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INVESTMENT RESEARCH | Saudi Arabia

Airport services

Saudi Logisitics Services	HOLD
12M Price Target (SAR)	176.41
CMP (SAR)	163.00
Potential Upside (%)	8.2%
Market Cap (SAR mn)	13,040
P/B (2023E)	10.8x
P/E (2023E)	30.0x
EV/EBITDA (2023E)	21.3x
Dividend Yield (2023E)	0.0%
ROE (2023E)	36.1%

Saudi Ground Services	BUY
12M Price Target (SAR)	37.95
CMP (SAR)	34.15
Potential Upside (%)	11.1%
Market Cap (SAR mn)	6,420
P/B (2023E)	2.9x
P/E (2023E)	25x
EV/EBITDA (2023E)	17x
Dividend Yield (2023E)	0.0%
ROE (2023E)	8.7%

Saudi Air transport – ready to take off

Saudi air transport is undergoing a massive transformation with the government undertaking plans to renovate and expand existing airports along with adding new ones. These projects are part of the Vision 2030 and National Logistics and Transport Strategy (NLTS) which envisages to triple the passenger traffic from the current levels and double the air cargo volumes by 2030. Saudi is centrally placed between three continents and the government is making efforts to use this geographical advantage and provide large global corporates an opportunity to establish a regional hub as well as promote tourism. While on one side existing airline operators such as Saudia are placing huge orders to expand their fleet size, on the other side new airline operators such as Riyadh Air and Neom Air are being incorporated to capitalize on the growing opportunity. Airports are also being expanded to manage the incremental volume of import, export and transit goods that are being embarked and disembarked in the various stations. We believe the Saudi air transport industry is in an upcycle and all the stakeholders who are associated with the industry will be beneficiaries. We initiate coverage on two companies Saudi Logistics Services (SAL) and Saudi Ground Services (SGS). Both these companies provide critical airport services within the country and have an unbeatable market share. They are part of the Saudi airlines group which holds majority stake in them and are also its biggest client. We believe both these companies are unique and will witness significant increase in revenue and profits over the next five years. They are also the few available opportunities to participate in the Saudi air transport growth story

Saudi Logistics Services (SAL): SAL was a division of Saudia Airlines until 2019 and it was carved out into a separate corporate entity and later divested through an IPO in Nov 2023. It is currently a dominant player in the Saudi air cargo market with 95% market share. The recent venture into logistics and additional business segments that could be added through passenger and fulfillment services will make it an end to end logistics provider. The current valuations still hold upside despite the 54% rally post IPO. We expect expanded capacities, higher volumes, declining debt to drive double digit net profit growth over the next five years.

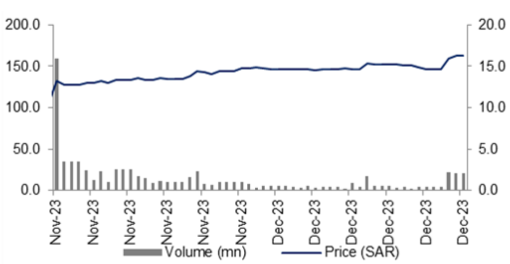
Saudi Ground Services (SGS): SGS revenues are directly related to the passenger traffic and it will be the biggest beneficiary of the current ambitious plan of the government to increase the air passenger flow by 3x from the current level. Being a service company, SGS works on an asset light model. This limits the requirement of debt and the limited capex augurs well for cash generation. Operations have reached 98% of pre covid 2019 levels evidencing normalcy. We believe the monopoly status and uptick in the market will put SGS in sweet spot and provide significant upside to the company going forward.

INVESTMENT RESEARCH | Saudi Arabia

Support services

HOLD: 12M TP @ 176.41

Valuation Summary (TTM)			
Price (SAR)			163.00
PER (x)			30.0
P/Book (x)			10.8
P/Sales (x)			9.3
EV/Sales (x)			9.9
EV/EBITDA (x)			21.3
Dividend Yield (%)			1.2
Free Float (%)			30%
Shares O/S (mn)			80
YTD Return (%)			NA
Beta			0.8
(mn)		**SAR**	**USD**
Market Cap		13,040	3,476
Total Assets		13,883	3,701
Price performance (%)	**1M**	**3M**	**12M**
SAL	10%	NA	NA
Tadawul All Share Index	7%	8%	15%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR)	100,602	NA	NA
Avg Daily Volume (,000)	810	NA	NA
52 week	**High**	**Low**	**CTL***
Price (SAR)	164.00	116.60	39.8
* CTL is % change in CMP to 52wk low			
Major shareholders			
Saudi Arabian Airlines			49.0%
Tarabot Air cargo			21.0%
Others			30.0%
Other details			
Exchange			Saudi Arabia
Sector			Support Services
Index weight (%)			NA
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	NA	3.44	4.53
BVPS (SAR)	NA	13.41	15.03
DPS (SAR)	0.00	2.25	3.81
Payout ratio (%)	NA	65%	84%



Saudi Logistics Services – Connecting the dots

Saudi Logistics Services (SAL) is the market leader in the air cargo segment in Saudi Arabia with 95% market share. The company is part of Saudia Airlines group and was carved out as a separate entity and listed on the Saudi exchange in Nov 2023. Saudi air cargo industry is expected to witness significant growth on the back of several initiatives undertaken by the government to promote Saudi as a trade and business hub. It is estimated that air cargo will increase by 14% CAGR (2022-30e) and SAL will be the biggest beneficiary of this growth. The company is also adding additional capacities in the logistics segment to vertically integrate its service offerings. As of 9M23 the air cargo segment contributed to 87% of the total revenue, while logistics added 13%. We expect the logistics segment to grow at a 28% CAGR (2022-27e) and air cargo to increase by 11%, leading to an aggregate growth in top line of 14% CAGR (2022-27e). SAL has solid backing from its parent who is also its single biggest client. It has well entrenched relationships with government entities and capabilities already built to global standards, which are difficult to replicate resulting in high entry barriers for new entrants. Margins are however likely to decline gradually as the contribution of low margin logistics business increase. We expect net profit to grow by CAGR 14.4% over 2022-27e. The stock price has moved up by 54% since listing, reflecting the positive developments in the company. We arrive at a blended intrinsic value of SAR 176.41/share, which provides and upside of 8.2% from current levels. We have a positive outlook on the company and the air traffic growth in Saudi. We initiate coverage on SAL with a HOLD rating.

Unbeatable leadership position, and government impetus makes SAL the best proxy for Saudi air traffic growth: SAL is a well-established leader providing critical support to the air transport sector. We believe the current upcycle and the additional business segments such as a logistics, ground handling and fulfillment services to provide a sustainable revenue growth. Aggressive plans by the government and airline operators coupled with the market reverting to post covid volumes will keep the demand high. We do not see any threat from competition that will erode market share significantly for SAL, thereby making the company a pure play on the Saudi air traffic growth story.

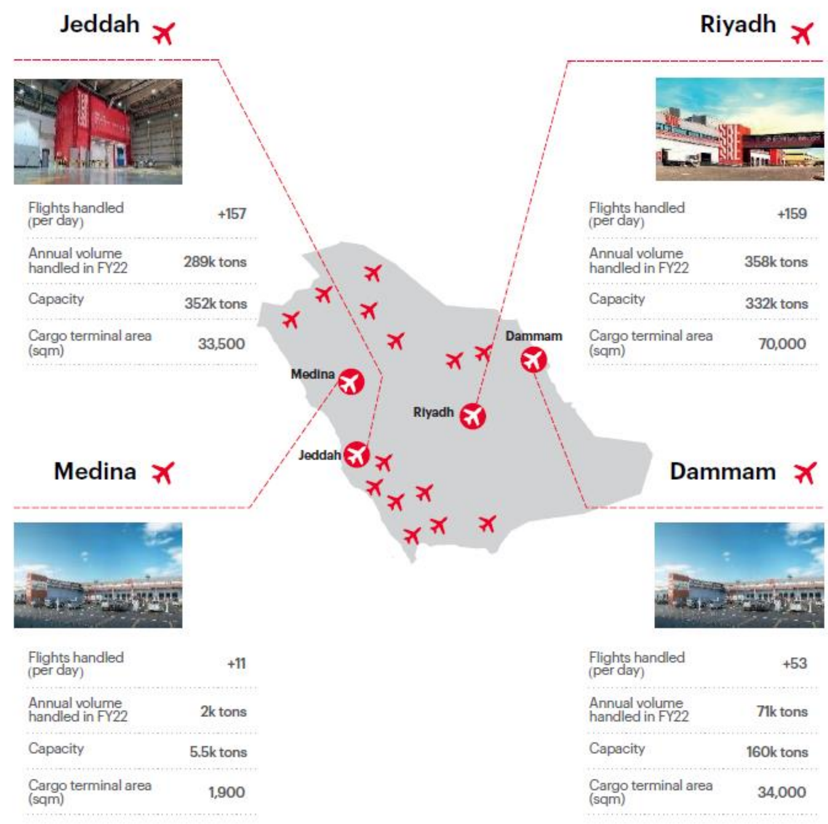
Valuations still carries upside despite a rally post IPO: SAL will benefit from a confluence of multiple factors such as leadership position, expansion and transformation of the industry. Post five years of difficult operations, SAL is coming out stronger. We expect expanded capacities, higher volumes, declining debt to drive double digit net profit growth over the next five years. The company has envisaged a SAR 1.6bn capex program to further enhance its capabilities by 2027e and capture the growing opportunity. We are positive on the expected growth in Saudi air traffic and believe SAL is a one of its kind company to be listed in the region. We initiate coverage on SAL with a HOLD rating and a target price of SAR 176.41 per share which offers 8.2% upside from current levels.

SAL is a near monopoly in air cargo business in Saudi …

SAL is a near monopoly with 95% market share in Saudi air cargo market

SAL was a division of Saudia Airlines until 2019 and it was carved out into a separate corporate entity and later divested through an IPO in Nov 2023. It is currently a dominant player in the Saudi air cargo market with 95% market share. The company has presence across 18 stations in the country, with majority operations in four key international airports - Riyadh, Jeddah, Dammam and Medina. The revenue is classified under two business segments - air cargo handling services (87% of revenue in 2022) with a total cargo handling capacity of 849,500 tons and the recently started logistics solutions (13% of revenue in 2022) comprising a warehousing space of 139,402 sqm. The clientele includes cargo/passenger aircrafts, freight forwarders, logistics customers and consignees.

