

FY20 Results Update

April 19, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	31.1
Target Price (SAR)	28.4
Upside/Downside (%)	(8.6%)
As of April 18, 2021	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	3.1
52-Wk High (SAR)	33.0
52-Wk Low (SAR)	19.9
Total Outstanding Shares (in mn)	100.0
Free Float (%)	60.9%

DUR vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.1%	(4.8%)
6m	(2.2%)	(19.7%)
12m	49.5%	2.0%

Major Shareholders (%)

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

Revenue (SAR mn) and Gross Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of April 18, 2021

Lower hospitality income hurts top line in FY20

Dur Hospitality (Dur) recorded a net loss (attributable to equity holders) of SAR 49.5mn in FY20 as against a net profit of SAR 53.0mn in FY19. The company's revenue declined 20.1% YoY to SAR 442.3mn during the year, as revenues from the Hospitality segment fell sharply due to the COVID-19 pandemic. Gross profit declined 49.0% YoY to SAR 60.8mn, while gross margin shrank 776.7 bps to 13.8% in FY20. Higher SG&A expenses led to a 92.7% YoY plunge in operating profit to SAR 5.8mn, resulting in 1291.3 bps contraction in operating margin to 1.3%. Increased net financial charges and zakat expenses also weighed on the bottom line; accordingly, Dur recorded a net loss margin of (11.2%) against a net profit margin of 9.6% in FY19.

Dur reported a weak performance in FY20 as the COVID-19 pandemic weighed on the company's operations during the year. Lower revenues from Hospitality (-26.3% YoY to SAR 321.0mn) and Property Management (-74.8% YoY to SAR 1.7mn) dragged down Dur's total revenue in FY20. This was primarily due to weak demand for hotels for business and travel purposes, as the implementation of lockdown during the year, to curb the spread of the pandemic, limited movement across the nation. Moreover, closure of Umrah and Hajj sites briefly for pilgrimage and travel restrictions on visitors from several nations also weighed on the company's Hospitality income. However, we anticipate some recovery in the hotel sector in FY21 with rising vaccination rates across the globe and expectations of easing of travel restrictions in the nation. Moreover, KSA aims to increase the number of tourists visiting the nation to 100mn and targets to add 500,000 key rooms by 2030 through the Saudi Tourism Development Fund. Furthermore, the government has also announced the launch of major projects to support the hospitality and tourism industry, which is a key part of its Saudi Vision 2030 program. However, headwinds in the hospitality sector still prevail in terms of resurgence in COVID-19 cases (attributed to the emergence of new strains of the virus) and implementation of a new set of travel restrictions. Considering these factors, we maintain our "Neutral" rating on the stock.

- Dur's total revenue fell 20.1% YoY to SAR 442.3mn in FY20 due to a sharp drop in revenue from the Hospitality and Property Management segments.
- Gross profit plunged 49.0% YoY to SAR 60.8mn in FY20, as the drop in the top line offset the 12.2% YoY dip in cost of sales to SAR 381.5mn. Simultaneously, gross margin contracted to 13.8% in the year from 21.5% in FY19.
- Higher total SG&A expenses resulted in a 92.7% YoY decline in operating income to SAR 5.8mn. Consequently, the EBIT margin narrowed to 1.3% YoY in FY20 from 14.2% in FY19.
- Higher net financial charges and zakat expense, coupled with lower profit share from associates and net other income, led the company to report a net loss (attributable to equity holders) of SAR 49.5mn in FY20 against a net profit of SAR 53.0mn in FY19. As a result, the company reported a net loss margin of (11.2%) vis-à-vis a net profit margin of 9.6% in FY19.
- On January 7, Dur announced that it has filed a lawsuit against a KSA-based financial institution to challenge the validity of two interest rate swap derivative agreements. The company stated that the mark to market loss of SAR 90.7mn arising from these agreements has not been accounted for in the financial statements for FY20, and if accounted for, the net loss for the year would be SAR 53.6mn higher and net equity would be SAR 90.7mn lower.
- On March 25, Dur's Board recommended to withhold the distribution of a cash dividend for FY20 in a bid to aid and strengthen the company's financial position, amid the challenging situation created by the COVID-19 pandemic.

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

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenue (SAR mn)	109.9	173.8	(36.8%)	499.9	442.3	13.0%
Gross Profit (SAR mn)	0.5	47.7	(98.9%)	112.6	60.8	85.2%
Operating Profit (SAR mn)	(23.4)	36.0	NM	61.1	5.8	962.7%
Net Profit (SAR mn)	(42.0)	24.5	NM	25.7	(49.5)	NM
EPS (SAR)	(0.4)	0.2	NM	0.26	(0.49)	NM
Gross Margin (%)	0.5%	27.4%	(26.9%)	22.5%	13.8%	8.8%
Operating Margin (%)	(21.3%)	20.7%	NM	12.2%	1.3%	10.9%
Net Profit Margin (%)	(38.2%)	14.1%	NM	5.1%	(11.2%)	NM

Source: Company Financials, FALCOM Research

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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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