

Seera Group Holding

Hotels and Tourism
SEERA AB: Saudi Arabia
27 December 2023



الراجحي المالية
alrajhi capital

US\$2.07bn
Market Cap.

91.51%
Free Float

US\$9.58mn
Avg. Daily Value traded

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Seera Group Holding Co.

Strong growth narrative, Initiate with a TP of SAR32/sh

Overweight

Price Target (SAR): 32.0

Current: 25.90

Upside/Downside: 24.4% above current

Valuation Multiples

	22	23E	24E
P/E (x)	NA	44.7	25.9
P/B (x)	1.4	1.4	1.3

Major Shareholders

Major Shareholders	% Ownership
Nasser Okail Abdullah AlTayyar	7.82

Price Performance

	YTD	3M	1M
Absolute	47.2%	5.3%	7.8%
Relative to TASI	34.6%	-3.5%	0.8%

Earnings

(SARmn)	2022	2023E	2024E
Revenue	2,271	3,059	3,654
Revenue growth	70.9%	34.7%	19.4%
Gross profit	904	1,374	1,659
Gross margin	39.8%	44.9%	45.4%
EBIT	(103)	225	401
EBIT margin	-4.5%	7.3%	11.0%
EBITDA	294	670	862
EBITDA margin	12.9%	21.9%	23.6%
Net profit	(48)	174	301
Net margin	-2.1%	5.7%	8.2%
EPS	(0.2)	0.6	1.0
DPS	0.0	0.0	0.0
P/E (current)	NA	44.7x	25.9x
P/E (target)	NA	55.7x	32.2x
RoE	-0.9%	3.1%	5.1%

Source: Company data, Al Rajhi Capital;

Note: 2022 P/E is not meaningful due to negative net income

Based in Riyadh with an extensive legacy of 40+ years, the Seera group is exposed to the travel and tourism industry by way of an integrated product portfolio comprising of ticketing, tourism, transportation, and hospitality services. The post-pandemic era reshaped the dynamics for the travel and tourism industry. The revival in the flight booking volumes, uptick in hotel occupancy rates, rebound in business as well as leisure travel and resilience in mobility needs have all served as strategic pillars for Seera's impressive turnaround story after revenues were sharply hit in 2020. We reckon that the company is poised to ride the industry tailwinds via its core business verticals including Almosafer and Lumi. Moreover, the hospitality and Portman Group segments shall strengthen the operating metrics for the company with potential value unlocking opportunities in the future. We believe the company to exhibit a double-digit revenue CAGR over 2023-2028 as the company has the ability to connect multiple dimensions of the travel industry across the value chain. Hence, we initiate coverage on the Seera Group Holding Co. with a target price of SAR32/sh implying an "Overweight" rating. Our detailed investment rationale is as follows.

Almosafer to spearhead growth by way of its umbrella portfolio: Seera Group's core business, Almosafer aligns with the former's 40+ years of expertise to contribute to Saudi Arabia's vision as a tourism leader. Strategically diversified across consumer travel to enhance the overall travel experience, Almosafer also delivers customized travel management services through its corporate and government travel vertical. Discover Saudi and Mawasim are the other two core lines of operation under the umbrella. The strong positioning of Almosafer as a group shall reflect in terms of the net booking value growth. We expect the net booking value for the Travel platform to deliver a robust growth CAGR of ~16% over 2023-2028e. As an outcome, the top-line is poised to witness substantial growth over the coming years. Besides, the asset-light nature of the business bodes well for strong growth parameters without substantial need for capital.

Tourism to provide a big runway for growth: The buoyancy in the tourism industry, both leisure and religious shall be well-capitalised on by the Seera Group, given its diversified presence. The company is positioned to benefit from the traction in tourism as a result of rising needs for easy mobility and flexible travel packages. KSA is expected to witness an influx of inbound tourism in the coming years as part of the Government's Vision 2030 strategy overlapping with the upcoming Expo 2030. This shall boost demand for short-term car rentals as a preferred mode of commute. As a result of this, Seera Group's subsidiary company Lumi boasts of a promising growth trajectory in the coming years. Meanwhile, the company caters to religious tourists by way of its Mawasim Platform (under the Almosafer Group). Under this framework, the company essentially, ensures high quality end-to-end travel solutions for pilgrims providing a range of services from accommodation to transportation for the Hajj and Umrah tourists. Moreover, Mawasim's integration with the car rental platform Lumi shall enable it to serve the mobility needs of the visitors. Overall, tourism shall be a key growth driver for the company owing to its network footprint.

Transportation vertical, dominant contributor to revenue- Seera has a favourable revenue mix with the car rental segment contributing the highest share of the revenue. As of 2Q2023, the car rental vertical contributed to 33% of the revenues followed by 29% from the Portman Travel Group (UK) and 26% from Almosafer. The Seera Group is well positioned to leverage from Lumi's solid KPIs evident in its revenue and profitability metrics. Lumi's commendable fleet expansion outlook coupled with a strong leasing backlog from marquee clients like Aramco, positions its revenue growth to outpace the overall top-line growth for Seera. We expect Lumi to witness a revenue CAGR of ~18.0% over 2023-2028e, well beyond the company level revenue CAGR of ~14% over the same period. Post the IPO, Seera still continues to hold a majority stake (70%) in Lumi, positioning it to benefit from the fleet size expansion and the buoyant car rental market as a result of accelerated tourism.

Robust net booking value to be the key catalyst: Booking values for the company gathered momentum post the pandemic almost doubling in FY22 compared to FY21. Seera's net booking value is projected to grow from SAR9.3bn to SAR22.1bn over 2023-2028 (expected CAGR~15%). The net booking value in the Travel platform is expected to grow across B2C and B2B channels besides Discover Saudi, and Mawasim segments. Moreover, Portman Travel Group shall also witness a healthy high-single digit growth CAGR in net booking value owing to its significant scale up through value-accretive M&As and its advent into sports travel.

De-leveraging to pave way for a healthy balance sheet: A part of IPO proceeds received from Lumi shall be allocated for debt-repayment by the company as part of its capital allocation approach. Given the high interest-rate environment, the company is set to benefit from the de-leveraging of balance sheet with lower financing burden. The company is now adopting a cash flow driven growth strategy with adequate levers in place. The improved liquidity position shall strengthen the balance sheet for the company.

Potential PIF investment in Almosafer: Early September 2022, PIF has signed a non-binding term sheet to invest for a 30% stake (worth SAR1.55bn) in Almosafer at a pre money enterprise value of SAR3.75bn. If this deal comes to fruition, it would give additional legs to the hyper growth potential of Almosafer. The infused capital would help the company in scaling up operations in inbound, outbound, religious as well as domestic tourism.

Valuations: We value the company based on a blend of DCF and relative valuation methodology. The DCF approach, based on a 2.5% terminal growth rate and 9.57% WACC implies a target price of SAR33/sh. Using the P/E approach, we arrive at a target price of SAR31/sh implying a multiple of 24.0x based on an average of 2024-25EPS. Thus, we initiate coverage of the stock with a TP of SAR32/sh assigning an 'Overweight' rating implying an upside of 24.4% at the current price.

