SAL Saudi Logistics Services Co.

Investment Update

Growth driven by rising cargo handling volumes and expansion of logistic business but at lower margins due to change in revenue mix and pricing revision.

SAL Saudi Logistics Services Co. (SAL) witnessed an exceptional year in terms of volumes in FY24 due to favorable impact from Red Sea issue. Volumes are expected to normalize in FY25E and resume growth FY26E onwards, as long-term growth drivers remain intact supported by the National Transport & Logistics Strategy. We forecast SAL's cargo volumes to grow at CAGR of 9.3% during FY24-FY29E. Moreover, the company is set to expand its logistic business significantly with a planned investment of SAR 4bn. Cargo volume growth and expansion of logistic business are expected to drive FY24-29E revenue CAGR of 11.4%. However, the shift in revenue mix towards low-margin logistic business, anticipated sustained pricing pressure in air cargo and higher finance costs are likely to drag margins (net margin to decrease from 40.5% in FY24 to 34.8% in FY29E). We forecast net income to grow at CAGR of 8.2% to SAR 981mn by FY29E. Based on our revised estimates accounting for the recent developments such extension major contracts at lower prices, upcoming margin pressure from a big expansion in logistic business and expected normalization of volumes post exceptional surge in FY24, we cut our TP on SAL to SAR 186/share but keep the "Neutral" recommendation.

Q4-24 earnings declined Y/Y, as Q4-23 was supported by a positive Red Sea impact: SAL's net profit declined 21.3% Y/Y in Q4-24 to SAR 142mn, below our estimate of SAR 179mn. The deviation from our estimate was primarily due to lower-than-expected revenue along with significantly lower GP and operating margin. Revenue was flat at SAR 409mn (-0.5% Y/Y) and missed our estimate of SAR 443mn. The topline was benefited in Q4-23 from sea to air shift of shipments due to the Red Sea conflict. Gross margin contracted to 54.6% from 59.1% in Q4-23 and was below our estimate of 57.1%. The operating margin was further weighed by the higher OPEX, coming at 37.9% vs. 49.5% in Q4-23 and our estimate of 42.9%.

Cargo volumes to normalize in FY25E, downward negotiation of prices for major clients and changing cargo mix; revenue growth to pick up the pace FY26E onwards: SAL witnessed exceptional volume gains in FY24 due to the shifting of some freight to air route due to Red Sea (particularly in Q1-24). Moreover, landside revenue also benefited due to high security checks during this period. As the Red Sea impact has waned, we expect volumes to normalize in FY25E with modest growth of 3.2% Y/Y. On the pricing side, we expect pressure on revenue per ton to continue in the near term after a decline in FY24 and remain steady thereafter. Revenue per ton is expected to be hit by 1) the recent extension of contracts by SAL with three major clients at lower prices, 2) changing cargo mix with rising e-commerce contribution and 3) steady landside prices. Thus, we expect revenue growth to slow down in FY25E to 3.3%, with the impact of slower volume growth and pricing pressure partially offset by continued expansion of Logistic segment. Nevertheless, we see acceleration in both volumes and revenue from FY26E onwards. The cargo volume growth in the long term will be fueled by the National Transport & Logistics Strategy that focuses on establishing the Kingdom as a global logistics hub connecting Africa, Asia and Europe. Under the strategy both Saudia and Riyadh Air are expected to increase their connections to several locations globally that will support cargo volume growth. The rising consumption of perishable and non-perishable goods domestically would drive cargo demand. SAL, with 92% of the market share, is expected attract majority of the volumes and benefit from expanding Saudi cargo handling market. The company's planned expansion of its warehousing capacity at Jeddah (936,000 tons), Riyadh (806,000 tons) and Dammam (163,000 tons) aligns with expected demand growth and will help maintain the market position. We forecast SAL's cargo volumes to grow at CAGR of 9.3% during FY24-FY29E to reach 1.5mn tons, translating into the segment revenue CAGR of 9.1% during the same period.

