

## FY18 Results Update

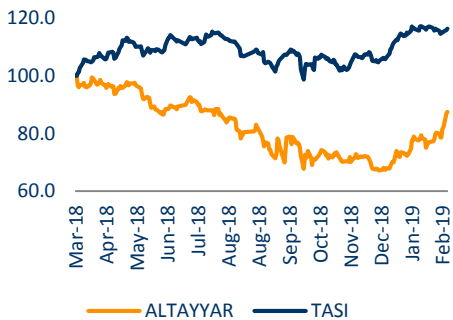
March 06, 2019

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	25.3
Target Price (SAR)	25.0
Upside/Downside (%)	-1.1%
<i>As of March 5<sup>th</sup>, 2019</i>	

### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	5.3
52 Wk High (SAR)	29.5
52 Wk Low (SAR)	19.1
Total Outstanding shares (in mn)	209.7
Free Float (%)	83.3%

### ALTAYYAR vs. TASI (Rebased)

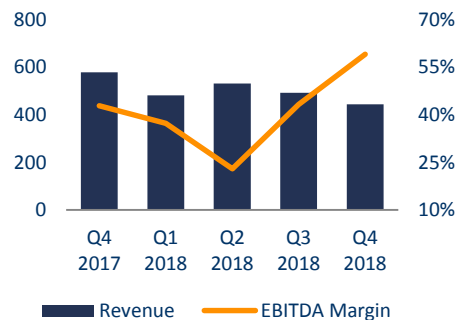


Price Performance (%)	Absolute	Relative
1m	12.7%	12.2%
6m	13.2%	5.7%
12m	(12.5%)	(28.8%)

### Major Shareholders (%)

Nasser Okail Abdullah Altayyar	11.05%
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### Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 5<sup>th</sup> 2019

### Altayyar swings to annual losses, misses annual estimates by a huge margin

Altayyar reported a net loss of SAR 145mn in FY18 vis-à-vis a net profit of SAR 497mn in FY17, primarily due to the SAR 421mn impairment loss on equity accounted investees. Excluding the impact of impairment charges, net profit for the year would have been SAR 276mn. Other elements that weighed down on profit include an impairment loss of SAR 129mn on goodwill. The company's revenues for the year declined 7.6% YoY to SAR 1.9bn mainly due to decline in revenue from major government accounts. Operating margins fell to 31.5% in FY18 from 38.4% in FY17, impacted due to more competitive pricing for some services in order to increase the company's market share and a change in product mix. Operating income too declined 24.1% to SAR 613mn for the year.

Altayyar's online platform gained traction, with annual booking rising 44% YoY in FY18. Also, revenue from the property and room rentals increased 33% YoY, while car rental revenue grew 40.5% YoY. During the year, the company reduced its total debt to SAR 745mn from SAR 1.4bn in FY17, as Altayyar made early payments of its long-term debt using cash received for receivables from government contracts. Consequently, debt-to-equity ratio declined from 23% in FY17 to 13% in FY18. Although, the company remains fundamentally strong as it enters a new growth phase that would be marked by increased focus on online business and other segments such as hospitality and car rentals, weakness in its core government business may act as a downside risk. We reduce our rating from 'Overweight' to 'Neutral'.

- Revenue for FY19 declined 7.6% YoY to SAR 1.9bn as higher car rental and hospitality revenues were partially offset by a decline in revenue from core government business due to change in terms with key clients. Bookings through the group's online platform increased 44% YoY to SAR 2.0bn, in line with Altayyar's strategy to register SAR 3.8bn in gross bookings by 2020.
- Gross profit declined 11.1% YoY to SAR 1.4bn, while gross margin shrank 292bps YoY to 73.2%, as the group offered more competitive prices for some services to protect and increase its market share. Change in product mix, resulting from higher online sales and travel services in the UK (that have lower margins), also impacted the group's margins.
- Selling, general and administrative expenses increased 2.2% YoY to SAR 846mn as the company increased marketing expenses to promote its new activities.
- Operating income declined 24.1% YoY to SAR 613mn due to higher operating expenses and reduced other income. Thus, operating margin narrowed to 31.5% in FY18 from 38.4% in FY17.
- The company has proposed a 43% capital hike to SAR 3.0bn through issuance of two bonus shares for every five shares held. The proceeds will be used to finance expansion plans.
- As of FY18, the company recorded commitments of 21,000 packages for its recently launched Hajj & Umrah service for 2019. The company's plans to develop seven mid-market hotels (1,000 rooms) in Jeddah, Riyadh and Taif bode well for its hospitality division. Altayyar also doubled its fleet in the car rental business to 7,000 vehicles in 2018 and currently provides car rental services across 14 cities and all major airports in the Kingdom.

**Valuation:** In light of weak FY18 results and change in terms with key government clients, we revise our target price slightly downward, with a fair value of SAR 25.0 per share. We reduce our rating from 'Overweight' to 'Neutral' as the stock has surpassed our previous target and has limited upside from these levels.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	443	578	(23.3%)	1,966	1,948	1.0%
Gross Profit (SAR mn)	310	467	(33.6%)	1,399	1,425	(1.8%)
EBITDA (SAR mn)	262	248	5.7%	716	776	(7.7%)
Net Profit (SAR mn)	18	16	9.7%	382	(145)	NA
EPS basic (SAR)	0.09	0.08	9.7%	1.82	(0.69)	NA
Gross Margin (%)	69.9%	80.8%	(10.9%)	71.2%	73.2%	(2.0%)
EBITDA Margin (%)	59.0%	42.9%	16.2%	36.4%	39.8%	(3.4%)
Net Profit Margin (%)	4.0%	2.8%	1.2%	19.4%	(7.4%)	26.9%

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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