

Target Price: SAR190/share
Current Price: SAR278.2/share
Downside: 32% (+Div. Yield: 2.0%)
Rating: Underweight

SAL Saudi Logistics Services (SAL)

Overstretched valuation; Reduce rating to Underweight

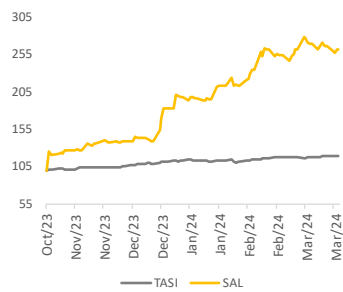
- The Red Sea shipping crisis has enabled SAL to witness increased air cargo volume; however, we consider this to be temporary, and volumes should normalize soon.
- We revise our cargo volume forecast for 2024e upwards by ~13% to reflect the disruption and adjust the margins higher due to operating leverage and robust 4Q23.
- Accordingly, we raise our TP to SAR 190/sh. (SAR122/sh. earlier) based on DCF and P/E (22x on 2024e EPS) valuation methods. However, we believe the current share price (+162% since listing vs. +19% TASI) rally appears overstretched and unjustified (32-36x 2024-25e P/E). Hence, we lower our rating to Underweight (from Overweight).

Stock data

TASI ticker	4263
Mcap (SARmn)	22,256
Trd. Val (3m) (SARmn)	367.9
Free float	100.0%
QFI holding	2.0%
TASI FF weight	0.28%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Impact of Red Sea crisis on SAL's cargo volumes - our take: The ongoing shipping crisis in the Red Sea region has caused temporary disruptions in maritime shipping lines (refer below). This has led to a shift in some sea cargo volumes to air cargo, benefiting SAL and resulting in higher volumes being handled by them. However, we consider this to be a temporary outlier impact. While higher cargo volumes may persist in 1H24, we anticipate normalization during 2H24, even if disruptions in the Red Sea continue. This normalization likely stems from businesses improving their supply chain planning, in our view. The exponential rise in SAL's share price (Figure 13) since the onset of the crisis appears excessive to us, suggesting that the market may be overreacting to SAL's temporary benefits.

Change in estimates: Considering the shipping crisis, we revise our estimates as follows: i) We increase our 2024e cargo volume estimates by 12.6% given a surge in cargo volumes; however, we broadly maintain our future growth rates, which implies a marginal de-growth in 2025e due to higher base (Figure 14). Notably, we largely keep our revenue/ton estimates unchanged, as most of SAL's contracts have fixed-rate arrangements. Consequently, the primary driver of air cargo segment revenue increase would be the higher cargo volumes. ii) We also raise our Logistics segment revenue growth rate to ~24% CAGR between 2023-27e based on strong growth in FY23 (vs. ~20% earlier). This leads us to project SAL's top line to grow at a CAGR of ~10% over the period 2023-27e (versus ~9% CAGR previously). iii) The surge in cargo volumes, coupled with SAL's fixed cost structure, unlocks healthy operating leverage. Accordingly, we revise our 2024e gross/EBITDA margins estimates to ~55%/~52%, respectively (~52%/44% earlier) before it starts normalizing to ~47%/~45% by 2028e (Figure 17).

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e	2027e
Revenue	1,456	1,809	1,806	1,978	2,147
Revenue growth	19%	24%	0%	9%	9%
Gross Profit	776	1,001	905	969	1,029
Gross Profit margin	53%	55%	50%	49%	48%
EBITDA	721	937	858	924	989
EBITDA margin	50%	52%	47%	47%	46%
Net profit	510	700	618	660	699
Net profit margin	35%	39%	34%	33%	33%
EPS (SAR)	6.4	8.7	7.7	8.3	8.7
P/E	43.7x	31.8x	36.0x	33.7x	31.8x

Source: Company data, GIB Capital

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4Q23 results: SAL reported a 4Q top line at SAR411mn (+12.3% q/q) largely in line with our estimate of SAR404mn. Air Cargo handling revenue (~84% of total revenue) came in at SAR343mn (vs. our estimated SAR352mn), up by ~20% q/q, driven by increased cargo volumes. Meanwhile, Logistic revenues declined 12% q/q to SAR71mn, lower than our estimated SAR52mn. However, gross profit beat our estimate (SAR243mn vs SAR198mn expected), largely due to lower costs (-14.3% q/q) amid improved efficiencies, thereby widening the gross margin by 12.7ppts q/q. Further, operating costs remained largely flat sequentially, resulting into a beat at the operating level. Overall, the company reported strong earnings at SAR181mn, beating our as well as consensus estimates.

