

1Q19 Results Update

May 15, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	17.0
Target Price (SAR)	17.4
Upside/Downside (%)	2.7%

As of May 14th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	5.1
52 Wk High (SAR)	20.8
52 Wk Low (SAR)	13.4
Total Outstanding shares (in mn)	300.0
Free Float (%)	83.3%

SEERA vs. TASI (Rebased)

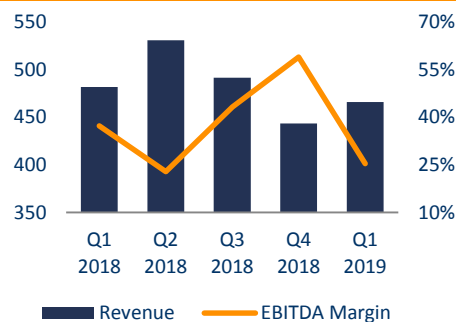


Price Performance (%)	Absolute	Relative
1m	(15.4%)	(10.9%)
6m	14.9%	3.4%
12m	(9.5%)	(19.1%)

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 May 14th 2019

Seera witnesses sharp decline in quarterly profit amid rising competition and higher expenses

Seera reported a net profit of SAR 47mn in 1Q19, down 44.7% from SAR 86mn in 1Q18, due to higher operating expenses and change in terms with major government clients. Operating margins were impacted due to competitive pricing for some services to protect and grow market share, change in product mix, and increase in share in the UK market where margins are lower. The company's revenues declined 3.2% YoY to SAR 466mn, mainly due to decreased average commission/revenue in the traditional travel sector. Operating income shrank 52.1% YoY on a sharp rise in selling, administrative and other operating expenses.

Seera's strategy to focus on the expansion of the online sector yielded good results, with online booking rising 30% YoY to SAR 481mn in 1Q19. However, the poor performance of the traditional travel sector, with changes in the terms of several key clients, posed a concern. Therefore, even though the company remains fundamentally strong as it enters a new growth phase, weakness in its core government business may act as a downside risk. Besides, Seera is shifting its focus toward increasing market share in the consumer travel sector in Saudi Arabia. The company has also hinted that it would deploy additional capital to boost online sales. Therefore, we plan to wait and watch how this strategy pans out for the company and (consequently) maintain our Neutral stance.

- During 1Q19, revenues declined 3.2% YoY to SAR 466mn as higher car rental and growth in online booking platform were offset by a decline in commissions and revenues from the traditional travel sector. Another factor that contributed to the decline in overall revenues was lower revenue from the core government business due to expiry of contract with one of the major client, along with changes in terms of contracts with other key clients.
- Gross profit declined 15.0% YoY to SAR 302mn, while gross margin shrank 900bps YoY to 64.8%. This was due to change in product mix following higher online sales and travel services in the UK where margins are lower.
- Selling, general and administrative expenses increased 10.0% YoY to SAR 233mn as the company incurred higher marketing expenses to promote its online business.
- Operating income nearly halved to SAR 65mn from SAR 136mn due to higher operating expenses and reduced other income. Thus, operating margin narrowed to 13.9% in 1Q19 from 28.2% in 1Q18.
- During the quarter, the company was re-branded as Seera Group Holding from Al Tayyar previously. The company also raised its capital by 43% by issuing bonus shares; the issue was financed by capitalizing SAR 707.345mn from retained earnings account and SAR 196.155mn from statutory deposit.
- In March 2019, Seera sold its 17.7% stake in Dubai-based Careem ride hailing app in a USD 3.1bn acquisition to Uber Technologies. The company is expected to generate SAR 1.78 billion. and intends to use the proceeds to fund the expansion of online business and Repayment of obligations.
- During the quarter, the company also divested its full stake of 33.3% in Wadi ecommerce platform.

Valuation: We revise our target price to a fair value of SAR 17.4 per share based on a share count of 300mn. We reiterate our "Neutral" rating on the stock as the company steers through a period of changes in product mix and renegotiated business terms.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	466	482	(3.2%)	1,863	1,948	(4.3%)
Gross Profit (SAR mn)	302	355	(15.0%)	1,248	1,425	(12.4%)
EBITDA (SAR mn)	118	182	(35.0%)	583	776	(24.9%)
Net Profit (SAR mn)	47	86	(44.7%)	339	-145	NM
EPS basic (SAR)	0.16	0.29	(44.7%)	1.13	-0.48	NM
Gross Margin (%)	64.8%	73.8%	(9.0%)	67.0%	73.2%	(6.2%)
EBITDA Margin (%)	25.4%	37.8%	(12.4%)	31.3%	39.8%	(8.5%)
Net Profit Margin (%)	10.1%	17.8%	(7.6%)	18.2%	(7.4%)	25.6%

Source: Company Financials, FALCOM Research

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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