

3Q19 Results Update

November 18, 2019

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	18.5
Target Price (SAR)	21.7
Upside/Downside (%)	17.3%

As of November 18th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	5.6
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	5.2%	0.5%
6m	8.8%	16.0%
12m	23.3%	16.6%

Major Shareholders (%)

Nasser Okail Abdullah Seera	10.81%
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Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 18th 2019

Seera's net profit rises on higher revenue, yet misses consensus estimates

Seera swung to a net profit of SAR 63mn in 3Q19 from a net loss of SAR 355mn in 3Q18, supported by higher revenue. Revenue increased 4.4% YoY and 31.6% QoQ to SAR 642mn due to strong growth in the consumer travel and car rental units. Operating income shrank 21.1% YoY due to rise in selling, administrative, and general expenses. Operating margin stood at 15.2% during the quarter compared to 20.1% a year ago.

The worries around the non-renewal of the Ministry of Education (MOE) contract are diminishing as the online travel segment continues to help Seera record strong and consistent growth in its top line. In addition, the company continues to focus on growing its market share and forge new partnerships to further build its consumer and supplier network. Besides, the reduction in pilgrim and tourist visa fees can prove to be a major benefit for Seera's business. We expect the short-term pressure on the margins to ease out over the medium term as the company settles into a new product mix. The company enjoys a healthy and strong balance sheet and the proceeds from the Careem deal are also expected to be deployed for further expansion of the company's online business. Thus, in view of the positive developments mentioned above, we upgrade our rating to "Overweight" from "Neutral".

- Revenue for 3Q19 rose 4.4% YoY to SAR 642mn as the company's gross booking value (GBV) increased 6% YoY to SAR 3.3bn in 3Q19. Consistent growth in consumer travel and car rental units limited the impact of the non-renewal of the MOE contract. The consumer travel GBV was up 52% to SAR 1.3bn, out of which online travel constituted SAR 1bn GBV.
- Gross profit declined 1.5% YoY to SAR 349mn due to higher cost of sales over the comparable period. Gross margin came at 54.4% in 3Q19 compared to 57.7% in 3Q18. On a quarterly basis, gross profit was up 2.3%.
- Selling, general, and administrative (SG&A) expenses increased 19.6% YoY to SAR 251mn due to growth in the consumer travel business. Thus, operating income fell 21.1% YoY to SAR 97mn (3Q18: SAR 123mn). Subsequently, its operating margin contracted to 15.2% YoY in 3Q19 from 20.1% a year ago. On a quarterly basis, the SG&A expenses fell 1.9% leading to a rise in operating profit by 11.5%.
- Recently, Seera unveiled the integrated destination management company, Discover Saudi, with a SAR 1bn investment plan for catalyzing international inbound as well as domestic tourism. It is a SAR 500mn investment by Seera, supporting the goals of Vision 2030 for transforming tourism as one of the key economic growth sectors.
- The group also signed a strategic partnership with Disneyland Paris for further strengthening travel demand from Saudi Arabia, GCC, and North Africa to Paris. Under the agreement, Seera will be now a General Sales Agent for Saudi Arabia and the wider GCC as well as North Africa, Lebanon, and Jordan.

Valuation: We revise our target price to a fair value of SAR 21.7 in view of the impressive performance of the consumer travel business. We change our rating to Overweight from Neutral for the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	642	615	4.4%	1,918	1,948	(1.5%)
Gross Profit (SAR mn)	349	355	(1.5%)	1,323	1,425	(7.1%)
EBITDA (SAR mn)	159	212	(25.3%)	579	776	(25.4%)
Net Profit (SAR mn)	63	(355)	NM	315	(145)	NM
EPS basic (SAR)	0.21	(1.18)	NM	1.05	(0.48)	NM
Gross Margin (%)	54.4%	57.7%	(3.3%)	69.0%	73.2%	(4.2%)
EBITDA Margin (%)	24.7%	34.5%	(9.8%)	30.2%	39.8%	(9.6%)
Net Profit Margin (%)	9.8%	(57.8%)	67.4%	16.4%	(7.4%)	29.3%

Source: Company Financials, FALCOM Research

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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 $\geq 10\%$.

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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