



US\$5.78bn Market Cap. 30.00% Free Float US\$69.70mn Avg. Daily Value traded

Research Department
Mazen AISudairi, CFA, CMT
Tel +966 11 836 5468, alsudairim@alrajhi-capital.com

Saudi Logistics Services Co.

Growth tailwinds in place, TP revised to SAR310/sh

Overweight

Price Target (SAR): 310.00

Current (12th May 2024): 271.00
Upside/Downside: 14.40% above current

Valuation Multiples	23	24E	25E
P/E (x)	42.5	31.9	26.3
P/B (x)	17.6	15.8	14.1

Major Shareholders % Ownership

Saudi Group	49.00
Tarabot Air Cargo Services Co. Ltd.	21.00

Price Performance YTD 3M 1M

Absolute	40.1%	-0.9%	10.2%
Relative to TASI	38.1%	-0.3%	13.7%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	1,456	1,870	2,118
Revenue growth	19.1%	28.5%	13.2%
Gross profit	776	977	1,140
Gross margin	53.3%	52.2%	53.8%
EBIT	581	771	917
EBIT margin	39.9%	41.2%	43.3%
EBITDA*	716	883	1,043
EBITDA margin	49.2%	47.2%	49.2%
Net profit	510	681	824
Net margin	35.0%	36.4%	38.9%
EPS	6.4	8.5	10.3
DPS	3.4	5.0	6.0
RoE	41.3%	49.7%	53.7%

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

The buoyancy in the air cargo market facilitated robust revenue growth for SAL in Q1 2024. SAL's strong market positioning underpinned the strong performance delivered by the company in the recent quarter. The company posted robust revenue growth of 33% y-o-y on the back of a sharp increase in cargo handling tonnage owing to the improved trade volume, increased visitor count in the nation, higher air cargo influx, and ramp up in economic activity. Moreover, the accelerated growth in the Logistics Solutions vertical also acted as a key revenue driver. As of Q1 2024, Logistics Solutions constituted 19% of the revenue construct demonstrating operational growth in this segment. On the back of a strong footing of the Saudi cargo market and the momentum in the aviation sector, we expect SAL's growth trajectory to continue. Overall cargo volumes for KSA are projected to grow at 14% CAGR between 2022-2030 as per company's FY23 presentation. Owing to SAL's dominant market share, we expect the cargo volume handled by the company to grow at a CAGR of 15% over the coming years. Moreover, we expect the company to further gain market share as cargo volumes expand. On the other hand, the company is well placed to leverage its logistics solution segment for tapping into the market as a leading supply chain player by way of vertical integration with its expansion into fulfillment centers. The deepening penetration of E-commerce in the Saudi Market shall act as a primary catalyst for the sustained growth in the logistics vertical. Although the company would incur added costs pertaining to the logistic vertical expansion, the costs for the handling business are primarily fixed and non-linear to the increase in revenue. Hence, there is scope for margin expansion over the coming years on account of operating leverage. Furthermore, we continue to remain optimistic on the company's growth potential due to i) a firm capex outlay pegged at SAR833mn for the medium term and ii) headroom for growth backed by its association with leading airlines (Saudia) solidifying its footprint and ability to maintain leadership. On the back of our expectation for continued double digit revenue growth over the coming years combined with margin expansion, we revise our TP to SAR310/sh from the earlier TP of SAR128/sh and accordingly maintain our rating at "Overweight".

Q1FY24 results- Q12024 revenue growth for SAL was broad based growing by 33.1% y-o-y and 10.2% q-o-q. The revenues were aided by an increase in tonnage (+31.5% y-o-y and 12.4% q-o-q) leading to an increase in ground handling revenues besides solid growth in the logistics solutions arm. Accordingly gross profit and operating profits posted decent growth on account of operating efficiency. Overall, the net profit at SAR208mn was higher by 2x on a y-o-y basis and increased by 15.4% sequentially stirred by robust revenue growth. Q1 2024 earnings were a beat across all parameters.

Figure 1 Earnings Summary Q1 2024

SARmn	Q1 2024	Q4 2023	Q1 2023	ARC est.	Cons. est.	y-o-y	q-o-q	vs ARC	vs Cons
Revenue	453	411	340	382	418	33.1%	10.2%	18.6%	8.2%
Gross Profit	261	243	180	200	NA	45.0%	7.6%	30.5%	
Gross Margin	57.7%	59.1%	52.9%	52.4%	NA				
Operating Profit	228	203	124	149	NA	83.4%	12.0%	53.4%	
Operating Margin	50.3%	49.5%	36.5%	38.9%	NA				
Net Profit	208	181	104	132	168	99.8%	15.4%	57.9%	24.1%
Net Margin	46.1%	44.0%	30.7%	34.6%	40.2%				

Source: Company data, Al Rajhi Capital

Valuations: Going forward, we value the company based on an equal mix of DCF and P/E. The DCF valuation is based on a 2.5% terminal growth rate and 8.73% WACC implying a target price of SAR 310/sh. The P/E approach using a multiple of 33x on the average of 2024-25e EPS implies a target price of SAR310/sh. Hence, we increase our TP for the company from the earlier TP of SAR128/sh to SAR310/sh and maintain our rating at “Overweight” implying an upside of 14.4% at the current price.

