue/flight stood at cSR7,250, in-line with Q2 18 and our estimates. We note that Hajj season, end of schools season and back to schools season occurred in Q3 18.
- Hajj season was completed during Q3 18 with more than 2.37mn pilgrims, recording the highest level since 2012. This reflects an increase of 0.8% yoy. Based on SGS Hajj season data, total flights serviced were 10,106 (-7.0% yoy) carrying 2.63mn passengers (-2.1% qoq). In comparison, Saudia Hajj season data reflects flights growth of 15% yoy to 5,300, increasing its market share by 800bps to 36%. We believe this indicates a lower market share for SGS during the season.
- Gross margin stood at 23.6%, the lowest level on record. This is lower than our estimates of 31.6% and 28.7% in Q2 18. The company attributed the increase in costs to 1) cost of living allowance, 2) higher expats costs and 3) higher fuel prices. The cost of living allowance is a one-year program, ending in 2018, with an estimated cost of cSAR66mn. We believe the increase in expats cost is related to higher costs associated with temporary staff hired during Hajj season. In 2017, total staff cost represented 78% of cost of services, with outsourced staff representing 8.6%.
- SG&A came in at SR81mn, higher than SR69mn in Q3 17 and our estimates of SAR70mn. Opex-to-sales stood at 11.6% in Q3 18 vs 9.9% in Q3 17. SGS reported a provision of SAR12.3mn. Adjusting for the provision, adjusted net income stands at SAR105mn.
- We are Overweight on SGS with a PT of SR44.5. The expected growth in Hajj and Umrah pilgrims, the expansion in Saudia fleet, operation of Haramain Rail as well as and the attractive dividend yield of 7.3% are the key stock catalysts. However, the inability to control operating expenses is a key concern going forward. The stock trades at 2019 PE of 12.4x.

Q3 18 Results Summary

SARmn	Q3 18	Q3 17	% yoy	Q3 18f	%var [^]	% qoq
Revenues	701	697	0.5	721	(2.8)	6.2
Gross income	166	228	(26.9)	228	(26.9)	(12.1)
Gross margin (%)	23.8%	32.7%	(8.90)	31.6%	(7.85)	(4.94)
EBIT	85	159	(46.2)	158	(45.8)	(23.6)
EBIT Margin (%)	12.2%	22.8%	(10.61)	21.9%	(9.70)	(4.76)
Net income	93	160	(42.1)	157	(40.9)	(17.8)
Net margin (%)	13.2%	23.0%	(9.73)	21.8%	(8.53)	(3.85)
EPS (SAR)	0.49	0.85	(42.1)	0.83	(40.9)	(17.8)

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

Please refer to the last page for important disclaimer

الأهلي كابيتال
NCB Capital



STOCK DETAILS

M52-week range H/L (SAR)	42/31 M
Market cap (\$mn)	1,795 M
Shares outstanding (mn)	188 S
Listed on exchanges	TADAWUL Li

Price perform (%)	1m	3m	12m Pr
Absolute	1.7	0.0	(7.2) A
Rel. to market	3.7	4.9	(20.6) R

Avg daily turnover (mn)	SAR	US\$ A
3m	8.8	2.4 3M
12m	10.6	2.8 12

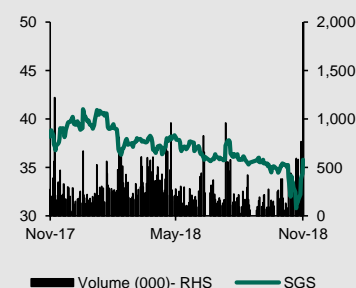
Reuters code	4031.SE R
Bloomberg code	SGS AB BI
	www.saudiags.com

VALUATION MULTIPLES

	17	18f	19f
PE (x)	13.4	13.3	12.5
PB (x)	2.3	2.3	2.3
EV/EBITDA (x)	12.5	12.0	11.1
Div Yield (%)	7.3	7.3	7.3

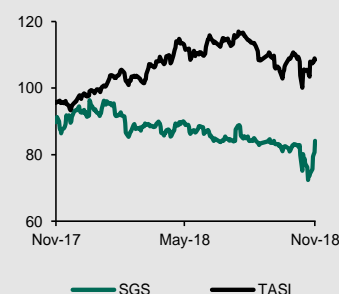
Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

Iyad Ghulam +966 12 690 7811
i.ghulam@alahlicapital.com

www.alahlicapital.com

NOVEMBER 2018

Kindly send all mailing list requests to research@alahlicapital.com

NCBC Research website<http://research.alahlicapital.com>**Brokerage website**www.alahlitadawul.com**Corporate website**www.alahlicapital.com**NCBC Investment Ratings**

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

Important information

The authors of this report hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The investment banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting, tax and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by the author are from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute the author's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of NCB Capital is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.

About Exotix Capital

Exotix Capital is a registered trade mark of Exotix Partners LLP. Exotix Partners LLP and its subsidiaries ("Exotix Capital") provide specialist investment banking services to trading professionals in the wholesale markets. Exotix Capital draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Exotix Capital may at any time, hold a trading position in the securities and financial instruments discussed in this report. Exotix Capital has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Exotix Capital's conflict of interest policy is available at www.exotix.com/regulatory-information.

This research is prepared by NCB Capital, with headquarters in Riyadh, Saudi Arabia. NCB Capital is authorized to engage in securities activities according to its domestic legislation. This research is not a product of Exotix USA, Inc, a U.S. registered broker-dealer. NCB Capital has sole control over the contents of this research report. Exotix USA, Inc does not exercise any control over the contents of, or the views expressed in, research reports prepared by NCB Capital.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Exotix Capital and NCB Capital. Exotix Capital and NCB Capital shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

NOVEMBER 2018

This report may not be used to create any financial instruments or products or any indices. Neither Exotix Capital and NCB Capital, nor their members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United States of America: NCB Capital is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and other "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Exotix USA, Inc, located at Floor 36, 444 Madison Avenue, Floor 36, New York, NY 10022. A representative of Exotix USA, Inc. is contactable on +1 (212) 551 3480. Exotix USA, Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from Exotix Capital and NCB Capital.

NCB Capital is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Exotix USA, Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Exotix USA, Inc. or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, and does not expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Exotix USA, Inc. has never owned any class of equity securities of the subject company. There are no other actual, or potential, material conflicts of interest of Exotix USA, Inc. at the time of the publication of this report. As of the publication of this report, Exotix USA, Inc. does not make a market in the subject securities.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Disclaimers

Exotix Capital and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Exotix Capital may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups of Exotix Capital.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.