Key locations and facilities of SAL as of Dec 2022

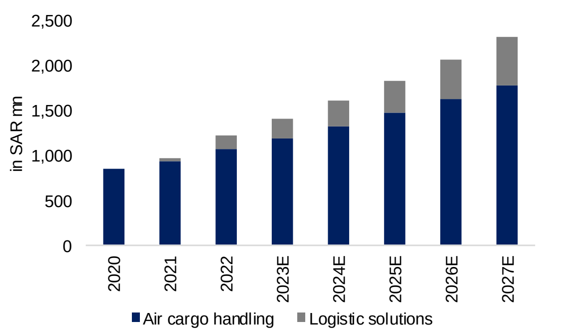


*Source: Company report

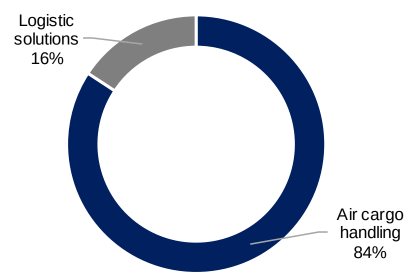
SAL has a well-established network …

The company caters to over 130 customers including 58 cargo operators under long term agreements. SAL has some of the largest airline companies as its top 10 customers, which contributed to 35% of the total revenue. Notably, Saudia Cargo, which is part of the Saudia airlines group carried 68% of total cargo volumes of the country in 2022 and is SAL's largest customer (22% of the total revenue in 2022). Further, the various long term relationships it has established with government institutions such as GACA (General Authority of Civil Aviation), ZATCA (Zakat and Tax Customs Authority), GDI (the General Directorate of Investigation) and SFDA (Saudi Food and Drug Authority), is a critical competitive advantage and difficult to replicate for any other cargo service provider.

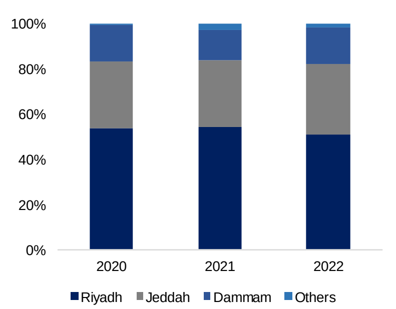
Air cargo is the main business; logistics is new entrant



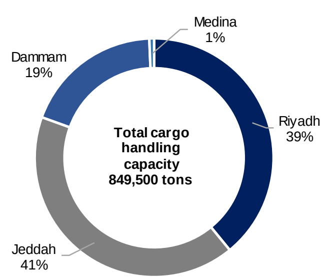
Logistics contributed 16% of revenue in 9M23



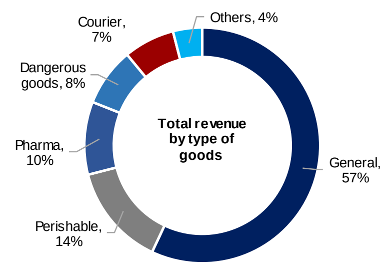
Riyadh+Jeddah contribute >70% revenue



Jeddah has the largest facility



Pharma likely to increase going forward

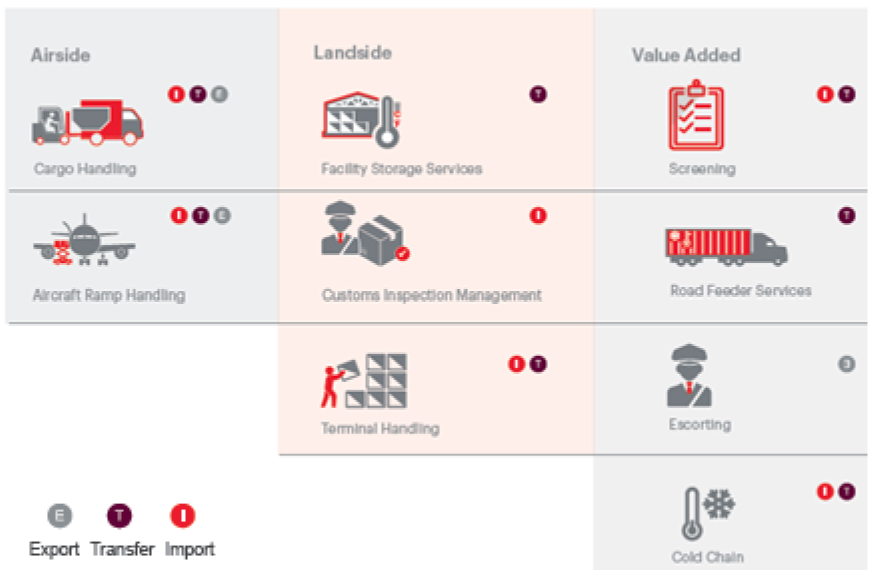


* Source: Company reports, US research

Air Cargo handling is the legacy business and main driver for top line growth

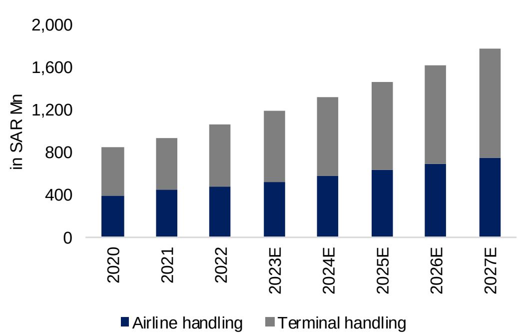
Air cargo handling is the main revenue contributor …

Air cargo handling is a critical support service that was started by SAL to assist airline operators who arrive in Saudi to safely embark and disembark their goods. The services have expanded over the period and under the air cargo segment, the company currently offers airside services (aircraft ramp and cargo handling) and landside services (terminal handling, facility storage services and customs inspection management) along with many value-added services (road feeder services, cold chain services, escorting services and screening services).

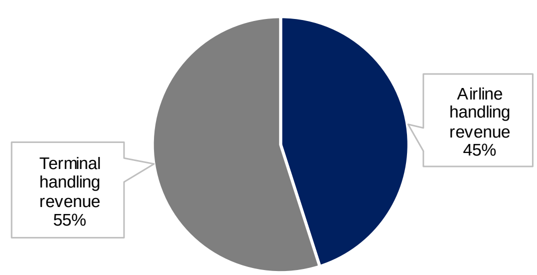


*Source: Company reports

SAL provides both air side and landside services



Land side terminal revenue is higher at 55%

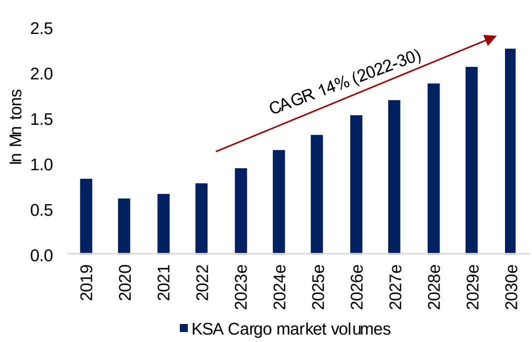


*Source: Company reports, US research

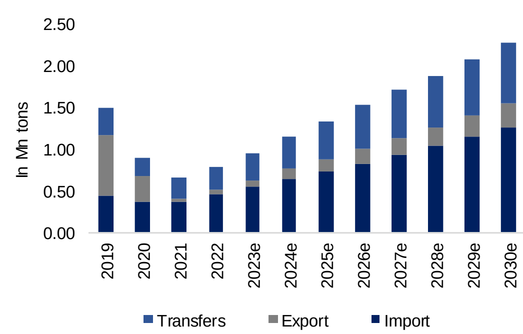
Saudi lies at the intersection of three continents …

The geographical advantage of being located between Europe, Asia and Africa makes Saudi an attractive hub for trade. In 2022, the air cargo volumes managed by SAL included 52% imports, 42% transit and only 6% export. While the current export contribution remains low, we expect the impetus provided to manufacturing and indigenous production to increase the volumes going forward. It is estimated that the overall Saudi air cargo volumes will grow from the current 790,534 tons (as of 2022) to 2.3mn tons (by 2030) at a CAGR of 14%. This growth is attributed to multiple factors such as the buoyancy in the Saudi economy, triggered by diversification efforts, population growth and impetus provided from the Vision 2030. Export volumes are expected to increase by 21% CAGR (2022-30e), on the back of significant rise in pharma, military, entertainment sectors. During the same period imports is expected to rise by 15% and transit 13% CAGR (2022-30e).

Saudi air cargo to grow at a 14% CAGR (2022-30e)



Export contribution to increase going forward

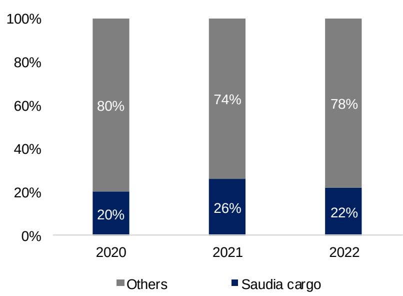


*Source: Company reports, US research

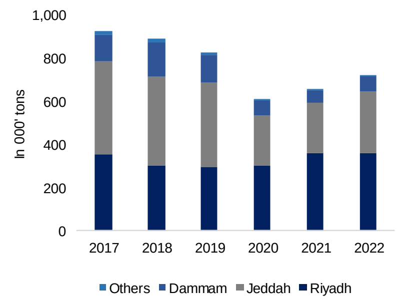
Air cargo revenue to increase by 11% CAGR (2022-27e) …

SAL handled a total of 721,722 tons of cargo in 2022 and we expect the air cargo volume to grow at 12% CAGR (2022-27e) on the back of the expected increase in economic activities. In terms of revenue contribution, the segment contributed to 87% of the topline in 2022. The sub segment, terminal handling (47%), has grown by 12% CAGR, while airline handling (39.1%) grew by 11% CAGR (2020-22). Overall, SAL has grown its air cargo segment revenue by 12% CAGR during 2020-2022 (from a low base of 2020), and we expect it to grow at 11% CAGR (2022-27e).

