

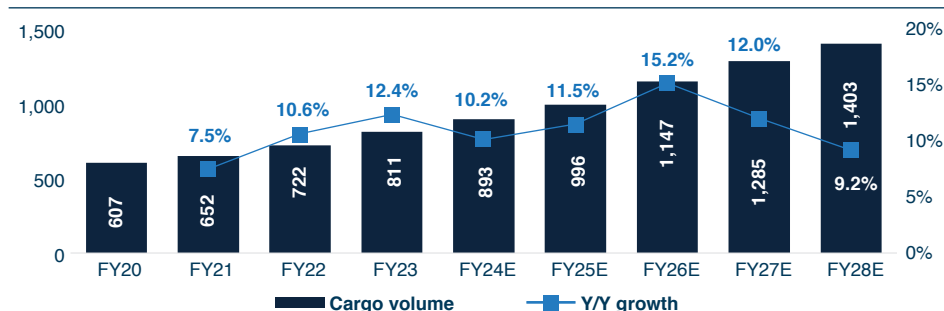
Cargo volumes to keep growth momentum; revise our TP upwards on long-term growth prospects and better operating margins, rating downgraded to Neutral

SAL Saudi Logistics Services Co. (SAL) demonstrated robust performance in FY23 with 19.1% revenue growth and 40.6% increase in net profit. The company's strong run is expected to continue over the next few years with an estimated double-digit growth in both revenue (FY23-28E CAGR: 14.5%) and net profit (17.1%). The expected growth will be driven by impetus in the logistic and transportation as well as aviation sector due to government's strategic initiatives. SAL has a well defined expansion plan in the medium term to cater to upcoming demand. Additionally, we expect operating cost optimization with strong revenue growth would help maintain healthy margins despite the expansion phase. We lift our TP on SAL to SAR 205/share due to upward revision of revenue FY26E onwards and higher operating margin expectations but switch to "Neutral" recommendation as the positive outlook is now fully priced in.

Q4-23 net profit surged on margins expansion and healthy revenue growth: SAL's net profit surged 59.9% Y/Y in Q4-23 to SAR 180.6mn, beating our estimate of SAR 137.5mn, primarily due to significantly higher GP and operating margin. Revenue at SAR 410.6mn grew 16.5% Y/Y and was in line with our estimate of SAR 405.4mn. Gross margin expanded to 59.1% in Q4-23 vs. 46.7% in Q4-22 and above our estimate of 51.0%. The operating margin of 49.5% (Q4-22: 36.7%) was further supported by lower general but partially offset by impairment loss on trade receivables of SAR 19.4mn. We believe that Q4-23 margins were exceptionally higher due to better pricing level along with the Red sea issue and may normalize in coming quarters. However, we expect an improving trend in margin as the topline growth continues.

Potential to be a key enabler of KSA's vision for logistics and transportation; growing air traffic and cargo volumes to reflect in robust topline growth supported by capacity expansion: Saudi Arabia's 'National Transport & Logistics Strategy' focuses on establishing the Kingdom as a global logistics hub connecting Africa, Asia and Europe. The government is also emphasizing expanding the airports infrastructure to boost air traffic. Saudia airlines (45% of SAL cargo handling revenue) and other airlines are planning to expand their fleet. Cargo handling market is in Saudi Arabia expected to grow at a 14.1% CAGR from 0.8mn tons in FY22 to 2.3mn ton in FY30. Whereas Vision 2030 target for cargo volumes is much higher at 4.5mn ton. SAL, with 95% of the market share across the airports it operates in, with a total cargo handling volume of 811,000 tons in FY23 is expected to play a crucial role in achieving targeted growth for the sector. The company's capacity expansion plans include increasing its warehousing capacity significantly at Jeddah (770,000 tons by FY27 from 352,000 tons; expected cost SAR 396mn), Riyadh (827,000 tons by FY26 from 332,000; expected cost SAR 410mn) and Dammam (248,000 tons from 160,000, expected cost SAR 100mn). Thus, SAL will be positioned well to cater to growing cargo volumes in future. We forecast the cargo volumes handled by the company to grow at an average annual rate of 11.6% until FY28E to reach 1.4mn ton. The volume growth is expected to translate into Air Cargo Handling revenue CAGR of 12.6% during the same period. In the short-term SAL will also benefit from improved prices and the shifting of some freight to air route due Red Sea issue. Given the expected continued demand in volume in the longer run, the company is expected to continue to deliver strong growth beyond our forecast period. Thus, we believe SAL's long-term growth prospects seem very bright.