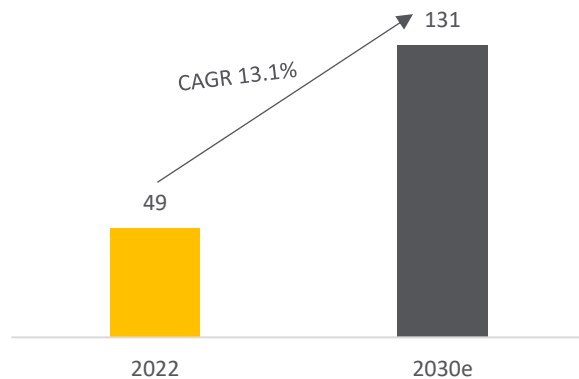
Figure 2: FY23 and 4Q23 results summary

SAR mn	FY23	FY22	y/y %	4Q23	4Q22	y/y %	3Q23	q/q %	GIBCe	Variance %
Revenues	1,456	1,223	19.1%	411	353	16.4%	366	12.3%	404	1.7%
Cost of Goods	680	632	7.6%	168	188	-10.6%	196	-14.3%	206	-18.5%
Gross Profit	776	591	31.3%	243	165	47.3%	170	42.9%	198	22.7%
Operating Expenses	190	164	15.9%	39	36	8.3%	39	0.0%	46	-15.3%
Operating Profit	586	427	37.2%	203	129	57.4%	131	55.0%	152	34.3%
Net Income	510	362	40.9%	181	113	60.2%	116	56.0%	133	35.6%
Gross Margin	53.3%	48.3%		59.1%	46.7%		46.4%		49.0%	
Operating Margin	40.2%	34.9%		49.4%	36.5%		35.8%		37.6%	
Net Profit Margin	35.0%	29.6%		44.0%	32.0%		31.7%		32.9%	

Source: Company data, GIB Capital

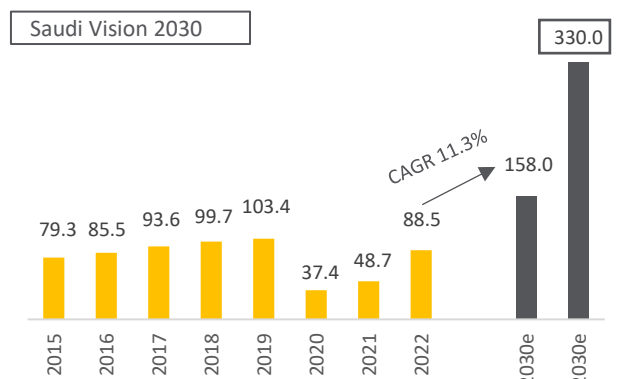
Passenger ground services and fulfillment business remain upside triggers: SAL's expansion into fulfillment and passenger ground services presents a compelling growth opportunity, leveraging their existing capabilities. While these plans are not yet reflected in our forecasts or valuation, their successful execution could lead to a notable upside potential. According to ALG, the organic passenger traffic in KSA is expected to rise at a CAGR of 11.3%, reaching 158mn passengers by 2030e (although below the Vision 2030 target of 330 mn). Meanwhile, KSA's fulfillment market is likely to increase at a CAGR of ~13% to reach SAR131bn by 2030e.

Figure 3: KSA fulfilment services market (SAR bn)



Source: Company IPO prospectus

Figure 4: KSA passengers forecast by ALG (million)