Risks: The key downside risks to our valuation assumptions are i) weakness in air cargo market leading to a drop in tonnage; ii) entry of any new player gnawing away market share; and iii) downward pressure on average blended revenue per KG.

Financials

Figure 2 Income Statement

(SAR mn)	2023	2024E	2025E	2026E	2027E
Sales	1,456	1,870	2,118	2,449	2,758
Cost of Sales	(680)	(894)	(978)	(1,065)	(1,191)
% of revenues	46.7%	47.8%	46.2%	43.5%	43.2%
Gross Income	776	977	1,140	1,384	1,568
S&M	(33)	(43)	(48)	(56)	(63)
G&A	(161)	(163)	(175)	(190)	(206)
Operating Expenses	(161.2)	(163.3)	(174.8)	(189.6)	(205.6)
% of revenues	11.1%	8.7%	8.3%	7.7%	7.5%
Operating Income	581	771	917	1,139	1,299
Financial costs	(36)	(41)	(32)	(19)	(9)
Other income	5	5	5	5	5
Profit before tax	551	735	890	1,125	1,295
Zakat & Tax	(41)	(55)	(66)	(83)	(96)
% of PBT	7.4%	7.4%	7.4%	7.4%	7.4%
Net Profit Before Unusual Items	510	681	824	1,041	1,199
Non-controlling interest	0	0	0	0	0
Net Income	510	681	824	1,041	1,199
EPS (SAR/sh)	6.37	8.51	10.30	13.02	14.99

Source: Al Rajhi Capital estimates

Figure 4 Cash Flow Statement

(SAR mn)	2023	2024E	2025E
Cash from operations	696	808	938
Cash from investing	-596	-163	-204
Cash from financing	-329	-610	-842
Net change in cash and cash equivalents	-230	35	-107
Cash and Cash Equivalents, end of the period	710	745	638

Source: Al Rajhi Capital estimates

Figure 5 Key Ratios

Key metrics	2023	2024E	2025E
Current ratio	4.3x	4.0x	3.7x
Receivables turnover ratio	4.7x	4.5x	4.6x
Payables turnover ratio	12.4x	17.3x	15.9x
Asset turnover ratio	0.4x	0.6x	0.6x
Net Debt/EBITDA*	0.4x	0.3x	0.1x
ROA	19.8%	25.3%	29.0%
ROE	41.3%	49.7%	53.7%

Source: Al Rajhi Capital estimates

Figure 3 Balance sheet

(SAR mn)	2023E	2024E	2025E
Assets			
Construction WIP	0	0	0
Trade Receivables	391	436	493
Prepayment and Other receivables	51	75	85
Inventory	0	0	0
Cash and cash equivalents	710	745	638
Long term loan receivable current portion	12	12	12
Short Term Murabaha deposits	500	500	500
Total current Assets	1,664	1,767	1,727
PP&E	709	791	892
Right of use assets	886	853	831
Intangible assets	14	15	14
Long term loan receivable	12	12	12
Total non-current assets	1,621	1,671	1,749
Total assets	3,285	3,439	3,476
Liabilities			
Current portion of lease liabilities	69	53	48
Loan term loan current portion	36	0	0
Loan from a Related party	0	36	36
Due to related parties	0	0	0
Trade payables	45	59	64
Accruals and other liabilities	195	250	283
Zakat payable	41	41	41
Total current liabilities	385	439	473
Loans and Borrowings	567	527	441
Employee benefit obligations	87	101	118
Lease liabilities	1,011	1,001	910
Total non-current liabilities	1,665	1,630	1,469
Shareholders' equity			
Share capital	800	800	800
Additional capital	0	0	0
Statutory reserve	115	115	115
Retained earnings	333	469	634
Actuarial Loss	(14)	(14)	(14)
Total equity	1,234	1,370	1,535
Total liabilities	3,285	3,439	3,476

Source: Al Rajhi Capital estimates

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report.

Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

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

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi, CFA, CMT

Head of Research

Tel : +966 11 836 5468

Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital

Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37