

Saudi Logistics Services Co.

Initiating Coverage, Economic Moat a key positive

Overweight

Price Target (SAR): 128.0

IPO price 106.0

Upside/Downside: 21.0% above IPO price

Valuation Multiples	22	23E	24E
P/E (x)	23.4	20.7	17.8
P/B (x)	7.9	7.3	6.9
EV/EBITDA (x)	21.8	19.2	16.9

IPO Details

Offering Type	Primary IPO
Offered Shares	24,000,000 ordinary shares
Use of Proceeds	Net of IPO proceeds to be distributed to selling shareholder
Financial Advisor	HSBC

Post IPO % Ownership

Saudi Airlines Corporation	49.00
Tarabot	21.00
Public	30.00

We initiate coverage on Saudi Logistics Co. with an “Overweight” rating and a target price of SAR128/sh. Established in 2019, as a carve out from Saudia Cargo, SAL’s core product portfolio encompasses Cargo and Ground Handling Services as well as Logistics Solutions Services. SAL has strong business moats such as a diversified client base spanning across pioneer names and a natural monopoly with a market share of 95% in its niche. We believe that SAL is poised to play a pivotal role in enabling efficient, reliable, and agile logistics operations in the Kingdom. Thus, it is well positioned to benefit from the expected traction in KSA’s logistics industry. The company has demonstrated a consistent and healthy growth profile, and we reckon that the top line will continue to clock in a healthy double-digit growth number over the next 5 years, and this will enhance net margins for the company.

Air traffic uptick and cargo volumes act as tailwinds: KSA’s air cargo traffic has significant room for expansion as traffic levels are still trending below 2019 levels. In view of KSA Government’s ambition to position the nation as a global logistics hub, the country is expected to see an influx of about 330mn air passengers by 2030 as expected by GACA. We expect SAL’s cargo volumes to register a healthy double digit CAGR of 12% from 2022 to 2027. The company’s network penetration as a freight forwarder will further enhance its capability to capitalize on the robust momentum in air traffic and cargo volumes.

Natural monopoly due to high entry barriers: SAL operates in a unique niche with substantial barriers to entry. Additionally, SAL’s existing terminal facilities at four major airports align with GACA’s development mandates for large terminals. The high entry barrier for new entrants serves as a natural hedge for SAL making it a key beneficiary of solid growth in cargo traffic. Besides, several licensing pre-requisites deter potential candidates from making an entry in the market.

Firm capex outlook to stay put with growth: The commitment of SAR1.5bn for facility expansion and upgradation underscores SAL’s commitment in keeping pace with the advancement in the Kingdom. The robust capex outlook on account of its comfortable leverage profile and a strong balance sheet acts as a key catalyst for SAL to stay put with the overall economic growth in Saudi Arabia.

Dominant market position driven by strong brand equity: The 70+ year pedigree of Saudi Airlines Corporation’s has essentially cemented SAL’s position in the freight market. The company’s brand reputation and valuable customer base form its competitive edge. We note that long term contract predictability is ensured in case of SAL as SACC constitutes about 22% of its overall revenue as of FY22. Going forward, SAL’s strong footing given the brand equity of Saudi Airlines will continue to stir growth in its key performance metrics.

Healthy dividend payout: SAL maintained a healthy dividend payout ratio in the range of 65-85% over the past two years. Even after accounting for a decent capex schedule, we expect SAL to deliver consistently positive free cash flow over the next few years enabling it to reward shareholders.

Earnings

(SARmn)	2022	2023E	2024E
Revenue	1,223	1,410	1,615
Revenue growth	27.1%	15.3%	14.5%
Gross profit	591	677	771
Gross margin	48.3%	48.0%	47.7%
EBIT	413	484	555
EBIT margin	33.8%	34.3%	34.4%
EBITDA*	532	604	685
EBITDA margin	43.5%	42.9%	42.4%
Net profit	362	410	476
Net margin	29.6%	29.1%	29.5%
EPS	4.5	5.1	6.0
DPS	3.8	4.1	5.1
RoE	33.8%	35.5%	38.8%

Source: Company data, Al Rajhi Capital; * EBITDA as per our calculation (excluding other income)

Valuations: We value the company based on an equal mix of DCF and P/E. The DCF valuation is based on a 2.0% terminal growth rate and 9.13% WACC implying a target price of SAR 131/sh. The P/E approach using a multiple of 21x on 2024e EPS implies a target price of SAR125/sh. Using an equally weighted mix of the above-mentioned approaches, we arrive at a weighted average target price of SAR128/sh implying an upside of 21% from the IPO price.

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Market Overview

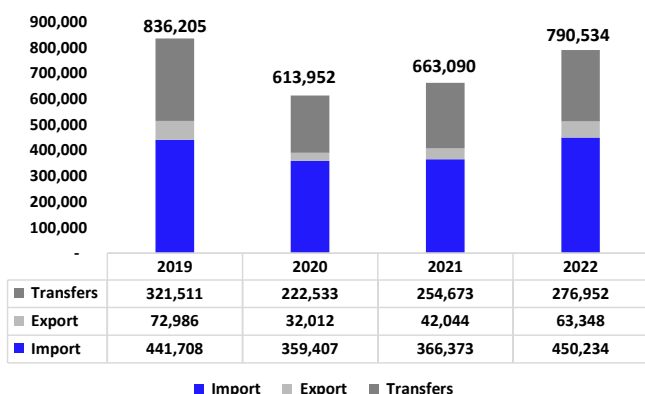
Logistics serves to be the backbone of trade, for the global economy. It plays a pivotal role in the economic growth for any country and hence several countries have started to take a comprehensive approach to address the issues surrounding the logistic sector and promise to deliver on improving the overall logistics landscape. In other note, the growth in air cargo traffic is indicative of the increasing reliance on air transport for the movement of goods, catalysed by factors such as e-commerce expansion, global trade, and shift in consumer preferences. The global cargo market exhibited significant resilience relative to the passengers' market between 2019 and 2021. Boeing, in its 2022 World Air Cargo Forecast projected a possibility of air cargo traffic doubling through 2041. The report estimated the worldwide freighter fleet to grow at the north of 60% over the next 2 decades. Consequently, Air Freighters and Freight Forwarders play a significant role in the logistic domain thereby making their existence critical to the supply chain ecosystem.

