



US\$5.78bn  
Market Cap.

30.00%  
Free Float

US\$69.70mn  
Avg. Daily Value traded

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## Saudi Logistics Services Co.

### Growth tailwinds in place, TP revised to SAR310/sh

#### Overweight

Price Target (SAR): 310.00

Current (12<sup>th</sup> 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

Major Shareholders	% Ownership
Saudi Group	49.00
Tarabot Air Cargo Services Co. Ltd.	21.00

#### Price Performance

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

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
<b>Net change in cash and cash equivalents</b>	<b>-230</b>	<b>35</b>	<b>-107</b>
<b>Cash and Cash Equivalents, end of the period</b>	<b>710</b>	<b>745</b>	<b>638</b>

Source: Al Rajhi Capital estimates

Figure 5 Key Ratios

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

Source: Al Rajhi Capital estimates

Figure 3 Balance sheet

(SAR mn)	2023E	2024E	2025E
<b>Assets</b>			
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
<b>Total current Assets</b>	<b>1,664</b>	<b>1,767</b>	<b>1,727</b>
PP&E	709	791	892
Right of use assets	886	853	831
Intangible assets	14	15	14
Long term loan receivable	12	12	12
<b>Total non-current assets</b>	<b>1,621</b>	<b>1,671</b>	<b>1,749</b>
<b>Total assets</b>	<b>3,285</b>	<b>3,439</b>	<b>3,476</b>
<b>Liabilities</b>			
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
<b>Total current liabilities</b>	<b>385</b>	<b>439</b>	<b>473</b>
Loans and Borrowings	567	527	441
Employee benefit obligations	87	101	118
Lease liabilities	1,011	1,001	910
<b>Total non-current liabilities</b>	<b>1,665</b>	<b>1,630</b>	<b>1,469</b>
<b>Shareholders' equity</b>			
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)
<b>Total equity</b>	<b>1,234</b>	<b>1,370</b>	<b>1,535</b>
<b>Total liabilities</b>	<b>3,285</b>	<b>3,439</b>	<b>3,476</b>

Source: Al Rajhi Capital estimates

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