

Initiation Coverage

July 05, 2020

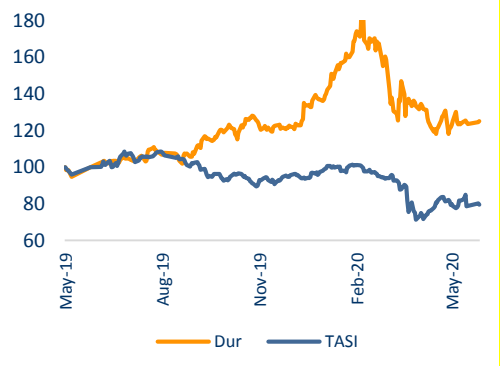
Recommendation	Neutral
Current Price (SAR)	25.2
Target Price (SAR)	23.0
Upside/Downside (%)	(8.5%)

As of June 18th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.6
52 Wk High (SAR)	35.70
52 Wk Low (SAR)	17.20
Total Outstanding shares (in mn)	100
Free Float (%)	51.8%

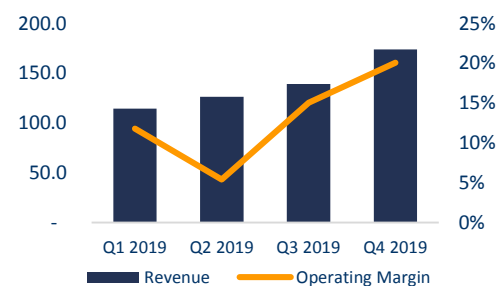
Dur Vs TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(4.3%)	(2.1%)
6m	3.7%	20.3%
12m	25.1%	45.6%

Major Shareholders (%)	%
Aseela investment Co.	27.14%
Public investment Fund	16.62%
Mohamed Ibrahim Mohamed Al Issa	12.0%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, Falcom Research; Data as of 18th June 2020

Dur Hospitality (Dur)'s revenues grew 22.0% YoY to SAR 553.8mn in FY19, as its hospitality and rental segments reported top-line growth of 23.5% and 16.4%, respectively. The company's gross margin shrank to 21.5% due to pre-opening costs as several projects entered operational stage. Owing to these factors, net income narrowed 6.2% YoY to SAR 52.8mn in FY19.

We initiate Dur with a "Neutral" rating, as despite a projected revenue decline in 2020, the company is well placed in the hospitality industry with potential to recover when market conditions improve.

COVID -19 threatens to derail gains made in 2019

In 2019, the government launched several initiatives and visa relaxations to promote tourism in the country, with an aim to welcome over 100 million visitors by 2030. Consequently, Dur recorded an uptick in revenue growth following three consecutive years of revenue decline. With the COVID-19 outbreak, however, the hotel industry has spiraled downward; the occupancy rate, which was around 59% in Riyadh in November 2019, plunged to 37% in the Middle East in March 2020. Hospitality being labor-intensive, the current social distancing norms indicate tough times for the industry in the near term. Latest research from World Tourism Organization shows that the international tourist numbers could fall 60-80% in 2020 with some recovery in 2021.

Launch of new properties expected to fuel revenue growth in mid term

Following the government's support for tourism, a range of hotel projects were launched and are expected to come online in 2020 and 2021, including Dur's. The company's Makarem Hotels segment is targeting 5000 rooms by 2023. The suspension of Umrah activities and uncertainty over Hajj this year will lead to severe demand contraction that would exacerbate the pre-existing oversupply issues. Margins are expected to remain tight in an industry that faces pressure to grow its RevPar amid high inventories. However, despite the short-term headwinds, the mid-term growth story holds promise, as economic activity along with oil prices are expected to pick up by the end of 2020, with most agencies predicting economic growth in 2021.

Strategic partnerships in important locations bode well

The company's expansion plans are centered around Makkah, the most important place of worship for Muslims, and Riyadh, an important business center, where a steady stream of travelers is expected. Furthermore, partnerships with prominent hotel operators such as Marriott and Intercontinental augur better brand equity for Dur.

High leverage and stock price volatility add to the risk

Dur's debt to equity ratio was on the higher side at 0.8x at 2019-end and is expected to pressurize the bottom line, as revenues turn downward in 2020. Moreover, the share prices in the past few months have been extremely volatile, adding to the riskiness of the stock.