Table of Contents

Industry Overview.....	4
Company Overview	5
Business Model	6
Investment Rationale.....	10
Valuations & Key Risks	13
Financial Assumptions.....	14
Key Financials	16

Industry Overview

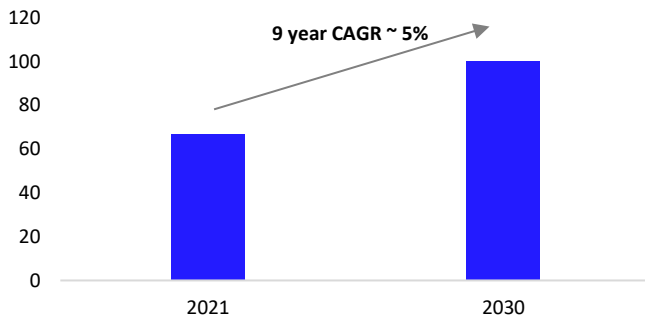
The Government’s Vision 2030 shall play a pivotal role in positioning KSA as a hub for travel and tourism. The National Tourism Strategy 2030 targets to attract 100 million visitors by 2030 driving spending and monumental reforms in the Kingdom. Within the Vision 2030 purview, the Saudi Government has ramped up several Mega and Giga projects in a bid to boost tourism from all over the world.

Additionally, the air traffic in KSA bounced back faster post pandemic as per the International Air Traffic Authority (IATA). Furthermore, passenger traffic is expected to grow steadily over the coming years facilitated by the robust growth in the number of religious tourists. Multiple developmental infrastructure projects and the Government’s spending spree in the sports industry shall give thrust to leisure travel going forward. Consequently, the airline industry recently saw the birth of a new entrant Riyadh Air in a codeshare agreement with Saudia, to ride the wave of influx of inbound tourism, suggesting the presence of adequate demand triggers. As, the non-oil GDP growth momentum is expected to continue, the contribution of the Transport sector to the overall GDP shall improve. This will be a major driver for pure play travel and tourism companies as higher tourism would be a bellwether for booking values across the travel value chain.

Moreover, reiterating from our Expo 2030 report, the World fair is poised to create a domino effect on tourism given its ability to create a transformational experience for the visitors. The Government expects 40mn physical site visits during the Expo which shall have a multiplier effect on the travel and tourism industry.

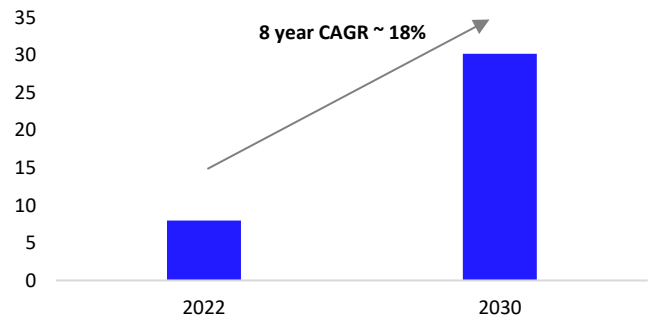
Seera’s vision adequately aligns with the Government’s investment in the tourism industry.

Figure 1 Total Number of Overnight Visits (mn)



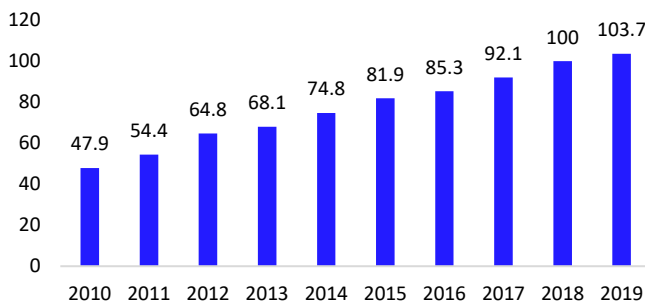
Source: National Tourism Strategy 2030, Ministry of Tourism, Al Rajhi Capital

Figure 2 Religious Tourism (mn) Trajectory



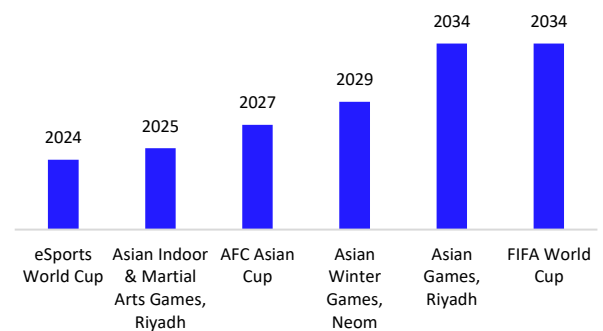
Source: GASTAT, Ministry of Hajj & Umrah, Al Rajhi Capital

Figure 3 KSA Historical Passenger Traffic Evolution (mn)



Source: SAL Prospectus, GACA, Al Rajhi Capital

Figure 4 Upcoming Sports Events in KSA



Source: Al Rajhi Capital

Company Overview

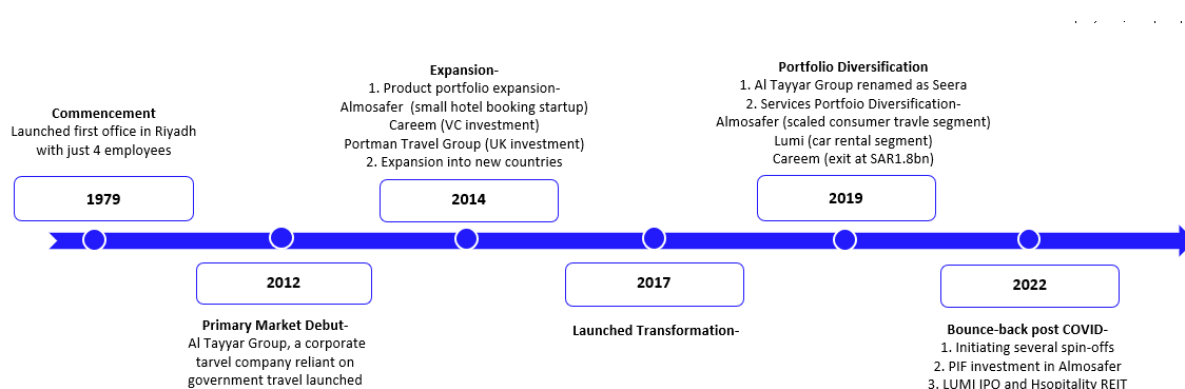
With a legacy spanning over 4 decades, Seera Group, formerly known as Al Tayyar Travel Group, is a leading name in KSA's travel and tourism industry. It offers a broad suite of travel and tourism experience via its multi-faceted product portfolio. The company has a geographical footprint across KSA, UAE, Egypt, Jordan and UK. Headquartered in Riyadh, the company inhibits several lines of business under its portfolio and has undergone continuous transformation. In 2022, the company amalgamated all the travel segments under its umbrella into the Almosafer brand name. Under the most recent foundation, Seera's line of business can be categorised into four main verticals encompassing the Travel platform (Almosafer), Car rental platform (LUMI), Hospitality and the Corporate Ventures business. Although, the Travel Platform and Car rental businesses qualify as the core lines of operations, the Portman Group is in the value creation stage to chart way for value unlocking and the Hospitality vertical too will add to liquidity for capital allocation once it is optimised for divestment.

