



## Initiation Coverage

March 19, 2018

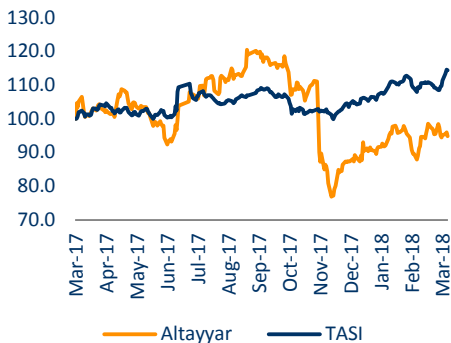
Recommendation	Overweight
Current Price (SAR)	28.7
Target Price (SAR)	34.4
Upside/Downside (%)	20.2%

As of March 12, 2018

## Key Data (Source: Bloomberg)

Market Cap (SAR bn)	6.0
52 Wk High (SAR)	36.7
52 Wk Low (SAR)	22.2
Total Outstanding shares (in mn)	210
Free Float (%)	68.2%

## Altayyar Vs TASI (Rebased)

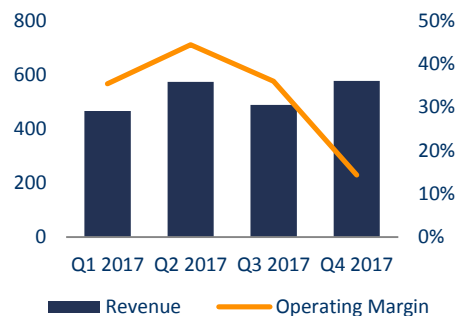


Price Performance (%)	Absolute	Relative
1m	3.9%	-0.8%
6m	-18.9%	-24.2%
12m	-5.2%	-19.6%

## Major Shareholders (%)

Al Tayyar Real Est Tourism Dev	15.8%
Nasser Okail Abdullah Altayyar	11.9%
Norges Bank	1.2%

## Quarterly Sales (SAR mn) and Operating Margin

Source: Company Financials, FALCOM Research; Data as of 12<sup>th</sup> Mar 2018

Altayyar Travel Group (Altayyar) reported a slight (-1.7%) decline in revenue for 2017 to SAR 2,107mn owing mainly to a decline in revenue from the core government business, offsetting the growth in high potential businesses (hospitality and car sector). Gross profit declined by 4.0% to SAR 1,603mn from SAR 1,671mn due to lower margins from government accounts. Net income further dropped by 39% y-o-y to SAR 497mn in 2017, and excluding one-off impairments net income fell 34% to SAR 593mn. The decline can be ascribed to dip in revenue, 22.5% surge in SG&A expenses following the consolidation of Portman Groups acquisition towards end of 2016, and a SAR128mn share of loss of equity accounted investees.

Altayyar has maintained its leading position in the travel industry in the Middle East and is implementing new strategies to align with the KSA's tourism reforms under Vision 2030. Our long term investment case stems from Altayyar's strategic diversification of revenue streams, booming online business, growth in religious tourism sector and a focus on efficient cost management remains intact. Further, a new contract win (MOE) in September 2017, supports healthy balance sheet and positive bottom line in the near term. We recommend Overweight rating with a target price of SAR 34.4/ share.

**New contract win to push up bottom line and support healthy balance sheet:**

Al Tayyar was awarded a contract with the Ministry of Higher Education in partnership with KSA's flagship carrier Saudia, in Q3 2017 last year. We believe the new contract will reduce the working capital requirements through improved receivables; and be positive for its bottom line, by lowering finance costs. We also believe the recent recovery in accounts receivable (down 27% in Q4 2017) indicating accelerated progress in outstanding arrears pay-out from the Saudi government is encouraging.

**Altayyar's plan to launch a REIT fund will help unlock further shareholder value:**

The company aims listing of real-estate portfolio via REIT, and is awaiting final regulatory approval before IPO. Through the new vehicle, the group will also reinvest some of its funds, which were injected in these projects, in new assets and future expansions. The move will uncover hidden value in real estate investments for investors. As per the CEO, the group will retain a majority stake in the REIT and will continue managing and operating its assets, raising investor confidence in the new fund.

**E-travel sales support long-term multi-channel strategy:**

E-travel platform is a key driver in tourism sector, with the online sales growing over 13 times until 2017 end since inception. The company is aiming to achieve SAR 3.7bn gross booking value by 2020 in-line with its multi-channel strategy to transform into a fully integrated e-travel agency. Altayyar's focus on leisure tourism (target sales of SAR 2.7bn by 2022) as per management comments (in 4Q results) will help drive premium margins.

