

## 2Q19 Results Update

August 22, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	17.6
Target Price (SAR)	17.4
Upside/Downside (%)	(1.6%)

As of August 22nd, 2019

### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	5.3
52 Wk High (SAR)	20.8
52 Wk Low (SAR)	13.4
Total Outstanding shares (in mn)	300.0
Free Float (%)	83.6%

### SEERA vs. TASI (Rebased)

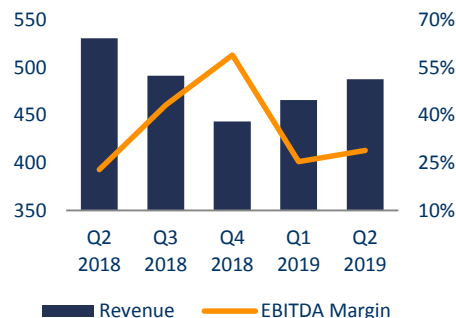


Price Performance (%)	Absolute	Relative
1m	(6.7%)	(1.8%)
6m	5.9%	5.7%
12m	4.8%	(4.4%)

### Major Shareholders (%)

Nasser Aqeel Abdullah Al Tayyar	10.81%
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### Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 22nd 2019

### Non-renewal of MoE contract and higher operating expenses weighed on Seera's bottom line

Seera posted a net profit of SAR 67mn in 2Q19, down 37.1% from SAR 107mn in 2Q18, weighed down by non-renewal of the Ministry of Education's (MoE) contract and higher operating expenses. Operating income shrank 59.9% YoY due to a sharp rise in selling, administrative, and general expenses, as the company spent heavily on expanding its consumer travel business. Operating margins stood at 17.9% during the quarter due to a change in its product mix. The company's revenue declined 8.1% YoY to SAR 488mn in Q219 compared with SAR 531mn in Q218.

Seera's transformation strategy continued to support its financial performance as online consumer travel grew 70%, and is well-positioned to achieve the target of SAR 3bn by the end of the year. The company's focus remains on growing its market share and building its customer and supplier network. It also aims to tackle higher competition in the industry by investing in its omni-channel consumer offerings, digital travel management solutions for government, corporate travel solutions, and Hajj and Umrah products. Although the company's profit grew sequentially, it remains to be seen how it makes up for the non-renewal of the MoE contract. Therefore, we maintain our Neutral stance on the stock.

- Revenue for 2Q19 declined 8.1% YoY to SAR 488mn, majorly due to non-renewal of the Ministry of Education (MOE) contract. However, the consistent growth in consumer travel and car rental units limited the impact from non-renewal of the contract.
- Gross profit declined 15.7% YoY to SAR 341mn, while gross margin shrank 634bps YoY to 69.9% due to a change in product mix. On a quarterly basis, gross profit was up 12.9%.
- Selling, general, and administrative expenses increased 13.2% YoY to SAR 256mn due to an expansion of the consumer travel business. Thus, operating income fell 59.9% YoY to SAR 87mn (2Q18: SAR 218mn). Subsequently, its operating margin contracted to 17.9% YoY in 2Q19 from 41.0% in the year-ago period. The SG&A expenses also rose on a sequential basis; the operating profit was however up 34.6% QoQ.
- During 2Q19, Seera divested its investment in Careem, with an exit value of SAR1.78bn, in connection with the acquisition by Uber. The net proceeds from the sale will be received partly in cash and partly in convertible notes in Uber. The transaction is expected to close in 2020.
- The group inked a direct-connectivity distribution agreement with IHG (InterContinental Hotels Group) to offer competitive rates and last-minute availability on IHG properties worldwide to offline and online travelers of the group.
- The company also signed a long-term financing agreement with Saudi Investment Bank (SAIB) with the major focus on developing mid-market hotels through the company's internal sources and a bank financing facility at competitive terms. However, it terminated the deal signed with Albilad Capital last year for setting up a private real estate investment fund.

**Valuation:** We maintain our target price at a fair value of SAR 17.4. We reiterate our "Neutral" rating on the stock as the company undergoes a changing business phase with alterations in revenue mix and new business partners.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	488	531	(8.1%)	1918	1948	(1.5%)
Gross Profit (SAR mn)	341	405	(15.7%)	1323	1425	(7.1%)
EBITDA (SAR mn)	141	122	16.2%	583	776	(24.8%)
Net Profit (SAR mn)	67	107	(37.1%)	315	(145)	NM
EPS basic (SAR)	0.22	0.36	(37.1%)	1.05	(0.48)	NM
Gross Margin (%)	69.9%	76.3%	(6.3%)	69.0%	73.2%	(4.2%)
EBITDA Margin (%)	28.9%	22.9%	6.1%	30.4%	39.8%	(9.4%)
Net Profit Margin (%)	13.8%	20.2%	(6.4%)	16.4%	(7.4%)	23.9%

Source: Company Financials, FALCOM Research

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**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**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  $\geq 10\%$ .

**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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