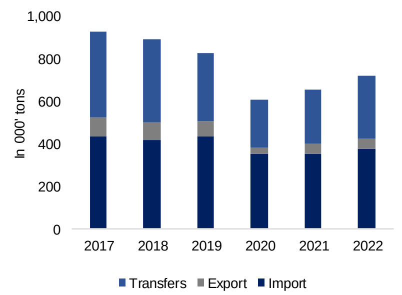
Saudia cargo is the single largest client



Recovery in major markets evident



Exports to drive growth going forward

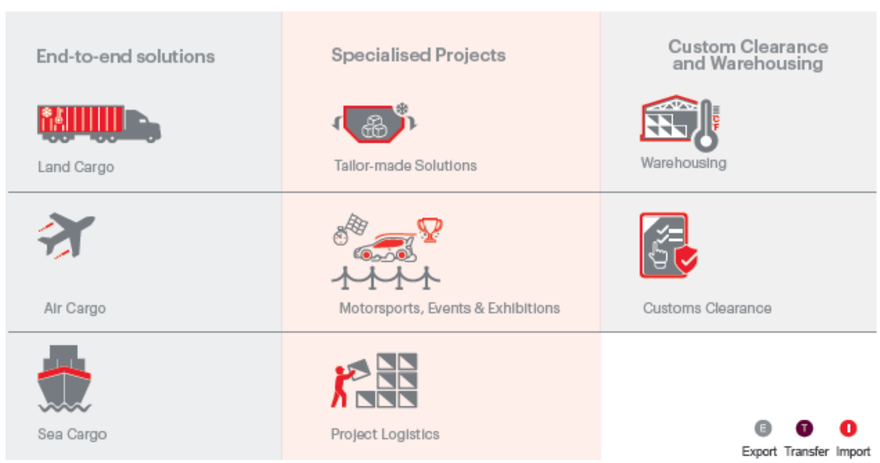


*Source: Company reports, US research

SAL hopes to provide all logistics solutions under one roof …

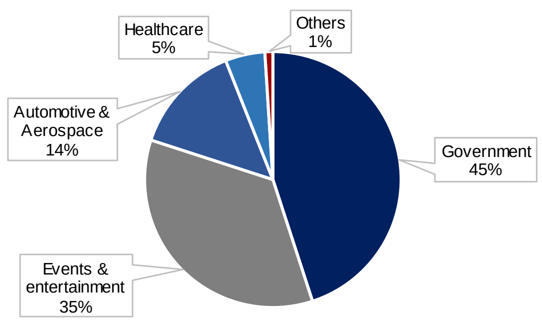
Logistics will add value, while ground handling and fulfillment is expected to diversify the revenue steam

Capitalizing its leading market position in cargo handling and to vertically integrate its services, SAL launched the logistics solutions segment in October 2021. This segment has established a strong global presence through its various partnerships with major service providers across 296 locations in Europe, Asia Pacific, MENA and Americas. The inclusion of the logistics segment has further vertically integrated the company and it has been able to offer its clients a one stop end to end cargo management solution.

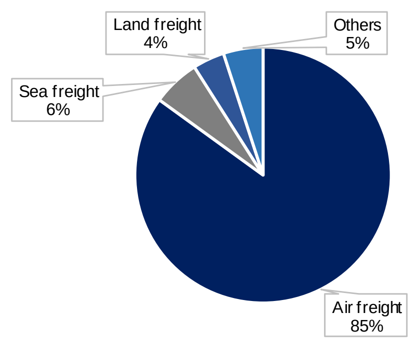


*Source: Company reports

Government is the major customer for logistics



Revenue contribution highest from air frieght



*Source: Company reports, US research

SAL also handles special logistics projects for major events such as entertainment/sports/expo, customized industrial projects and also provides customs clearance & warehousing services. Some of the marquee customers include, Saudia Aerospace Engineering Industries, King Salman Humanitarian Aid & Relief Center, Ministry of sports, MDL Beast, Royal Commission for Alula and the General Entertainment Authority. The segment's revenue grew rapidly by 6x from SAR 23mn in 2021 to SAR 160mn in 2022 and contributed to 13% of the topline (2022). We expect this segment to compliment air cargo growth with overlapping clients and grow revenue at 28% CAGR (2022-27e).

Passenger ground handling and fulfilment services will add to the revenue stream …

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. It has partnered with Menzies Aviation, a well-established and leading global passenger ground services provider to study the feasibility of the market. The passenger ground handling segment is highly correlated to passenger traffic and the Vision 2030 forecasts the passenger traffic to reach 330mn by 2030 from the current 100mn. Saudi Ground Services (another subsidiary of Saudia) is a near monopoly in the segment and manages 95% of the ground handling in Saudi. While the entry of SAL into the segment will capitalize on the already existing capabilities and network of the company, by adding a new revenue stream, it will also support SGS in managing the exponential growth expected in air passenger traffic. Fulfilment services is another segment that is gaining importance. Through this segment the company intends to capture the growing e-commerce market. It is pertinent to note that SAL's specialized cargo stations in Riyadh and Jeddah already manage majority of the ecommerce shipments and the addition will only improve the synergies within the logistics business. Considering that these two new business lines are still in the initial stages of planning, we do not forecast any revenues from them in our current estimates.

Double digit revenue growth, low debt, moderate capex will drive net profit growth

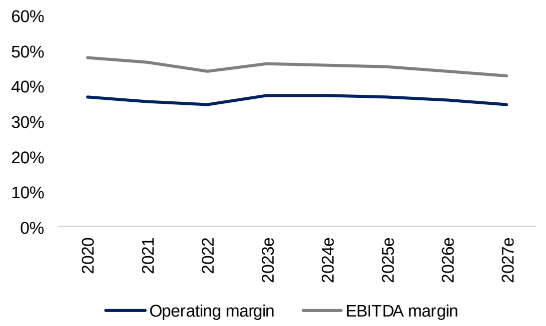
Revenue expected to grow at 14% CAGR (2022-27e) …

Majority of the revenue for SAL will continue from the air cargo segment. However, we expect growth rate to be faster in the logistics business, resulting in the current composition of revenue mix changing from 87/13 in 2022 to 76/24 by 2027e. We forecast air cargo revenue to grow by 11% CAGR (2022-27e) and logistics to increase by 28% CAGR (2022-27e). This will drive overall top line growth by 14% CAGR (2022-27e) and nearly doubling the revenue from the levels witnessed in 2022. We forecast the ambitious plans of the government continue at the current pace, which is the basic premise of our optimistic estimates.

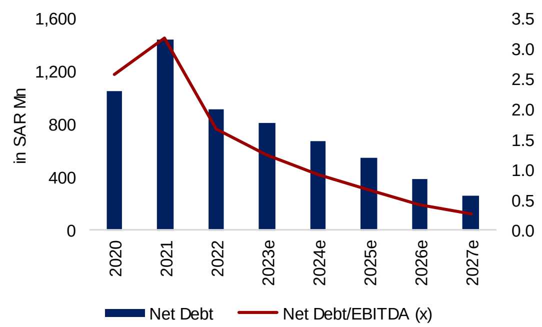
Margin could drag lower with higher logistic contribution…

While logistics segment contributed to 16% of the topline in 9M23 its contribution to EBITDA was a meagre 2.2%. The EBITDA margins in 9M23 for the logistics segment stood at 6.4% vs 54.1% in air cargo. Similarly, operating margins were at 5.8% for logistics vs 42.7% for air cargo. The gradual change in the mix will thus drag the EBITDA margins lower from the current 46.6% to 42% by 2027e. Operating margins are also likely to decline from 37% in 9M23 to 35% by 2027e. The major cost item includes employee cost, which is 39% of the direct expenses and cost for leasing assets is 10%. We do not envisage significant changes in margins to take place due to increase in costs, as the contracts with airline operators include margin for inflationary pressures.

Margins to decline due to logistics



Significant decrease in net debt going forward



*Source: Company reports, US research

Capex plans of SAR 1.6bn to come on stream by 2027…

Considering the growth prospects in the Saudi air cargo segment, SAL has planned to invest SAR 1.5bn to increase its total cargo capacity to 1.85mn tons and the warehousing space to 167,000 sqm by 2027. About, SAR 600mn has already been expended to increase the area and accommodate for expansion and SAR 900 will be spent over the next five years. It plans to add automated cold storage facilities, automated monitoring systems and cargo handling equipment. It will also improve its feeder services, racking systems and transfer vehicle capacities as part of the plan and be prepared to capitalize on the increased traffic. Recently, the company signed a lease agreement for the cargo terminal at King Fahad International airport in Dammam for the renovation, operation and maintenance of the terminal for a period of 20 years. SAL intends to invest SAR 100mn to renovate the terminal in three phases between 2024-33. Together we expect a total of SAR 1.6bn as capex over the next five years. We do not foresee any other capex plans, other than the one mentioned coming from the existing business segments. However, the new business of ground handling and fulfillment services may entail capex, which we are not including in our estimates as the plans are still being drafted.

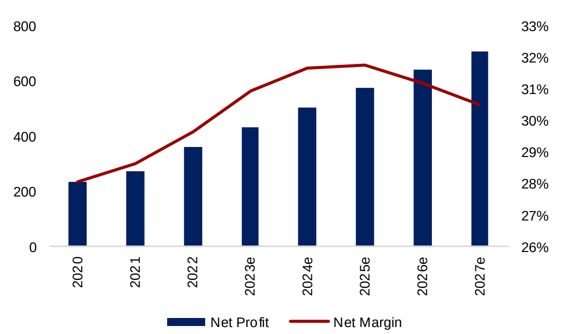
Capex plans targetted to capture the emerging opportunities in Saudi air traffic

Terminal	Current capacity		Increased capacity		Cost	Completion
	Volume (in tons)	Warehousing area (in sqm)	Volume (in tons)	Warehousing area (in sqm)	SAR Mn	Year
Riyadh	332,000	70,000	827,000	70,000	410	2027
Jeddah	352,000	33,500	770,000	63,000	396	2027
Dammam	160,000	34,000	248,000	34,000	100	2025
Total	**844,000**	**137,500**	**1,845,000**	**167,000**	**906**	

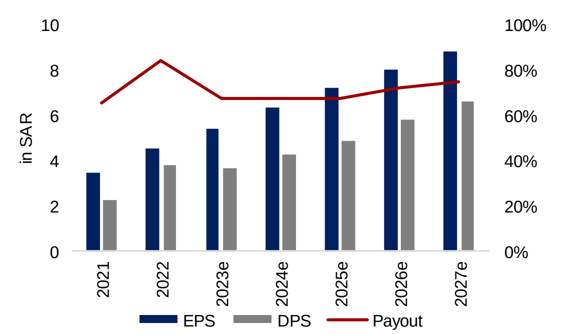
Manageable debt/equity ratios…

SAL had taken a SAR 600mn loan to finance its cargo terminal projects, out of which SAR 500mn had been drawn. We expect repayment of this loan to take place over the next five years. The current borrowing is only 15% of the equity and there are no other long-term loans. Majority of the operations are undertaken on land, equipment and vehicles that are leased. Therefore, it forms a significant part (56% of the total liabilities) of the balance sheet. The net debt (borrowings + leased assets - cash) for 9M23 stood at SAR 855mn and the net debt/EBITDA was a manageable 1.6x. We expect debt to reduce and net debt/EBITA to reach 0.3x by 2027e.