Fig.1 SAL's cargo volume ('000 ton) and Y/Y growth



Source: Company reports, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	205.0
Upside / (Downside)*	-21.8%

Source: Tadawul *prices as of 26th of March 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenue	1,223	1,456	1,676	1,928
Growth %	27.1%	19.1%	15.2%	15.0%
Gross Profit	486	591	776	900
Net Profit	362	510	633	725
Growth %	31.5%	40.6%	24.2%	14.6%
EPS	4.53	6.37	7.91	9.07
DPS	3.81	4.40	5.55	6.35

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	48.3%	53.3%	53.7%	52.0%
Net Margin	29.6%	35.0%	37.8%	37.6%
ROE	35.6%	44.2%	47.6%	47.3%
ROA	11.2%	15.5%	18.7%	20.2%
P/E	NM	30.5	33.1	28.9
P/B	NM	12.6	14.7	12.8
EV/EBITDA (x)	NM	22.9	26.9	23.7
Dividend Yield	NM	2.3%	2.1%	2.4%

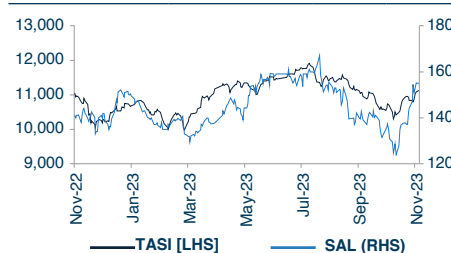
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	21.1
YTD%	37.2%
52 weeks (High)/(Low)	299.6/116.6
Share Outstanding (mn)	80.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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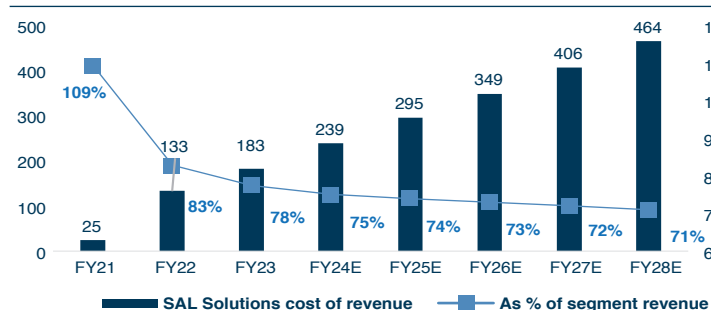
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Logistics solutions, fulfilment and passenger handling services are likely to help accelerate the growth further: SAL’s revenue from the Logistic solutions segment has shown a healthy growth since entering the segment in FY21. In FY23, Logistic solutions revenue rose 47.1% Y/Y to SAR 236mn with contribution to total revenue reaching 16% from 13% in FY22. We estimate revenue from logistics solutions to register a CAGR of 22.6% during FY23-28E and contribution from the segment to total revenue expected to increase to 23%. The company has also diversified into Fulfilment services in FY23. E-commerce market in Saudi Arabia is estimated to grow at CAGR of 20% during FY19-30, with e-commerce penetration of retail increasing to 26% by FY30 from 4.7% in FY19. Fulfilment services demand is expected to grow as the e-commerce market expands. Moreover, SAL has a license for passenger handling services in KSA and is expected to enter this business in future.