Valuation: We valued Dur using the DCF approach to arrive at a fair value of SAR 23.0 per share. We considered WACC at 4.7% with a terminal growth rate of 2.0%.

	2019	2020e	2021e	2022e
Revenues (SAR mn)	554	405	572	633
Gross Profit (SAR mn)	119	95	123	147
EPS (SAR)	0.53	0.33	0.55	0.78
Operating Margin (%)	13.8%	15.5%	13.6%	15.7%
RoE (%)	3.0%	1.9%	3.1%	4.3%
P/E (x)	44.2x	76.4x	45.9x	32.3x
P/B (x)	1.3x	1.4x	1.4x	1.4x
EV/EBITDA (x)	21.4x	23.1x	20.2x	17.7x

Source: Company Financials, Falcom Research

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Valuation Summary

Explanation of the valuation methodology and assumptions

We valued Dur using the DCF approach to arrive at a fair value of SAR 23.0 per share. We considered WACC at 4.7% with a terminal growth rate of 2.0%.

In relative terms, Dur is trading at an EV/EBITDA of 21.4x, showing a premium of 11.9% to its sector peers.

SAR Mn	FY 2019A	FY 2020E	FY 2021E	FY 2022E	FY 2023E
EBIT	76	63	78	99	124
Less: Taxes	(5)	(2)	(4)	(6)	(8)
Add: Depreciation, amortization and impairment	92	101	109	114	119
Less: Changes in working capital	(262)	(163)	(144)	(147)	(141)
Less: Net capital expenditure	(48)	(14)	23	8	12
Free Cash Flow to firm	(147)	(15)	62	69	107
<i>Discount Factor</i>		1.0	0.9	0.9	0.8
PV of free cash flow to firm		(15)	58	61	90
Net Present Value (A)					194
PV Terminal Value (B)					3,359
Assumed Terminal Growth Rate					2.0%
Discount Rate					4.7%
Enterprise Value (A+B)	3,552	WACC Assumptions			
Total Cash	136	Risk free rate	2.6%		
Total Debt	1,355	Market returns	7.2%		
Minority Interest	50	Beta	1.0x		
Equity Value in SAR mn	2,283	Cost of equity	9.5%		
Number of shares in mn	100	Post tax cost of debt	1.7%		
Target Price in SAR per share	23.0	Weight of equity in capital structure	38.7%		
CMP in SAR as on June 18th 2020	25.2	Weight of debt in capital structure	61.3%		
Upside/(Downside) to current market price	(8.5%)	WACC	4.7%		

Source: Company Financials, Falcom Research Estimates

Risks

Upside Risks:

- A sharp economic recovery following the COVID-19 pandemic containment, or a timely vaccination availability can significantly boost the hospitality sector especially from the religious traveler perspective

Downside Risks

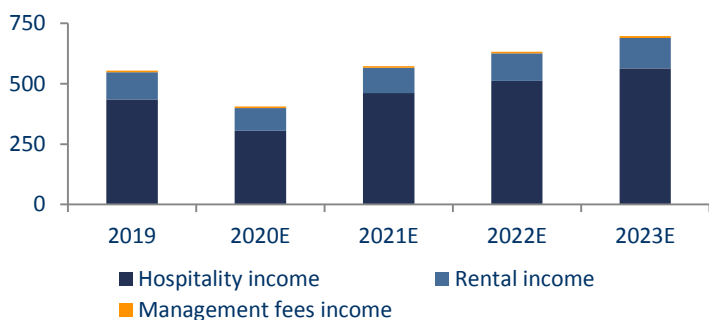
- Further spread of the virus and non-recovery of the oil prices may force the government to implement austerity measures that can impact the discretionary spends on the hospitality sector.
- Failure to project Saudi as an attractive tourist destination apart from the religious travelers can hurt the prospects of the company and the hospitality industry as a whole.