**Religious tourism, a large opportunity for Altayyar:**

Under Vision 2030, KSA aims at more than doubling its foreign Umrah visitors from 8mn in 2015 to more than 15mn per year in 2020 by increasing its capacity and by fully automating Visa application process, presenting a great opportunity for Altayyar. Altayyar's prime real estate assets (worth > than SAR 4bn) are located in Makkah. The company's hospitality portfolio consists of 5 hotels with 1,880 rooms; inaugurated the Sheraton Makkah in August 2017. Also, the company's interest in Thackher investments, the largest real estate project in Mecca, seems positive. Additionally, Altayyar plans to develop 30 hotels with 6,000 rooms by 2022 with the Choise Hotels.

**Valuation:** We valued Altayyar Travel Group using the DCF Approach to arrive at a fair value of SAR 34.4 per share. We considered WACC at 12.6%, with a terminal growth rate of 2.0%.

	2017	2018E	2019E	2020E
Revenues (SAR bn)	2.1	2.2	2.3	2.4
Operating Profit (SAR bn)	0.7	0.7	0.8	0.8
EPS (SAR)	2.4	2.9	3.2	3.5
Operating Margin (%)	32.2%	32.7%	34.2%	35.7%
D/E (x)	0.23	0.20	0.17	0.16
RoE (%)	8.1%	9.6%	10.3%	10.6%
P/E (x)	11.4	9.2	8.3	7.6
Price/BV (x)	0.9	0.9	0.9	0.8
EV/EBITDA (x)	7.6	7.1	6.3	5.9

Source: Company Financials, FALCOM Research



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**Valuation Summary****Explanation of valuation methodology and assumptions**

We valued Altayyar using the DCF Approach to arrive at a fair value of SAR 34.4 per share. We considered WACC at 12.6% with a terminal growth rate of 2.0%. In relative terms, Altayyar is trading at 1yr forward P/E multiple of 9.2x, at a discount of 55.7% to its sector peers and 36.0% to the Tadawul All Share Index.

SAR Mn	FY 2017	FY 2018E	FY 2019E	FY 2020E	FY 2021E
EBIT	679	722	789	859	931
Taxes	(31)	(27)	(33)	(38)	(39)
Depreciation, amortization and impairment	117	118	166	173	180
Changes in working capital	(644)	160	(19)	(19)	(19)
Net capital expenditure	(147)	(234)	(219)	(204)	(187)
<b>Free Cash Flow to firm</b>	<b>(25)</b>	<b>740</b>	<b>684</b>	<b>770</b>	<b>866</b>
<i>Discount Factor</i>		0.9	0.8	0.7	0.6
<b>PV of free cash flow to firm</b>		<b>672</b>	<b>552</b>	<b>552</b>	<b>552</b>
<b>Net Present Value (A)</b>					<b>2,329</b>
<b>Terminal Value</b>					<b>8,336</b>
<b>PV Terminal Value (B)</b>					<b>5,308</b>
<b>Assumed Terminal Growth Rate</b>					<b>2.0%</b>
<b>Discount Rate</b>					<b>12.6%</b>
<b>Enterprise Value (A+B)</b>	<b>7,637</b>	<b>WACC Assumptions</b>			
Total Cash	981	Risk free rate	2.9%		
Total Debt	1,388	Equity Risk Premium	11.8%		
Minority Interest	9	Beta	1.4x		
<b>Equity Value in SAR mn</b>	<b>7,221</b>	<b>Cost of equity</b>	<b>15.0%</b>		
Number of shares in mn	210	<b>Post tax cost of debt</b>	<b>2.0%</b>		
<b>Target Price in SAR per share</b>	<b>34.44</b>	Weight of equity in capital structure	81.3%		
<b>CMP in SAR as on March 12th, 2018</b>	<b>28.65</b>	Weight of debt in capital structure	18.7%		
Upside/(Downside) to current market price	20.2%	<b>WACC</b>	<b>12.6%</b>		

Source: Company Financials, FALCOM Research Estimates

**Risks****Upside Risks:**

- Better-than-expected hospitality performance could lead to revenue expansion.
- Greater-than-expected government contract renewals and additions could positively impact the company.

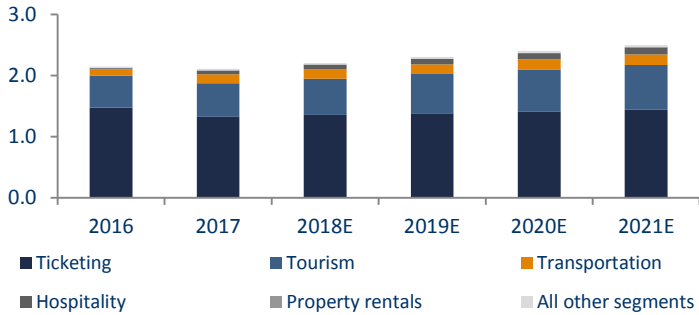
**Downside Risks**

- Renewal of government contracts remains a downside risk.
- Greater-than-expected government austerity measures would adversely affect the core government operations revenue.
- Weaker than expected tourist and pilgrim turn-up will negatively impact the company's top-line performance.