KSA in Particular

Cargo Handling Market Overview-

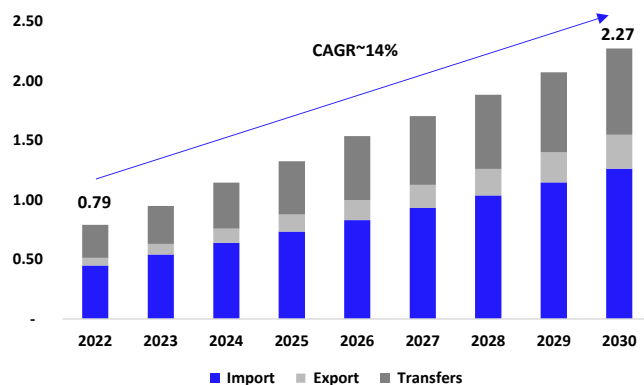
Cargo traffic in Saudi Arabia experienced a decline in 2020 owing to the pandemic post which the volumes have been resilient. Furthermore, KSA Government's Vision 2030 presents a promising outlook for the logistics industry for the foreseeable future. Characterised by the Government's proactiveness towards the sector, the cargo volume looks healthy and is expected to culminate a market size of 2.27mn tons by 2027. It is worth noting that the freight air traffic is broadly related to the overall economic growth. Under the National Transport & Logistics Strategy (NTLS), the Govt. aspires for the Kingdom to be positioned as a global logistics hub. By the conclusion of this decade, the contribution of Transport and Logistics sector is expected to grow from 5.6% (as of FY22) to ~10% (by 2030). Additionally, air cargo capacity is set to increase to at least 4.5 mn tons by 2030 as per NTLS. Hence, the stakes for the logistic sector look favourable.

Figure 1 KSA Cargo Market Historical Overview (tons)



Source: Company Data, ALG Market Study, Al Rajhi Capital

Figure 2 KSA Cargo Market Forecast (mn tons)



Source: Company Data, ALG Market Study, Al Rajhi Capital

As per ALG Market Study, the cargo volumes in Saudi Arabia are expected to grow at a CAGR of 14% between 2022-2030 reaching 2.2mn tons. Delving deep into the local and foreign players in the airline market in KSA, there is a mix of local and international companies. The presence of certain foreign players like Emirates,

Turkish Airlines, Etihad Airways adds to the number of airlines serving transport of cargo in the Kingdom. Nevertheless, Saudia Airline (including Saudia Cargo) notably has a dominant position in the cargo market driven by its long-standing reputation in the region. This underscores SAL’s prominent presence in the market.

Logistics Market Overview-

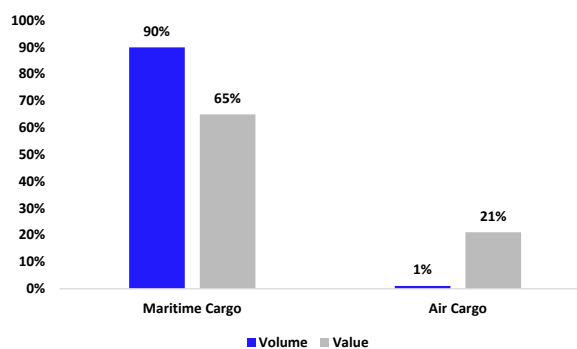
In light of the buoyant economic growth in KSA, the volume of goods being transported by air cargo and maritime cargo is substantial. The movement of such goods is indicative of a thriving and dynamic economy that relies on efficient logistics and cargo handling services to support various industries and public-sector needs. Medical consumables, event market freight, automotive and aircraft parts and Governmental supplies are some primary goods which are being carried in the freight cargo. End to end logistic solutions are a pre-requisite for serving the multifaceted needs of the freight transportation industry. The projections for freight volume in major segments are highlighted as under.

Figure 3 Current and Projected Volumes for Major segments

KSA Market Segment	2021 Cargo Volumes (tons)	Volume Projections	Period
Pharma Market	162400	5% CAGR	2019-2030E
Events & Entertainment	9400	21% CAGR	2019-2030E
Automotive & Aerospace	6000	9% CAGR for high-value aircraft parts 3.3% CAGR for high-value car parts	2022E-2023E 2022E-2023E
Governmental Sector	39200	-	-

Source: Company Data, Al Rajhi Capital

Figure 4 KSA Cargo Volume Breakdown by Mode of Transport



Source: Company Data, Al Rajhi Capital

The main players in the logistic market in KSA include Tamer logistics, Kerry logistics, Agility Logistics, Almajdouie Logistics, Al Futtaim Logistics, DHL, UPS, FedEx or Aramex. In 2021, SAL expanded its product portfolio by stepping into providing tailor-made services such as logistics for events, exhibitions, customs clearance, warehousing and a diverse array of end-to-end solutions ranging from air freight to sea freight. It capitalised on its network footprint and collaborated with about 40 service providers and had more than 3000 active customers.

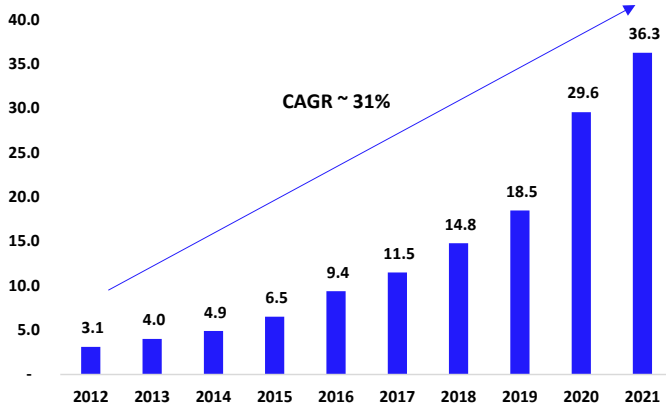
Fulfilment Market & Passenger Handling Overview-

KSA’s e-commerce market is poised to grow well with increasing digitization, rising disposable income and healthy population growth. As per ALG Study, the e-commerce penetration rate in Saudi Arabia has significant potential for growth as it lags Developed economies. There is scope for this to transition from ~9.3% in 2021 to

~26% by 2030. Consequently, there is significant untapped potential in the fulfillment services market, especially in spaces such as electronics & appliances, apparel, footwear, and accessories.

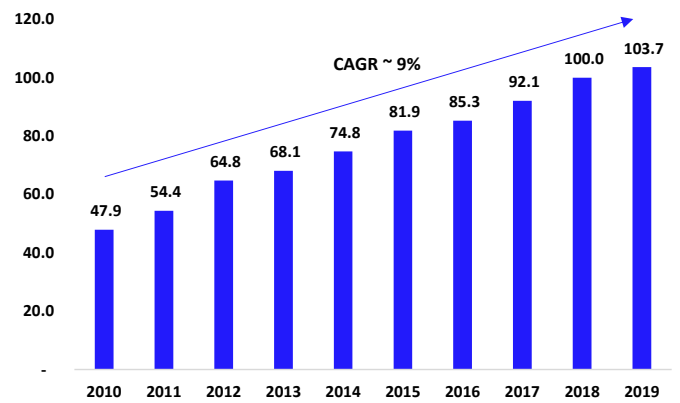
On the other hand, the passenger traffic in KSA has registered a healthy growth rate over the past few years. According to company data, passenger traffic in Saudi is set to compound at ~4% growth rate between 2019-2030 reaching 158 mn passengers. This is steeply conservative compared to GACA's passenger number pegged at 330 million by 2030. Hence, the prospects for passenger handling services looks well positioned with expected ramp up in passenger traffic as SGS (Sudi Ground Services) is the only established operator in this segment.