Deep dive into the core verticals-

Almosafer- Having presence across the travel value chain, Almosafer is a prominent name in the Saudi Travel sector. It offers travel experiences across a spectrum of verticals catering to B2C and B2B consumers besides bringing to the forefront, services for religious tourists. It also specialises in providing travel and logistic services in the Kingdom to tour operators and travel management companies across the world via Discover Saudi, the leading destination management company in KSA. Underpinned by its technology infrastructure and AI mechanisms, Almosafer is a digitally enabled, hyper-growth platform acting as a key revenue driver for the Seera Group. The potential PIF investment in the group would be a breakthrough in the company's aim of scaling this vertical.

Car Rental- Lumi, another core vertical backed by the Seera Group (retaining 70% shareholding post IPO), is a leading omnichannel player, commanding the third largest market share in the Kingdom based on its active fleet size. The company's revenue mix is distributed across three major verticals- short-term rental, long-term lease, and used car sales. Lumi is strategically placed to leverage from its marquee client footprint and geographical positioning across key airports and cities in Saudi Arabia. Moreover, the company has a competitive edge to benefit from its enormous fleet size of 27,700 vehicles (as of end of 3Q2023) given its niche in the business. Revenue growth for Lumi has adequate triggers in place backed by a healthy order backlog in the leasing segment, coupled with the demand uptick from travel in the short-term rental segment. Moreover, the vehicle fleet is disposed of via the used car vertical at the end of their lifecycle paving way for an integrated value chain.

Figure 5 Seera Group Holding Timeline



Source: Company Data, Al Rajhi Capital

Business Model

The 4-decade old Seera Groups' legacy has been restructured from a portfolio of more than 50 subsidiaries to a more focussed and yet diversified suite of four major business segments. Seera Group started under the name of Al Tayyar with Government travel as its major source of income. However, the company made a stride through transformation and evolution in the last decade. Right from its IPO in 2012, the product portfolio expansion offered resilience to the business. The company bounced back post Covid and is a use case for a perfect turnaround story by way of its positioning and corporate strategy in place. The company has carved out a niche in the Saudi Market and houses brands like Almosafer, Mawasim, Lumi and Discover Saudi under its portfolio. Seera's operations stretch across 7 countries with more than 4600 employees and each of its business vertical caters to various aspects of the travel and tourism ecosystem.

Figure 6 The Seera Group Portfolio

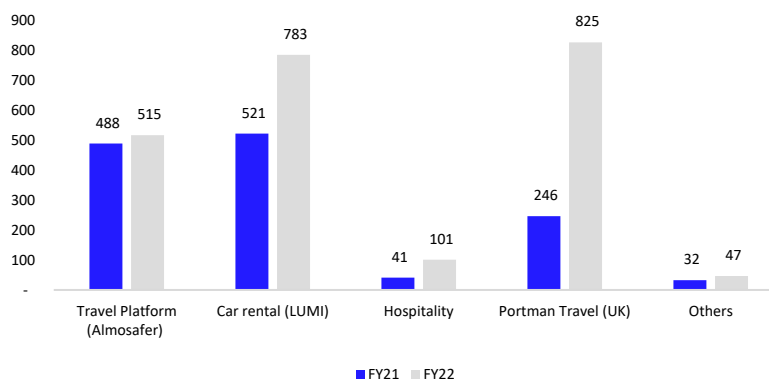


Source: Company Data, Al Rajhi Capital

Revenue Composition

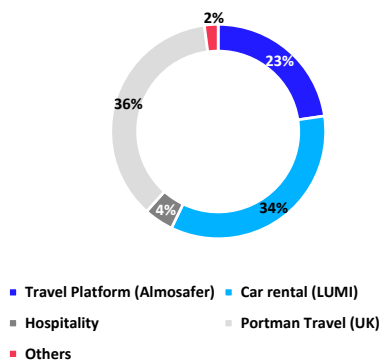
Seera business model is pivoted to derive revenues from customer contracts either as an agent or as a principal. The Gross Booking Value (GBV) stands to be a key determinant for the company's revenues. The company receives a fixed service charge or some proportion of GBV as an agent or receives a revenue equivalent to GBV as a principal. In terms of the business verticals, the ticketing and hotel booking verticals generate commission-based revenues whereas the car rental segment, and package holiday (tourism) segment generate revenues in capacity of a principal. However, overall revenues can be broadly categorised based on 4 main verticals dependent on the segment-wise gross booking value.

Figure 7 Historical Revenue Composition (SARmn)



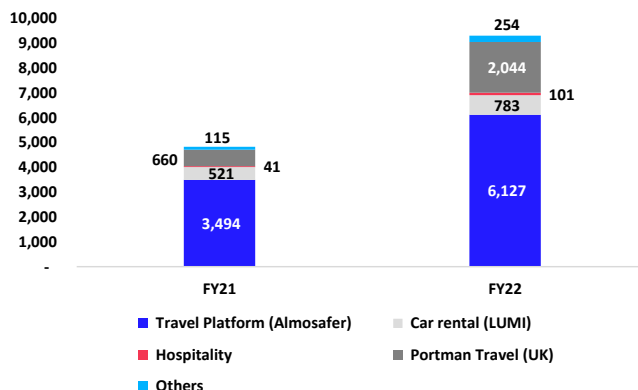
Source: Company Data, Al Rajhi Capital

Figure 8 Segmental-wise Revenue Mix FY2022



Source: Company Data, Al Rajhi Capital

Figure 9 Segment-wise Gross Booking Value (SARmn)



Source: Company Data, Al Rajhi Capital

Comprehensive Analysis of Business Verticals

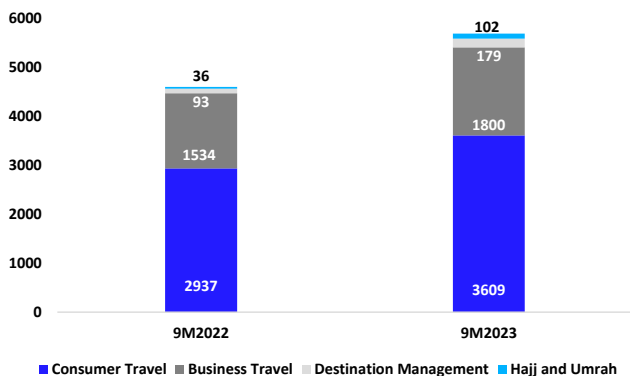
Travel Platform (Almosafer)- Tagged as Middle-East’s leading travel brand, Almosafer boasts of an extensive partner and supplier network having served more than 140 corporate and Government clients besides 1 million customers via the multiple businesses under its umbrella portfolio. Almosafer is based on an asset-light model requiring minimal capex and is equipped to serve inbound, outbound, and domestic travel flows across leisure, business and religious segments. Moreover, Lumi’s integration with Seera is a perfect source of wallet share expansion for the Almosafer clients. The platform started as a small hotel booking startup and now offers a strong portfolio of technology-backed specialised services. This includes- **Consumer Travel** vertical providing user experiences for domestic and international travel bookings through its comprehensive omni-channel touchpoints.

