

## Logistics

**SELL: 12M TP @ 200.00**

*Downside -26.5%*

### Valuation Summary ( TTM)

Price (SAR)	272.40
PER TTM (x)	30.5
P/Book (x)	17.7
P/Sales (x)	10.7
EV/Sales (x)	11.4
EV/EBITDA (x)	23.0
Dividend Yield (%)	2.2
Free Float (%)	30%
Shares O/S (mn)	80
YTD Return (%)	40%
Beta	0.9

(mn)	SAR	USD
Market Cap	21,792	5,811
Total Assets	22,265	5,937

Price performance (%)	1M	3M	12M
SAL Saudi Logistics Ser	1%	67%	NA
Tadawul All Share Index	2%	8%	22%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR)	272,999	372,008	NA
Avg Daily Volume (,000)	1,309	1,569	NA

52 week	High	Low	CTL*
Price (SAR)	299.60	116.60	133.6

\* CTL is % change in CMP to 52wk low

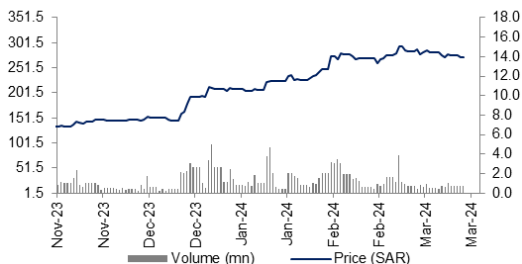
### Major shareholders

Saudi Arabian Airlines	49%
Tarabot Air cargo	21.0%
Others	30.0%

### Other details

Exchange	Saudi Arabia
Sector	Logistics
Index weight (%)	0.3%

Key ratios	2021	2022	2023
EPS (SAR)	NA	4.53	6.37
BVPS (SAR)	NA	13.41	15.43
DPS (SAR)	NA	3.19	4.40
Payout ratio (%)	NA	70%	69%



## SAL – high growth but overvalued

SAL reported full year revenue for 2023 at SAR 1.45bn which was 3.7% above our estimates and higher by 19.1% YoY. SAL has been in a sweet spot with air traffic increasing and logistics operation expanding to multiple airports. The Red Sea crisis which affected sea transport led to further increase in volumes of air cargo benefiting companies like SAL. While we do not expect the positive impact of lower sea traffic leading to a permanent shift to air transport in the long run, we certainly believe this would be beneficial in the 1H24. The organic growth prospects are also looking upwards and with 90% market share SAL stands to benefit the most. Revenue growth was contributed by air cargo which increased by 14.9% YoY and logistics solutions which grew by 46.9% YoY. Terminal handling revenue witnessed significant rise of 17.9% indicating the buoyancy in the air traffic. Gross margins rose from 48.3% in 2022 to 53.3% in 2023 leading to a gross profit growth of 13.1% YoY. Revised contracts adjusted for inflation with existing players, higher rates for the services to third parties and stable employee costs despite rising revenue led to the increase in gross margins during 2023. EBITDA margins also increased from 44.4% in 2022 to 49.3% in 2023 on account of reduced general admin expenses and overall stable operating costs. The company reported an impairment in receivables to the tune of SAR 19mn in 2023 which we believe is a one-off item. SAL gained SAR 52mn from its SAR 1.2bn murabaha deposits and cash in bank which partially offset the finance cost of 87mn during the year. SAL reported a net profit of SAR 510mn beating the consensus and our estimate of SAR 434mn. The significant outperformance came through the higher than expected margins during the 4Q23 which we believe is unsustainable. The company distributed SAR 1.51 per share as dividend based on the 4Q23 results. This dividend follows the SAR 1.90 per share distributed in Nov 2023. Based on the recent results we increase our revenue and profit estimates for 2024 to SAR 1.65bn (vs. SAR 1.6bn) and SAR 577mn (vs. SAR 507mn). We had initiated coverage on the stock recently with a target price of SAR 176.41. The stock has appreciated by 66% since our initiation, primarily due to the over optimism in the segment and regular announcements with regard to expansion of airports in Saudi. While we carry the same confidence, we believe the stock has moved much beyond its intrinsic value. We arrive at a revised target of SAR 200.00 per share which is lower than the current price by 26.5%. Hence we downgrade SAL from HOLD to SELL

**Valuation and outlook:** SAL is the dominant player in the air logistics segment in Saudi which is currently witnessing significant impetus from the government. Efforts to triple the passenger capacity and build logistic capabilities rivalling UAE will benefit SAL in the medium to long term. SAL is envisaging to enter the passenger ground handling and the fulfillment services (processing, picking, packaging and shipping) segment thus having presence from the first mile to last mile connectivity. All these factors have driven the stock 134% higher since its debut in Nov 2023. At current price the stock trades at a high multiple of 37.7x 2024e PE and dividend yield of 1.8%, which we believe is stretched despite the positive outlook.