Recommendation	Neutral
Target Price (SAR)	186.0
Upside / (Downside)*	6.3%

Source: Tadawul *prices as of 7th of April 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	1,456	1,634	1,688	1,900
Growth %	19.1%	12.2%	3.3%	12.5%
Gross Profit	776	915	908	1,037
Net Income	510	661	622	697
Growth %	40.6%	29.8%	-6.0%	12.1%
EPS	6.37	8.27	7.77	8.71
DPS	4.40	5.99	5.75	6.50

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	53.3%	56.0%	53.8%	54.6%
Net Margin	35.0%	40.5%	36.8%	36.7%
ROE	44.2%	50.2%	41.9%	42.2%
ROA	15.5%	20.3%	19.1%	18.9%
P/E (x)	30.5	30.6	22.5	20.1
P/B (x)	12.6	14.4	9.0	8.0
EV/EBITDA (x)	22.9	24.8	18.1	15.7
Dividend Yield	2.3%	2.4%	3.3%	3.7%

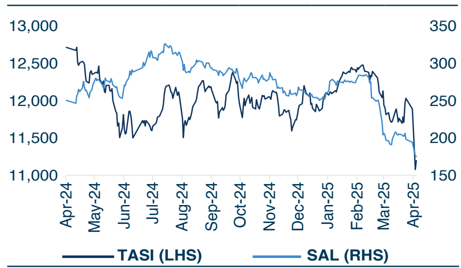
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	14.0
YTD%	-30.7%
52 weeks (High)/(Low)	328.0/174.8
Share Outstanding (bn)	80.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, AlJazira Capital Research

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Proposed SAR 4bn logistic zone in Falcon City to drive Logistic segment expansion: SAL plans to set up logistic zone in Falcon City in Riyadh with an investment of SAR 4bn as a part of Shareek program. The first phase of the project (covering ~700k sq.m.) is expected to be completed by FY27, while the entire project completion is anticipated by FY31. This project will significantly enhance SAL's logistic division's capacity and help the company strengthen its position in a highly fragmented industry by providing an edge over smaller players. Moreover, ongoing infrastructure developments such as storage facilities and fulfillment centers in Riyadh (46k sq.m. by Q2-25) and Jeddah (62k sq.m. by Q1-26) will help the growth in Logistic segment. We forecast Logistic segment's revenue to expand at a CAGR of 20.9% during FY24-29E.

Higher contribution from low-margin logistic business, contracts revisions and changing volume mix in air cargo to take a toll on margins: Expected strong growth in Logistic segment is likely to increase the segment's contribution to total revenue from 17% in FY24 to ~25% in FY29E. With low EBIT margin in the range of 6-8% vs. Handling EBIT margins of ~50%, higher contribution from Logistic segment is expected to weigh on overall margins. Moreover, the pressure on airside prices due to revision of contracts with major clients and rising e-commerce volume (which typically have lower pricing) is expected to add to the margin pressure. However, anticipated volume growth is likely to partially compensate as a major portion of the cost is fixed in the Handling segment. We forecast the gross margin to squeeze from 56.0% in FY24 to 54.0% in FY29E, while operating margin is expected to decrease from 43.4% to 40.6% in FY29E.

Elevated CAPEX may strain FCF temporarily, but strong OCF generation supports healthy dividend payout: SAL's capacity expansion plans would demand intensified CAPEX in coming years – SAR 4bn for the logistic zone in addition to previously planned combined SAR 1.1bn for cargo handling capacity expansion. The elevated CAPEX would exert pressure on the company's free cash flow (FCF) for some time. We expect FCF to be negative in FY26E and FY27E before recovering in the years ahead. Despite the temporary pressure on FCF, SAL will be able to maintain a healthy dividend payout averaging around 75% during FY24-29E due to its robust operating cash generation.

Balance sheet strength supports expansion plans with ability to leverage further: As of December 2024, SAL had net cash position and debt/equity ratio of 1.0x. We assume the company to fund 75% of the logistic zone's investment through debt. Thus, we forecast the debt/equity ratio to reach 1.5x by FY29E. SAL participation in the Shareek program may help it with better financing terms. Nevertheless, we forecast finance expenses to increase from SAR 74mn in FY24 to SAR 122mn in FY29E

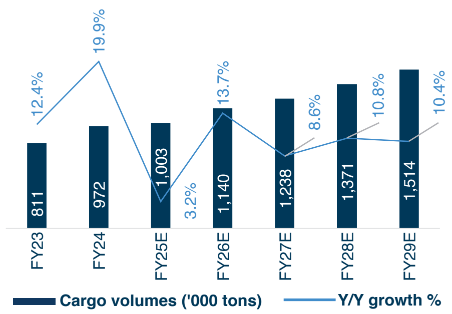
AJC view and valuation: We expect SAL to capitalize on strong growth opportunities, driven by government-led strategic initiatives and its solid business fundamentals. With rising sector demand, the company is well-positioned to leverage its market leadership for sustained expansion. However, the expected significant shift in the revenue mix would lead to lower gross and operating margins in the future. Moreover, an elevated debt level to support CAPEX will drag net income due to increased finance costs. We forecast a net income CAGR of 8.2% during FY24-29E, on the back of revenue robust CAGR 11.4% but impacted by contraction in margins. We value SAL assigning 50% weight to DCF (2.5% terminal growth and 9.7% WACC), while we assign 50% weight each to PE (25.0x) based on FY25E EPS. We cut our TP on SAL to **SAR 184.0/share**. We maintain our "**Neutral**" rating on the stock.