Almosafer Business platform providing tailormade travel service solutions to corporate and government entities with about 471000 business trips managed over 9M2023.

Discover Saudi, a leading destination management and travel service company, connecting tour operators and travel agents to KSA’s most enriching travel experiences, channelizing online distribution and providing solutions for MICE.

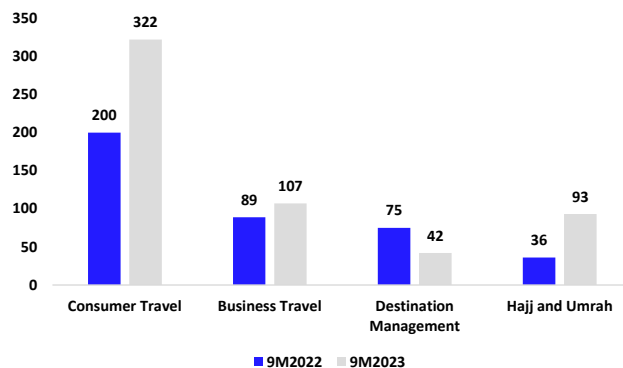
Mawasim responsible for carving out high quality end-to-end tour operations for Hajj and Umrah visitors.

Figure 10 Business-wise Net Booking Value (SARmn)



Source: Company Data, Al Rajhi Capital

Figure 11 Business-wise Revenue Composition (SARmn)



Source: Company Data, Al Rajhi Capital

Overall, Almosafer exhibited a tremendous uptick in net booking values (+23.7% y-o-y in 9M2023) almost across all lines of business due to demand resurgence post Covid. The consumer travel vertical is putting up a strong show and numerous collaborations and partnerships are providing significant tailwinds to growth. Besides, a high degree of operating leverage shall aid the growth momentum. We note that 75% of Seera Group's FY22 gross booking values were contributed to by the Travel platform making 23% of the revenue mix.

Car Rental (Lumi)- One of the leading players in the mobility sector, Lumi is an instrumental vertical to Seera's overall business model. The company has the ability to monetise its enormous fleet size of 27,700 vehicles with strong footed brands in its fleet mix. Lumi's core operations can be divided into the following-

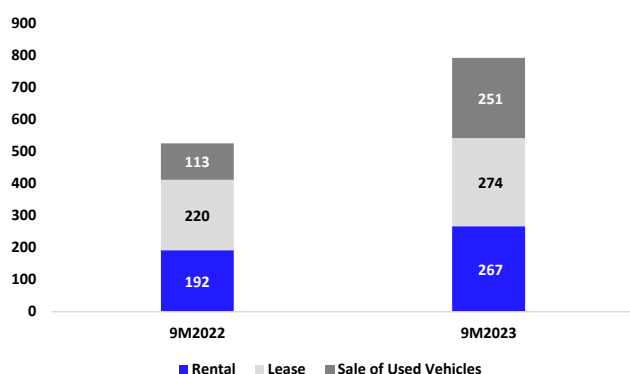
Lease, wherein the company enters into lease agreements with Corporate and Government clients for a fixed tenure ranging from 1-5 years in lieu of agreed lease payments. The company is sitting on a strong order backlog with prominent names like Aramco, Saudi Emergency Force and Ministry of Interior thereby providing long-term revenue visibility.

Rental, wherein the company provides car rental services for daily, weekly, and monthly rental to retail and corporate clients by way of its omni channel setup and strong branch network.

Used Car sales which is integrated to disposal of fleet anchored by the other two verticals and reduces dependencies on third-party fleet offloading.

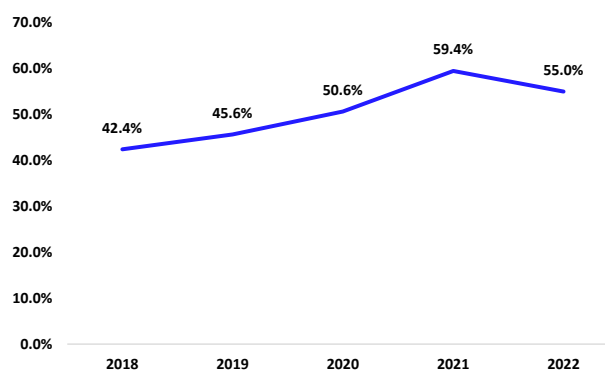
Lumi's business model is characterised by high margins due to its dominant position in the market, thereby having the potential to solidify the margin trajectory for Seera Group. Post the IPO in September 2023, Seera still holds 70% stake in Lumi which happens to be a core vertical for the group due to its rapid expansion outlook. Overall, the car rental business contributed 34% to the FY22 revenue mix.

Figure 12 Lumi Segment-wise Revenue Mix (SARmn)



Source: Company Data, Al Rajhi Capital

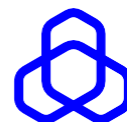
Figure 13 Lumi EBITDA Margin Trajectory (SARmn)



Source: Company Data, Al Rajhi Capital

Hospitality- The company's hospitality business boasts of hotels located strategically across key locations like Makkah, Riyadh and Jeddah. With a total of 2,283 operational room keys and 8 hotels under its portfolio, the Seera Group's hotel collection includes marquee 5-star properties like Sheraton, Movenpick and Choice Hotels. Additionally, three recently established properties under the Choice Hotels brand in Riyadh and Jeddah, along with three unbranded pilgrims' focused properties in Makkah, are leased out. In alignment with the Kingdom's tourism objectives, the company focuses on providing hospitality experience across high end and mid-market levels of the pyramid.

Nevertheless, the Hospitality segment qualifies as a non-core vertical for the company. The contribution to the overall revenue mix was negligible at 4% as of FY22. It is worth noting that occupancy levels and room nights sold have rebound post-covid and there has been a compression of losses on the EBITDA level. However, Seera Group aims to strategically divest assets under this vertical and scale the operator model under optimal conditions maximising the exit value in order to fulfil the Group's capital allocation strategy.



Portman Travel Group- The UK travel group, a travel management company was one of the most notable investments made in 2014 under Seera’s corporate ventures arm. Operating in UK and Europe, the Portman Group functions across three different verticals-

Business Travel- The company addresses the travel needs of major UK Government and Corporate clients under the Clarity brand.

