



Saudi Ground Services Co. (SGS) posted a net loss of SAR 197.9mn in Q2-20, more than our and consensus estimate of a net loss of SAR 158.9mn and SAR 187.4mn, respectively. The deviation of net loss from our estimate was primarily due to higher-than-expected cost of sales and a lower-than-expected top line. Revenue plummeted by 82.2% Y/Y to SAR 115.1mn (11.2% below our estimate of SAR 129.6mn), as flights remained suspended for most of the period during the quarter due to COVID-19. Volume of operations dropped to as low as 18% of normal during the quarter. We reiterate our **“Neutral”** recommendation and TP of **SAR 27.9/share** on the stock.

- SGS registered its second consecutive net loss of SAR 197.9mn in Q2-20, which was higher than our estimate of a net loss of SAR 158.9mn, as cost of sales were above, while revenue was below our anticipation. The bottom line was dragged down by a sharp decline in revenue, partially offset by a reduction in cost driven by initiatives implemented to improve operating efficiency and mitigate the impact of COVID-19. Without cost-cutting initiatives, net loss was estimated to reach as high as SAR 407.9mn. Loss from equity accounted investments was SAR 8.9mn.
- SGS's revenue fell steeply by 82.2% Y/Y to SAR 115.1mn in Q2-20, 11.2% below our estimate of SAR 129.6mn. The top line was impacted by the significant decline in operations to approximately 18% of the volume before the pandemic hit. Both international and domestic flights remained grounded in April and May 2020, except for evacuation flights; domestic flights resumed partially in June. During the quarter, SGS initiated disinfection services for aircraft, which contributed more than SAR 32mn to the revenue.
- The company registered a gross loss of SAR 136.4mn against a gross profit of SAR 194.3mn a year ago. Gross loss was higher than our estimate of SAR 77.8mn primarily due to higher cost of sales (SAR 251.5mn) and lower revenue.
- Operating loss stood at SAR 196.1mn in Q2-20 versus an operating profit of SAR 125.2mn in Q2-19. However, operating loss was limited by cost reduction efforts, thus lowering operating expenses by SAR 202.2mn Y/Y and administrative costs by SAR 7.8mn Y/Y. Total permanent cost reduction was SAR 31mn per quarter.

AJC View: In Q2-20, SGS recorded its second quarterly loss due to unprecedented operating conditions attributed to the COVID-19 outbreak and subsequent precautionary measures. With the gradual resumption of domestic flights, operating conditions are expected to slightly improve in Q3-20. However, we believe the rate of recovery would be slow, given that the pandemic is not yet under control. We expect SGS's revenue to remain under pressure through H2-20. 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 airports and improving airports capacities to serve a larger number of visitors. We maintain our **“Neutral”** recommendation on SGS with a TP of **SAR 27.9/share**.

Results Summary

SARmn (unless specified)	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	648	512	115	-82.2%	-77.5%	-11.2%
Gross Profit	194	101	-136	NM	NM	NM
<i>Gross Margin</i>	<i>30.0%</i>	<i>19.7%</i>	<i>-118.5%</i>	-	-	-
EBIT	125	-8	-196	NM	NM	NM
Net Profit	124	-52	-198	NM	NM	NM

Source: Company reports, Aljazeera Capital

Neutral

Target Price (SAR) 27.9

Upside / (Downside)* -4.0%

Source: Tadawul *prices as of 5th of August 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenues	2,554	2,540	1,517
Growth %	-1.2%	-0.6%	-40.3%
Net Income	368	455	-128
Growth %	-26.5%	23.5%	NM
EPS	1.96	2.42	-0.68

Source: Company reports, Aljazeera Capital

Key Ratios

	FY18	FY19	FY20E
Gross Margin	26.8%	27.0%	10.9%
Net Margin	14.4%	17.9%	-8.4%
P/E	15.8x	14.5x	NM
P/B	2.0x	2.2x	1.9x
EV/EBITDA	10.7x	10.2x	28.7x

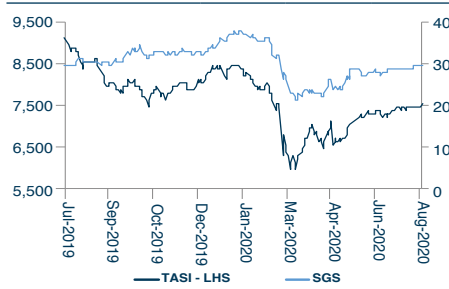
Source: Company reports, Aljazeera Capital

Key Market Data

Market Cap (bn)	5.4
YTD %	-17.2%
52 Week High/ Low	37.9/20.3
Shares Outstanding (mn)	188.0

Source: Company reports, Aljazeera Capital

Price Performance



Source: Tadawul, Aljazeera Capital

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- 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.
- 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.
- 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.
- 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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