

2Q20 Results Update

October 20, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	31.2
Target Price (SAR)	28.4
Upside/Downside (%)	(8.9%)

As of September 30, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	3.1
52-Wk High (SAR)	35.7
52-Wk Low (SAR)	19.2
Total Outstanding Shares (in mn)	100.0
Free Float (%)	60.8%

DUR vs. TASI (Rebased)

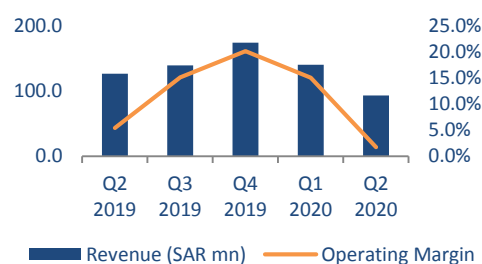


Price Performance (%)	Absolute	Relative
1m	13.3%	8.7%
6m	36.6%	6.4%
12m	52.0%	49.4%

Major Shareholders (%)

Aseela Investments Co.	27.14%
Public Investment Fund	16.62%
Mohamed Ibrahim Mohamed Al Issa	12.00%

Revenue (SAR bn) and Operating Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 30, 2020

Lower hotel revenue due to lockdown measures weighs on bottom line in 2Q20

Dur Hospitality recorded a net loss (attributable to equity holders) of SAR 9.9mn in 2Q20 against the net profit of SAR 3.9mn in 2Q19. The company's revenue plunged 26.4% YoY to SAR 92.9mn during the quarter on a sharp decline in hotel revenues due to the pandemic. Rental income improved slightly in 2Q20 but was offset by a drop in hotel and property management revenue. Higher SG&A expense resulted in a 76.2% YoY fall in operating profit to SAR 1.6mn. Higher financial charges and zakat expense also dragged down the bottom line and resulted in a net loss margin of (10.7%) in the quarter against a net profit margin of 3.1% in 2Q19.

The company announced closure of its hotel facilities during the quarter as a precautionary measure to curb the spread of COVID-19. This led the company to report a 35.6% YoY decline in revenue from its hotel segment to SAR 62.8mn in 2Q20 from SAR 97.6mn. Dur Hospitality's performance in 2020 would continue to be affected by the pandemic as travel activity is likely to remain subdued across the globe. This may also restrict Umrah and Hajj activities in the Kingdom and hamper the company's expansion plans, which are positioned around Makkah. Though economic activity is set to rebound toward the end of 2020 due to relaxation of lockdown restrictions and gradual recovery in oil prices, which could lead to a pickup in business activity and simultaneously business travel. However, headwinds in the hospitality sector prevail in terms of resurgence in coronavirus cases and prolonged duration for vaccine development. Considering these factors, we maintained our rating to "Neutral" on the stock.

- Dur Hospitality's revenue fell 26.4% YoY to SAR 92.9mn in 2Q20 owing to a steep decline in revenue contribution from the hospitality and property management segments due to the pandemic. Revenue fell 33.6% QoQ from SAR 139.9mn in 1Q20.
- Gross profit (down 23.5% YoY to SAR 13.2mn) fell at a slower pace than revenue due to the 26.9% plunge in cost of sales to SAR 79.8mn. As a result, the gross margin expanded to 14.2% in 2Q20 from 13.6% in 2Q19.
- Total SG&A expense rose 11.4% YoY to SAR 11.5mn during the quarter, resulting in a 76.2% YoY drop in operating profit to SAR 1.6mn in 2Q20. Consequently, the EBIT margin contracted to 1.8% in 2Q20 from 5.4% in 2Q19.
- Higher net financial charges and zakat expense, coupled with lower net other income, led the company to report a net loss (attributable to equity holders) of SAR 9.9mn in 2Q20 against the net profit of SAR 3.9mn in 2Q19.
- Dur Hospitality recorded a net loss margin of (10.7%) in the quarter against the net profit margin of 3.1% in 2Q19 and 7.8% in 1Q20.
- The company posted EPS of SAR (0.10) in 2Q20 as against SAR 0.04 in 2Q19 and SAR 0.11 in 1Q20.

Valuation: We revise our target price to a fair value of SAR 28.4 and retain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenue (SAR mn)	92.9	126.3	(26.4%)	405.0	553.8	(26.9%)
Gross Profit (SAR mn)	13.2	17.2	(23.5%)	95.0	119.2	(20.3%)
Operating Profit (SAR mn)	1.6	6.9	(76.2%)	53.2	76.3	(30.2%)
Net Profit (SAR mn)	(9.9)	3.9	NM	26.2	53.0	(50.5%)
EPS (SAR)	(0.10)	0.04	NM	0.26	0.53	(50.5%)
Gross Margin (%)	14.2%	13.6%	0.5%	23.4%	21.5%	1.9%
Operating Margin (%)	1.8%	5.4%	(3.7%)	13.1%	13.8%	(0.6%)
Net Profit Margin (%)	(10.7%)	3.1%	NM	6.5%	9.6%	(3.1%)

Source: Company Financials, FALCOM Research

2Q20 Results Update

October 20, 2020

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.

Fax or Email us at the below number:

Fax: +966 11 2032546

Email: addingvalue@falcom.com.sa

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: 8004298888

Brokerage Services: 920004711

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.