Net margins to plateau by 2026-27e



Dividend payout to increase between 2025-27e



*Source: Company reports, US research

Increasing trend in volume, revenue and relatively stable margins will lead to net profit growth. We expect net profit to rise by 14.4% CAGR (2022-27e) and net margin to hold +30% going forward. As per the IPO prospectus, SAL intends to distribute dividends on an annual or interim basis after setting aside adequate statutory and general reserves and we expect payout to increase from the current 67.5% to 75% by 2027e.

Valuation

DCF value at SAR 179.16/share…

SAL is the largest air cargo handling company in Saudi and is expected to experience high demand owing to transformation of the air logisitic sector. The company was listed on the Saudi exchange recently in November 2023 at SAR 106/share, valuing the company at SAR 8.5bn. We believe the IPO pricing was conservative, considering the near monopoly status and industry growth. We believe the industry growth, capex plans and high entry barriers for new players will ensure sustained growth and continuation of market leadership for SAL.

We have valued the company through the DCF method using forecasts through 2023e-2027e. We considered the cost of equity at 7.7%, derived from a risk free rate of 4.0%, equity risk premium of 4.5%, and beta of 0.82x. We arrive at a WACC of 7.0% for the company. We assume a terminal growth rate of 2% post the forecast period. Our DCF valuation of SAL provides an intrinsic value of SAR 179.16 per share.

Blended target price at SAR 176.41/share provides an upside 8.2%…

We also provide a target PE multiple (50% wt) of 32x to arrive at a peer valuation of SAR 173.66/share. Together with the DCF methodology (50% wt), we arrive at a blended intrinsic value of SAR 176.41/share which is higher than the current price by 8.2%. Based on our blended target price we initiate coverage on SAL with a HOLD rating.

DCF Method (in SAR Mn)	2023e	2024e	2025e	2026e	2027e
Post-tax operating profit (NOPAT)	**559**	**641**	**725**	**800**	**875**
Add: Depreciation & amortization	128	141	155	171	189
Less: Change in working capital	-112	-44	-86	-57	-60
Less: Capex	-100	-176	-201	-227	-279
Free Cash Flow to Firm	**476**	**562**	**594**	**686**	**725**
PV of Free Cash Flows	475	524	518	559	591
PV of Terminal Value					12,603
Enterprise Value					15,271
Less: Net debt					855
Less: Minorities & Pension liabilities					83
Equity value					14,333
No of shares					80
Fair value per share (SAR)					179.16

Valuation parameters	
Risk free rate (Rf)	4.0%
Beta	0.82
Equity Risk premium (Rm)	4.5%
Cost of equity (Ke)	7.7%
Terminal growth rate (g)	2.0%
Pretax Cost of Debt	4.8%
Effective tax rate	8.0%
After tax cost of debt	4.4%
Target Debt/Equity	20.0%
WACC	7.0%

Peer valuation	
PE (TTM)	23.4
Target PE	32.0
Fair value (SAR)	**173.66**

Blended Target price	Wtg	Target pr	Wtd value
DCF	50%	179.16	89.58
PE	50%	173.66	86.83
Target price (SAR)			**176.41**
CMP (SAR)			163.00
Potential upside			8.2%

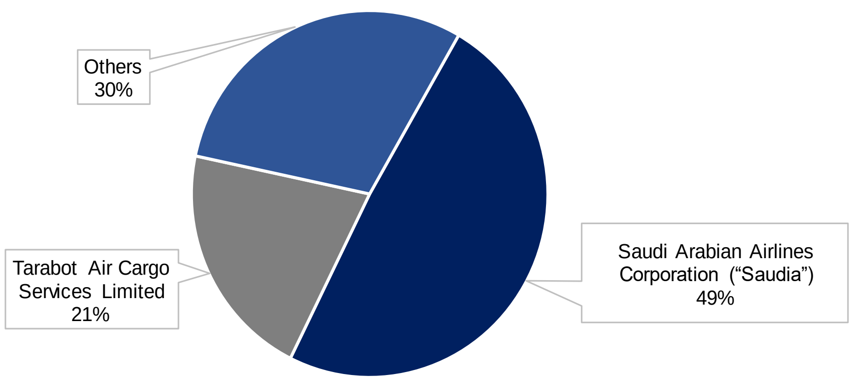
Key risks

- Changes in market structure and entry of new players such as SATS may lead to higher competition and loss of market share
- Declining demand in airline traffic can have a direct negative impact on SAL.
- High inflation will impact margins, contracts are unlikely to fully compensate for the higher costs

Company profile

Saudi Logistics Services (SAL) is a leading cargo handling services provider in KSA and was established in 2019 as a carve out from Saudi Cargo Company (SACC), a division of Saudia Airlines. While SAL was primarily incorporated to service Saudia Airlines, which is the parent company and largest client, it has built relationships with other international players over the last 50 years of existence. In November 2023, SAL was listed on the Saudi Stock Exchange through an IPO offering of 24mn shares, representing 30% of the company's share capital and valuing the company at SAR 8.5bn.

Shareholding pattern of Saudi Logistics



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Fawaz bin Mohammed bin Fawaz Alfawwaz	Chairman	Independent
2	Mohammad bin Abdullah Rashed Abunayyan	Vice Chairman	Non-Independent
3	Rasheed bin Abdul Rahman bin Nasser Al Rasheed	Director	Non-Independent
4	Faisal bin Saad bin Abdullah Albedah	Director	Non-Independent
5	Olivier Philippe Auguste Bijaoui	Director	Independent
6	Ahmed bin Abdulaziz bin Ibrahim Alwassiah	Director	Non-Independent
7	Rayan bin Mostafa bin AbdulWahab Qutub	Director	Independent
8	Fahad bin Abdullah bin Hussain Moussa	Director	Non-Independent
9	Ibraheem bin Adel Ibraheem Sheerah	Director	Non-Independent

Source: Bloomberg®, US Research

Income statement (in SAR Mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	847	962	1,223	1,403	1,600	1,824	2,066	2,324
Cost of revenue	-449	-476	-632	-673	-768	-875	-1,012	-1,162
Gross Profit	**398**	**486**	**591**	**729**	**832**	**948**	**1,054**	**1,162**
Administrative and general expenses	-135	-137	-147	-182	-211	-246	-279	-314
Other operating Income / (expense)	63.7	24	13	10	16	18	21	23
Selling and distribution expenses	-14.8	-28	-30	-35	-40	-46	-52	-58
EBIT	**312**	**345**	**427**	**522**	**597**	**675**	**744**	**813**
EBITDA	**408**	**451**	**543**	**649**	**737**	**830**	**914**	**1,003**
Finance income	-	4	19	40	45	45	45	45
Finance costs	-71	-70	-75	-90	-91	-90	-88	-87
PBT	**240**	**279**	**370**	**472**	**551**	**630**	**700**	**771**
Zakat	-2	-3	-8	-38	-44	-50	-56	-62
Net Profit	**238**	**276**	**362**	**434**	**507**	**580**	**644**	**710**

Balance Sheet (in SAR Mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property and equipment	555	659	705	749	856	975	1,105	1,270
Right-of-use assets	1,348	1,284	1,213	1,161	1,109	1,056	1,002	947
Intangible assets	17	15	14	15	15	15	15	15
Total non-current assets	**1,921**	**1,958**	**1,932**	**1,948**	**1,980**	**2,046**	**2,122**	**2,232**
Trade receivables	117	185	233	281	320	365	413	465
Other current assets		158	178	210	240	310	351	395
Cash and bank balances		872	940	1,079	1,234	1,344	1,478	1,572
Total current assets	**1,005**	**1,215**	**1,351**	**1,582**	**1,806**	**2,030**	**2,254**	**2,444**
Total Assets	**2,926**	**3,173**	**3,284**	**3,531**	**3,786**	**4,076**	**4,377**	**4,676**
Share capital	0.5	800	800	800	800	800	800	800
Reserves		7	47	47	47	47	47	47
Retained earnings	339	155	227	356	570	807	1,060	1,306
Total shareholders' equity	**803**	**962**	**1,073**	**1,202**	**1,416**	**1,654**	**1,907**	**2,152**
Long-term loan	-	500	500	465	465	430	380	330
Employees' end of service benefits	50	73	78	109	127	148	167	188
Lease liabilities	1,365	1,322	1,288	1,322	1,370	1,389	1,408	1,427
Total non-current liabilities	**1,415**	**1,894**	**1,866**	**1,896**	**1,961**	**1,966**	**1,955**	**1,945**
Current lease liabilities	13	108	64	70	72	73	74	75
Trade payables	15	16	65	54	61	70	81	93
Long term loan current portion	385	0	0	35	0	0	0	0
Other current liabilities	294	194	216	273	275	313	360	410
Total current liabilities	**708**	**317**	**344**	**432**	**408**	**456**	**515**	**578**
Total liabilities	**2,123**	**2,211**	**2,210**	**2,328**	**2,369**	**2,422**	**2,470**	**2,523**
Total equity and liabilities	**2,926**	**3,173**	**3,284**	**3,531**	**3,786**	**4,076**	**4,377**	**4,676**

Cash Flow (in SAR Mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	440	309	556	591	675	754	869	950
Investing cash flow	-227	-528	282	-100	-176	-201	-227	-279
Financing cash flow	502	-4	-389	-305	-293	-342	-391	-464
Change in cash	715	-223	448	139	154	110	134	94
Beginning cash	-	715	492	940	1,079	1,234	1,344	1,478
Ending cash	**715**	**492**	**940**	**1,079**	**1,234**	**1,344**	**1,478**	**1,572**

