

### 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

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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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