



More focused approach on travel and car rental business amid growing domestic tourism to deliver growth; subsidiaries provide value unlocking potential

Seera Group Holding (Seera)'s travel and ticketing business is witnessing a solid upsurge on the back of robust tourist activity in Saudi Arabia. Almosafer is expected to benefit from growth in consumer and corporate travel in the Kingdom. The company's inorganic expansion in the UK further broadens its horizon. We also anticipate healthy growth Lumi's car rental business driven by market demand and its fleet expansion. However, a new mandate from the government bypassing third-party travel agencies like Almosafer will hit the company's government travel bookings (FY23 NBV: ~SAR 2bn). Nevertheless, with a more focused approach on key businesses Seera is positioned well to benefit from growing travel demand. Moreover, the company has listing of Almosafer and divestment of hospitality business on its cards in the next 2-3 years, adding to the value of the company. We forecast Seera's topline to expand at a CAGR of 11.2% during FY23-28E, translating into a net income CAGR of 23.2%. Gross margin is estimated to improve gradually from 42.4% in FY23 to 43.8% in FY28E. Based on revised assumptions and valuation we update our TP on Seera to SAR 29.2/share keeping our "Overweight" recommendation.

Healthy revenue growth, driven by strong Almosafer performance, car rental, and UK acquisitions but offset by GP margin contraction: Seera's normalized net income grew 1.6% Y/Y to SAR 54.5mn in Q2-24, beating AJC's estimate of SAR 40mn. The deviation from our estimate was mainly due to higher other income also supported by higher-than-expected revenue, gross margin. The Y/Y marginal growth in bottom line came despite lower gross margin and increase in non-controlling interest. Revenue grew 43.6% Y/Y to SAR 1028mn (above AJC's estimate of SAR 962mn). The topline growth was led by strong performance across the travel platform (Almosafer: +74% Y/Y) and car rental (+55% Y/Y) segments, and acquisition within UK-based Portman Travel Group. Revenue for the hospitality segment fell 9%Y/Y. GP margin contracted by ~600 bps Y/Y to 42.2% but was above our expectation of 41.8%. Thus, gross profit grew 25.8% Y/Y to SAR 434mn. Operating profit rose 7.8% to SAR 110mn (exceeding AJC's estimate of SAR 91mn) deriving support from gross profit growth, partially offset by non-recurring income of SAR 14.9mn from Careem holdback in Q2-23.

Rising tourism activities in KSA to reflect positively across Seera's business segments: Saudi Arabia's tourism sector is thriving with surge in number of visitors. The total number of tourists reached 109.3mn in FY23, up 16% from 94.5mn in FY22. The momentum is expected to continue this year with the number of tourists already reaching 60mn in H1-24. The number of international tourists reached 17.5mn in 7M24 (full year 2023: 27.4mn). Similarly, number of flights at KSA airports rose 17% Y/Y to 446mn; while the number of passengers at Saudi airports grew 12% Y/Y to 62mn in H1-24. Seera's Almosafer and hospitality business will benefit from the increasing number of tourists, while Lumi's short term rental will also be mostly dependent on tourism.

Surging consumer travel demand to bolster Almosafer growth despite negative impact from new government regulations; UK-based acquisitions further support expansion of tourism business: Almosafer's topline is hit by the Ministry of Finance's mandate that all government flight bookings to be made directly through the government's platform, bypassing third-party travel agencies like Almosafer. This reflected in 1% decline in total net booking value during H1-24. However, excluding the impact of the new mandate net booking value was up 35% Y/Y in H1-24, as consumer travel showcased record-breaking gains, while Hajj & Umrah and online distribution growth was also healthy. As per the company's new guidance the net booking value of Almosafer is expected to reach SAR 12.0bn with consumer travel contributing SAR 9.0bn. Additionally, acquisitions at the company's UK-based investment Portman Travel Group will also support expansion of tourism business. Thus, all these factors are expected to translate into a strong growth for Ticketing and Tourism revenue with CAGR of 12.3% and 10.9%, respectively, during FY23-28E.

Lumi's fleet expansion to be a major contributor to revenue and EBITDA growth: Lumi has aggressively expanded its fleet recently to reach 33,500 by end of H1-24 (+29% Y/Y). We forecast Transportation revenue to increase at CAGR of 11.4% during FY23-28E with fleet size exceeding 44,000. The car rental business, being the largest contributor to EBITDA (72% in H1-24), Lumi will drive strong EBITDA growth for Seera. However, fleet expansion has increased Seera's debt level from total borrowing of SAR 905mn in FY20 to SAR 1,850mn in H1-24. Accordingly, finance expenses have also increased. In FY24, we expect it to increase 27% and then decrease gradually as repayments are done and interest rates are lowered.