Figure 5 KSA E-Commerce Market Evolution (SAR bn)



Source: Company Data, ALG Market Study, Al Rajhi Capital

Figure 6 KSA Air Passenger Traffic Evolution (mn)



Source: Company Data, ALG Market Study, Al Rajhi Capital

Company Overview

SAL a leading provider of cargo handling services in the Kingdom, was incorporated as a carve-out from Saudi Airlines Cargo Company in 2019. The company commanded market share of 95% with its services spanning across 18 domestic airports as of 2022. The company's core activities encompass cargo handling and logistics services. As a part of its continued growth strategy, the company intends to expand its portfolio by venturing into passenger ground and ramp handling services, the economic license for which is already in place. With a cargo handling capacity of 849500 tonnes, the company is well poised to capitalize on the growing cargo volumes in the Kingdom. Saudi Arabia's economic growth acts as a key determining factor for the demand for company's services as its business mostly correlated to the flow of cargo at Saudi airports.

SAL's principal line of businesses can be categorised into the following segments-

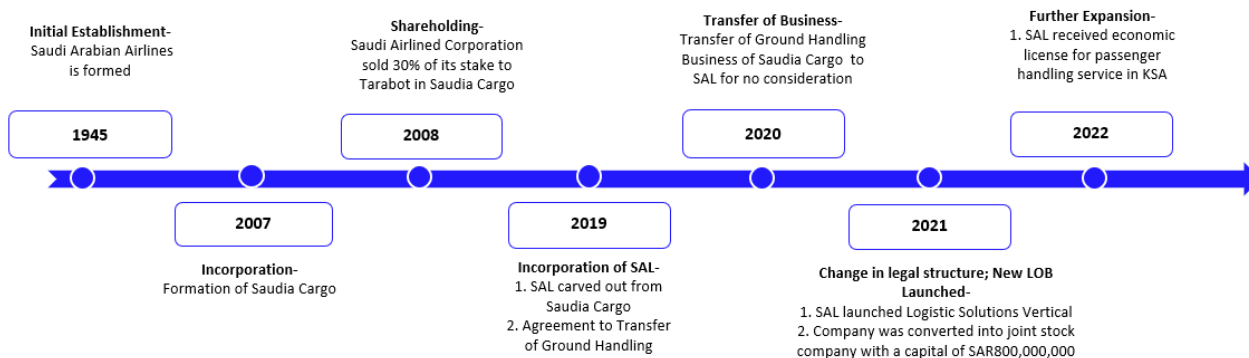
Cargo Handling: SAL is engaged in the cargo handling, loading and unloading services with presence across the four key airports (Riyadh, Jeddah, Dammam and Medina) entailing airside as well as landside cargo. The company manages transport of inbound or in transit cargo to the terminal post aircraft unloading for marquee clients such as SACC and OAL besides providing transportation, unloading and movement of export cargo to the GSP after completion of airside and terminal side activities.

Logistic Solutions: SAL undertakes end-to-end logistic solutions including special projects, customs clearance and warehousing services to meet the distinct needs of several clients including but not restricted to Government and semi-government clients in KSA.

Going forward- The company's endeavour to enter the passenger handling vertical shall expand its services portfolio deeper in the value chain. This expansion would involve loading and unloading of passenger luggage with special emphasis on low-cost domestic airlines. Overall, it will act as a comprehensive suite of passenger and aircraft-related functions.

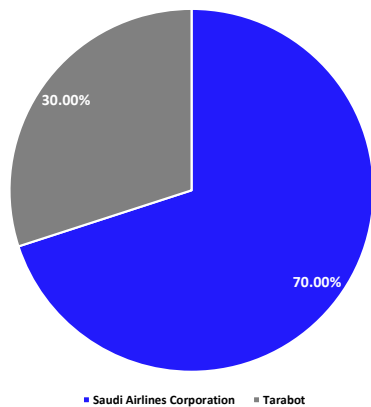
Coupled with the strong backing of Saudi Airlines Cargo Company (the cargo subsidiary of Saudi Arabian Airlines Corporation), the strategic insight, execution capabilities and vision of SAL will position it to maintain a dominant market position in the Kingdom.

Figure 7 SAL Saudi Logistics Co. Timeline



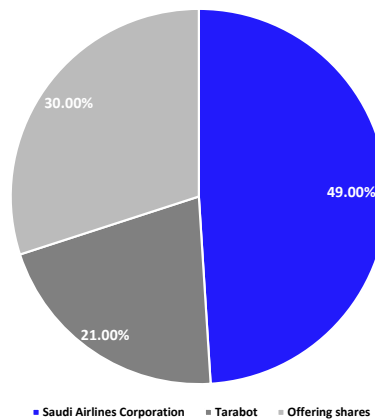
Source: Company Data, Al Rajhi Capital

Figure 8 Pre-IPO Shareholding



Source: Company Data, Al Rajhi Capital

Figure 9 Post-IPO Shareholding



Source: Company Data, Al Rajhi Capital

Figure 10 SAL's Key Facility Details

Key Facility	Flights Handled	Capacity ('000 tons)	Annual Volume Handled (FY22) ('000 tons)	Cargo Terminal Area (sq. meter)
Riyadh	+159	332	358	70000
Jeddah	+157	352	289	33500
Dammam	+53	160	71	34000
Medina	+11	5.5	2	1900

Source: Company Data, Al Rajhi Capital

Figure 11 Network Footprint

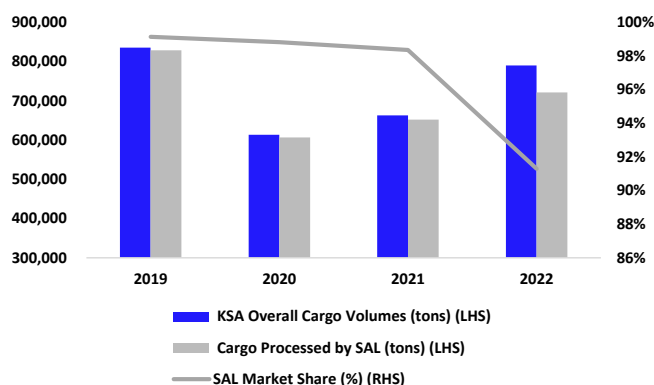


Source: Company Data, Al Rajhi Capital

Business Model

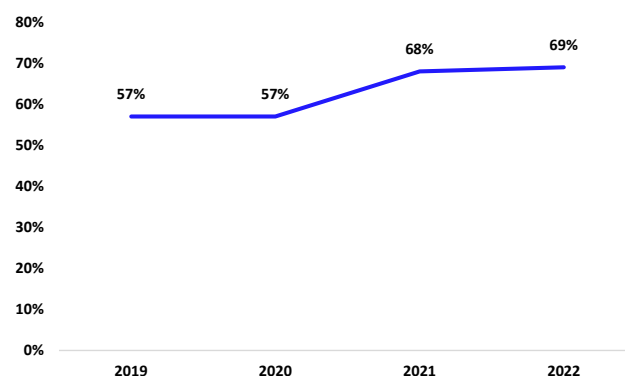
With the strong brand equity of Saudi Airlines Corporation which commenced operations about 7 decades ago, SAL is a pioneer in logistics and supply chain services within the Kingdom. Headquartered in Jeddah, SAL has a network footprint across 18 international and domestic airports spreading across key hubs in the KSA. The company's warehousing capacities span across an overall area of 139,042 square meters (m²), with the largest space being allocated to Riyadh (70000 m²) alone. The company also plans on expanding its warehousing space from the existing 33,500 m² in Jeddah to 63000 m² by 2027. Furthermore, Saudi Airline holds a dominant market share in Saudi Arabia's cargo market. Consequently, SAL's extensive air and ground network along with its enduring agreement with about 58 airlines customers, with Saudia cargo being the largest, provides a significant competitive advantage to the company in the cargo handling market. The push in business shall be driven by an upsurge in domestic consumption, the escalating demands of air cargo traffic and the boom in the e-commerce market.