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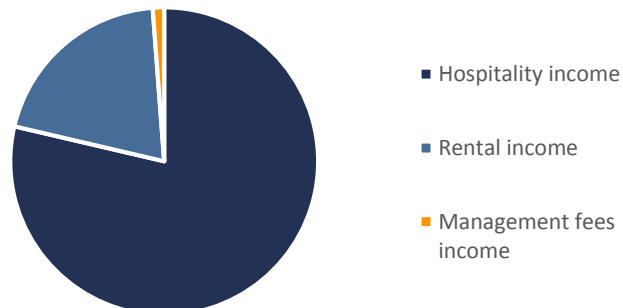
July 05, 2020

Key Charts

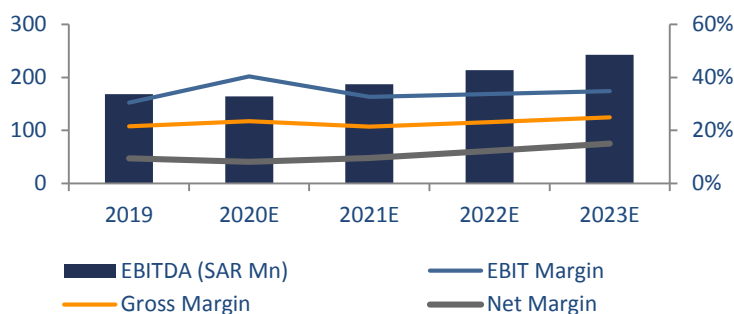
Revenue (SAR mn)



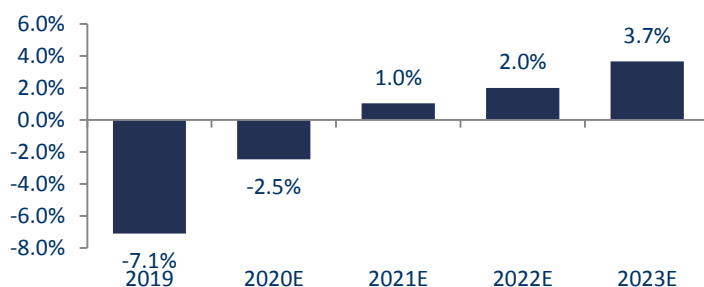
Revenue Split (2019)