Ratio Analysis	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share								
EPS (SAR)		3.4	4.5	5.4	6.3	7.2	8.1	8.9
BVPS (SAR)		12.0	13.4	15.0	17.7	20.7	23.8	26.9
DPS (SAR)	-	2.3	3.8	3.7	4.3	4.9	5.8	6.7
FCF per share (SAR)		-2.7	10.5	6.1	6.2	6.9	8.0	8.4
Valuation								
Market cap (SAR Mn)		8,480	8,480	13,040	13,040	13,040	13,040	13,040
EV (SAR Mn)		9,918	9,392	13,852	13,713	13,588	13,424	13,300
EBIDTA (SAR Mn)	408	451	543	649	737	830	914	1,003
P/E (x)	0.0	30.8	23.4	30.0	25.7	22.5	20.2	18.4
EV/EBITDA (x)	2.6	22.0	17.3	21.3	18.6	16.4	14.7	13.3
Price/Book (x)	0.0	8.8	7.9	10.8	9.2	7.9	6.8	6.1
Dividend Yield (%)	0.0%	2.1%	3.6%	2.2%	2.6%	3.0%	3.6%	4.1%
Price to sales (x)	0.0	8.8	6.9	9.3	8.1	7.1	6.3	5.6
EV to sales (x)	1.2	10.3	7.7	9.9	8.6	7.5	6.5	5.7
Liqiudity								
Cash Ratio (x)	1.0	1.6	2.7	2.5	3.0	2.9	2.9	2.7
Current Ratio (x)	1.4	3.8	3.9	3.7	4.4	4.5	4.4	4.2
Returns Ratio								
ROA (%)	8.1%	8.7%	11.0%	12.3%	13.4%	14.2%	14.7%	15.2%
ROE (%)	29.6%	28.6%	33.8%	36.1%	35.8%	35.0%	33.8%	33.0%
ROCE (%)	10.7%	9.6%	12.3%	14.0%	15.0%	16.0%	16.7%	17.3%
Cash Cycle								
Accounts Payable turnover (x)	29.1	30.1	9.7	12.5	12.5	12.5	12.5	12.5
Receivables turnover (x)	7.3	5.2	5.2	5.0	5.0	5.0	5.0	5.0
Payable Days	13	12	38	29	29	29	29	29
Receivables days	50	70	70	73	73	73	73	73
Cash Cycle	38	58	32	44	44	44	44	44
Profitability Ratio								
Net Margins (%)	28.1%	28.6%	29.6%	31.0%	31.7%	31.8%	31.2%	30.5%
EBITDA Margins (%)	48.1%	46.9%	44.4%	46.3%	46.1%	45.5%	44.3%	43.1%
PBT Margins (%)	28.3%	28.9%	30.3%	33.6%	34.5%	34.5%	33.9%	33.2%
EBIT Margins (%)	36.8%	35.9%	34.9%	37.2%	37.3%	37.0%	36.0%	35.0%
Effective Tax Rate (%)	0.9%	1.1%	2.2%	8.0%	8.0%	8.0%	8.0%	8.0%
Leverage								
Total Debt (SAR Mn)	1,763	1,929	1,852	1,892	1,907	1,892	1,862	1,832
Net Debt (SAR Mn)	1,048	1,438	912	812	673	548	384	260
Debt/Equity (x)	2.2	2.0	1.7	1.6	1.3	1.1	1.0	0.9
Net Debt/EBITDA (x)	2.6	3.2	1.7	1.3	0.9	0.7	0.4	0.3
Net Debt/Equity (x)	1.3	1.5	0.8	0.7	0.5	0.3	0.2	0.1

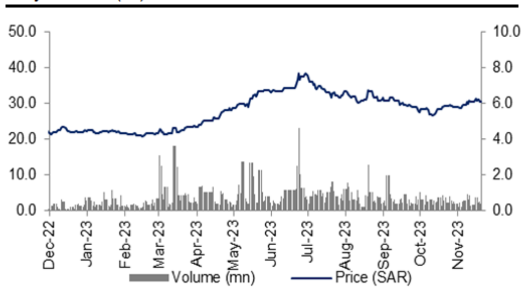
Saudi Ground Services

26th December 2023

Airport services

BUY: 12M TP @ 37.95

Valuation Summary (TTM)			
Price (SAR)			34.15
PER (x)			25.0
P/Book (x)			2.9
P/Sales (x)			2.7
EV/Sales (x)			2.2
EV/EBITDA (x)			17
Dividend Yield (%)			NM
Free Float (%)			44%
Shares O/S (mn)			188
YTD Return (%)			56%
Beta			0.9
(mn)		**SAR**	**USD**
Market Cap		6,420	1,712
Total Assets		6,048	1,612
Price performance (%)	**1M**	**3M**	**12M**
SGS	9%	15%	51%
Tadawul All Share Index	7%	8%	15%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR)	25,680	19,095	25,455
Avg Daily Volume (,000)	712	625	786
52 week	**High**	**Low**	**CTL***
Price (SAR)	39.60	20.80	64.2
* CTL is % change in CMP to 52wk low			
Major shareholders			
Saudi Arabian Airlin			52.5%
Vanguard Group Inc/T			1.9%
BlackRock Inc			1.1%
Others			44.5%
Other details			
Exchange			Saudi Arabia
Sector			Support Services
Index weight (%)			0.1%
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	-2.42	-1.35	-1.30
BVPS (SAR)	13.29	12.05	11.18
DPS (SAR)	0.00	0.00	0.00
Payout ratio (%)	0%	0%	0%



Saudi Ground services – Back to profits

Saudi Ground Services (SGS) is the largest company in Saudi that provides ground handling services to airline operators. The company currently has over 90% market share and services most of the flights that land in the various airports in Saudi. The revenues of the company are completely dependent on air traffic movement, and during 2020-22 it faced severe pressure on account of the covid induced lockdowns. The situation has reverted, and in 9M23 it achieved full normalcy in operations. SGS reported 24% YoY increase in revenues during 9M23 along with a return to profits every quarter from 1Q23 onwards. We are optimistic on the current trends and believe the impetus provided by the government to improve the air traffic infrastructure would put SGS in a sweet spot. Saudia airlines as a parent provides support as the anchor client and the company faces no major competition from other players. We expect revenue to increase by 11.1% CAGR (2023-27e) and EBITDA to grow faster at 21.6% CAGR (23-27e) on account of improvement in margins. Significant growth in revenue, improvement in profitability and near zero debt status will drive profits at 26.2% CAGR (23-27e). We arrive at a blended intrinsic value of SAR 37.95/share, which provides 11% upside from current levels. We have a positive outlook on the company and the air traffic growth, and initiate coverage on SGS with a BUY rating.

Leadership position and growth in air traffic puts SGS in a sweet spot: SGS has presence across 28 airports, both large and small with a monopoly in most of them. The company will be the biggest beneficiary of the current ambitious plan of the government to increase its passenger flow by 3x from the current level. Companies such as SGS, whose revenues are closely linked to passenger growth will witness a significant uptick going forward. SGS is aggressively building capabilities to manage the incremental demand and we believe the unbeatable market share and entrenched relationships provide adequate support for organic growth.

Asset light business model, controlled cost, strong cash generation and reverting to profits will lead to re-rating: Being a service company, SGS works on an asset light model. This limits the requirement of debt and the limited capex augurs well for cash generation. Employee cost, the largest expense item, is a factor of air traffic, which we believe is well managed. Contracts have also been re-negotiated upwards to adjust for inflation. All these factors have resulted in the company reverting to sustainable profits in 2023.

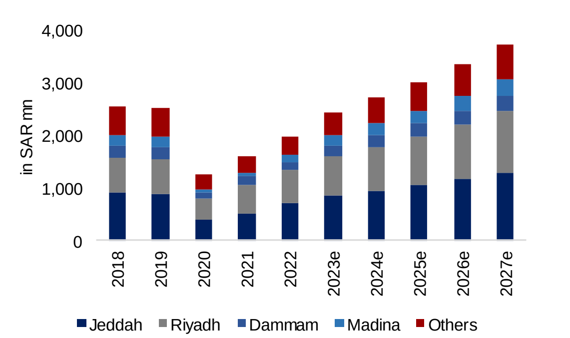
Valuation: The leadership position of SGS along with higher demand for its services will lead to a re-rating of the company. We believe SGS to be an outperformer and will provide superior returns going forward, considering the upcycle in the Saudi airline sector. We initiate coverage on SGS with a BUY rating and a target price of SAR 37.95 per share which offers 11% upside from current levels.

Market leader in ground handling service in KSA with over 90% market share, and the biggest beneficiary of the current upcycle in the airline sector

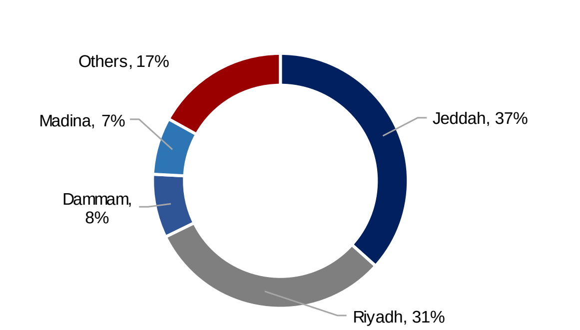
Saudi ground services (SGS) is the market leader with >90% market share in the ground handling services in the country. Over the last couple of decades, the company has invested in building capabilities, infrastructure and has a long term relationship with national airline operators, thereby providing an unbeatable market leadership in the business. While there are other ground handling companies such as Swissport, Arabasco etc, they are yet to make significant inroads into the sector and dent the market share of SGS in a meaningful manner. SGS employs over 8000+ people to provide the core operations, 88mn bags were handled across 686k flights in 2022. It additionally offers a variety of complimentary services such as fleet management, ramp services and transport, which anchor its position as a critical service provider to the airline industry.

While SGS has operations across 28 airports in Saudi, 83% of the revenue came from four main airports in 2022, Jeddah (36.6%), Riyadh (31.1%), Dammam (8.1%) and Madina (7.2%). We believe the efforts undertaken to upgrade the existing large airports and expand the smaller ones to accommodate the envisaged 300mn (c.100mn currently) passengers by 2030 will further diversify and increase the revenues from these airports and achieve its full potential. Saudi airlines, the parent company and the largest national carrier in the country has a revenue contribution of over 60%. We expect this contribution to gradually decline as more flight operators start participating in the Saudi air traffic growth story.