Figure 12 Cargo Volumes & Market Share Evolution



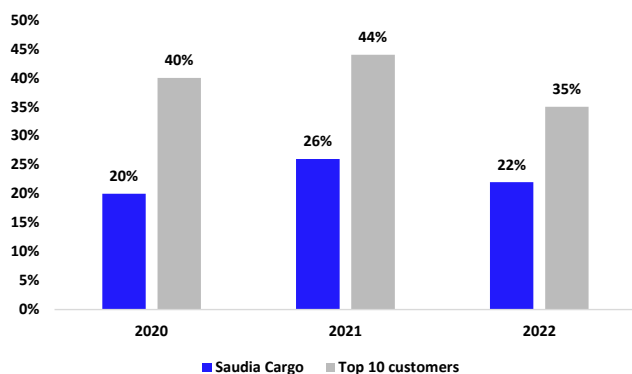
Source: Company Data, Al Rajhi Capital

Figure 13 Cargo Transported by Saudia Airlines in KSA(%)



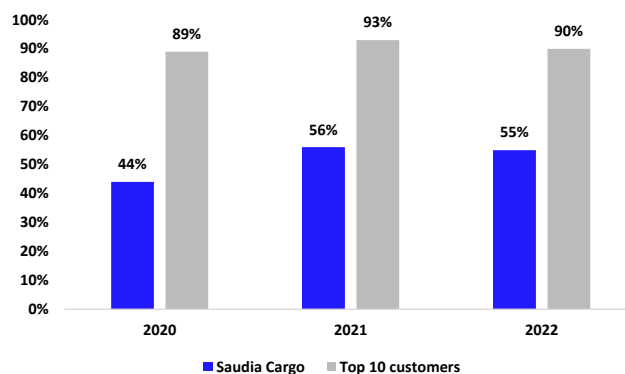
Source: Company Data, Al Rajhi Capital

Figure 14 Client-wise Total Revenue Contribution for SAL



Source: Company Data, Al Rajhi Capital

Figure 15 Client-wise Airline Revenue Contribution for SAL



Source: Company Data, Al Rajhi Capital

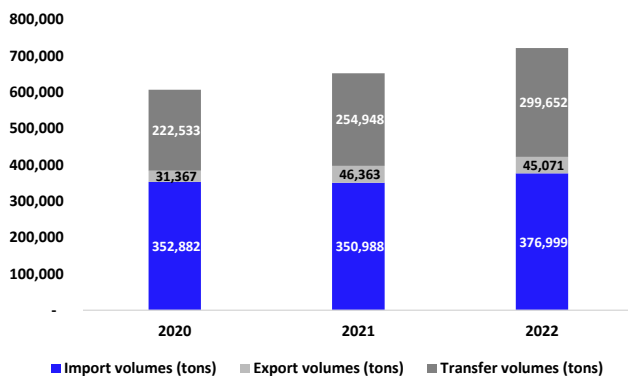
Principal Line of Business-

Cargo Handling Services- The company’s key business activity includes providing ground handling and cargo terminal services for inbound/ outbound or in-transit cargo for its marquee client base, both Government and Private. Prominent players like Saudia Cargo, Emirates, Cargolux, DHL, Etihad, Aramex, Turkish Airlines and Qatar Airways count among its esteemed clientele. Under this segment, SAL performs operations like loading/unloading cargo to/from the aircraft and then transferring it to the cargo terminal.

The company undertakes comprehensive cargo handling services encompassing both airside services (aircraft ramp and cargo handling) and landside services (terminal handling, facility storage services, customs inspection management). SAL also assists its clients by performing an array of value-added services like assisting in security check of export/transit cargo and providing cold chain services, escorting services, and road-feeder services for optimizing supply chain and logistic needs of its customers. Furthermore, the company also stores cargo, both general and special, in temperature-controlled and cooled facilities if need be. Perishable goods and Healthcare products are stored at specified temperatures in SAL’s cooled facilities extending over 19,390 m2 of area with 10000 m2 in Riyadh followed by 7,200 m2 in Jeddah. The company also has capabilities for mobile cooling like thermal boxes, mobile containers, dry ice, etc for safe and compliant transportation.

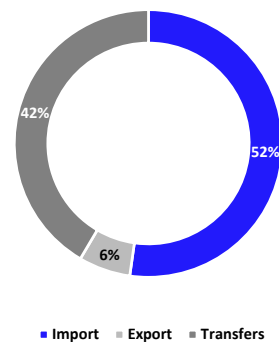
Overall, the cargo handling revenue can be segmented into two components- Terminal Handling and Air Handling. Terminal Handling revenues constitute a slightly higher share in the cargo handling revenue mix.

Figure 16 Cargo Volumes Handled by SAL (tons)



Source: Company Data, Al Rajhi Capital

Figure 17 SAL Percentage Composition of Volumes (2022)



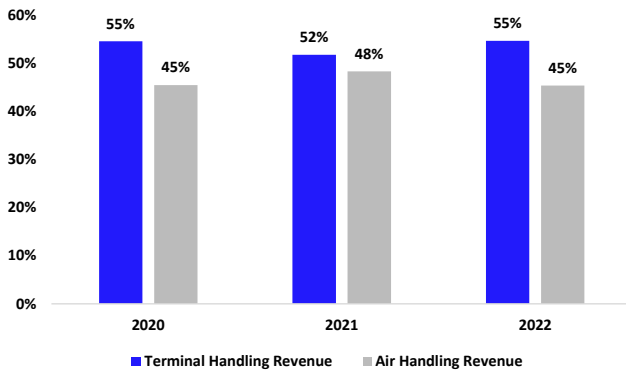
Source: Company Data, Al Rajhi Capital

Figure 18 Snapshot of Cargo Handled by SAL for FY22

Type of Cargo Handled	Product Revenue Contribution	Materials Included	Major Goods Handling Location
General	57%	-	-
Perishable	14%	Meat, Fish, Sea-food, Meat by-products	Cooled facilities
Pharma	10%	Healthcare products	KKIA and KAIA Airports
Dangerous Goods	8%	Solvents, Medical waste, Explosives	Special Facilities in Jeddah & Riyadh
Courier	7%	Store courier & E-commerce shipments	Cooled Facilities
Others	4%	-	-

