3Q 2018 Results Update

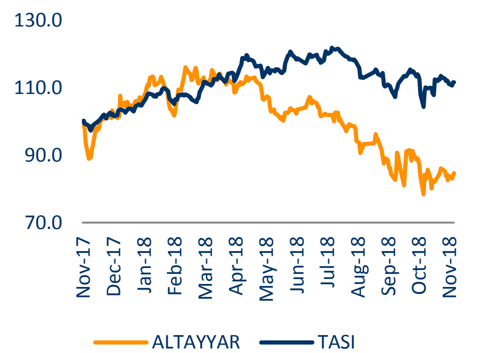
November 14, 2018

Recommendation	**Overweight**
Previous Recommendation	Overweight
Current Price (SAR)	21.5
Target Price (SAR)	25.5
Upside/Downside (%)	19.0%

As of November 13th, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	4.5
52 Wk High (SAR)	30.5
52 Wk Low (SAR)	19.6
Total Outstanding shares (in mn)	209.7
Free Float (%)	85.0%

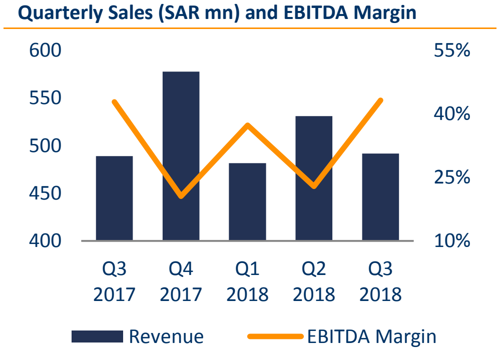
ALTAYYAR vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	7.9%	1.0%
6m	(21.2%)	(18.1%)
12m	(15.3%)	(27.0%)

Major Shareholders (%)	
Nasser Okail Abdullah AlTayyar	11.05%

Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 13th 2018

Impairment charge and higher operating expenses weigh on 3Q18 results

Altayyar reported a net loss of SAR 355mn in 3Q18 as compared to a net profit of SAR 132mn in 3Q17. The decline was mainly ascribed to a SAR 421mn impairment loss on equity accounted investees and an increase in operating expenses. Net profit would have been SAR 66mn excluding the impact of impairment loss. The SAR 421mn impairment was attributable to the group's decision to sell its stake (30%) in Thakher Investment and Real Estate Company (TIREC). Operating margins were impacted due to competitive pricing for some services to protect and grow market share, change in product mix, and change in terms with major government clients in addition to higher operating expenses. Revenue for 3Q18 grew 0.5% YoY to SAR 492mn, as higher car rental and hospitality revenues were offset by a decline in revenue from core government business. Gross profit for 3Q18 was SAR 355mn, up 0.1% YoY. Operating income declined 30.7% YoY to SAR 123mn due to higher selling, administrative and other operating expenses and SAR 20mn impairment charge on trade receivables in 3Q18.

During 9M18, the group strengthened its balance sheet by reducing its debt-to-equity ratio from 23% in 2017 to 15% in 3Q18. Total debt declined from SAR 1.4bn in 2017 to at SAR 855mn in 3Q18, as Altayyar made early payments of its long-term debt using cash received for receivables from government contracts. Altayyar recently formed a strategic alliance with the Dubai's Department of Tourism and Commerce Marketing (Dubai Tourism) to promote Dubai as a preferred destination for Saudi travelers. The move is expected to boost revenue in the long run; however decline in core government business resulting from a change in terms with key clients would continue to weigh on the topline in coming quarters. Overall, the company remains fundamentally strong as the balance sheet provides sufficient room for increasing leverage. The stock is trading close to its 52-week low and we believe this could be a good entry point for long term investors. Thus, we maintain our 'Overweight' rating on the stock.

- Revenue for 3Q18 grew 0.5% YoY to SAR 492mn, as higher car rental and hospitality revenues were partially offset by a decline in revenue from core government business due to change in terms with key clients. Bookings through the group's online platform increased 48% YoY in-line with Altayyar's strategy to focus on online business growth.
- Gross profit grew 0.1% YoY to SAR 355mn while gross margin shrank 28bps YoY to 72.2%, as the group offered more competitive prices for some services to protect and increase its market share. Change in product mix resulting from higher online sales and travel services in the UK (that have lower margins) also impacted the group's margins.
- Selling, general and administrative expenses increased 13.7% YoY to SAR 210mn, mainly due to the growth in online business and realization (start of commercial operations) of operating expenses related to hospitality assets that started operations in 4Q17.
- Operating income declined 30.7% YoY to SAR 123mn due to higher operating expenses and due to a SAR 20mn impairment charge on trade receivables recognized during 3Q18. Consequently, operating margin shrank from 36.4% in 3Q17 to 25.1% in 3Q18.
- Altayyar recognized a one-time impairment loss of SAR 421mn on sale of investments (30% stake in TIREC), leading the group to report a net loss of SAR 355mn in 3Q18 as compared to a net profit of SAR 132mn in 3Q17.

Valuation: In light of weak 3Q18 results and change in terms with key government clients, we revise our target price slightly downward, with a fair value of SAR 25.5 per share. We maintain our 'Overweight' rating on the stock.

	3Q'18	**3Q'17**	**% YoY**	**FY18E**	**FY17**	**% YoY**
Revenues (SAR mn)	492	489	0.5%	2,086	2,107	(1.0%)
Gross Profit (SAR mn)	355	354	0.1%	1,544	1,603	(3.7%)
EBITDA (SAR mn)	212	209	1.5%	700	805	(13.0%)
Net Profit (SAR mn)	(355)	132	NM	386	497	(22.3%)
EPS basic (SAR)	(1.70)	0.63	NM	1.84	2.37	(22.3%)
Gross Margin (%)	72.2%	72.4%	(0.3%)	74.0%	76.1%	(2.1%)
EBITDA Margin (%)	43.2%	42.8%	0.4%	33.6%	38.2%	(4.6%)
Net Profit Margin (%)	(72.3%)	26.9%	NM	18.5%	23.6%	(5.1%)

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.

FALCOM Financial Services

Contact us on the below phone numbers:
Customer Services: 8004298888
Brokerage Services: 920004711

Fax or Email us at the below number:
Fax: +966 11 2032546
Email: addingvalue@falcom.com.sa

Mail us at the following address:
P.O. Box 884
Riyadh 11421
Kingdom of Saudi Arabia

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