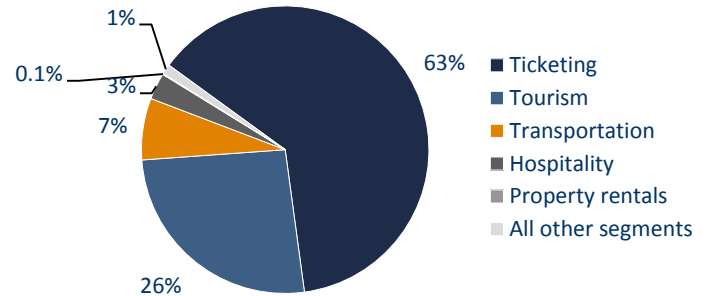


Key Charts

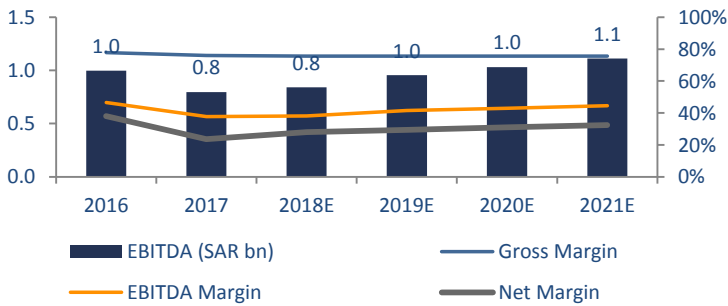
Revenue (SAR bn)



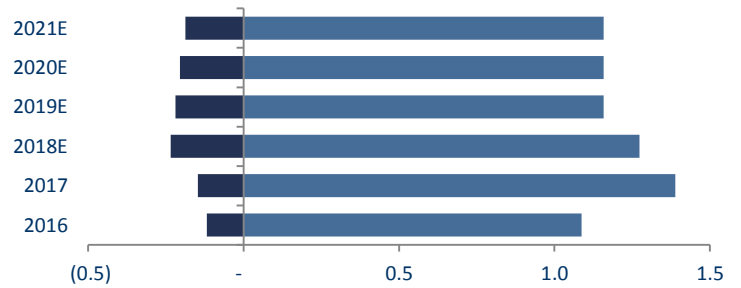
Revenue Split (2017)



