

### 3Q20 Results Update

December 20, 2020

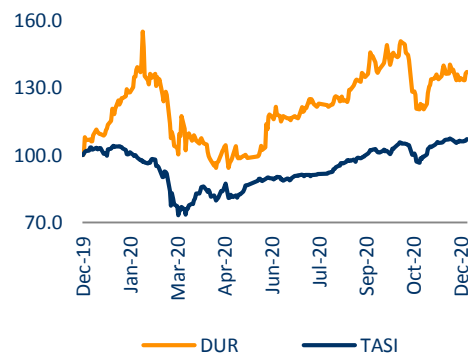
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	29.2
Target Price (SAR)	28.4
Upside/Downside (%)	(2.7%)

As of December 16, 2020

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.9
52-Wk High (SAR)	35.7
52-Wk Low (SAR)	19.9
Total Outstanding Shares (in mn)	100.0
Free Float (%)	60.8%

#### DUR vs. TASI (Rebased)

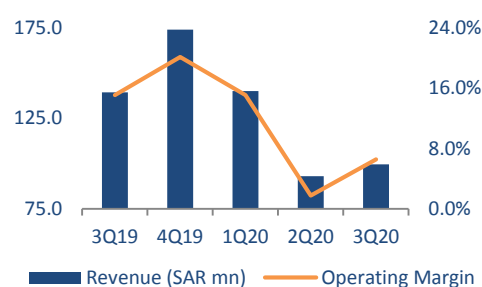


Price Performance (%)	Absolute	Relative
1m	1.7%	(0.5%)
6m	16.1%	(3.2%)
12m	37.1%	29.9%

#### 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 December 16, 2020

#### 3Q20 results impacted on weak demand for hotels, coupled with higher credit loss provisioning

Dur Hospitality (Dur) recorded net loss (attributable to equity holders) of SAR 8.4mn in 3Q20 as against net profit of SAR 15.2mn in 3Q19. The company's revenue declined 28.4% YoY to SAR 99.6mn during the quarter, as hotel revenues declined sharply due to the pandemic. Lower top line resulted in the 52.1% YoY drop in gross profit to SAR 14.4mn, whereas higher SG&A expenses led to a 70.7% YoY plunge in operating profit to SAR 6.5mn. Higher financial charges and zakat expenses also dragged down the bottom line and resulted in net loss margin of (8.4%) in the quarter as against net profit margin of 10.7% in 3Q19.

Due to the suspension of the Umrah and Hajj season this year, along with weak demand for hotels, the decline in other revenues and higher credit loss allowances weighed on 3Q20 results. On sequential basis, however, the company narrowed its losses on improved revenues in some business units. As the country began to ease lockdown measures and lift travel restrictions, the tourism and hotel industry is expected to recover beginning 4Q20. The government plans to offer land plots to the private sector to build resorts, malls, and tourist attractions. In addition, the Saudi Tourism Development Fund has committed to support the industry for building up to 500,000 key rooms by 2026. Due to these developments, we expect some recovery in the hotel sector in the next quarter. Moreover, the hotel industry is expected to benefit from tourism initiatives announced by the government, along with the launch of upcoming major projects. Dur is well-placed to capitalize on this opportunity, owing to an increase in local demand. However, headwinds in the hospitality sector still prevail in terms of resurgence in COVID-19 cases and prolonged duration for vaccine development. Considering these factors, we maintain our "Neutral" rating on the stock.

- Dur's total revenue fell 28.4% YoY to SAR 99.6mn in 3Q20 due to a sharp drop in revenue from the hospitality and property management segments. However, total revenue rose 7.1% QoQ from SAR 92.9mn in 2Q20.
- Gross profit plunged 52.1% YoY to SAR 14.4mn in 3Q20, as the steep fall in revenue offset the 21.9% dip in cost of sales to SAR 85.2mn. Simultaneously, gross margin contracted to 14.5% in the quarter from 21.6% in 3Q19.
- In addition to the lower top line, a 2.2% YoY rise in total SG&A expenses to SAR 7.6mn resulted in the 70.7% YoY plummet in operating income to SAR 6.5mn. Consequently, the EBIT margin contracted to 6.6% YoY in 3Q20 from 16.0% in 3Q19.
- Higher net financial charges and zakat expense, coupled with lower net other income, led the company to report net loss (attributable to equity holders) of SAR 8.4mn in 3Q20 as against net profit of SAR 15.2mn in 3Q19. Net loss margin stood at (8.4%) in 3Q20 vis-à-vis net profit margin of 10.7% in 3Q19.
- On September 16, Dur inked a deal with Awqaf Investment Co. to set up a special purpose vehicle (SPV) and develop a 5-star hotel in Madinah. The SPV will be a 49-51 partnership between the companies and have a seed capital of SAR 25,000. The hotel will be financed pro-rata and have a maximum funding cap of SAR 250mn.
- On December 2, Dur inaugurated Holiday Inn & Suites in Jubail City. The 4-star hotel, comprising 144 rooms, will be operated by the Intercontinental Group under a franchise deal.

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

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenue (SAR mn)	99.6	139.2	(28.4%)	433.9	553.8	(21.7%)
Gross Profit (SAR mn)	14.4	30.1	(52.1%)	80.9	119.2	(32.1%)
Operating Profit (SAR mn)	6.5	22.3	(70.7%)	38.6	76.3	(49.3%)
Net Profit (SAR mn)	(8.4)	15.2	NM	(8.2)	53.0	NM
EPS (SAR)	(0.08)	0.15	NM	(0.08)	0.53	NM
Gross Margin (%)	14.5%	21.6%	(7.2%)	18.7%	21.5%	(2.9%)
Operating Margin (%)	6.6%	16.0%	(9.5%)	8.9%	13.8%	(4.9%)
Net Profit Margin (%)	(8.4%)	10.9%	NM	(1.9%)	9.6%	NM

Source: Company Financials, FALCOM Research

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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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