Upgrade and expansion of airports will drive revenue

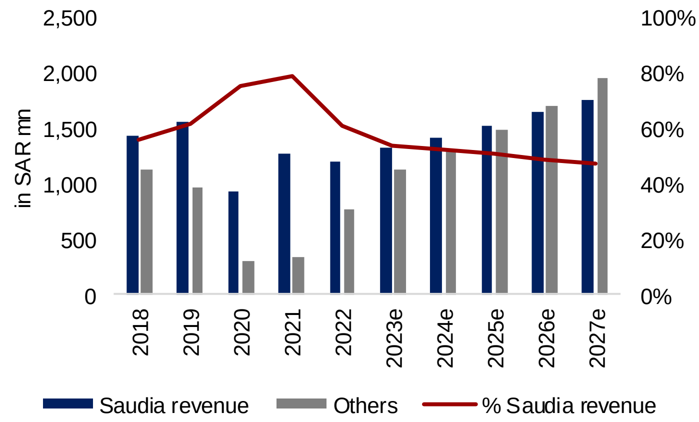


Four major airports contribute 83% of revenue



Source: Company reports, US Research

Saudia is the largest shareholder and client



Source: Company reports, US Research

Based on the impetus provided in the Vision 2030 document, the government is rapidly expanding large and small airports. The King Salman International Airport (KSIA), is a massive project which is under construction in Riyadh and is expected to accommodate 120mn passengers when completed by 2030. Four more airports are getting upgraded on a PPP basis - Abha International Airport (from 4.4mn to 8.5mn by 2023), Taif International Airport (from 600k to 4mn by 2030), Hail International Airport (targeted capacity of 3mn), and Prince Naif International Airport (targeted capacity of 5.3mn).

PAX volumes to increase on higher tourism and business related travel…

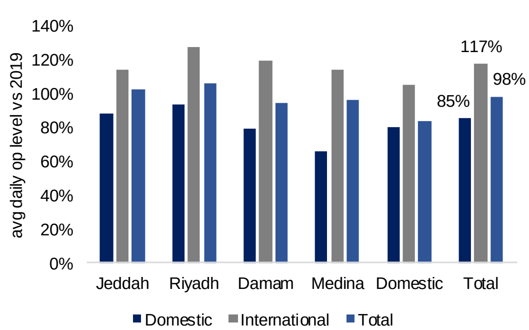
The Saudi airlines industry is on a growth path and as envisioned in the Vision 2030 document, the number of passengers are expected to triple from the pre-pandemic levels. The rise in air traffic will be on the back on an increase in religious, leisure and business related travels. We are already witnessing record traffic in 2023, surpassing earlier highs of 2019. During 1H23, the number of flights (domestic + international) increased by 27% YoY, connectivity rose by 15% and Saudi's ranking on the global connectivity index moved to 13th (from 27th in 2019). Further, the number of transit flights increased by +25% YoY in 1H23, indicating the region gaining acceptance as an international hub.

Most importantly, the largest client of SGS (Saudia airlines) witnessed passenger growth of 24% YoY during 1H23. along with a 6% YoY increase in the number of flights. Saudia is also expected to place an order for 150 aircrafts to manage the expected growth in passengers. Other than the legacy operators, the launch of Riyadh Air and Neom Air will add to the sector growth. The impetus provided by the government and rise in activity across all segments of the airline sector clearly evidence the current upward trajectory in air traffic in Saudi. We expect Saudi air passenger traffic to increase at a CAGR 15% (2022-27e). SGS has been aggressively adding capacities, technical and other staffs and is well prepared to capture this huge upcoming opportunity.

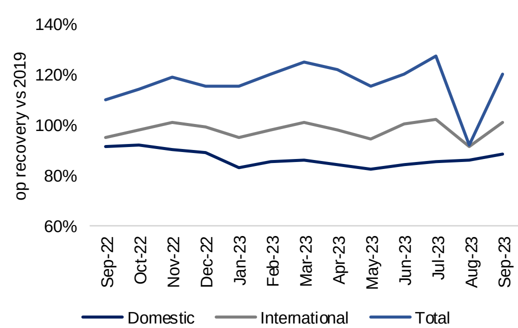
Near complete revival in operations, and re-negotiated fixed long term contracts will drive revenue

Operations of SGS are completely dependent on the air traffic volumes; due to the lock down imposed on account of the pandemic, all airports were shutdown bringing the functions of SGS to complete halt in 2020-21. Over the last couple of years', recovery has taken place and the company has managed to achieve near complete revival in operations (98%) compared to the levels witnessed in 2019. We are positive on the pace of recovery and expect steady state going forward.

Operations have reached 2019 levels as of 3Q23



Recovery took place on higher air traffice volumes



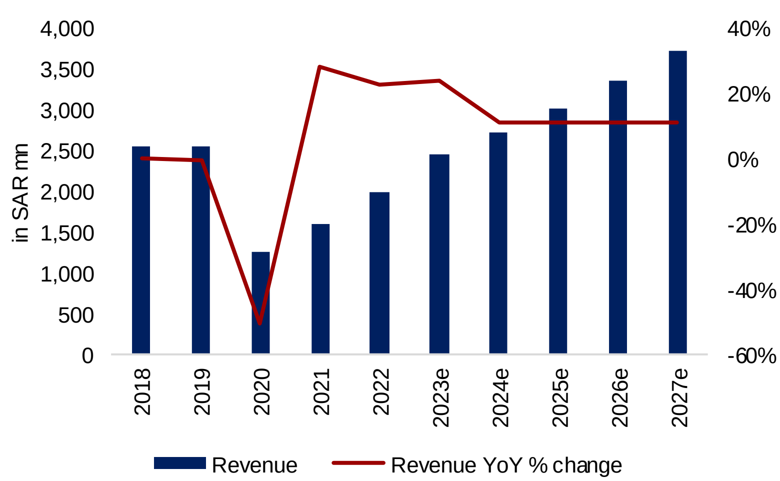
Source: Company reports, US Research

SGS has long term agreements with airline operators, and contract fees depend on the volume of traffic. Recently, the company renegotiated majority (about 80%) of its contracts to offset the impact of rising costs due to inflation. Since the agreement with international players have higher margins than the domestic, SGS will also benefit from the transformation of the airports into regional hubs, which will attract foreign airline companies. The impact of this renegotiated contracts will be positively reflected through a rise in margins over the next few quarters. We are optimistic based on the full recovery in operations, rising traffic coupled with higher engagement fees from the new contracts which we believe will be important drivers for a sustainable revenue growth.

Asset light model and operations returning to normal will aid in strong cash generation and resumption of dividends

SGS witnessed one of its highest quarterly revenues in 3Q23 at SAR 647mn. It also reported the highest 9M topline of SAR 1.8bn which was 24.5% higher on a YoY basis, clearly indicating the revival in growth and a reflection of traffic volumes. We expect the airport upgradation to allow for further traffic and this along with macro-economic developments will drive passenger volumes. Additional services such as Haykum (meet and greet), and wheelchair facilities will complement the revenue stream. Air passenger growth in Saudi is expected to rise by 15% CAGR (2022-27e) and based on this we expect revenue to increase by 11.1% CAGR (2023-27e).

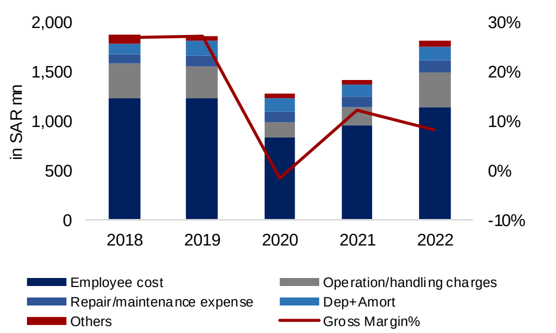
Re-negotiated contracts+higher volume to drive revenue



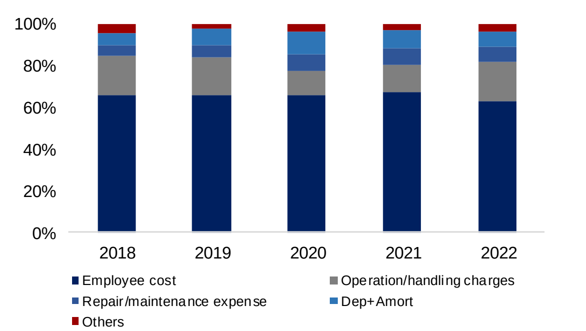
Source: Company reports, US Research

Direct expenses had been managed well and were steady at 73% of revenue, leading to a robust gross margin of 27% for the company in the pre-covid years. However, the disruption between 2020-22 led to a change in the cost structure and during 2022, the gross margins had declined to 8%. This has gradually increased to 12% by end of 3Q23, though still a long way from its historical averages. Being a service company, employee salaries form the biggest expense, contributing to 63% of the total direct cost in 2022. Additionally, the company incurs training cost for the employees recruited in various specialized technical services. We have witnessed that the change in employee cost is closely related to the movement in contract revenue and while we expect revenue to increase on account of higher passenger traffic, the rate of increase in employee cost is likely to be slower. This we believe would be due to the increasing use of technology for operations and hiring low cost employees. We are already witnessing a declining trend in the employee cost/revenue ratio since 2020, and we expect the same to get closer to the pre-covid level of 48% by 2027e. EBITDA margins have moved in line with gross margins and as of 3Q23 it stood at 17.1%. We expect EBITDA margins to reach +20% by 2026e and EBITDA to grow at 21.6% CAGR (2023-27e) in line with the gross profit growth.

Gross margins have have improved from 2020 levels



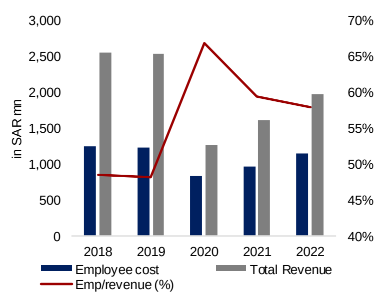
Employee cost is the highest expense item



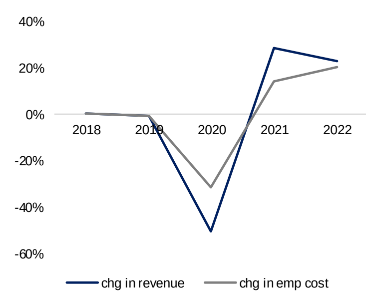
Source: Company reports, US Research

General and admin expenses have reached 2019 levels of 9.5% of revenues in 3Q23 and we expect the same to further improve by 100-150bps by 2027e. While we expect the margins to increase from the current levels, we do not expect the same to reach pre-covid numbers, as the market dynamics, service types and competitive scenarios have changed. The proliferation of low cost carriers (such as Flyadeal and Flynas) have been clearly focused on reducing expenses to keep ticket prices minimal. This would translate into pressure for companies like SGS.

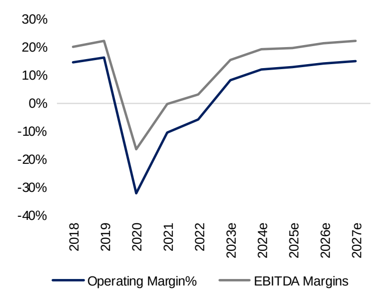
Employee/revenue reverting to mean



Employee cost a factor of revenue



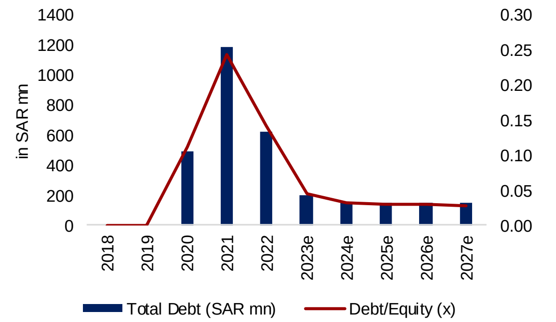
Recovery in operating and EBITDA margins



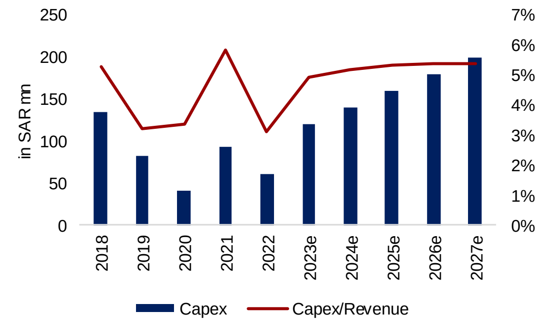
Source: Company reports, US Research

SGS has maintained a consistent capex/revenue ratio in the range of 3-5% and we do not expect much variance in the same. Most of the capex relates to maintenance, and the company operates on leased assets (including airport premises, motor vehicles, land and office buildings). Therefore, we do not expect any major increase in depreciation levels. In 2022, the company disposed all its investments in quoted shares and mutual funds, which carried a value of SAR 1.2bn in an attempt to raise cash levels. Cash which accumulated to a high of SAR 864mn at the end of 2022, was then utilized to pay off the debt over 2023. Current cash level stood at SAR 571mn, while the gross debt has been reduced to SAR 200mn (vs SAR 625mn at the end of 2022) as of 3Q23. Since operational cash flows have normalized, we do not expect further addition in debt going forward. The net debt/EBITDA stood at manageable level of 1.2x at the end of 3Q23 and debt/equity has declined to 0.05x (from 0.14x in 2022).

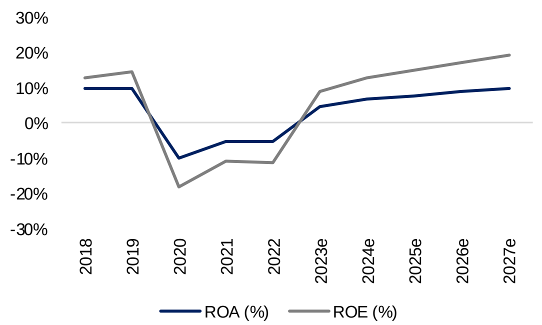
Higher operating cash to reduce debt levels



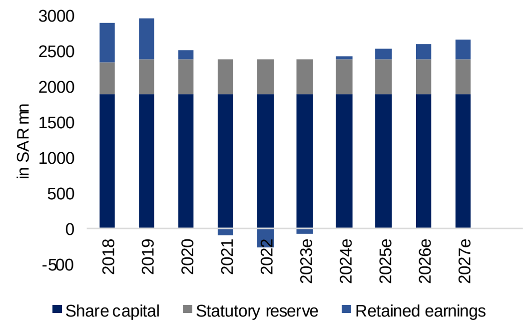
Capex to remain in line with revenue



ROA vs ROE recovering from the negative



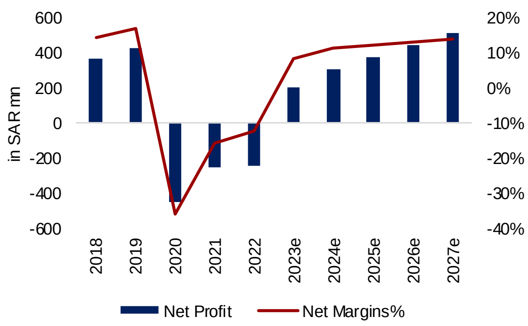
Retained earnings to revert to positive by 2024e



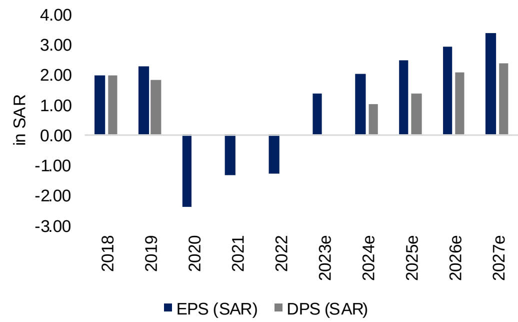
Source: Company reports, US Research

The company witnessed erosion of retained earnings due to the 3 years of losses from 2020-22. However, in 2023, it has reverted to profitability and for 9M23 total net income was at SAR 150mn compared to a loss of SAR 137mn in the same period previous year. Retained earnings, which stood at a SAR -277mn is currently at SAR -127mn and we expect by 2024e the company will revert to a positive balance. The growth in revenue and stable margins will translate into a net profit growth of 26.2% CAGR (2023-27e). We expect dividends to revert by 2024, with a payout of 50% and increasing to the pre-covid levels of 75-80% by 2025-27e.

Net profit to grow at 26.2% CAGR (2023-27e)



Dividends likely by 2024e onwards



Source: Company reports, US Research

Valuation

DCF value comes to SAR 38.72/share…

SGS is the largest ground handling service provider in Saudi, and it is expected to report record revenues from 2024e onwards. We have valued the company using DCF method using forecasts through 2023e-2027e. We have considered the cost of equity at 8.6%, derived from a risk free rate of 4.5%, equity risk premium of 5.0%, and a beta of 0.82x. We arrive at a WACC of 8.3% for the company. We assume a terminal growth rate of 2% post the forecast period. Our DCF valuation of SGS provides an intrinsic value of SAR 38.72 per share.

Blended target price at SAR 37.95/share provides an upside 11%…

We also provide a target EV/EBITDA multiple (25% wt) of 18x and PE multiple (25% wt) of 28x to arrive at a peer valuation of SAR 36.06/share and SAR 38.32/share respectively. Together with the DCF methodology (50% wt), we arrive at a blended intrinsic value of SAR 37.95/share which is higher than the current price by 11%. Based on our blended target price we initiate coverage on SGS with a BUY rating.

DCF Method (in SAR mn)	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
Post-tax operating profit (NOPAT)	**146**	**247**	**293**	**366**	**436**
Add: Depreciation & amortization	174	192	212	236	261
Less: Change in working capital	-65	-197	-218	-313	51
Less: Capex	-120	-140	-160	-180	-200
Free Cash Flow to Firm	**135**	**102**	**127**	**108**	**548**
PV of Free Cash Flows	134	94	108	85	399
PV of Terminal Value					6,903
Enterprise Value					7,724
Less: Net debt					129
Less: Minorities & Pension liabilities					574
Equity value					7,279
No of shares					188
Fair value per share (SAR)					**38.72**

Valuation parameters	
Risk free rate (Rf)	4.5%
Beta	0.82
Equity Risk premium (Rm)	5.0%
Cost of equity (Ke)	8.6%
Terminal growth rate (g)	2.0%
Pretax Cost of Debt	6.0%
Effective tax rate	15.0%
After tax cost of debt	5.1%
Target Debt/Equity	10.0%
WACC	8.3%

Peer valuation	
EV/EBIDTA (2024e)	12.60
Target EV/EBIDTA	18.00
Fair value per share (SAR)	**36.06**
PE (2024e)	16.82
Target PE	28.00
Fair value per share (SAR)	**38.32**

DCF	50%	38.72	19.36
EV/EBIDTA	25%	36.06	9.01
PE	25%	38.32	9.58
Target price			**37.95**
CMP			34.15
Potential upside			11.1%

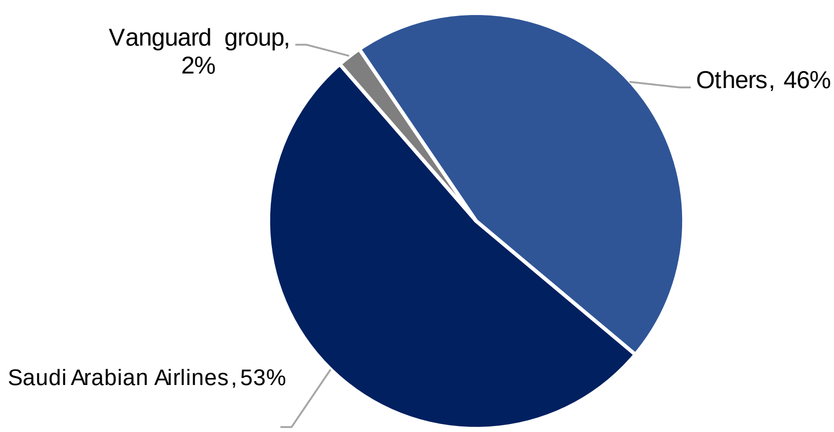
Key risks

- Changes in market structure and entry of new players may lead to higher competition and loss of market share
- Declining demand in airline traffic can have a direct negative impact on SGS.
- High inflation will impact margins, contracts are unlikely to fully compensate for the higher costs
- Increase in low cost airline could put pressure on margins?