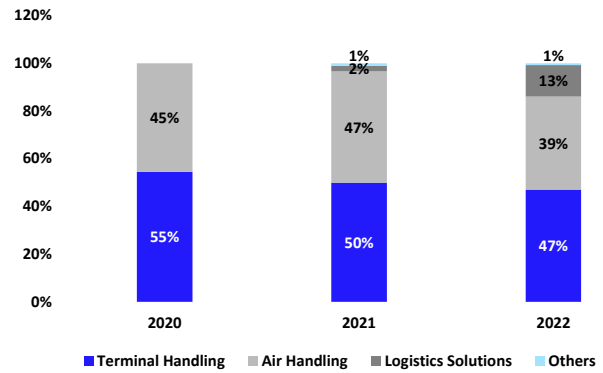
Source: Company Data, Al Rajhi Capital

Figure 19 Cargo Handling Revenue Breakdown (%)



Source: Company Data, Al Rajhi Capital

Figure 20 Overall Revenue Breakdown (%)



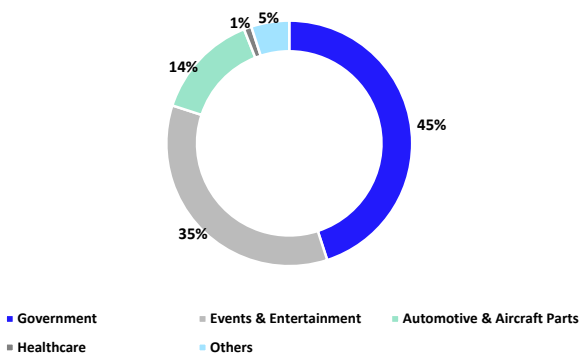
Source: Company Data, Al Rajhi Capital

Logistics Solutions Services- Owing to its extensive reach and brand leverage, SAL launched Logistics Solutions services in October 2021. The offerings for this segment comprise of providing end-to-end air freight, sea freight and land freight solutions to more than 40 global service providers (GSP). The company focuses on providing bespoke solutions as per customer requirements and also provides special projects logistics across motorsports, entertainment events and industrial projects. Custom clearance, warehousing services and support for cargo insurance are an array of value-added services provided under this vertical.

The company operates through collaborations with GSPs by providing its customers with exposure to multiple logistic services and a global network.

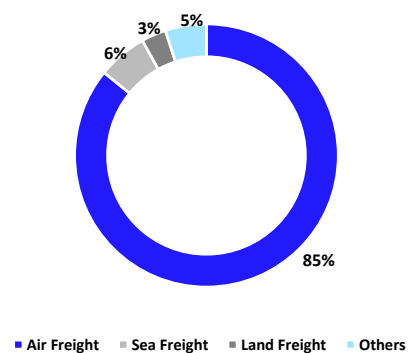
SAL's Logistics Solutions vertical contributes thinly to the EBITDA margins of the overall business mix but its contribution to the top line has increased at a robust pace. As of FY22, about 13% of the company's overall revenues are derived from the logistics segment and this has further room to grow given the company's global presence through partnerships.

Figure 21 Logistic Revenue Breakdown by Client Type



Source: Company Data, Al Rajhi Capital

Figure 22 Logistic Revenue Breakdown by Service Type



Source: Company Data, Al Rajhi Capital

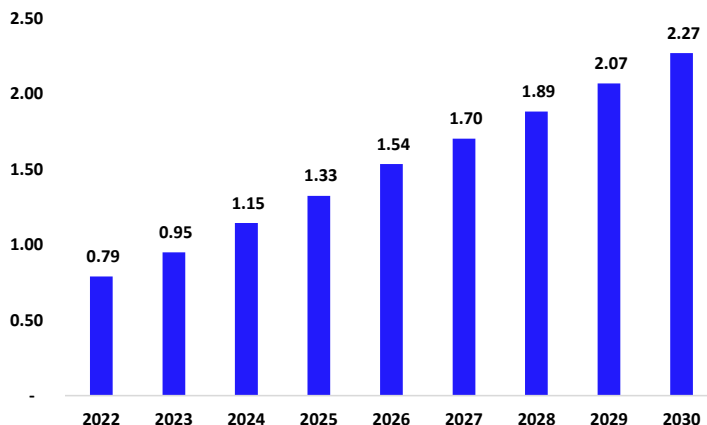
Product Pipeline- As part of its strategic objectives, SAL also intends to develop warehousing, fulfilment and last mile delivery service for catering to the needs of the growing e-commerce market in KSA. The company plans on commencing these services by way of outsourcing. As the scale and scope widens, SAL may bring these services in-house. The company aims to cover the entire e-commerce logistics value chain by ushering in with an asset light model and then introducing the last mile fleet post market share capture.

Furthermore, in view to deepening its integration in the value chain, SAL successfully obtained the economic license for passenger handling services in KSA. This aligns with the healthy passenger traffic growth in KSA and the opportunity to capitalize on the influx of inbound tourism in the Kingdom. This segment may include services entailing passenger-related functions (which take place in the passenger terminals: check-in, baggage services, boarding, and disembarkation, etc) and aircraft-related functions (which take place on the ramp or apron: marshalling, push-back, towing, potable water provision, waste removal, refuelling, baggage and catering loading, etc) specifically for low-cost domestic airlines. Saudi Ground Services (SGS) may act as a key competitor for SAL in this space, but the latter's deep understanding of the airport ecosystem shall enable it to push boundaries by catering to untapped demand. The company has strategic intentions to collaborate with one of the largest international ground handling companies.

Investment Case

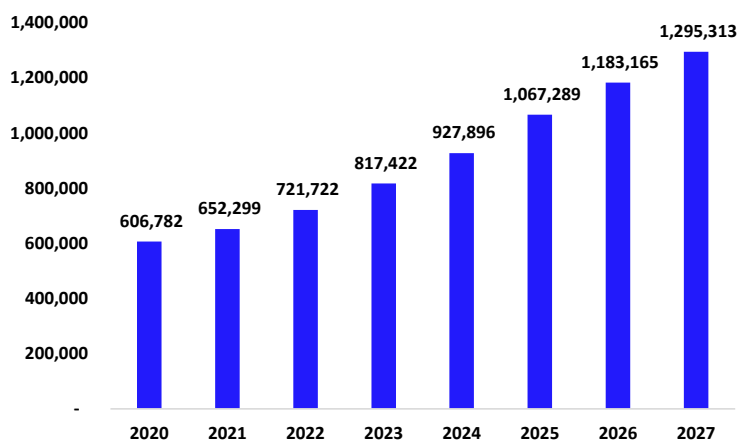
Air traffic uptick and cargo volumes act as tailwinds: Despite a gradual recovery in Saudi air cargo traffic over the past two years, it's important to note that as of 2022, traffic levels in KSA continue to remain 19% below the levels recorded in 2019. This reflects that there is further room for expansion. Furthermore, in light of the Government's Vision 2030 plan, expected air traffic target has been pegged at 330 million passengers by 2030. Additionally, as per ALG Market Study, KSA's cargo market volumes are expected to witness a healthy growth @ CAGR~14% over 2022-2030e. SAL's lion's share in the cargo handling sector makes it well positioned to capitalize on the substantial growth expected in the industry. According to our projections, SAL is estimated to register a 12% CAGR in cargo volumes handled over 2022-2027. We believe, its network penetration as a freight forwarder shall further strengthen its capabilities to benefit from the air traffic and cargo volume uptick.