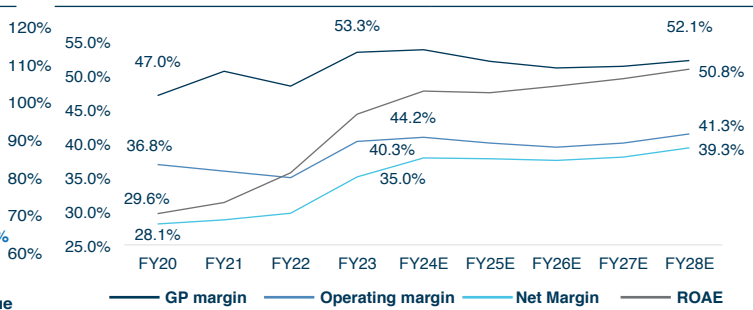
Profitability expected to remain healthy despite capacity expansion driven by cost optimization amid growing top line: SAL has been able to optimize its costs over the period, leading to an increase in GP margin from 47.0% in FY20 to 53.3% in FY23, operating margin from 36.8% to 40.3% and net margin from 28.1% to 35.0%. High margins are also reflected in the company’s very healthy ROAE of 44.2%. However, planned capacity addition is likely to put pressure on margin in Cargo handling segment, while we believe there is scope for expansion of Logistic solutions margins. EBITDA margin for the segment improved to 8% in FY23 from 3% in FY21, as cost of revenue for the segment has declined from 109% of the segment revenue in FY21 to 78% in FY23. We expect cost of revenue as a percentage of the segment revenue to fall further to 71% by FY28E, thus supporting the company margin. Overall, we expect pressure on SAL’s GP margin to reach 52.1% in FY28E, while operating (FY28E: 41.3%) and net margin (39.3%) would get support from operating cost optimization. The company’s ROAE is estimated at 50.8% in FY28E.

Fig.2 SAL Solutions cost of revenue



Source: Company reports, AlJazira Capital

Fig.3 SAL profitability evolution



Source: Company reports, AlJazira Capital

Balance sheet strength supports further expansion post FY27: SAL has a very strong balance sheet with a comfortable D/E ratio of 1.4x and net debt/equity of 0.8x as of FY23. We expect the leverage (D/E) to ease further to 0.6x, as the company’s planned Capex of SAR 906mn will be self-funded, which we believe is manageable with high profitability levels and expected growth. Thus, SAL has the balance strength that can cater to any further capacity addition requirements in the long term.

AJC view and valuation: We believe SAL has promising growth drivers supported by government’s strategic initiatives and fundamental strength of the company. The company is likely to benefit from growing demand in the sector. It will be able to leverage its dominant market position and expand its portfolio into new business segments. We value SAL assigning 50% weight to DCF (2.5% terminal growth and 8.7% WACC), while we assign 50% weight each to PE (25.0x) based on FY24E EPS. We lift our TP on SAL to **SAR 205.0/share**, implying 21.8% downside from the current stock price.. We downgraded our recommendation to “**Neutral**” rating on the stock as the positive outlook is now fully priced in.

DCF	FY24E	FY25E	FY26E	FY27E	FY28E
EBIT	684	771	890	1,028	1,181
Depreciation & Amortization	123	140	162	180	191
Change in working capital	0	-13	-28	-29	-29
Capex	-161	-263	-355	-318	-225
FCFF	647	635	668	862	1,119
Present value of FCFF	607	551	539	647	779
PV of terminal value					14,755
Enterprise Value					17,878
Net debt					973
FV to common shareholders					16,905
No outstanding shares (mn)					80
Fair value per share					211.3

Blended Valuation

Valuation Summary	Fair value	Weights	Weighted average
DCF	211	50%	106
P/E	198	50%	99
Weighted average 12-month TP			205.0
Current market price (SAR /share)			262.0
Expected Capital Gain			-21.8%

