



Saudi Ground Services Co. (SGS) recorded net loss of SAR 66.9mn in Q2-22 vs. net loss of SAR 93.2mn in Q2-21. The net loss was higher than our and consensus estimates of net loss of SAR 16.0mn and SAR 12.7mn, respectively. The deviation from our estimate was mainly on account of lower-than-expected gross margin and higher zakat provision related to one-off adjustment, despite higher revenue. Revenue increased 32.3% Y/Y to SAR 495.7mn, above our estimate of SAR 460.3mn. The revenue growth was supported by increase in air traffic after removal of COVID-19 restrictions. We reiterate our “Neutral” recommendation and TP of SAR 28.6/share on the stock.

- SGS posted net loss of SAR 66.9mn in Q2-22 compared with net loss of SAR 93.2mn in Q2-21. The bottom line missed our and consensus estimates of net loss of SAR 16.0mn and SAR 12.7mn, respectively. The variance from our estimate was primarily due to lower-than-expected gross margin and higher zakat provision. Zakat provision stood at SAR 50.9mn vs. SAR 6.0mn in Q2-21, due to one-off adjustment done by the company. Normalized net loss (excluding impact of zakat adjustments and assuming zakat same as in Q2-21) was SAR 22.0mn. Higher other income and gain on FVTPL investment, coupled with reduction impairment loss on trade receivable and share of loss from equity accounted investments supported the bottom line on Y/Y basis.
- SGS' revenue jumped 32.3% Y/Y to SAR 495.7mn in Q2-22, above our estimate of SAR 460.3mn. The increase in air traffic after removal of COVID-19 restrictions helped the revenue growth. Revenue was up 16.7% Q/Q.
- Gross profit increased to SAR 52.1mn compared to SAR 10.8mn in Q2-21 and SAR 47.6mn in Q1-22, led by revenue growth. GP margin contracted stood at 10.5%, below our estimate of 14.9% on account of higher cost of revenue due to ramp up activities and preparations for the Hajj season.
- Operating loss stood at SAR 11.3mn in Q2-22 versus loss of SAR 63.4mn in Q2-21 and our estimate of loss of SAR 6.1mn. OPEX declined 14.6% Y/Y, supported by lower impairments on trade receivables and higher other income.

AJC View: SGS showed good recovery in the top line, but higher cost of sales and one time zakat adjustments weighed on the bottom line. The revenue is expected to improve further with expected higher number of flights operating amid higher number visitors for Hajj and Umrah, and increased travelling. However, gross margin dropped compared to previous quarter, despite revenue growth. Although gross margin in Q2-22 was partly impacted by expenses related to preparations for the Hajj season, we expect improvement in gross margin due to revenue growth will be limited by ramp up activities that will require reversing of some of the cost control measures implemented during the pandemic. We believe the complete recovery for the company to pre-COVID level will take some more time as the recovery in international operations has been slower compared to domestic, thus keeping pressure on its profitability. The stock is currently trading at EV/EBITDA of 12.8x based on our FY23 estimates. We maintain our “Neutral” recommendation on SGS and a TP of SAR 28.6/share.

Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	374.8	424.8	495.7	32.3%	16.7%	7.7%
Gross Profit	10.8	47.6	52.1	381.0%	9.6%	-24.0%
Gross Margin	2.9%	11.2%	10.5%	-	-	-
EBIT	-63.4	-20.3	-11.3	NM	NM	NM
Net Profit	-93.2	-19.0	-66.9	NM	NM	NM
EPS	-0.50	-0.10	-0.36	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	28.6
Upside / (Downside)*	-9.5%

Source: Tadawul *prices as of 21st of August 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	1,252	1,608	1,926	2,252
Growth %	-50.7%	28.4%	19.8%	16.9%
Net Income	-454	-254	-86	281
Growth %	NM	NM	NM	NM
EPS	-2.42	-1.35	-0.46	1.49

Source: Company reports, Aljazeera Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	-1.7%	12.1%	12.5%	24.3%
Net Margin	-36.3%	-15.8%	-4.5%	12.5%
P/E (x)	NEG	NEG	NEG	21.2
P/B (x)	2.4	2.5	2.7	2.6
EV/EBITDA (x)	NEG	NEG	32.8	12.8

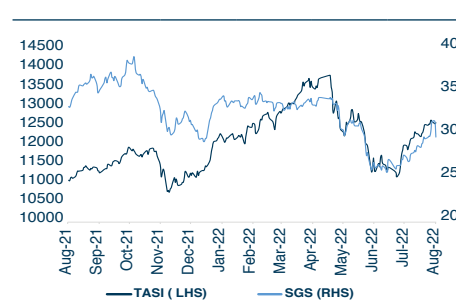
Source: Company reports, Aljazeera Capital

Key Market Data

Market Cap (bn)	5.6
YTD %	6.9%
52 Week (High)/(Low)	39.7/25.5
Shares Outstanding (mn)	188.0

Source: Company reports, Aljazeera Capital

Price Performance



Source: Tadawul, Aljazeera Capital

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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