Figure 23 KSA Cargo Volumes Outlook (mn tons) (2020-2030E)



Source: Company Data, Al Rajhi Capital

Figure 24 SAL Cargo Volumes Evolution (tons) (2020-2027E*)



Source: Company Data, Al Rajhi Capital; * ARC estimates

Natural monopoly due to high entry barriers: SAL's business model is in a unique niche where high barriers to entry continue to create significant value. The high barrier for new entrants serves as a natural hedge for SAL placing it in a position to sustain its predominant market leadership. Moreover, SAL's established terminal facilities and proprietary infrastructure at 4 major airports are in line with GACA (General Authority of Civil Aviation) mandates of developing large terminals. Several license and certification requirements may deter potential candidates from entering this industry.

Firm capex outlook to stay put with growth: SAL's proposed capex plan reaffirms its confidence in the strong growth prospects for the industry. The company's capital expenditure outlook with a total commitment of SAR1.5bn capex to be incurred as a part of expansion, replacement and refurbishment can be tagged as a strategic move. Notably, SAR600mn has already been expended in facility area expansion. The remaining outlay of SAR900mn is expected to stretch over 2023-2027 earmarked towards increasing handling capacity to 1.9mn tons per year, expanding the warehousing space to 169000 m2 and investing in upgraded state of the art facilities and technology driven storage containers. Overall, the capex plan is a testament to the company's vision to stay aligned with the developments in the Kingdom's logistics forefront.

Dominant market position driven by strong brand equity: The market position of SAL has largely been harnessed by its association with Saudia Cargo (indirectly Saudi Arabian Airlines Corporation) aiding its unparalleled reach and network footprint. The company's brand legacy and valuable customer portfolio acts as its business moat. Besides, with SACC being the company's main customer (accounting for 22% of overall revenues of SAL as of FY22), its relationship with the former provides long-term contract predictability. Going forward, SAL's strong footing given the brand equity of Saudi Airlines will continue to stir growth in its key performance metrics. Additionally, the company's market share of 95% underscores its leadership in the region and its abilities to stay ahead of the curve. Hence, the risk of new entrants denting market share remains potentially low.

Healthy dividend payout: SAL has maintained a healthy dividend payout ratio over the last 2 years ranging between 65%-85%. The company also declared a dividend of SAR1.75/sh for H1 2023. We believe the company is well equipped to continue rewarding shareholders on the back of its strong cash reserves. Hence, the healthy dividend payouts are sustainable supported by working capital and cash metrics of the company. We expect the dividend payout ratio to increase gradually.

Valuation

SAL Saudi Logistics Co. shall make a debut on KSA Main Market. The final IPO price for the offering has been set at SAR106/sh. At the current IPO price of SAR106/sh, the stock is trading at a discounted forward multiple of 17.8x of 2024e EPS. We believe the stock should command a P/E of 21x based on 2024e EPS given its dominant position in the industry. Essentially, high growth rates in the company's top line bode well as an investment case for SAL. Our preferred valuation approach to value the company is a blend of DCF and P/E methods wherein we assign equal weights to each. The DCF valuation is based on a 2.0% terminal growth rate and 9.13% WACC implying a target price of SAR 131/sh. The P/E approach implies a target price of SAR 125/share using a multiple of 21x on 2024e EPS. Using a combination of the above-mentioned approaches, we arrive at a weighted average target price of SAR128/sh implying an upside of 21% from the IPO price level (SAR106/sh).

Figure 25 DCF Valuation & Assumptions

DCF Valuation Summary	SAR mn
DCF based Enterprise Value	11,590
Add: Cash & Short term Investments	843
Less: Debt & Lease Liabilities	(1,870)
Less: Employee Retirement Benefits	(81)
DCF Equity Value	10,482
Number of shares Outstanding (mn)	80
DCF Value per share in SAR	131

DCF Assumptions	
WACC	9.13%
Terminal growth rate (Post 2027e)	2.00%

Source: Al Rajhi Capital

Figure 26 DCF Sensitivity Analysis

		Terminal Growth				
		1.5%	1.8%	2.0%	2.3%	2.5%
WACC	8.6%	133	137	142	147	152
	8.9%	128	132	136	141	146
	9.1%	123	127	131	135	140
	9.4%	119	123	126	130	134
	9.6%	115	118	122	125	129

Source: Al Rajhi Capital

Figure 27 Combined Valuation

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)
DCF	131	50%	66
Relative Valuation (PE)	125	50%	63
Fair Value (SAR)			128
Offer Price (SAR)			106
Upside/(Downside)			21%

Source: Al Rajhi Capital

Key risks

- 1) Increase in Intensity of competition from GCC network carriers and any new airlines in the local cargo market may hurt Saudi Airlines' market share which may impact business for SAL.
- 2) Threat from new entrants has possibilities of eroding monopolistic position for the company.
- 3) Any abnormalities in cargo volumes on the downside may affect the top-line of the company.
- 4) Cancellation of agreement with top clients may pose a threat to the stability of revenues.
- 5) Downward pressure on the average blended revenue per KG shall alter revenues and hence margins significantly.

Competitive Landscape

Globally, the freight forwarder market comprises of several marquee names serving the industry. The primary and sole competitor for SAL in the cargo handling market is SATs with presence in various regions across the world. Nevertheless, SAL's strong brand legacy with a solid customer portfolio has fortified its competitive edge in KSA's cargo handling sector. Its ability to continue serving the leading local carriers provides it an edge over SATS ensuring the sustainability of its vantage position in the industry.

In the logistics solutions market, the company is at its evolutions stage. The logistics market in KSA is home to a list of players including DHL, FedEx, etc. However, SAL's geographic penetration and ground zero expertise may enable it to onboard new clients.

In regard to the new venture in the portfolio, the company is looking to approach the fulfilment market through a partnership driven approach to begin with. Post capturing market share, the company will venture into providing an in-house last-mile delivery service. Similarly for the passenger handling service, SAL shall benefit from its association with the main local carrier Saudia which offers 57% of the domestic seats in the air passenger market as of FY22.