Recommendation	Overweight
Target Price (SAR)	29.2
Upside / (Downside)*	21.9%

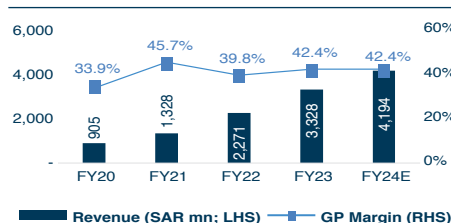
Source: Tadawul *prices as of 24th of September 2024

Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Revenue	2,271	3,328	4,194	4,675
Growth %	71.0%	46.6%	26.0%	11.5%
Gross Profit	904	1,412	1,780	2,004
EBITDA	413	632	893	927
Net Income	-48	169	192	269
Growth %	NM	NM	13.8%	39.7%
EPS	-0.16	0.56	0.64	0.90
DPS	0.00	0.00	0.00	0.00

Source: Company reports, Aljazira Capital Research

Revenue and GP margin



Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	39.8%	42.4%	42.4%	42.9%
EBITDA Margin	18.2%	19.0%	21.3%	19.8%
Net Margin	-2.1%	5.1%	4.6%	5.7%
ROE	-0.9%	2.8%	2.7%	3.7%
ROA	-0.6%	1.7%	1.7%	2.2%
P/E	Neg	47.9	37.4	26.8
P/B	1.5	1.2	1.0	1.0
EV/EBITDA (x)	22.4	15.8	10.4	9.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%

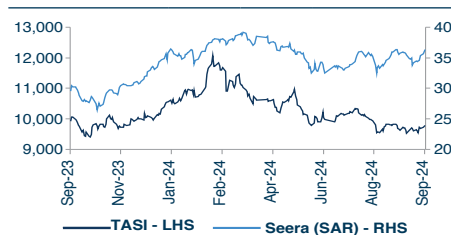
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	7.2
YTD%	-11.3%
52 weeks (High)/(Low)	35.8/21.8
Share Outstanding (mn)	300.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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Almosafer listing and hospitality divesture to unlock value for shareholders: Seera has plans to list Almosafer business within 2-3 years, which will potentially unlock value similar to Lumi IPO. Moreover, the company's strategy includes divesture of the hospitality business. As of June 2024, net book value of hospitality business was estimated around SAR 3.0-3.5bn. The cash inflow from the divesture will support the liquidity of the company and provide room for investment in growth opportunities or fulfil additional investment in Kayanat, which is estimated at SAR 600-700mn post FY25, that will generate returns (expected IRR > 15%) for the company when the project starts by FY27-28.

AJC view and valuation: Seera has favorable market condition with an anticipated boom in Saudi tourism sector. Furthermore, the company's revised strategy with more focus on healthy, growing businesses with high potential would help it deliver strong performance in future. Seera's Almosafer travel platform is likely to benefit from growing travel demand in the Kingdom. Thus, Ticketing and Tourism revenue is estimated to register CAGR of 12.3% and 10.9%, respectively, during FY23-28E; while Transportation revenue is likely to grow at CAGR of 11.4%. We forecast Seera's topline to expand at a CAGR of 11.2% during FY23-28E, translating into a net income CAGR of 23.2%. Gross margin is estimated to improve gradually from 42.4% in FY23 to 43.8% in FY28E.

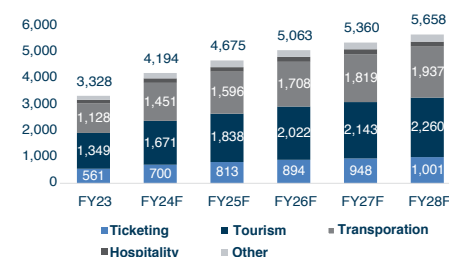
We valued Seera with 50% weightage to DCF (WACC = 8.3% and terminal growth = 2.5%) and 50% weightage SOTP valuation. Our SOTP approach includes 1) EV/sales multiple based valuation for Almosafer and Portman; 2) Kayanat and other investments are valued based on value of assets, 3) book value of hospitality business and 4) our fair value for Lumi. We arrive at a revised TP of **SAR 29.2/share**. We maintain our **"Overweight"** recommendation on the stock, a potential upside of 21.9%. Seera's stock is currently trading at P/E of 26.8x and EV/EBITDA of 9.9x based on our FY25E estimates. We expect the company's net income to grow 13.8% Y/Y to SAR 192mn in FY24E and 39.7% Y/Y to 269mn.

Blended valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	30.1	50%	15.1
SOTP	28.3	50%	14.1
Blended TP			29.2
Up/Downside (%)			21.9%

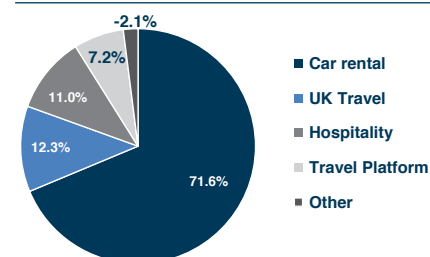
Source: AlJazira Capital research

Revenue by segment (SAR mn)



Source: Company reports, Aljazira Capital Research

EBITDA contribution (H1-24)