Blended Valuation

Valuation Summary	Fair Value	Weight	Weighted Average
DCF	178	50%	89
P/E (25.0x FY25E EPS)	194	50%	97
Weighted average 12-month TP			**186.0**
Current market price (SAR /share)			175.0
Expected Capital Gain			6.3%

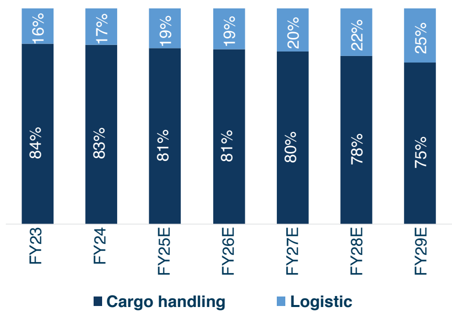
Source: AlJazira Capital Research

Fig.1 Cargo volume (000 tons) and Y/Y growth revenues



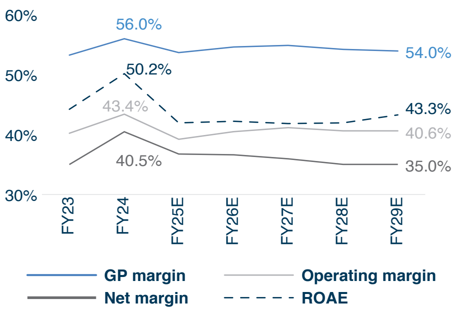
Source: Company reports, Aljazira Capital Research