Luxury Leisure Travel- The group provides services to high net-worthed individuals via two brands namely Elegant Resorts and If Only Holidays to elevate travel experiences across worldwide destinations.

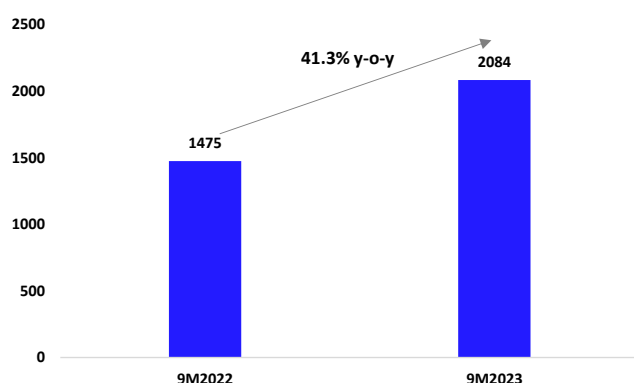
Sports Travel- This vertical is at its nascent stage and was established only in 2021, albeit it has high growth potential due to its wide scope for scalability. The Group provides travel management services to premier football clubs, caters to sports travel for educational purposes and accommodates travel arrangements for various sporting events.

Acquisitions remain integral to the growth strategy of the Portman Group as it houses a portfolio of complementary travel companies.

Speaking of numbers, the net booking values have shown remarkable growth in 9M2023 driven by the contribution of the sports business line. Luxury Leisure travel has also witnessed steady recovery post the pandemic. The PTG vertical contributed to 36% in the overall revenue mix for FY22, significantly up from 19% in FY21.

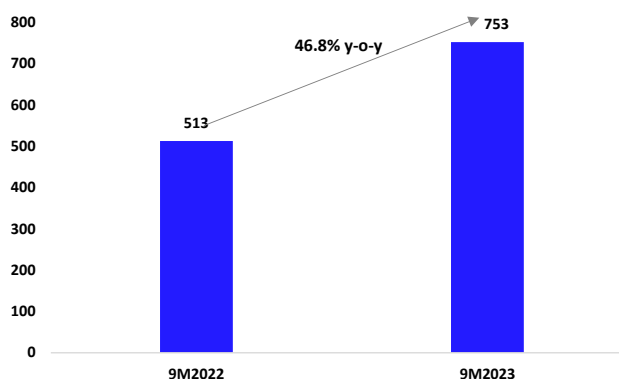
In essence, the business strategy of Portman caters to a critical mass in key markets like UK and Europe and has possibility for significant value unlocking through future IPO potential by the Seera Group.

Figure 14 **PTG Net Booking Value (SARmn)**



Source: Company Data, Al Rajhi Capital

Figure 15 **PTG Revenue Evolution (SARmn)**



Source: Company Data, Al Rajhi Capital

Investments-

Historically, Seera’s buy and build philosophy helped it to navigate its way through various high-value investments facilitating expansion of the Groups product portfolio. The company’s strategic VC investment in Careem, a mobility player in 2014, garnered a successful exit at SAR1.8bn upon its acquisition by Uber Technologies. Almosafer and Portman investments were also a part of the successful buy and build strategy by Seera.

As part of unveiling its corporate strategy, Seera group’s investment focus has shifted to opportunities with a sustainable return profile, aiming at continuous cash flow generation. The Group invested in a private real estate fund to develop Kayanat Central Business Park (land size 100,000 sqm), a high-end commercial property in the northern region of Riyadh, expected to be developed by 2026. The project financing may be spread over share buy-back and asset sale in Makkah, yet to be known. The annual potential operating cash flow return to be generated by the project has been pegged at SAR230mn. However, we have abstained from incorporating the revenues from Kayanat in our valuation estimates in line with our conservative stance.

Investment Rationale

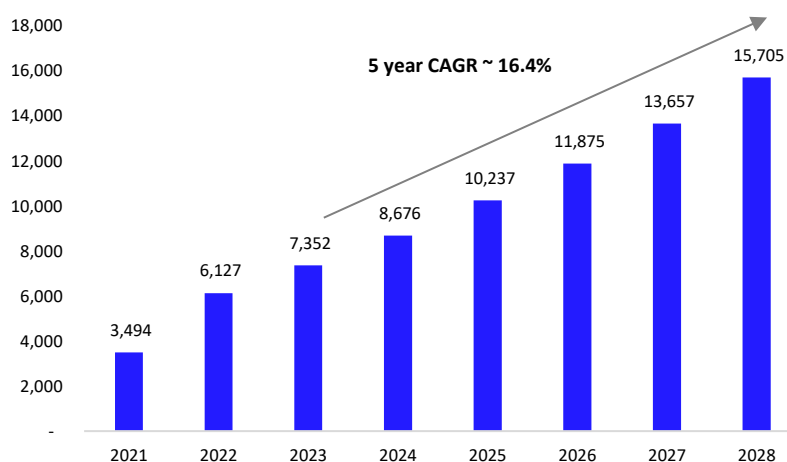
- **Almosafer to spearhead growth by way of its umbrella portfolio:**

Almosafer, as the cornerstone of Seera Group's business, is poised to lead the way in driving growth for the Group through its comprehensive umbrella portfolio. Aligned with the extensive expertise that the parent company accumulated over 40+ years, Almosafer plays a pivotal role in contributing to Kingdom's ambitious vision of becoming a tourism leader. Leading growth through a diversified portfolio, Almosafer is set to be at the forefront. Almosafer extends its influence across consumer travel to elevate the overall travel experience. Additionally, the brand extends its reach by offering tailored travel management services through its dedicated corporate and government travel vertical. Complementing the B2C and B2B verticals, are two other core lines of operation, namely Discover Saudi and Mawasim.

The robust positioning of Almosafer within the group is anticipated to manifest in substantial net booking value growth. Projections indicate a compound annual growth rate (CAGR) of 16% in the net booking value of the Travel platform over the period of 2023 to 2028. This anticipated growth in net booking value is poised to translate into a significant increase in the overall top-line over the coming years.

Furthermore, the asset-light nature of Almosafer's business model ensures a strong growth trajectory without a substantial need for additional capital. This strategic advantage positions the Travel platform to capitalize on emerging opportunities in the travel industry, contributing to the sustained success and expansion of Seera Group.

