

Saudi Logistics Services Co.

FY25e profitability to remain lackluster

Neutral

Price Target (SAR): 190

Current (26th March 2025): 206.00
Upside/Downside: 7.8% below current

Valuation Multiples	24	25E	26E
P/E (x)	24.9	26.4	22.6
P/B (x)	11.8	10.8	9.8

Major Shareholders % Ownership

Saudi Arabian Airlines	49.00
Tarabot Air Cargo Services Co. Ltd.	21.00

Price Performance YTD 3M 1M

Absolute	-18.4%	-17.7%	-17.6%
Relative to TASI	-17.7%	-18.4%	-15.3%

Financial Snapshot

(SARmn)	2024	2025E	2026E
Revenue	1,634	1,663	1,883
Revenue growth	12.2%	1.8%	13.2%
Gross profit	915	896	1,049
Gross margin	56.0%	53.9%	55.7%
EBIT	708	666	782
EBIT margin	43.3%	40.0%	41.5%
EBITDA*	813	773	918
EBITDA margin	49.8%	46.5%	48.7%
Net profit	661	624	730
Net margin	40.5%	37.5%	38.7%
EPS	8.3	7.8	9.1
DPS	6.0	6.0	7.0
P/E (current)	24.9	26.4	22.6
P/E (target)	23.0	24.3	20.8
RoE	47.2%	40.9%	43.6%

Source: Company data, Al Rajhi Capital

SAL benefitted from a massive 20% y-o-y increase in handling volumes to 973Ktons in FY24. The surge in volume can be associated with spillage of red sea crises which lead to a conversion of cargo from sea to air. The major impact was witnessed in 1Q24 with volumes increasing by ~31% y-o-y while partial impact was witnessed in 2Q24 which was up 21% y-o-y. Consequently, the revenues for FY24 were higher by 12.2% on the back of a 12% increase in handling revenues and a 15% increase in logistic revenues. Given the high proportion of fixed costs in the business, operating leverage played out leading to a 270-bps improvement in operating margin in FY24. In line with higher revenues and efficient cost control, the bottom line increased by 29.8% during the year.

Going forward, we believe the volume increase owing to red sea would normalize. Hence, we foresee cargo handling volumes to decrease in 1Q25 by 4.3% y-o-y while for the full year FY25e we expect volume growth to stand at a meager ~3%. In addition to this, the company revised down pricing for its key clients ahead of a public tender to maintain its clientele. Reduction in pricing coupled with low volume growth will put pressure on FY25e earnings. We have assumed EBIT margin of ~49% for cargo handling segment in FY25 and overall consolidated EBITDA margins of ~46.5% in FY25. (FY24 EBITDA margins: 49.8%). Hence, we revise down our FY25 EPS estimate to SAR 7.81/sh and cut down our TP to SAR190/sh. The stock has corrected sharply by ~37% from a high of SAR 323/sh since July'24. We downgrade our rating to Neutral on the basis of lack of triggers in FY25e. In the medium term, the growth story for the company remains intact owing to i) continued high single digit growth in cargo handling volumes post FY25, ii) rapid expansion to increase cargo handling capacity, iii) diversifying into logistics business, iv) high operating leverage, and v) govt push on elevating the Kingdom's position in the global logistics.

Cargo Handling volumes to remain under pressure in FY25: The company anticipates close to double digit growth in cargo tonnage handled for FY25, while we expect volume growth to be muted at ~3%. This is primarily owing to the high base effect in 1Q24 as an effect of the Red Sea crisis. Beyond FY25, we expect volumes to grow at a CAGR of ~10% between FY26-29e. It is notable that a large part of growth in revenues can translate to the bottom line owing to the fixed cost nature of the cargo division. Hence, margins are expected to gradually start to grow post FY25.

Growth to continue post FY25: Being the leading provider of cargo handling services in the Kingdom, the company is poised to leverage the growing cargo volumes in KSA in view to its 2030 Vision objectives. The company's growth plans will be underscored by its targeted capacity expansion spanning across its key hubs (Jeddah, Riyadh, Dammam). SAL has earmarked a substantial capital expenditure to upgrade its operations and plans an investment outlay close to SAR 1bn over the coming 2-3 years to almost double its annual handling capacity from the current 849Ktons. This underscores the company's alignment with the larger goal of Vision 2030. However, we expect volume growth to moderate over the coming years.

Logistics, the way forward: On the other hand, SAL's focus on expanding its service offerings is being pivoted by its role as a freight forwarder through the logistics division. Although revenue growth in the logistics business slowed down in FY24 as compared to FY23, the expansion in EBIT margin from 6.8% to 8.4% demonstrates the company's

growing market presence and capabilities to handle large scale operations and events. In addition to the regular logistics and supply chain business, the company has recently embarked on the development of a Logistics Zone in Falcon City of North Riyadh worth SAR 4bn. The agreement with Sela Company entails the construction, development and operation of a logistics zone across a leased land area of 1,561,965 sqm for 30 years at a lease rate of SAR 16/sqm with an annual escalation clause of 1.5%. While the entire project is expected to be completed by 2031, the first phase spanning across 700,000 sqm shall start generating cash flows from as early as 2027 as per the preliminary plan. This project will spur a multifold growth in SAL's logistic revenues, largely changing the revenue mix with Logistics being a significant part of the business. However, we have refrained from estimating the financial impact for the Falcon City Project as we await more clarity on the same.