Source: AlJazira Capital Research



Key Financial Data

Amount in SAR mn, unless otherwise specified	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY25E	FY26E
Income statement									
Revenues	847	962	1,223	1,456	1,676	1,928	2,259	2,574	2,859
Y/Y		13.6%	27.1%	19.1%	15.2%	15.0%	17.1%	13.9%	11.1%
Cost	(449)	(476)	(632)	(680)	(776)	(925)	(1,106)	(1,255)	(1,370)
Gross profit	398	486	591	776	900	1,003	1,153	1,319	1,489
Sales and distribution expenses	15	28	30	33	39	43	50	55	60
General and administrative expenses	135	137	147	142	167	176	200	220	236
Operating profit	312	345	427	586	684	771	890	1,028	1,181
Y/Y		10.9%	23.5%	37.4%	16.7%	12.8%	15.3%	15.5%	15.0%
Finance expense	71	70	75	87	81	67	56	50	45
Income before zakat	240	279	370	551	666	764	889	1,027	1,182
Zakat	2	3	8	41	33	38	44	51	59
Net income	238	276	362	510	633	725	844	976	1,123
Y/Y		15.9%	31.5%	40.6%	24.2%	14.6%	16.4%	15.6%	15.1%
EPS (SAR)	2.97	3.44	4.53	6.37	7.91	9.07	10.55	12.20	14.04
Balance sheet									
Assets									
Cash & equivalent	715	492	940	710	819	843	759	758	841
Other current assets	291	723	411	942	1,003	1,041	1,101	1,146	1,197
Total current assets	1,005	1,215	1,351	1,652	1,822	1,884	1,860	1,904	2,038
Property plant & equipment	555	659	705	709	796	969	1,214	1,403	1,490
Other non-current assets	1,365	1,299	1,227	912	874	836	804	770	736
Total assets	2,926	3,173	3,284	3,285	3,498	3,695	3,877	4,078	4,265
Liabilities & owners' equity									
Total current liabilities	708	317	344	385	463	504	536	553	586
Total non-current liabilities	1,415	1,894	1,866	1,665	1,611	1,550	1,489	1,428	1,358
Paid-up capital	1	800	800	800	800	800	800	800	800
Additional capital contribution	468	-	-	-	-	-	-	-	-
Statutory reserves	0	28	64	115	178	251	251	251	251
Retained earnings	339	155	227	333	460	605	816	1,060	1,285
Total owners' equity	803	962	1,073	1,234	1,424	1,642	1,853	2,097	2,321
Total equity & liabilities	2,926	3,173	3,284	3,285	3,498	3,695	3,877	4,078	4,265
Cashflow statement									
Operating activities	440	309	556	696	760	856	982	1,131	1,289
Investing activities	(227)	(528)	282	(596)	(151)	(259)	(352)	(320)	(227)
Financing activities	502	(4)	(389)	(329)	(500)	(573)	(714)	(812)	(979)
Change in cash	715	(223)	448	(230)	109	23	(84)	(1)	83
Ending cash balance	715	492	940	710	819	843	759	758	841
Key fundamental ratios									
Liquidity ratios									
Current ratio (x)	1.4	3.8	3.9	4.3	3.9	3.7	3.5	3.4	3.5
Profitability ratios									
Gross profit margin	47.0%	50.5%	48.3%	53.3%	53.7%	52.0%	51.1%	51.3%	52.1%
Operating margin	36.8%	35.9%	34.9%	40.3%	40.8%	40.0%	39.4%	39.9%	41.3%
EBITDA margin	48.4%	47.3%	44.6%	49.5%	48.4%	47.4%	46.7%	47.1%	48.1%
Net profit margin	28.1%	28.6%	29.6%	35.0%	37.8%	37.6%	37.4%	37.9%	39.3%
Return on assets	8.1%	9.0%	11.2%	15.5%	18.7%	20.2%	22.3%	24.5%	26.9%
Return on equity	29.6%	31.2%	35.6%	44.2%	47.6%	47.3%	48.3%	49.4%	50.8%
Market/valuation ratios									
EV/sales (x)	NM	NM	NM	11.4	13.0	11.3	9.6	8.4	7.5
EV/EBITDA (x)	NM	NM	NM	22.9	26.9	23.7	20.6	17.9	15.6
EPS (SAR)	3.0	3.4	4.5	6.4	7.9	9.1	10.6	12.2	14.0
BVPS (SAR)	10.0	12.0	13.4	15.4	17.8	20.5	23.2	26.2	29.0
DPS (SAR)	-	2.97	3.81	4.40	5.55	6.35	7.91	9.15	11.23
Market price (SAR)*	NM	NM	NM	194	262	262	262	262	262
Market-Cap (SAR mn)	NM	NM	NM	15,552	20,960	20,960	20,960	20,960	20,960
P/E ratio (x)	NM	NM	NM	30.5	33.1	28.9	24.8	21.5	18.7
P/BV ratio (x)	NM	NM	NM	12.6	14.7	12.8	11.3	10.0	9.0
Dividend yield	NM	NM	NM	2.3%	2.1%	2.4%	3.0%	3.5%	4.3%

Source: Company financials, Aljazira Capital research





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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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