Figure 16 **Projected Net Booking Value Trajectory for Almosafer (SARmn)**



Source: Al Rajhi Capital, ARC estimates

- **Tourism to provide a big runway for growth**

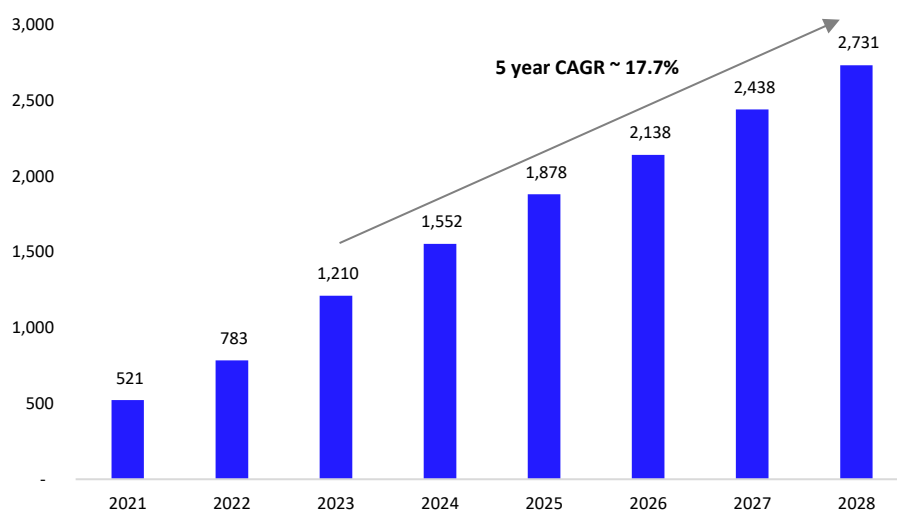
Anticipating a surge in inbound tourism to the Kingdom of Saudi Arabia (KSA) in the forthcoming years, in alignment with the Government's Vision 2030 strategy and the upcoming Expo 2030, Seera Group is poised to play a crucial role in meeting this heightened demand. The company's diversified presence uniquely positions it to leverage the increasing demand for convenient mobility and flexible travel packages. The surge in tourism is expected to particularly boost the preference for short-term car rentals as a convenient mode of transportation. In response, Seera Group's subsidiary, Lumi, is well-positioned for a promising growth trajectory as it fulfills the evolving needs of travelers. Simultaneously, the company addresses the requirements of religious tourists through its Mawasim Platform, operating under

the Almosafer Group, encompassing a spectrum of services from accommodation to transportation specifically tailored for Hajj and Umrah tourists. Notably, the integration of Mawasim with the car rental platform Lumi enhances its capacity to fulfill the mobility needs of visitors. In essence, Seera’s business footprint combined with its strategic positioning shall harness growth for the company in the evolving tourism landscape.

- **Transportation vertical, dominant contributor to revenue-**

Seera’s substantial ownership stake in Lumi (70%) even post the IPO positions it to continue benefiting from Lumi’s success and the overall buoyancy in the car rental sector. The Transportation vertical stands out as the primary revenue contributor for Seera. As of the second quarter of 2023, the car rental vertical significantly contributed to 33% of the overall revenues, indicating its dominance in Seera’s revenue structure. Moreover, Lumi’s business is characterized by high EBITDA margins, thereby making case for a strong margin outlook for Seera. Lumi’s commendable fleet expansion plans and a robust leasing backlog, featuring prestigious clients such as Aramco places Seera on a strong footing for substantial revenue growth. We expect Lumi to witness a revenue CAGR of 17.7% over 2023-2028e, well beyond the company level revenue CAGR of ~14% over the same period. This will naturally benefit the company’s overall top-line growth. Hence, the thriving transportation vertical will be a key growth catalyst for the company.

Figure 17 **Projected Revenue Evolution in the Transportation Sector (SARmn)**



Source: Al Rajhi Capital, ARC estimates

- **Robust net booking value to be the key catalyst-**

Seera’s net booking value exhibited a remarkable upswing as an aftermath of the pandemic. The booking values nearly doubled y-o-y for the company in FY22 with regard to a low base. However, the anticipated momentum in the tourism sector sets the stage for Seera’s net booking value to experience a noteworthy expansion, projecting a jump from SAR 9.3 billion to SAR 22.1 billion over the period spanning 2023 to 2028. The anticipated growth isn’t confined to the Travel platform alone. The Portman Travel Group is slated to witness a robust high-single-digit growth CAGR in net booking value. This positive trajectory is attributed to the substantial scale-up achieved through strategic and value-accretive mergers and acquisitions (M&As) by the Portman Group. Seera’s overall net booking value is expected to grow multifold, reflecting on the company’s resilience, adaptability, and strategic initiatives.

- **De-leveraging to pave way for a healthy balance sheet-**

In face of the current high interest-rate environment, the company is well-placed to facilitate debt-repayment by allocating some portion of IPO proceeds from Lumi. This would enable the company to adopt a cash-flow driven investment approach aligned with an improvement in liquidity position. Moreover, the de-leveraging initiative would strengthen Seera's balance sheet providing greater flexibility in capitalizing on the dynamic opportunities in the travel industry. We expect the net Debt/EBITDA to drastically improve from 3.6x in 2022 to 0.36x by 2026. The improved leverage positioning would make way for sustained growth and resilience in the company's fundamentals.

- **Potential PIF investment in Almosafer-**

Saudi's Sovereign wealth fund PIF signed a non-binding term sheet in September 2022, entailing the acquisition of 30% stake in the company's Almosafer group amounting to a consideration of SAR1.55bn at a pre money valuation of SAR2.75bn. The completion of the deal would provide substantial impetus to the already impressive growth trajectory of Almosafer. If successfully executed, this investment would not only strengthen Almosafer's market presence but also contribute to the broader development of the travel industry in the Kingdom. The strategic deployment of funds can contribute to enhancing Almosafer's infrastructure, technology, and service offerings, thereby solidifying its position as a leading player in the travel and tourism ecosystem.

Valuation and Key Risks

We value the company using an equally weighted mix of DCF and relative valuation methodologies. Given that the company's financials have bounced back post the pandemic and key metrics appear to show steady growth, we use the DCF approach. The company is on a sustained growth path with robust margin recovery making a compelling case for investment. The DCF approach uses a 2.5% terminal growth rate at a 9.57% WACC implying a target price of SAR33/sh. On the other hand, the P/E approach based on 24.0x multiple on an average of 2024-25EPS implies a target price of SAR31/sh. We believe the worst is behind for the Group. Hence, we initiate coverage on Seera with an "Overweight" rating on the stock implying an upside of 24.4% at the current market price.

Figure 18 **Valuation**

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)
DCF	33	50%	17
Relative Valuation (PE)	31	50%	15
Fair Value (SAR)			32
Current Price (SAR)			26
Upside (%)			24.4%

Source: Al Rajhi Capital;

Figure 19 **DCF Sensitivity Analysis**

		Terminal Growth				
		2.0%	2.3%	2.5%	2.8%	3.0%
WACC	9.1%	34	35	37	38	39
	9.3%	33	34	35	36	38
	9.6%	31	32	33	35	36
	9.8%	30	31	32	33	34
	10.1%	29	30	31	32	33

Source: Al Rajhi Capital;

Key Risks:

1. Lower than expected number of tourists shall adversely affect booking values.
2. A setback in consumer travel would largely affect the revenues from Almosafer platform.
3. Any contract termination in Lumi's leasing vertical would hurt order backlog, thereby hurting revenue visibility.
4. Slower than expected debt-repayment to create higher financing burden for a longer period.
5. Inability to fund future investment opportunities via buy-back initiatives would lead the way for elevated leverage levels.

Financial Assumptions

Revenue analysis: Seera Group's revenue slumped massively in the global pandemic year of 2020 on account of the doom and gloom in the travel industry. Post 2020, Seera's revenues have witnessed rapid recovery with bounce back in the tourism industry. Leisure, religious and corporate travel have made major strides in 2023 with the opening up of the economy. Hence, the revenues for the company have been on the growth trajectory due to increased demand volumes across all operating segments. Revenues in FY22 (SAR2,271mn) surpassed the pre covid levels of FY19 (SAR2,190mn). Furthermore, 9MFY23 revenues registered significant growth on a y-o-y basis. We anticipate the strong prospects in the tourism industry to enable Seera to deliver an almost mid-teen revenue CAGR of ~14% over 2023-2028. Going forward, the travel platform and the car rental segment would be primary growth drivers in the overall revenue construct. The uptick in revenues would be underpinned by the rising net booking values across verticals besides the growth potential in the transportation segment on the back of the healthy leasing backlog. However, we build in more normalised levels of revenue growth for the Portman Group owing to the uncertainties in the economic environment in UK and Europe. Overall companywide revenues are poised for a decent growth curve in the coming years with a dedicated approach towards the core lines of business.

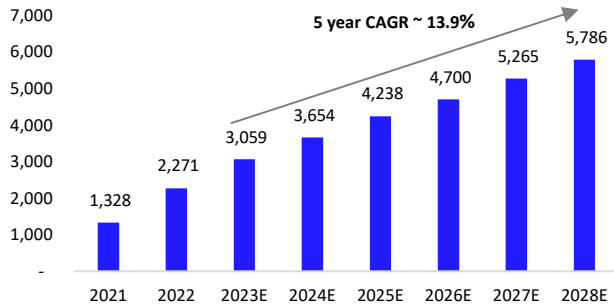
Cost analysis: Direct costs like commissions, supplier payments, promotional expenses, etc and depreciation expenses are the major components of cost of sales for Seera. We expect these costs to rise on an absolute basis with the rising revenues but on a proportional basis, these costs are expected to soften as the company achieves scale across its business verticals. Hence, economies of scale shall drive revenues to grow faster as compared to costs over the next 3-4 years.

Margins: As the company successfully attains scale across the various spectrums, gross margins are expected to witness a consistent expansion over the coming years with reduced costs as a % of sales. The increase in booking values, volumes and healthy occupancy rates shall trigger growth in the group-level EBITDA. Moreover, we expect a follow-through in the turnaround in the operating and net margins in 2023. It is worth noting that Almosafer's high degree of operating leverage characterised by its asset-light nature, will be a key ingredient in pushing margin upwards for the Seera Group. Besides, the reduction in finance costs as an outcome of debt repayment would also fuel net margin expansion.

Balance Sheet: The company's business is a mix of capital intensive and asset light verticals. For example, Car rental and hospitality verticals are high capex businesses. High leverage levels have been the key to supporting the expansion of the car rental segment. The company's capex requirements may persistently be elevated as a result of fleet size expansion but may be partially offset by the asset-light approach in the hospitality vertical. Additionally, the company may undertake substantial debt repayment going forward (leading to an improvement in leverage position) from the IPO proceeds received from the stake sale in Lumi. Moreover, the restructuring of the company's investment strategy towards cash flow generating investments would improve the liquidity position of the Group, further strengthening the balance sheet.

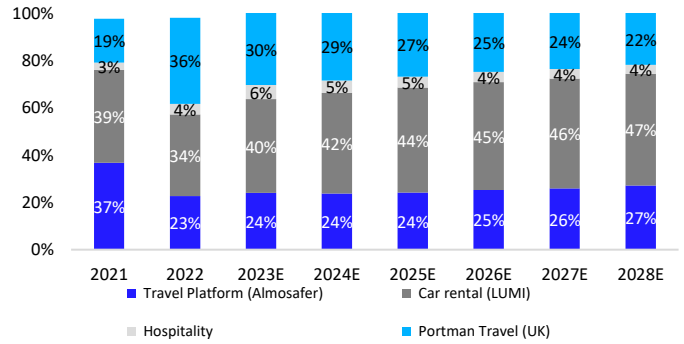
Cash Flow Profile: The company maintains healthy liquidity levels and strong cash reserves have been one of the major characteristics of Seera Group's balance sheet. The new corporate strategy unveiled by the Group shall augur well for deleveraging the balance sheet. Moreover, future capital allocations may be supported by share buyback programs going forward. Overall, we expect the company to start generating positive free cash flow from 2025 onwards supported by strong profitability metrics.

Figure 20 Seera Group Revenue Projection (SARmn)



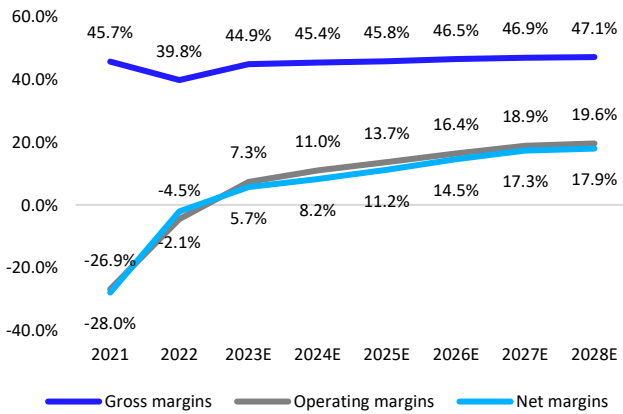
Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 21 Revenue Construct Evolution (2021-2028E)



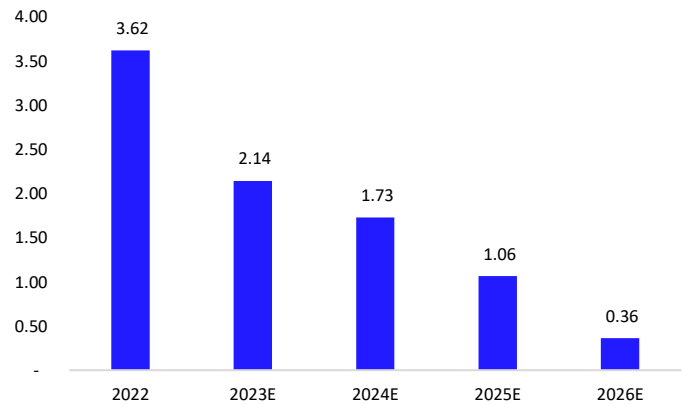
Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 22 Profitability Analysis (%) (2021-2028E)



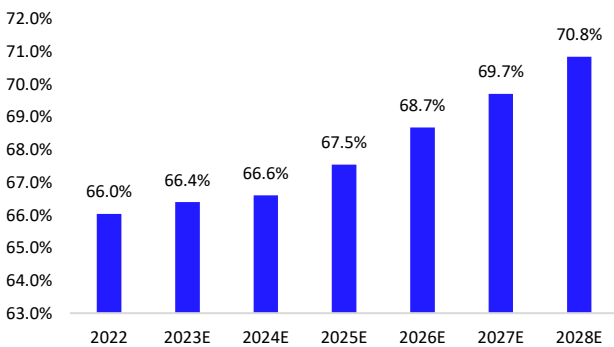
Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 23 Leverage (Net Debt/EBITDA) Levels (x)



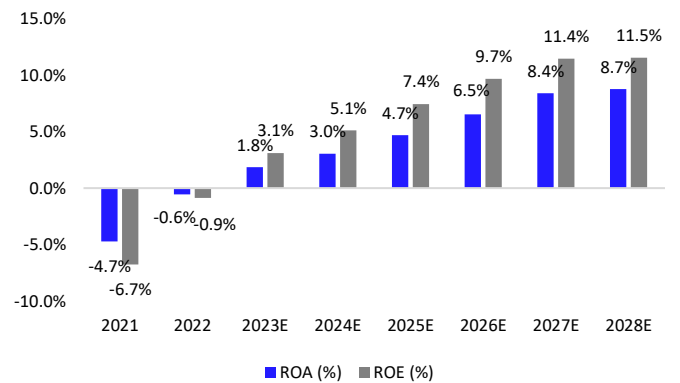
Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 24 Travel Platform contribution to NBV (%)



Source: Company Data, Al Rajhi Capital, ARC estimates

Figure 25 ROA and ROE (%) (2021-2028E)



Source: Company Data, Al Rajhi Capital, ARC estimates

Key Financials

Figure 26 **Income Statement**

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Sales	2,271	3,059	3,654	4,238	4,700	5,265
Cost of Sales	(1,367)	(1,686)	(1,995)	(2,298)	(2,513)	(2,796)
% of revenues	60.2%	55.1%	54.6%	54.2%	53.5%	53.1%
Gross Income	904	1,374	1,659	1,940	2,187	2,469
Selling and marketing expenses	(410)	(480)	(528)	(586)	(623)	(658)
General and Administrative expenses	(598)	(669)	(730)	(775)	(794)	(816)
% of revenues	44.4%	37.6%	34.4%	32.1%	30.1%	28.0%
ECL Provision	2	0	0	0	0	0
Operating Expenses	(1,007)	(1,149)	(1,258)	(1,360)	(1,416)	(1,474)
% of revenues	44.3%	37.6%	34.4%	32.1%	30.1%	28.0%
Operating Income	(103)	225	401	580	771	995
Financial costs	(75)	(133)	(138)	(106)	(64)	(34)
Other income	126	102	72	52	52	52
Profit before tax	(51)	193	334	526	758	1,013
Zakat & Tax	6	(19)	(33)	(53)	(76)	(101)
Net Profit Before Unusual Items	(46)	174	301	474	682	912
Non-controlling interest	(2)	0	0	0	0	0
Net Income	(48)	174	301	474	682	912
EPS (SAR/sh)	(0.16)	0.58	1.00	1.58	2.27	3.04

Source: Company Data, Al Rajhi Capital

Figure 27 **Cash Flow Statement**

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	-497.8	-398.7	-120.9	232.7	552.1	640.1
Cash from investing	417.4	38.7	83.5	118.7	144.3	161.2
Cash from financing	200.3	480.6	123.9	-384.8	-484.8	-625.1
Net change in cash and cash equivalents	119.9	120.5	86.6	-33.3	211.6	176.2
Cash and cash equivalents, end of the period	462.1	582.6	669.2	635.9	847.5	1,023.7

Source: Company Data, Al Rajhi Capital

Figure 28 **Key Ratios**

Key metrics	2022	2023E	2024E	2025E	2026E	2027E
Current ratio	1.0x	1.0x	1.0x	1.0x	1.1x	1.3x
Receivables turnover ratio	1.8x	2.4x	2.7x	3.0x	3.5x	4.2x
Gross margin (%)	39.8%	44.9%	45.4%	45.8%	46.5%	46.9%
EBITDA margin (%)	12.9%	21.9%	23.6%	25.5%	27.4%	29.5%
Operating margin (%)	-4.5%	7.3%	11.0%	13.7%	16.4%	18.9%
Net margin (%)	-2.1%	5.7%	8.2%	11.2%	14.5%	17.3%
ROA	-0.6%	1.8%	3.0%	4.7%	6.5%	8.4%
ROE	-0.9%	3.1%	5.1%	7.4%	9.7%	11.4%

Source: Company Data, Al Rajhi Capital

Figure 29 Balance Sheet

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Assets						
Property and Equipment	3,996	4,470	4,845	5,087	5,311	5,554
Assets under construction and development	51	103	116	130	141	148
Capital work in progress	360	360	360	360	360	360
Intangible assets and goodwill	96	96	96	96	96	96
Investment	1,495	1,495	1,495	1,495	1,495	1,495
Advances for investment	243	243	243	243	243	243
Deferred tax asset	23	23	23	23	23	23
Total non-current assets	6,263	6,789	7,176	7,432	7,667	7,917
Trade and other receivables	1,201	1,341	1,402	1,393	1,288	1,226
Receivables from disposal of investments in equity accounted in	0	0	0	0	0	0
Due from related parties	2	3	4	4	5	5
Prepayments and advances	521	612	585	593	564	632
Cash and cash equivalents	539	660	746	713	925	1,101
Total current Assets	2,263	2,616	2,736	2,704	2,781	2,964
Total assets	8,526	9,405	9,912	10,136	10,448	10,881
Liabilities						
Employee benefit obligations	116	127	138	150	163	177
Loans and Borrowings	600	777	847	688	484	216
Non current portion of lease liabilities	161	219	207	194	179	162
Deferred tax liabilities	0	0	0	0	0	0
Total non-current liabilities	878	1,123	1,192	1,032	825	556
Bank overdraft	77	77	77	77	77	77
Loans and borrowings	704	950	1,035	841	591	265
Lease liabilities	60	73	69	65	60	54
Zakat and income tax	94	94	94	94	94	94
Trade and other payables	1,071	1,201	1,203	1,259	1,308	1,379
Due to related parties	9	9	9	9	9	9
Contract liabilities	206	278	332	385	427	478
Total current liabilities	2,221	2,681	2,818	2,729	2,565	2,356
Shareholders' equity						
Capital	3,000	3,000	3,000	3,000	3,000	3,000
Statutory and other reserve	1,076	1,076	1,076	1,076	1,076	1,076
Treasury shares	(42)	(42)	(42)	(42)	(42)	(42)
Retained earnings	1,385	1,559	1,859	2,333	3,015	3,927
Equity attributable to shareholders of the Parent Company	5,420	5,593	5,894	6,368	7,050	7,962
Non-controlling interest	8	8	8	8	8	8
Total equity	5,428	5,601	5,902	6,376	7,058	7,970
Total liabilities	8,526	9,405	9,912	10,136	10,448	10,881

Source: Company Data, Al Rajhi Capital

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"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.

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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.

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