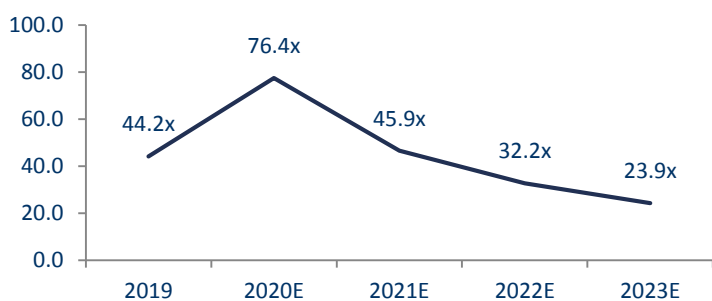
EBITDA & Margins



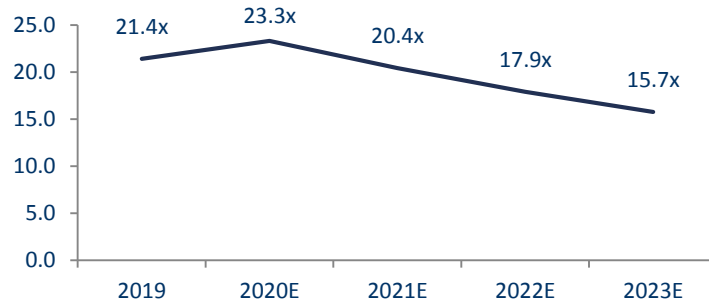
Free cash flow yield



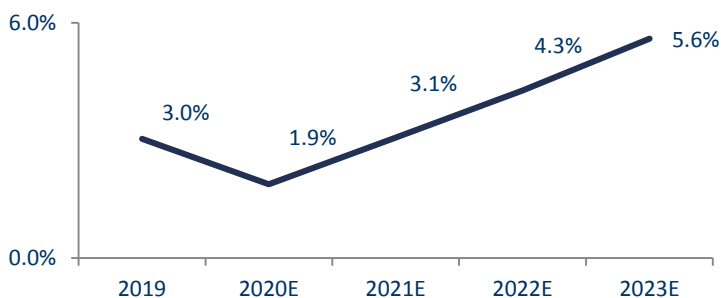
Price to Earnings



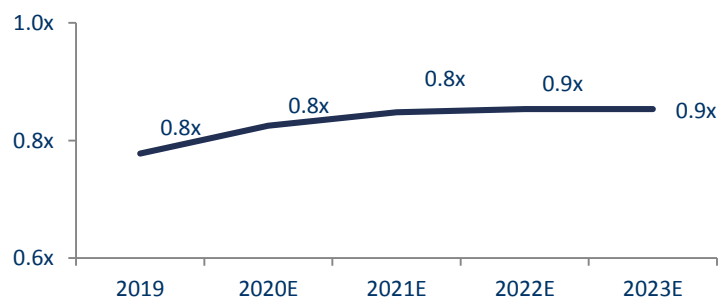
EV/EBITDA



Return on Equity



Debt/Equity



Source: Falcom Research Estimates

Initiation Coverage

July 05, 2020

Summary Financials

P&L (SAR mn)	2019	2020e	2021e	2022e
Sales	554	405	572	633
Gross Profit	119	95	123	147
EBITDA	169	164	187	214
EBIT	76	63	78	99
G&A Expenses	(41)	(31)	(43)	(46)
Selling & marketing	(2)	(1)	(2)	(2)
Financial charges	(23)	(20)	(19)	(20)
Finance income	2	1	2	2
PBT	58	35	59	84
Zakat	(5)	(2)	(4)	(6)
Net Income	53	33	55	78
EPS (SAR)	0.53	0.33	0.55	0.78
DPS	0.25	0.16	0.26	0.37

BS (SAR mn)	2019	2020e	2021e	2022e
Cash	136	155	220	279
Current Assets	356	349	482	558
Fixed Assets	2,812	2,875	2,907	2,936
Investments	21	21	20	19
Total Assets	3,528	3,582	3,749	3,858
Current Liabilities	475	428	510	539
Non current loans	841	925	981	1,020
Total Lease liabilities	381	381	381	381
Shareholders Equities	1,741	1,759	1,788	1,829
Total Liabilities	3,528	3,582	3,749	3,858

CF (SAR mn)	2019	2020e	2021e	2022e
Working Capital Changes	(48)	(14)	23	8
Cash Flow from Operating Activities	96	100	171	198
Capex	(262)	(163)	(144)	(147)
Cash Flow from Investing Activities	(300)	(163)	(144)	(147)
Changes in Debt	225	97	64	45
Dividends	(25)	(16)	(26)	(37)
Cash Flow from Financing Activities	200	82	38	8

Source: Bloomberg, Company Financials, Falcom Research

Growth	2019	2020e	2021e	2022e
Revenue	22.0%	(26.8%)	41.2%	10.6%
EBITDA	23.2%	(2.8%)	14.2%	14.1%
Operating profit	9.7%	(17.5%)	23.7%	27.4%
PBT	(5.5%)	(39.2%)	66.4%	42.2%
Net Income	(7.8%)	(37.6%)	66.4%	42.2%

Ratios (%)	2019	2020e	2021e	2022e
Gross Margin	21.5%	23.4%	21.4%	23.2%
EBITDA Margin	30.5%	40.4%	32.7%	33.8%
EBIT Margin	13.8%	15.5%	13.6%	15.7%
Net Margin	9.6%	8.2%	9.6%	12.4%
ROE	3.0%	1.9%	3.1%	4.3%
ROCE	1.7%	1.0%	1.7%	2.4%
ROA	1.5%	0.9%	1.5%	2.0%
Debt/Equity	0.8x	0.8x	0.8x	0.9x
Net Debt/EBITDA	7.2x	7.9x	6.9x	6.0x
FCF Yield	(7.1%)	(2.5%)	1.0%	2.0%
Dividend Yield	1.1%	0.6%	1.0%	2.0%

Valuation	2019	2020e	2021e	2022e
P/E	44.2x	76.4x	46.9x	32.3x
P/B	1.3x	1.4x	1.4x	1.4x
EV/EBITDA	21.4x	23.1x	20.2x	17.7x
EV/EBIT	47.3x	60.1x	48.6x	38.2x
EV/Sales	6.5x	9.3x	6.6x	6.0x

Peer Valuations	P/E	EV/EBITDA
National Corp Tourism and Hotel	13.3x	7.4x
Isrotel	17.6x	12.0x
Abu Dhabi national hotels	11.1x	13.7x
Dan hotels Corp Ltd	23.8x	13.5x
ISSTA Lines Limited	7.4x	75.8x
Fattal Holdings 1998 Ltd	79.5x	14.3x
Orascom Development Egypt	6.3x	10.1x
Risma	9.6x	NA
Dur	38.8x	21.4x
Sector Median	11.1x	12.8x
Premium/ (Discount)	98.8%	11.9%

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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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