Source: Company reports, Aljazira Capital Research





Key Financials

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23	FY24F	FY25F	FY26F	FY27F	FY26F
Income statement								
Revenues	1,328	2,271	3,328	4,194	4,675	5,063	5,360	5,658
Growth Y/Y	46.8%	71.0%	46.6%	26.0%	11.5%	8.3%	5.9%	5.6%
Cost of Sales	(722)	(1,367)	(1,916)	(2,414)	(2,671)	(2,869)	(3,023)	(3,178)
Gross profit	606	904	1,412	1,780	2,004	2,194	2,337	2,480
Selling expenses	(336)	(410)	(428)	(545)	(661)	(712)	(751)	(790)
Administrative expenses	(553)	(598)	(756)	(873)	(975)	(1,047)	(1,103)	(1,159)
Other (expense)/income	(17)	106	64	70	85	92	98	104
EBITDA	39	413	632	893	927	1,001	1,054	1,108
Operating profit	(282)	54	299	436	454	528	581	634
Growth Y/Y	-47.1%	-119.0%	458.2%	45.7%	4.1%	16.2%	10.2%	9.1%
Net Financial cost	(53)	(75)	(133)	(165)	(157)	(147)	(99)	(97)
Profit before zakat	(326)	(51)	189	279	305	388	491	545
Zakat	(52)	6	(18)	(25)	(32)	(41)	(52)	(57)
Net income	(376)	(48)	169	192	269	342	433	481
Growth Y/Y	NM	NM	NM	13.8%	39.7%	27.5%	26.3%	11.1%
EPS	-1.25	-0.16	0.56	0.64	0.90	1.16	1.49	1.69
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Balance sheet								
Assets								
Cash & bank balance	318	539	696	422	412	169	166	461
Other current assets	1,613	1,724	2,319	2,815	3,104	3,331	3,498	3,663
Property & Equipment	3,524	3,811	5,040	5,076	5,216	5,271	5,290	5,243
Other non-current assets	2,433	2,451	3,347	3,465	3,497	3,521	3,513	3,471
Total assets	7,888	8,526	11,400	11,778	12,229	12,293	12,467	12,839
Liabilities & owners' equity								
Total current liabilities	1,962	2,221	3,036	3,058	3,245	3,318	3,325	3,396
Total non-current liabilities	452	878	1,445	1,608	1,604	1,252	985	806
Paid-up capital	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Statutory reserves	453	453	453	472	499	534	577	625
Other reserve	651.8	581.4	744.8	744.8	744.8	744.8	744.8	744.8
Retained earnings	1,370	1,385	2,406	2,579	2,820	3,129	3,518	3,951
Total owners' equity	5,475	5,420	6,603	6,796	7,064	7,407	7,840	8,320
Non-controlling interest	(2)	8	316	316	316	316	316	316
Total equity & liabilities	7,888	8,526	11,400	11,778	12,229	12,293	12,467	12,839
Cashflow statement								
Operating activities	241	310	799	535	818	909	998	1,118
Investing activities	(322)	(390)	(2,377)	(713)	(768)	(716)	(682)	(611)
Financing activities	140	200	533	(96)	(59)	(435)	(321)	(212)
Change in cash	60	120	(1,044)	(274)	(10)	(243)	(4)	296
Ending cash balance	313	462	(505)	422	412	169	166	461
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2
Quick ratio (x)	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2
Profitability ratios								
GP Margin	45.7%	39.8%	42.4%	42.4%	42.9%	43.3%	43.6%	43.8%
Operating Margins	-21.3%	2.4%	9.0%	10.4%	9.7%	10.4%	10.8%	11.2%
EBITDA Margin	2.9%	18.2%	19.0%	21.3%	19.8%	19.8%	19.7%	19.6%
Net Margins	-28.3%	-2.1%	5.1%	4.6%	5.7%	6.8%	8.1%	8.5%
Return on assets	-4.8%	-0.6%	1.7%	1.7%	2.2%	2.8%	3.5%	3.8%
Return on equity	-6.9%	-0.9%	2.8%	2.7%	3.7%	4.4%	5.3%	5.6%
Market/valuation ratios								
EV/sales (x)	4.5	4.1	3.0	2.2	2.0	1.8	1.6	1.4
EV/EBITDA (x)	155.7	22.4	15.8	10.4	9.9	8.9	8.0	7.0
EPS (SAR)	(1.25)	(0.16)	0.56	0.64	0.90	1.16	1.49	1.69
BVPS (SAR)	18.2	18.1	23.1	23.7	24.6	26.2	28.2	30.3
Market price (SAR)*	17.3	27.3	27.0	24.0	24.0	24.0	24.0	24.0
Market-Cap (SAR mn)	5,178.0	8,190.0	8,100.0	7,188.0	7,188.0	7,061.9	6,935.8	6,821.9
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	Neg	Neg	47.9	37.4	26.8	20.6	16.0	14.2
P/BV ratio (x)	0.9	1.5	1.2	1.0	1.0	0.9	0.9	0.8

Source: Company reports, Aljazira Capital Research, * market price as of September 24, 2024





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TERMINOLOGY

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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.

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