Company profile

SGS was incorporated as a wholly owned subsidiary of Saudia in 2008. Saudia later in 2010, entered into agreements with Attar Travel Company and Attar Ground Handling Company to acquire their respective ground handling businesses. As a result of this acquisition SGS became the sole provider of ground handling services in the country. SGS currently provides ramp services, baggage handling, ticketing, passenger services, cargo handling, fleet and traffic control. As part of the Saudi privatization plan, Saudia sold 47.5% stake in SGS through an IPO in 2014. However, Saudia continues to hold majority stake (52.5%) in the company and is the primary client for SGS.

Shareholding pattern of SGS



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Khalid Al Buainain	Chairman	Independent
2	Dr. Omar Jafri	Deputy Chairman	Independent
3	Mansour Albosuli	Board Member	Independent
4	Per Utnegaard	Board Member	Independent
5	Fahd H. Cynndy	Board Member	Non executive
6	Said A Al Hadrami	Board Member	Independent
7	Nader Mohammed	Board Member	Independent
8	Ghada Ali Al Jarbou	Board Member	Independent
9	Nasser Farouk Alqawas	Board Member	Non executive

Source: Bloomberg®, US Research

Income Statement (In SAR mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	2,540	1,252	1,608	1,977	2,446	2,713	3,014	3,351	3,730
Direct Costs	-1,853	-1,273	-1,413	-1,818	-2,018	-2,157	-2,381	-2,614	-2,872
Gross profit	**687**	**-21**	**195**	**159**	**428**	**556**	**633**	**737**	**858**
Other income (Net)	0	2	10	27	30	30	30	30	30
Gen and Admin exp	-239	-257	-300	-286	-238	-244	-256	-268	-298
Impairment on trade receivables	-32	-128	-79	-19	-17	-19	-21	-23	-26
Operating Profit	**416**	**-403**	**-173**	**-120**	**202**	**323**	**386**	**476**	**563**
EBITDA	**568**	**-206**	**-4**	**62**	**377**	**515**	**597**	**711**	**824**
Finance cost	-9	-16	-27	-31	-23	-21	-23	-25	-28
Interest income	13	-	-	8	40	40	40	40	40
P&L investments at FV P&L	22	14	14	41	10	10	10	10	10
Div income	-	-	6	-	-	-	-	-	-
Share of P/L from asso & JV	12	-22	-35	24	28	30	50	50	50
Profit before Tax	**454**	**-427**	**-214**	**-78**	**257**	**382**	**462**	**550**	**636**
Zakat and income tax	-31	-27	-40	-167	-57	-76	-92	-110	-127
Net Profit	**423**	**-454**	**-254**	**-244**	**201**	**305**	**370**	**440**	**509**

Balance Sheet (in SAR mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	593	526	471	433	470	520	581	654	737
Right of use assets	183	131	122	129	364	439	514	614	714
Intangible assets	885	849	813	776	740	704	667	631	595
Other non current assets	265	160	113	165	88	88	88	88	88
Non-current assets	**1,926**	**1,666**	**1,519**	**1,503**	**1,662**	**1,750**	**1,851**	**1,987**	**2,134**
Inventories	0	0	6	10	10	11	12	13	14
Trade and other receivables	872	1,148	1,067	1,153	1,174	1,302	1,447	1,675	1,641
Prepayments and other assets	461	531	608	631	685	760	844	938	933
Investments - FVOCI	944	977	1,391	209	242	242	242	242	242
ST deposit	-	-	-	-	500	400	400	200	200
Cash and cash equivalents	120	96	255	864	100	74	90	96	111
Current assets	**2,397**	**2,751**	**3,328**	**2,868**	**2,711**	**2,789**	**3,034**	**3,165**	**3,142**
ASSETS	**4,323**	**4,417**	**4,847**	**4,371**	**4,373**	**4,540**	**4,885**	**5,152**	**5,276**
Share capital	1,880	1,880	1,880	1,880	1,880	1,880	1,880	1,880	1,880
Statutory reserve	499	499	499	499	499	499	499	499	499
Retained earnings	567	120	-114	-277	-76	38	154	209	272
Equity	**2,946**	**2,499**	**2,265**	**2,102**	**2,303**	**2,417**	**2,533**	**2,588**	**2,651**
Loans and borrowings	-	494	471	449	-	-	-	-	-
Lease liability	130	80	79	78	165	190	219	253	291
Employees' end of service benefits	531	558	581	550	596	543	569	670	597
Non-current liabilities	**661**	**1,132**	**1,131**	**1,077**	**761**	**733**	**789**	**923**	**888**
Loans and borrowings	-	-	713	176	200	150	150	150	150
Lease liability	45	42	21	54	89	103	118	136	157
Trade payable and other liabilities	21	96	84	92	101	108	119	131	144
Other current liabilities	650	648	634	870	919	1,029	1,177	1,224	1,285
Current liabilities	716	786	1,451	1,191	1,309	1,389	1,564	1,641	1,736
LIABILITIES	**1,377**	**1,918**	**2,582**	**2,269**	**2,070**	**2,122**	**2,352**	**2,564**	**2,624**
EQUITY AND LIABILITIES	**4,323**	**4,417**	**4,847**	**4,371**	**4,373**	**4,540**	**4,885**	**5,152**	**5,276**

Cash Flow (In SAR mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	966	-419	-2	32	286	375	360	287	922
Investing cash flow	-734	-40	-468	1,165	-120	-140	-160	-180	-200
Financing cash flow	-422	436	629	-587	-9	-241	-254	-385	-445
Change in cash	-190	-24	159	610	-764	-25	16	6	15
Beginning cash	310	120	95	255	864	100	74	90	96
Ending cash	**120**	**95**	**255**	**864**	**100**	**74**	**90**	**96**	**111**

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (SAR)	2.25	-2.42	-1.35	-1.30	1.37	2.03	2.46	2.93	3.38
BVPS (SAR)	15.67	13.29	12.05	11.18	12.25	12.86	13.47	13.77	14.10
DPS (SAR)	1.80	-	-	-	-	1.02	1.35	2.05	2.37
FCF per share (SAR)	1.24	-2.44	-2.50	6.37	0.88	1.25	1.06	0.57	3.84
Valuation									
Market Cap (SAR mn)	6,599	6,035	5,555	4,106	6,420	6,420	6,420	6,420	6,420
EV (SAR mn)	6,479	6,433	6,484	3,866	6,521	6,496	6,480	6,474	6,459
EBITDA	568	-206	-4	62	377	515	597	711	824
P/E (x)	15.6	-13.3	-21.8	-16.8	25.0	16.8	13.9	11.7	10.1
EV/EBITDA (x)	11.4	-31.2	-1,712.7	62.2	17.3	12.6	10.8	9.1	7.8
Price/Book (x)	2.2	2.4	2.5	2.0	2.8	2.7	2.5	2.5	2.4
Dividend Yield (%)	5.1%	0.0%	0.0%	0.0%	0.0%	3.0%	4.0%	6.0%	6.9%
Price to sales (x)	2.6	4.8	3.5	2.1	2.6	2.4	2.1	1.9	1.7
EV to sales (x)	2.6	5.1	4.0	2.0	2.7	2.4	2.2	1.9	1.7
Liqiudity									
Cash Ratio (x)	0.17	0.12	0.18	0.73	0.08	0.05	0.06	0.06	0.06
Current Ratio (x)	3.35	3.50	2.29	2.41	2.07	2.01	1.94	1.93	1.81
Quick Ratio (x)	3.35	3.50	2.29	2.40	2.06	2.00	1.93	1.92	1.80
Returns Ratio									
ROA (%)	9.8%	-10.3%	-5.2%	-5.6%	4.6%	6.7%	7.6%	8.5%	9.6%
ROE (%)	14.4%	-18.2%	-11.2%	-11.6%	8.7%	12.6%	14.6%	17.0%	19.2%
ROCE (%)	11.7%	-12.5%	-7.5%	-7.7%	6.5%	9.7%	11.1%	12.5%	14.4%
Cash Cycle									
Accounts Payable turnover (x)	87.7	13.3	16.9	19.8	20.0	20.0	20.0	20.0	20.0
Receivables turnover (x)	2.6	1.0	1.5	1.7	2.1	2.1	2.1	2.0	2.3
Payable Days	4	27	22	18	18	18	18	18	18
Receivables days	143	352	242	213	175	175	175	183	161
Cash Cycle	138	324	222	196	159	159	159	166	144
Profitability Ratio									
Net Margins (%)	16.7%	-36.3%	-15.8%	-12.4%	8.2%	11.3%	12.3%	13.1%	13.6%
EBITDA Margins (%)	22.4%	-16.5%	-0.2%	3.1%	15.4%	19.0%	19.8%	21.2%	22.1%
PBT Margins (%)	17.9%	-34.1%	-13.3%	-3.9%	10.5%	14.1%	15.3%	16.4%	17.0%
EBIT Margins (%)	16.4%	-32.2%	-10.8%	-6.1%	8.3%	11.9%	12.8%	14.2%	15.1%
Effective Tax Rate (%)	-6.7%	6.3%	18.7%	215.0%	-22.0%	-20.0%	-20.0%	-20.0%	-20.0%
Leverage									
Total Debt (SAR mn)	-	494	1,184	625	200	150	150	150	150
Net Debt (SAR mn)	-120	398	929	-240	100	76	60	54	39
Net Debt/EBITDA	-0.21	-1.93	-245.35	-3.86	0.27	0.15	0.10	0.08	0.05
Debt/Equity (x)	-	0.11	0.24	0.14	0.05	0.03	0.03	0.03	0.03

UNITED SECURITIES LLC المتحدة للأوراق المالية ش.م.م

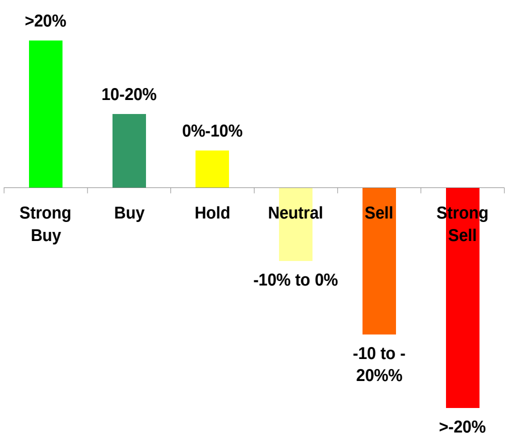
Key contacts

Research Team

Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	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%
Buy	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%
Hold	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%
Neutral	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%
Sell	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%
Strong Sell	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%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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