Fig.2 Revenue mix trend



Source: Company reports, Aljazira Capital Research

Fig.3 SAL profitability evolution



Source: Company reports, Aljazira Capital Research

Key Financials

Amount in USD mn, unless otherwise specified	FY21	FY22	FY23	FY24	FY25F	FY26F	FY27F	FY28F	FY29F
Income statement									
Revenues	962	1,223	1,456	1,634	1,688	1,900	2,133	2,434	2,801
Y/Y	**13.6%**	**27.1%**	**19.1%**	**12.2%**	**3.3%**	**12.5%**	**12.3%**	**14.2%**	**15.0%**
Cost	(476)	(632)	(680)	(719)	(781)	(863)	(961)	(1,113)	(1,288)
Gross profit	**486**	**591**	**776**	**915**	**908**	**1,037**	**1,172**	**1,321**	**1,513**
Gross margin	**50.5%**	**48.3%**	**53.3%**	**56.0%**	**53.8%**	**54.6%**	**55.0%**	**54.3%**	**54.0%**
Sales and distribution expenses	(28)	(30)	(33)	(48)	(52)	(54)	(58)	(64)	(71)
General and administrative expenses	(137)	(147)	(142)	(176)	(192)	(211)	(235)	(265)	(302)
Operating profit	**345**	**427**	**586**	**709**	**662**	**770**	**877**	**989**	**1,136**
Y/Y	**10.9%**	**23.5%**	**37.4%**	**21.0%**	**-6.7%**	**16.3%**	**13.9%**	**12.8%**	**14.8%**
Operating margin	**35.9%**	**34.9%**	**40.3%**	**43.4%**	**39.2%**	**40.5%**	**41.1%**	**40.6%**	**40.6%**
Finance expense	(70)	(75)	(87)	(74)	(69)	(82)	(97)	(109)	(122)
Income before zakat	**279**	**370**	**551**	**694**	**653**	**732**	**807**	**897**	**1,031**
Zakat	(3)	(8)	(41)	(33)	(31)	(35)	(39)	(43)	(49)
Net income	**276**	**362**	**510**	**661**	**622**	**697**	**768**	**854**	**981**
Y/Y	**15.9%**	**31.5%**	**40.6%**	**29.8%**	**-6.0%**	**12.1%**	**10.2%**	**11.3%**	**14.9%**
Net margin	**28.6%**	**29.6%**	**35.0%**	**40.5%**	**36.8%**	**36.7%**	**36.0%**	**35.1%**	**35.0%**
EPS (SAR)	**3.44**	**4.53**	**6.37**	**8.27**	**7.77**	**8.71**	**9.60**	**10.68**	**12.27**
DPS (SAR)	**2.25**	**3.81**	**4.40**	**5.99**	**5.75**	**6.50**	**7.25**	**8.00**	**9.25**
Balance sheet									
Assets									
Cash & equivalent	492	940	710	1,362	1,091	688	466	503	643
Trade receivables	185	233	391	480	460	479	497	546	606
Other current assets	538	178	551	124	146	162	181	205	235
Total current assets	1,215	1,351	1,652	1,966	1,696	1,329	1,144	1,254	1,484
Property plant & equipment	659	705	709	720	1,037	2,278	3,348	4,021	4,475
Other non-current assets	1,299	1,227	912	534	529	523	517	510	503
Total assets	**3,173**	**3,284**	**3,285**	**3,232**	**3,262**	**4,131**	**5,009**	**5,785**	**6,462**
Liabilities & owners' equity									
Current portion of long term loan	-	-	36	57	67	67	67	77	77
Total current liabilities	317	344	385	487	423	436	445	484	535
Long-term loan	500	500	567	560	497	1,180	1,863	2,386	2,768
Total non-current liabilities	1,894	1,866	1,665	1,343	1,275	1,954	2,635	3,158	3,542
Paid -up capital	800	800	800	800	800	800	800	800	800
Statutory reserves	28	64	115	115	177	177	177	177	177
Retained earnings	155	227	333	501	601	778	966	1,180	1,421
Total owners' equity	962	1,073	1,234	1,402	1,564	1,741	1,929	2,143	2,385
Total equity & liabilities	**3,173**	**3,284**	**3,285**	**3,232**	**3,262**	**4,131**	**5,009**	**5,785**	**6,462**
Cashflow statement									
Operating activities	309	556	696	735	670	879	1,016	1,133	1,291
Investing activities	(528)	282	(596)	440	(390)	(1,406)	(1,303)	(950)	(755)
Financing activities	(4)	(389)	(329)	(519)	(551)	124	64	(146)	(396)
Change in cash	(223)	448	(230)	655	(271)	(403)	(222)	37	140
Ending cash balance	**492**	**940**	**710**	**1,362**	**1,091**	**688**	**466**	**503**	**643**
Key fundamental ratios									
Liquidity ratios									
Current ratio (x)	3.8	3.9	4.3	4.0	4.0	3.1	2.6	2.6	2.8
Profitability ratios									
Gross profit margin	50.5%	48.3%	53.3%	56.0%	53.8%	54.6%	55.0%	54.3%	54.0%
Operating margin	35.9%	34.9%	40.3%	43.4%	39.2%	40.5%	41.1%	40.6%	40.6%
EBITDA margin	47.3%	44.6%	49.5%	49.9%	46.5%	51.3%	54.1%	53.9%	53.0%
Net profit margin	28.6%	29.6%	35.0%	40.5%	36.8%	36.7%	36.0%	35.1%	35.0%
Return on assets	9.0%	11.2%	15.5%	20.3%	19.1%	18.9%	16.8%	15.8%	16.0%
Return on equity	31.2%	35.6%	44.2%	50.2%	41.9%	42.2%	41.8%	42.0%	43.3%
Market/valuation ratios									
EV/sales (x)	NM	NM	11.4	12.4	8.4	8.0	7.6	6.8	6.0
EV/EBITDA (x)	NM	NM	22.9	24.8	18.1	15.7	14.0	12.7	11.4
EPS (SAR)	3.4	4.5	6.4	8.3	7.8	8.7	9.6	10.7	12.3
BVPS (SAR)	12.0	13.4	15.4	17.5	19.6	21.8	24.1	26.8	29.8
DPS (SAR)	2.25	3.81	4.40	5.99	5.75	6.50	7.25	8.00	9.25
Market price (SAR)*	NM	NM	194	253	175	175	175	175	175
Market-Cap (SAR mn)	NM	NM	15,552	20,208	14,000	14,000	14,000	14,000	14,000
P/E ratio (x)	NM	NM	30.5	30.6	22.5	20.1	18.2	16.4	14.3
P/BV ratio (x)	NM	NM	12.6	14.4	9.0	8.0	7.3	6.5	5.9
Dividend yield	NM	NM	2.3%	2.4%	3.3%	3.7%	4.1%	4.6%	5.3%

Source: Company reports, Aljazira Capital Research *prices as of 7th of April 2025

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer