

1Q21 Results Update

June 16, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	33.9
Target Price (SAR)	32.0
Upside/Downside (%)	(5.6%)

As of June 15, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	3.4
52-Wk High (SAR)	35.5
52-Wk Low (SAR)	24.3
Total Outstanding Shares (in mn)	100.0
Free Float (%)	54.2%

DUR vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.5%	(3.4%)
6m	16.7%	(8.4%)
12m	37.2%	(11.3%)

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 June 15, 2021

COVID-19 related restrictions weigh on top line in 1Q21

Dur Hospitality (Dur)'s revenue declined 28.4% YoY to SAR 100.2mn in 1Q21 due to the revenue drop across segments due to restrictions related to COVID-19. Gross profit plunged 91.5% YoY to SAR 2.8mn in 1Q21, while gross margin shrank 2,060 bps YoY to 2.8% in FY20. Lower top line resulted in operating loss of SAR 1.8mn in 1Q21 and led to 1,682 bps YoY contraction in operating margin to (1.8%). Lower margins offset the drop in financial and zakat expenses and led to an 82.7% YoY plummet in net profit to SAR 1.9mn in 1Q21. Subsequently, net margin tightened 590 bps YoY to 1.9% in 1Q21.

Dur reported weak performance in 1Q21 as the COVID-19 pandemic and subsequent precautionary measures to halt its spread weighed on the company's operations during the year. Dur's total revenue in 1Q21 was dragged down by sharply lower revenues from the Hospitality (down 36.2% YoY to SAR 69.7mn) and Property Management (down 40.1% YoY to SAR 0.3mn) segments. Subdued demand for accommodations for business and travel purposes amid low business and tourism activity led to a low occupancy rates during the period. Moreover, implementation of travel restrictions to and from several nations during the quarter to curb the spread of the pandemic hurt Tourism sector's revenue in KSA. Furthermore, restrictions on the number of devotees to be permitted for worship at Umrah and Hajj sites also weighed on the company's Hospitality income. However, on rising vaccination rates across the globe and easing of travel restrictions in the nation, we anticipate certain recovery in the Hotel sector revenue in FY21. KSA aims to increase the number of tourists visiting the nation to 100mn and boost GDP contribution of the Tourism sector to 10% by 2030 as part of its Saudi Vision 2030 program. To achieve this, the government has undertaken several mega projects for tourist attraction and seeks to add 500,000 key rooms by 2030 through the Saudi Tourism Development Fund. Dur plans to add more than 3,400 rooms to its portfolio as it aims to capitalize on the government's investment plans in the sector. Dur is also considering a merger with Taiba Investments Co., to lessen the impact of the pandemic on the company's financials and boost liquidity and efficiency. However, a resurgence in COVID-19 cases due to new strains of the virus may cause prolongation of travel restrictions and hurt the company's profitability. Considering these factors, we maintain our "Neutral" rating on the stock.

- Dur's total revenue nosedived 28.4% YoY to SAR 100.2mn in 1Q21 due to a drop in revenue from all the three segments that the company operates.
- Gross profit slumped 91.5% YoY to SAR 2.8mn in 1Q21, as the drop in the top line offset the 9.2% YoY decline in cost of sales to SAR 97.4mn. Simultaneously, gross margin shrank to 2.8% in the quarter from 23.4% in 1Q20.
- Lower top line also offset lower SG&A expenses and generated operating loss of SAR 1.8mn as against operating profit of SAR 21.0mn in 1Q20. Consequently, the operating margin narrowed to (1.8%) in 1Q21 from 15.0% in 1Q20.
- Lower margins counterbalanced the drop in net financial charges and zakat expense as well as the increase in other income; this led to an 82.7% YoY plunge in net profit to SAR 1.9mn in 1Q21. As a result, net margin contracted to 1.9% vis-à-vis a 7.8% in 1Q20.
- On May 26, Dur's shareholders approved the Board's recommendation to withhold distribution of dividend for FY20 to support the company's financial position amid the pandemic.
- On June 13, Dur announced that it is considering a merger with Taiba Investments Co., which operates as an investment firm in the Tourism and Real Estate space in the KSA. The merger talks are in the preliminary stage and require regulatory consent for approval.

Valuation: We revise our target price upward to a fair value of SAR 32.0 and maintain "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenue (SAR mn)	100.2	139.9	(28.4%)	498.2	442.3	12.6%
Gross Profit (SAR mn)	2.8	32.7	(91.5%)	105.3	60.8	73.1%
Operating Profit (SAR mn)	(1.8)	21.0	NM	66.7	5.8	1,059.3%
Net Profit (SAR mn)	1.9	10.9	(82.7%)	31.3	(49.5)	NM
EPS (SAR)	0.02	0.11	(82.7%)	0.31	(0.49)	NM
Gross Margin (%)	2.8%	23.4%	(20.6%)	21.1%	13.8%	7.4%
Operating Margin (%)	(1.8%)	15.0%	(16.8%)	13.4%	1.3%	12.1%
Net Profit Margin (%)	1.9%	7.8%	(5.9%)	6.3%	(11.2%)	17.5%

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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