Figure 28 Peer Analysis

KSA Market Segment	2021 Cargo Volumes (tons)
Cargo Handling Market	SATS
Logistics Solutions Market	Tamer Logistics, Kerry Logistics, Agility Logistics, Almajdouie Logistics, Al Futtaim Logistics, DHL, UPS, FedEx, Aramex
Fulfilment Market*	Aramex, DHL, FedEx, UPS, SFC
Passenger & Ramp Handling Market*	Saudi Ground Services

Source: Company Data, Al Rajhi Capital; * New Product Pipeline

Financial Analysis

Revenue analysis: The company delivered a healthy revenue CAGR of 20% over 2020-22. The segmental revenue split has evolved from pure cargo handling revenues in 2020 to a mix of cargo handling and logistic solutions revenue in 2022. Cargo Handling contributed 87% to the top line whereas Logistic Solutions contributed 13% as of FY22. The company's revenues from ground handling and cargo services are expected to grow at a CAGR of 12.4% over 2022-2027. As the Logistics Solutions vertical is at its nascent stage, the revenue in this segment is expected to witness a faster growth (due to low base) with a CAGR of 22.5% during the same period. Aggregate revenue is expected to become almost 2x by 2027 (FY22: SAR1223mn). The robust revenue growth can be attributed to the expected increase in cargo volumes handled by SAL (CAGR~ 17% over 2022-2027e) is in congruency with increasing air cargo traffic. The Government's thrust on realizing the aspirations of Vision 2030 and growth in economic activity will act as key catalysts for driving upwards the cargo volumes and e-commerce market for the Kingdom. This in turn will fuel stronger revenues for SAL. Moreover, the company's monopolistic position and its relationship with Saudia Airlines which commands a dominant market share (69% as of 2022) in the cargo transported in the Kingdom, provides it an edge over other players.

Cost analysis: The cost of sales as a % to revenue are expected to rise in the foreseeable future. This can primarily be ascertained to the increase in operating costs for SAL Solutions as the company aims for scaling its logistics solutions business. Employee costs are expected to hover around 11-12% of sales in the medium term. Despite increasing cost, the company is capable of defending cost competitiveness at the back of its leading market share.

Margins: Owing to the expected rise in cost of sales incidental to the core operating activities of the business, the Gross margins may witness a marginal downtick in the near-medium term. This can be ascertained to the rise in the logistics solutions business in the overall revenue mix. However, operating metrics will benefit from economies of scale and will stir operating margins upwards. Net profit margins shall also continue to trend upwards from 2024 onwards underpinned by other income and lower finance costs as leverage levels normalise.

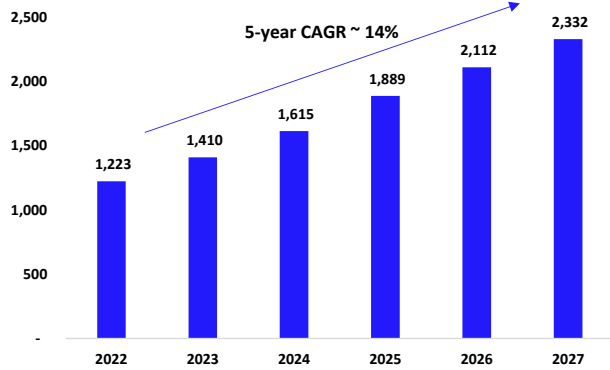
Balance Sheet: SAL is a leading player in the market, and this is reflected by its Balance sheet strength. The company holds healthy cash reserves, and its Net Debt/EBITDA implies a healthy leverage position. We expect SAL to consistently deliver positive free cash flows over the next 5 years which will enable it to reward shareholders consistently.

Capex: The company's capex outlay of SAR1.5bn (SAR 600mn already incurred) will boost the upgradation of state-of-the art cargo terminal facilities and expand its warehousing footprint. A large chunk of SAR900mn will be incurred in respect of replacement of existing cargo terminal at KAIA, Jeddah, addition, and refurbishment of terminals at KKIA, Riyadh and KFIA, Dammam. Besides, the company has committed to upgrading its storage facilities and cargo handling equipment. It is worth noting that the robust capex plan aligns well with its growth strategy.

Working capital: The short-term financial health metrics of the company are evident of a healthy working capital position. The current ratio of SAL indicates the company has a strong ability to meet its short-term obligations.

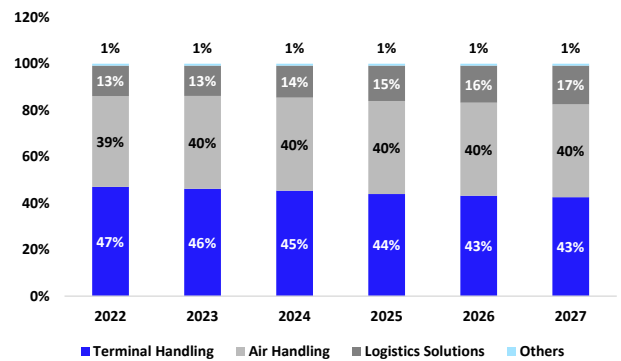
ROE: SAL registered healthy ROE levels ~34% as of FY22. We expect net income to register a CAGR of 15% over 2022-2027. Consequently, we expect ROE levels to significantly improve going forward in line with the net margin expansion.

Figure 29 Revenue Projection (SARmn) (2022-2027E*)



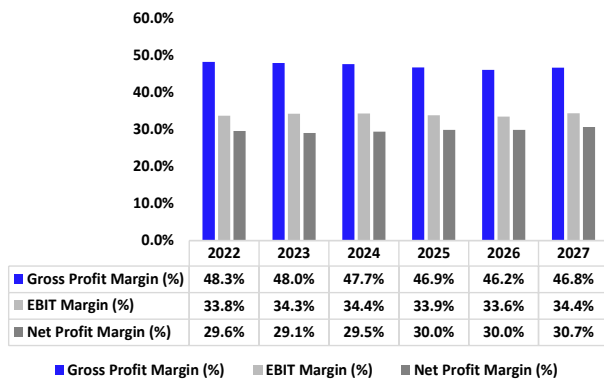
Source: Company Data, Al Rajhi Capital; * ARC estimates

Figure 30 Revenue Breakdown (2022-2027E*)



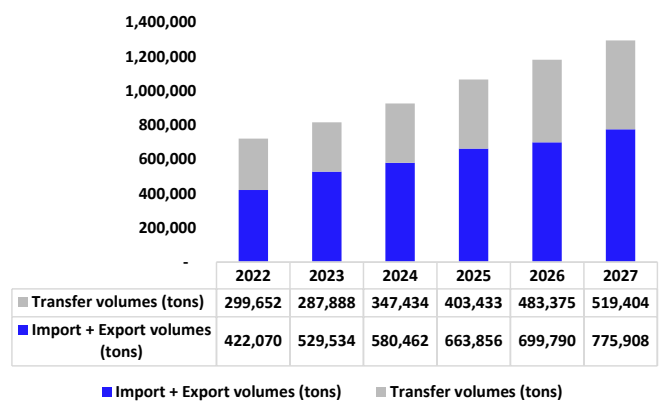
Source: Company Data, Al Rajhi Capital; * ARC estimates

Figure 31 Profitability Analysis (2022-2027E*)