Income statement (in SAR Mn)	2021	2022	2023	2024e	2025e	2026e	2027e
Revenue	962	1,223	1,456	1,648	1,881	2,134	2,404
Cost of revenue	-476	-632	-680	-783	-903	-1,046	-1,202
<b>Gross Profit</b>	<b>486</b>	<b>591</b>	<b>776</b>	<b>865</b>	<b>978</b>	<b>1,088</b>	<b>1,202</b>
Administrative and general expenses	-137	-147	-142	-163	-188	-213	-240
Other operating Income / (expense)	24	13	5	5	6	6	7
Selling and distribution expenses	-28	-30	-33	-41	-47	-53	-60
<b>EBIT</b>	<b>345</b>	<b>427</b>	<b>586</b>	<b>666</b>	<b>749</b>	<b>828</b>	<b>909</b>
<b>EBITDA</b>	<b>451</b>	<b>543</b>	<b>718</b>	<b>782</b>	<b>879</b>	<b>975</b>	<b>1,074</b>
Finance income	4	19	52	45	45	45	45
Finance costs	-70	-75	-87	-83	-83	-82	-82
<b>PBT</b>	<b>279</b>	<b>370</b>	<b>550</b>	<b>627</b>	<b>711</b>	<b>791</b>	<b>872</b>
Zakat	-3	-8	-41	-50	-57	-63	-70
<b>Net Profit</b>	<b>276</b>	<b>362</b>	<b>510</b>	<b>577</b>	<b>654</b>	<b>727</b>	<b>802</b>

Balance Sheet (in SAR Mn)	2021	2022	2023	2024e	2025e	2026e	2027e
Property and equipment	659	705	709	748	879	1,024	1,204
Right-of-use assets	1,284	1,213	886	851	816	780	743
Intangible assets	15	14	14	14	14	14	14
<b>Total non-current assets</b>	<b>1,958</b>	<b>1,932</b>	<b>1,621</b>	<b>1,614</b>	<b>1,710</b>	<b>1,818</b>	<b>1,961</b>
Trade receivables	185	233	391	330	376	427	481
Other current assets	158	178	51	247	320	363	409
Cash and bank balances	872	940	1,210	1,370	1,476	1,626	1,734
<b>Total current assets</b>	<b>1,215</b>	<b>1,351</b>	<b>1,664</b>	<b>1,959</b>	<b>2,184</b>	<b>2,428</b>	<b>2,635</b>
<b>Total Assets</b>	<b>3,173</b>	<b>3,284</b>	<b>3,285</b>	<b>3,572</b>	<b>3,894</b>	<b>4,246</b>	<b>4,596</b>
Share capital	800	800	800	800	800	800	800
Reserves	7	47	101	101	101	101	101
Retained earnings	155	227	333	559	823	1,109	1,387
<b>Total shareholders' equity</b>	<b>962</b>	<b>1,073</b>	<b>1,234</b>	<b>1,459</b>	<b>1,724</b>	<b>2,010</b>	<b>2,288</b>
Long-term loan	500	500	567	537	507	477	447
Employees' end of service benefits	73	78	87	98	113	128	144
Lease liabilities	1,322	1,288	1,011	1,074	1,093	1,112	1,131
<b>Total non-current liabilities</b>	<b>1,894</b>	<b>1,866</b>	<b>1,665</b>	<b>1,708</b>	<b>1,713</b>	<b>1,717</b>	<b>1,722</b>
Current lease liabilities	108	64	69	57	58	59	60
Trade payables	16	65	45	63	72	84	96
Long term loan current portion	0	0	36	0	0	0	0
Other current liabilities	194	216	235	285	328	377	430
<b>Total current liabilities</b>	<b>317</b>	<b>344</b>	<b>385</b>	<b>404</b>	<b>458</b>	<b>519</b>	<b>586</b>
<b>Total liabilities</b>	<b>2,211</b>	<b>2,210</b>	<b>2,051</b>	<b>2,113</b>	<b>2,170</b>	<b>2,236</b>	<b>2,308</b>
<b>Total equity and liabilities</b>	<b>3,173</b>	<b>3,284</b>	<b>3,285</b>	<b>3,572</b>	<b>3,894</b>	<b>4,246</b>	<b>4,596</b>

Cash Flow (in SAR Mn)	2021	2022	2023	2024e	2025e	2026e	2027e
Cash from operations	309	556	696	702	797	920	1,012
Investing cash flow	-528	282	-596	-100	-207	-235	-288
Financing cash flow	-4	-389	-329	-352	-390	-441	-524
Change in cash	-223	448	-230	659	106	150	108
Beginning cash	715	492	940	710	1,370	1,476	1,626
<b>Ending cash</b>	<b>492</b>	<b>940</b>	<b>710</b>	<b>1,370</b>	<b>1,476</b>	<b>1,626</b>	<b>1,734</b>