Conclusion: Overall, we expect the momentum in revenues to pick up post FY25. We are slightly cautious on our outlook for the current year due to subdued volume growth expectations and downside potential in average blended revenue per kg on the back of competition in the market. Therefore, post 4Q24 financials, we revise our target price downwards to SAR 190/sh owing to the lack of near-term triggers. However, we emphasize that there are abundant market catalysts present in the sector on account of the growth in e-commerce and various other factors, reinforcing the long-term growth potential of the industry.

Figure 1 Earnings Summary 4Q 2024

(SAR mn)	Q4 2024	Q3 2024	Q4 2023	ARC est.	Cons Est.	y-o-y	q-o-q	vs ARC	vs Cons	FY24	FY23	y-o-y
Revenue	409	367	411	418	420	-0.5%	11.3%	-2.2%	-2.6%	1,634	1,456	12.2%
Gross Profit	223	208	243	231	NA	-7.9%	7.1%	-3.5%	NM	915	776	18.0%
G. margin	54.6%	56.8%	59.1%	55.4%	NA					56.0%	53.3%	
Operating Profit	155	159	203	185	NA	-23.9%	-2.8%	-16.2%	NM	709	586	21.0%
Op. Margin	37.9%	43.4%	49.5%	44.2%	NA					43.4%	40.3%	
Net Profit	142	156	181	173	173	-21.3%	-8.7%	-17.8%	-17.9%	661	510	29.8%
Net Margin	34.8%	42.3%	44.0%	41.4%	41.2%					40.5%	35.0%	
EPS	1.78	1.94	2.26	2.16	2.16					8.27	6.37	

Source: Company data, Al Rajhi Capital

Valuations: We value the company based on an equally weighted mix of DCF and P/E based relative valuation methodologies. The DCF valuation is based on a 2.5% terminal growth rate and 10.45% WACC implying a fair value of SAR 189/sh. The relative valuation methodology (P/E) is based on a multiple of 25x on 2025e EPS. Hence, the P/E approach leads to a fair value of SAR 195/sh. Therefore, we slash our blended TP for the company to SAR 190/sh and accordingly change our rating to "Neutral" implying a downside of 7.8% at the current price.

Figure 2 Valuation Summary

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)
DCF based fair value	189	50%	94
PE based fair value	195	50%	98
Target Price (SAR/sh)*			190
Current Price (SAR)			206.0
Upside/(Downside)			-7.8%

Source: Company data, Al Rajhi Capital; * Rounded off

Risks: The key downside risks to our valuation assumptions are: 1) sharp decrease in average blended revenue per kg, 2) subdued cargo volumes in the Kingdom, 3) higher operating costs for logistics division, and 4) delay in bringing facility expansion online.

Financials

Figure 3 Income Statement

(SAR mn)	2024	2025E	2026E
Sales	1,634	1,663	1,883
Cost of Sales	(719)	(767)	(835)
% of revenues	44.0%	46.1%	44.3%
Gross Income	915	896	1,049
S&M	(48)	(56)	(64)
G&A	(159)	(174)	(203)
Operating Expenses	(158.9)	(174.3)	(203.0)
% of revenues	9.7%	10.5%	10.8%
Operating Income	708	666	782
Financial costs	(15)	(11)	(18)
Other income	2	2	2
Profit before tax	694	656	766
Zakat & Tax	(33)	(31)	(36)
% of PBT	4.8%	4.8%	4.8%
Net Profit Before Unusual Items	661	624	730
Non-controlling interest	0	0	0
Net Income	661	624	730
EPS (SAR/sh)	8.27	7.81	9.12

Source: Al Rajhi Capital estimates

Figure 5 Cash Flow Statement

(SAR mn)	2024	2025E	2026E
Cash from operations	796	749	910
Cash from investing	428	-251	-536
Cash from financing	-572	-565	-666
Net change in cash and cash equivalents	652	-67	-293
Cash and Cash Equivalents, end of the period	1362	1295	1002

Source: Al Rajhi Capital estimates

Figure 6 Key Ratios

Key metrics	2024	2025E	2026E
Current ratio	4.1x	3.8x	3.0x
Receivables turnover ratio	3.8x	3.4x	3.8x
Payables turnover ratio	8.4x	5.8x	5.9x
Asset turnover ratio	0.5x	0.5x	0.6x
Net Debt/EBITDA	-0.1x	0.1x	0.0x
ROA	20.5%	18.8%	21.2%
ROE	47.2%	40.9%	43.6%

Source: Al Rajhi Capital estimates

Figure 4 Balance sheet

(SAR mn)	2024	2025E	2026E
Assets			
Trade Receivables	480	489	490
Prepayment and Other receivables	113	115	131
Sublease	10	10	10
Cash and cash equivalents	1,362	1,295	1,002
Long term loan receivable current portion	12	12	12
Total current Assets	1,978	1,922	1,645
PP&E	720	882	1,301
Right of use assets	523	503	485
Intangible assets	12	11	11
Total non-current assets	1,254	1,396	1,796
Total assets	3,232	3,318	3,442
Liabilities			
Current portion of lease liabilities	34	37	37
Loan term loan current portion	57	57	57
Trade payables	127	136	148
Accruals and other liabilities	230	234	265
Zakat payable	38	38	38
Total current liabilities	487	502	545
Loans and Borrowings	560	471	384
Employee benefit obligations	100	115	133
Lease liabilities	684	703	707
Total non-current liabilities	1,343	1,289	1,224
Shareholders' equity			
Share capital	800	800	800
Statutory reserve	115	115	115
Retained earnings	501	626	772
Actuarial Loss	(14)	(14)	(14)
Total equity	1,402	1,527	1,673
Total liabilities	3,232	3,318	3,442

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

Dr. Sultan Altowaim

Head of Research

Tel : +966 11 836 5468

Email: AltowaimS@alrajhi-capital.sa

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