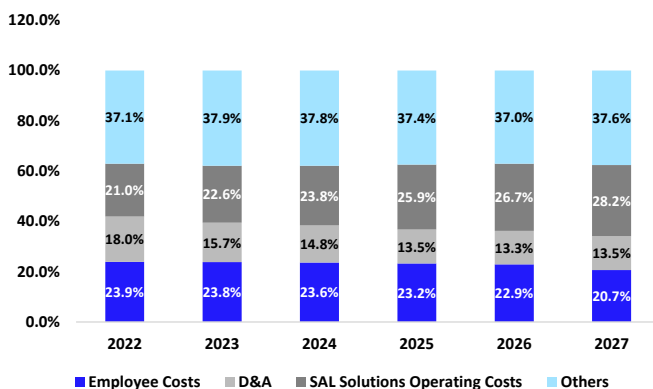
Source: Company Data, Al Rajhi Capital; * ARC estimates

Figure 32 SAL Cargo Volumes Breakdown (2022-2027E*)



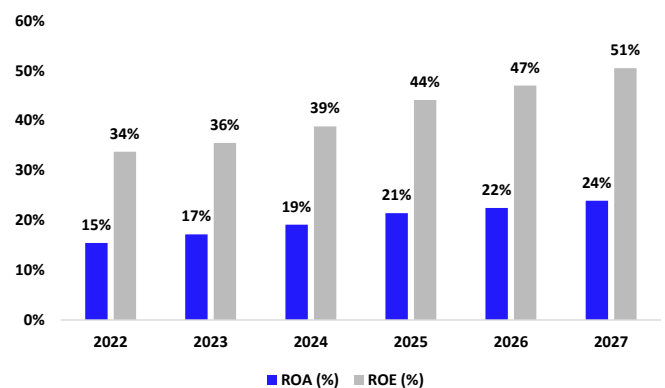
Source: Company Data, Al Rajhi Capital; * ARC estimates

Figure 33 Cost of Sales Breakdown (2022-2027E*)

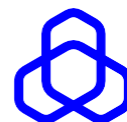


Source: Company Data, Al Rajhi Capital; * ARC estimates

Figure 34 ROA and ROE (%) (2022-2027E*)



Source: Company Data, Al Rajhi Capital; * ARC estimates



Key Financials

Figure 35 Income Statement

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Sales	1,223	1,410	1,615	1,889	2,112	2,332
Y-o-Y	27.1%	15.3%	14.5%	17.0%	11.8%	10.4%
Cost of Sales	(632)	(733)	(844)	(1,004)	(1,136)	(1,240)
% of revenues	51.7%	52.0%	52.3%	53.1%	53.8%	53.2%
Gross Income	591	677	771	885	976	1,091
Y-o-Y	21.6%	14.6%	13.8%	14.9%	10.2%	11.9%
GPM	48.3%	48.0%	47.7%	46.9%	46.2%	46.8%
S&M	(30)	(33)	(37)	(44)	(49)	(54)
G&A	(147)	(161)	(178)	(201)	(218)	(235)
% of revenues	14.5%	13.7%	13.3%	12.9%	12.6%	12.4%
Operating Expenses	(147.4)	(160.6)	(178.1)	(200.8)	(218.1)	(235.0)
% of revenues	12.1%	11.4%	11.0%	10.6%	10.3%	10.1%
Operating Income	413	484	555	641	709	803
Y-o-Y	28.6%	17.2%	14.7%	15.4%	10.6%	13.2%
OPM	33.8%	34.3%	34.4%	33.9%	33.6%	34.4%
Financial costs	(56)	(54)	(54)	(42)	(38)	(41)
Other income	13	13	13	13	13	13
Profit before tax	370	444	515	612	684	775
Zakat & Tax	(8)	(33)	(39)	(46)	(51)	(58)
% of PBT	2.2%	7.5%	7.5%	7.5%	7.5%	7.5%
Net Profit Before Unusual Items	362	410	476	566	633	717
Non-controlling interest	0	0	0	0	0	0
Net Income	362	410	476	566	633	717
Y-o-Y	31.5%	13.2%	16.1%	18.9%	11.8%	13.2%
NPM	29.6%	29.1%	29.5%	30.0%	30.0%	30.7%
EPS (SAR/sh)	4.53	5.13	5.95	7.08	7.91	8.96

Source: Al Rajhi Capital

Figure 36 Cash Flow Statement

(SAR mn)	2022	2023E	2024E	2025E	2026E
Cash from operations	556	493	594	690	779
Cash from investing	282	-106	-166	-211	-262
Cash from financing	-389	-433	-463	-684	-678
Net change in cash and cash equivalents	448	-46	-35	-204	-161
Cash and Cash Equivalents, end of the period	940	894	859	655	494

Source: Al Rajhi Capital

Figure 37 Key Ratios

Key metrics	2022	2023E	2024E	2025E	2026E
Current ratio	3.9x	3.8x	3.5x	2.8x	2.4x
Receivables turnover ratio	5.8x	5.6x	5.6x	5.6x	5.5x
Payables turnover ratio	15.6x	13.2x	17.0x	17.2x	16.9x
Asset turnover ratio	0.4x	0.4x	0.5x	0.6x	0.6x
Net Debt/EBITDA*	1.4x	1.2x	1.1x	1.1x	1.0x
ROA	15.5%	17.2%	19.1%	21.4%	22.5%
ROE	33.8%	35.5%	38.8%	44.1%	47.0%

Source: Al Rajhi Capital

Figure 38 Balance Sheet

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Assets						
Construction WIP	31	31	31	31	31	31
Trade Receivables	233	270	310	362	405	447
Prepayment and Other receivables	147	170	194	227	254	280
Inventory	0	0	0	0	0	0
Cash and cash equivalents	940	894	859	655	494	376
Short Term Murabaha deposits	0	0	0	0	0	0
Total current Assets	1,351	1,365	1,394	1,275	1,184	1,134
PP&E	705	739	824	928	1,068	1,212
Right of use assets	1,213	1,166	1,118	1,084	1,049	1,014
Intangible assets	14	13	12	11	10	10
Total non-current assets	1,932	1,918	1,954	2,023	2,128	2,237
Total assets	3,284	3,283	3,348	3,298	3,312	3,371
Liabilities						
Current portion of lease liabilities	64	64	63	58	57	56
Loan from a Related party	0	0	0	0	0	0
Due to related parties	0	0	0	0	0	0
Trade payables	65	46	53	63	72	78
Accruals and other liabilities	208	240	275	322	360	397
Zakat payable	7	7	7	7	7	7
Total current liabilities	344	358	398	451	496	539
Loans and Borrowings	500	474	434	348	261	214
Employee benefit obligations	78	87	97	108	120	133
Lease liabilities	1,288	1,210	1,192	1,109	1,088	1,066
Total non-current liabilities	1,866	1,770	1,723	1,564	1,469	1,414
Shareholders' equity						
Share capital	800	800	800	800	800	800
Additional capital	0	0	0	0	0	0
Statutory reserve	64	64	64	64	64	64
Retained earnings	227	309	380	437	500	572
Actuarial Loss	(17)	(17)	(17)	(17)	(17)	(17)
Total equity	1,073	1,155	1,227	1,283	1,347	1,418
Total liabilities	3,284	3,283	3,348	3,298	3,312	3,371

Source: Al Rajhi Capital

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"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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