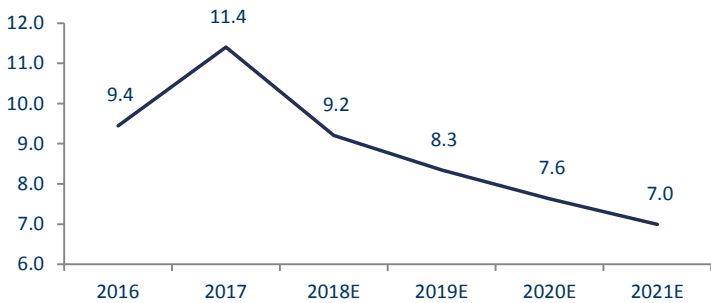
EBITDA & Margins



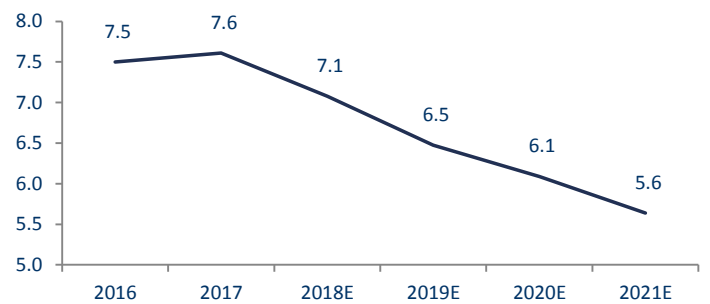
CAPEX and Debt



Price to Earnings



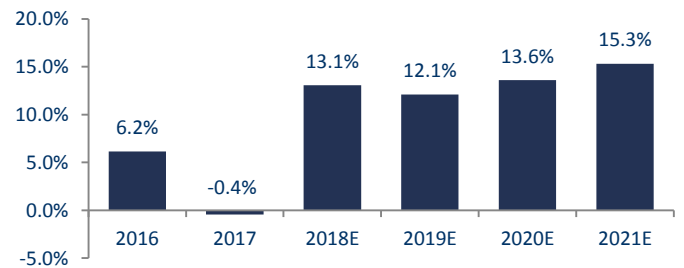
EV/EBITDA



Debt/Equity



Free Cash Flow Yield



Source: FALCOM Research Estimates



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## Summary Financials

P&L (SAR mn)	2017	2018E	2019E	2020E
Revenue	2,107	2,206	2,304	2,402
Gross Profit	1,603	1,667	1,741	1,816
EBITDA	797	840	955	1,032
EBIT	679	722	789	859
Earnings from Associates	(128)	(45)	(45)	(45)
Net Interest	(29)	(32)	(29)	(29)
Other	(1)	-	-	-
PBT	520	646	715	785
Zakat	(31)	(27)	(33)	(38)
Minorities	8	(3)	(4)	(4)
Net Income	497	615	679	743
EPS	2.4	2.9	3.2	3.5
DPS	0.6	1.1	1.3	1.4

BS (SAR mn)	2017	2018E	2019E	2020E
Cash	981	1,129	1,141	1,248
Current Assets (excluding cash)	2,352	2,204	2,228	2,267
Fixed Assets	3,384	3,487	3,528	3,547
Intangibles	169	182	194	206
Investments in associates and JVs	1,980	2,210	2,462	2,759
<b>Total Assets</b>	<b>9,363</b>	<b>9,708</b>	<b>10,049</b>	<b>10,522</b>
Current Liabilities	1,827	1,915	1,973	2,028
Short Term Debt	508	508	508	508
Long Term Debt	880	765	650	650
Shareholders Equities	6,045	6,424	6,824	7,245
<b>Total Liabilities</b>	<b>9,363</b>	<b>9,708</b>	<b>10,049</b>	<b>10,522</b>

CF (SAR mn)	2017	2018E	2019E	2020E
Operating Cash Flow	551	837	928	982
Working Capital Changes	(644)	160	(19)	(19)
Cash Flow from Operating Activities	(93)	997	909	963
Capex	(147)	(234)	(219)	(204)
Cash Flow from Investing Activities	(373)	(463)	(471)	(501)
Changes in Debt	300	(115)	(115)	-
Dividends	(122)	(240)	(269)	(294)
Cash Flow from Financing Activities	180	(386)	(426)	(354)

Source: Bloomberg, Company Financials, FALCOM Research

Growth	2017	2018E	2019E	2020E
Revenue	-1.7%	4.7%	4.4%	4.3%
EBITDA	-20.3%	5.5%	13.6%	8.1%
Operating profit	-24.9%	6.3%	9.2%	8.8%
PBT	-38.5%	24.1%	10.8%	9.7%
Net Income	-39.0%	23.9%	10.3%	9.4%

Ratios (%)	2017	2018E	2019E	2020E
Gross Margin	76.1%	75.6%	75.6%	75.6%
EBITDA Margin	37.8%	38.1%	41.4%	43.0%
EBIT Margin	32.2%	32.7%	34.2%	35.7%
Net Margin	23.6%	27.9%	29.5%	30.9%
ROE	8.1%	9.6%	10.0%	10.3%
ROCE	9.7%	9.9%	10.4%	10.8%
ROA	5.2%	6.4%	6.8%	7.1%
Debt/Equity	0.23	0.20	0.17	0.16
Net Debt/EBITDA	0.51	0.17	0.02	(0.09)
FCF Yield	-0.4%	13.1%	12.1%	13.6%
Dividend Yield	2.2%	4.2%	4.7%	5.2%

Valuation	2017	2018E	2019E	2020E
PE	11.4	9.2	8.3	7.6
PB	0.9	0.9	0.9	0.8
EV/EBITDA	7.6	7.1	6.5	6.1
EV/EBIT	8.9	8.2	7.8	7.3
EV/Sales	2.9	2.7	2.7	2.6

Peer Valuations	12M Fwd PE	12m Fwd EV/EBITDA
Abdulmohsen Alhokair Group for Tourism and Development	9.71x	5.59x
Dur Hospitality Co.	17.35x	12.76x
United International Transportation Co.	12.78x	3.84x
China Travel International Investment Co.	24.23x	10.10x
Hanatour Services Inc.	25.84x	12.01x
<b>Al Tayyar Travel Group</b>	<b>9.20x</b>	<b>7.08x</b>
<b>Sector Median</b>	<b>20.79x</b>	<b>11.06x</b>
<b>TASI</b>	<b>14.40x</b>	<b>11.80x</b>



## FALCOM Rating Methodology

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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