FALCOM فالكم

Altayyar Travel Group

Consumer Discretionary| ALTAYYAR|1810

INTELLIGENT
INVESTMENT
IDEAS

1Q 2018 Results Update

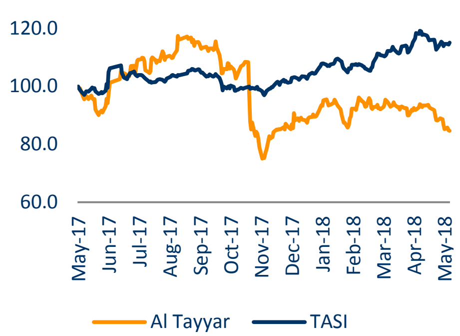
May 24, 2018

Recommendation	**Overweight**
Previous Recommendation	Overweight
Current Price (SAR)	25.9
Target Price (SAR)	33.0
Upside/Downside (%)	27.3%

As of May 23rd, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	5.6
52 Wk High (SAR)	36.7
52 Wk Low (SAR)	22.2
Total Outstanding shares (in mn)	209.7
Free Float (%)	84.0%

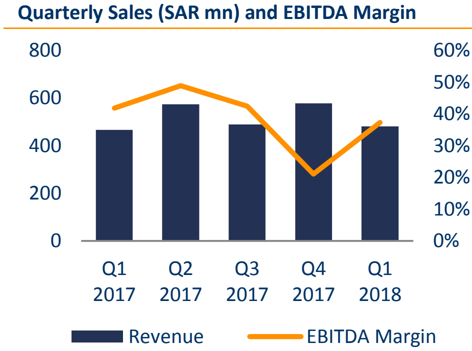
ALTAYYAR vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	(8.7%)	(6.2%)
6m	9.8%	(8.1%)
12m	(15.3%)	(30.5%)

Major Shareholders (%)	
Nasser Okail Abdullah AlTayyar	11.9%

Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 23rd May 2018

Altayyar's bottom line shrinks on competitive pricing and higher costs

Altayyar's 1Q18 revenue fell 16.6% QoQ driven by seasonality impact. Conversely, revenue improved 3.2% YoY to SAR 482mn in Q1 2018, driven by improvement in segmental revenues, and changes in the client and product mix. Gross profit for the period increased 2.6% YoY to SAR 355mn, while the gross margin contracted 0.5%. The operating income declined 19.8% YoY to SAR 133mn, ascribed to higher SG&A cost and one-time impairment loss. Consequently, operating margin declined 7.9% YoY during this quarter.

Impairment losses, change in terms with major clients, higher opex, and competitive pricing squeezed margins, with the company's net profit margin reducing 11.5% YoY. Net profit, however, increased significantly from the previous quarter owing to decrease in costs as a result of the company's focus on expense control. We expect Altayyar's revenues to grow by mid-single digit in 2018, benefitting from growth in the online travel sector, which has been the company's focus. It aims to achieve a gross booking value of SAR 3.7bn by 2020, in line with its multi-channel strategy to transform into a fully integrated e-travel agency. Additionally, a boost in tourism, driven by government efforts (as part of Vision 2030), is likely to translate into top-line expansion for Altayyar. However, high operational costs, growing competition, and restricted consumer spending due to subsidy removal may squeeze margins.

- Altayyar's sales expanded 3.2% YoY to SAR 482mn due to an increase in the revenues from the hospitality, tourism, and transportation divisions. This was partially offset by a decline in revenues from the core government business owing to change in terms with major clients. Altayyar's online gross booking volumes surged 84% YoY to SAR 370mn, against SAR 201mn in Q1 2017, as the company offered competitive pricing to retain and improve its market share.
- Gross profit edged up 2.6% YoY to SAR 355mn, led by improvement in sales even as the cost of sales increased 5.2% YoY to SAR 126mn.
- Operating income fell 19.8% YoY to SAR 133mn (Q1 2017: SAR 166mn). Subsequently, the operating margin declined 7.9% YoY to 28% in Q1 2018. Decline was largely attributed to an increase in SG&A expenses (20% higher) as a result of the growing online business and the commencement of hospitality segment (started operations in Q4 2017). Moreover, an impairment loss of SAR 11mn dragged down profits.
- Altayyar's EBITDA for the quarter declined 8.0% YoY to SAR 180mn compared to SAR 195mn in Q1 2017, weighed by higher operating costs. The EBITDA margin contracted 4.5% YoY to 37% during the quarter.
- Net profit for the year fell 37.4% YoY to SAR 86mn on account of competitive pricing for some services. The net profit margin, as of Q1 2018, stood at 18% compared to 29% in Q1 2017. Excluding the impact of impairment loss on equity-accounted investees and that on trade receivables (SAR 6mn and SAR 11mn, respectively), net profit decreased 24% YoY.
- Altayyar's Q1 2018 results were influenced by factors such as growth in segmental revenues, even as major clients re-negotiated contract terms. However, tapping growth in the online business and focusing on cost control is likely to result in margin expansion. Hence, we remain overweight on the stock.

Valuation: We revised our target price slightly downward, with a fair value of SAR33.0 per share, in accordance with the company's disappointing performance. We maintain our "Overweight" rating on the stock.

	1Q'18	**1Q'17**	**% YoY**	**FY18E**	**FY17**	**% YoY**
Revenues (SAR mn)	481.7	466.6	3.2%	2,205.8	2,107.0	4.7%
Gross Profit (SAR mn)	355.5	346.6	2.6%	1,667.2	1,603.1	4.0%
EBITDA (SAR mn)	179.8	195.4	(8.0%)	814.8	804.9	1.2%
Net Profit (SAR mn)	85.6	136.7	(37.4%)	592.6	496.8	19.3%
EPS basic (SAR)	0.4	0.7	(37.4%)	2.8	2.4	19.3%
Gross Margin (%)	73.8%	74.3%	(0.5%)	75.6%	76.1%	(0.5%)
EBITDA Margin (%)	37.3%	41.9%	(4.5%)	36.9%	38.2%	(1.3%)
Net Profit Margin (%)	17.8%	29.3%	(11.5%)	26.9%	23.6%	3.3%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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