Ratio Analysis	2021	2022	2023	2024e	2025e	2026e	2027e
<b>Per Share</b>							
EPS (SAR)	3.4	4.5	6.4	7.2	8.2	9.1	10.0
BVPS (SAR)	12.0	13.4	15.4	18.2	21.5	25.1	28.6
DPS (SAR)	2.3	3.2	4.4	4.9	5.5	6.5	7.5
FCF per share (SAR)	-2.7	10.5	1.2	7.5	7.4	8.6	9.0
<b>Valuation</b>							
Market cap (SAR Mn)	8,480	8,480	15,552	21,792	21,792	21,792	21,792
EV (SAR Mn)	9,918	9,392	16,525	22,089	21,973	21,813	21,695
EBIDTA (SAR Mn)	451	543	718	782	879	975	1,074
P/E (x)	30.8	23.4	30.5	37.7	33.3	30.0	27.2
EV/EBITDA (x)	22.0	17.3	23.0	28.3	25.0	22.4	20.2
Price/Book (x)	8.8	7.9	12.6	14.9	12.6	10.8	9.5
Dividend Yield (%)	2.1%	3.0%	2.3%	1.8%	2.0%	2.4%	2.8%
Price to sales (x)	8.8	6.9	10.7	13.2	11.6	10.2	9.1
EV to sales (x)	10.3	7.7	11.4	13.4	11.7	10.2	9.0
<b>Liquidity</b>							
Cash Ratio (x)	1.6	2.7	1.8	3.4	3.2	3.1	3.0
Current Ratio (x)	3.8	3.9	4.3	4.8	4.8	4.7	4.5
<b>Returns Ratio</b>							
ROA (%)	8.7%	11.0%	15.5%	16.2%	16.8%	17.1%	17.4%
ROE (%)	28.6%	33.8%	41.3%	39.6%	37.9%	36.2%	35.1%
ROCE (%)	9.6%	12.3%	17.6%	18.2%	19.0%	19.5%	20.0%
<b>Cash Cycle</b>							
Accounts Payable turnover (x)	30.1	9.7	15.2	12.5	12.5	12.5	12.5
Receivables turnover (x)	5.2	5.2	3.7	5.0	5.0	5.0	5.0
Payable Days	12	38	24	29	29	29	29
Receivables days	70	70	98	73	73	73	73
Cash Cycle	58	32	74	44	44	44	44
<b>Profitability Ratio</b>							
Net Margins (%)	28.6%	29.6%	35.0%	35.0%	34.8%	34.1%	33.4%
EBITDA Margins (%)	46.9%	44.4%	49.3%	47.4%	46.7%	45.7%	44.7%
PBT Margins (%)	28.9%	30.3%	37.8%	38.1%	37.8%	37.0%	36.3%
EBIT Margins (%)	35.9%	34.9%	40.3%	40.4%	39.8%	38.8%	37.8%
Effective Tax Rate (%)	1.1%	2.2%	7.4%	8.0%	8.0%	8.0%	8.0%
<b>Leverage</b>							
Total Debt (SAR Mn)	1,929	1,852	1,683	1,667	1,657	1,647	1,637
Net Debt (SAR Mn)	1,438	912	973	297	181	21	-97
Debt/Equity (x)	2.0	1.7	1.4	1.1	1.0	0.8	0.7
Net Debt/EBITDA (x)	3.2	1.7	1.4	0.4	0.2	0.0	-0.1
Net Debt/Equity (x)	1.5	0.8	0.8	0.2	0.1	0.0	-0.0

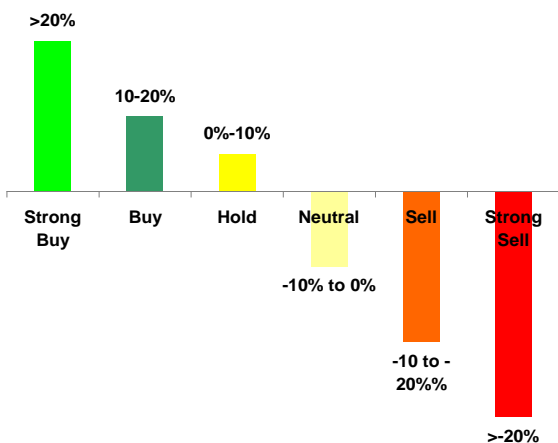
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## Rating Criteria and Definitions

### Rating



### Rating Definitions

<b>Strong Buy</b>	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
<b>Buy</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
<b>Hold</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
<b>Neutral</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
<b>Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
<b>Strong Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe

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