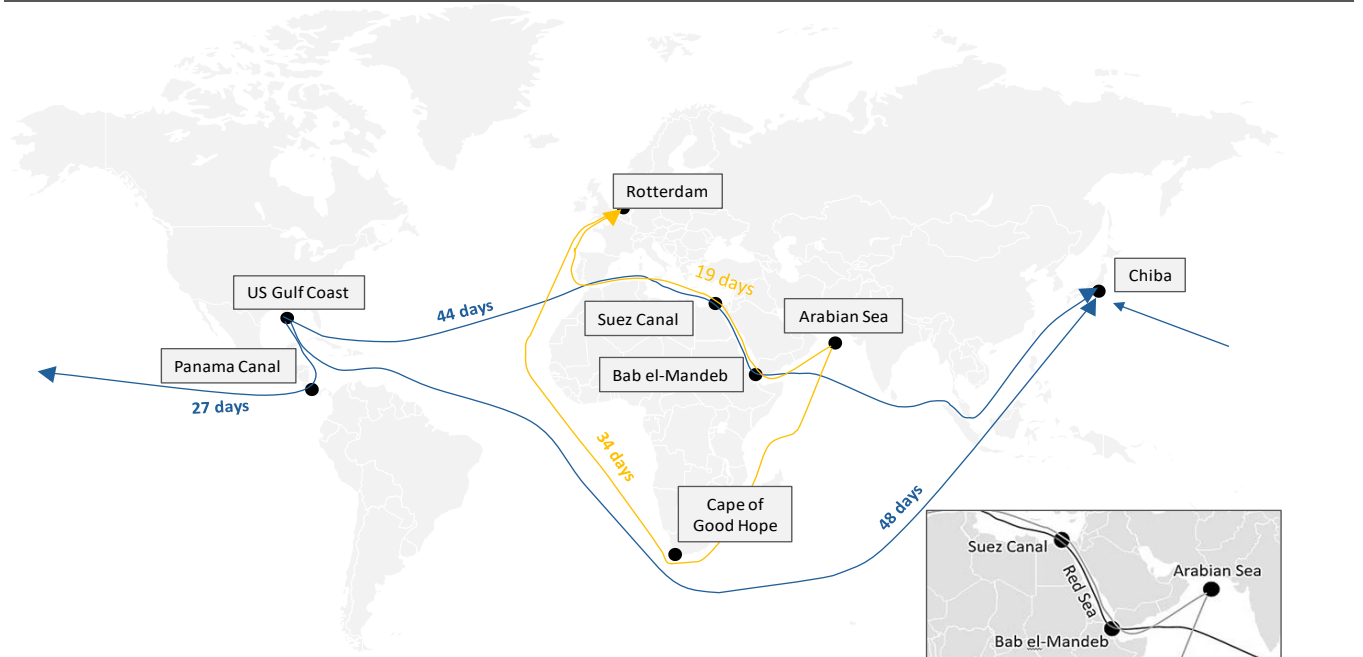
Source: Company IPO prospectus

Valuation and risks: We use an equal mix of DCF and P/E-based valuation methods for valuing the company. For relative valuation, we use a 22x multiple (19x earlier) on 2024e EPS and arrive at a 1Y forward TP of SAR218/share. This adjustment reflects the recent re-rating of SAL's peers (valuation multiple expanded to 21x from 16x earlier) amidst the ongoing shipping crisis. For DCF, using a WACC of 9.2%, we arrive at a 1Y forward TP of SAR162/share. Combining both approaches, we derive a blended average TP of SAR190/share (rounded off), indicating an Underweight rating with ~32% downside potential.

Red Sea Conflict Update

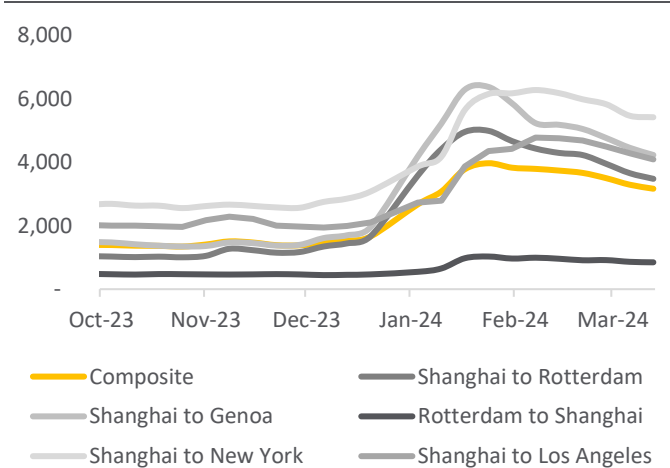
The Red Sea, south of the Suez Canal, is one of the world's most heavily trafficked shipping channels, connecting trade between Europe, Asia, and East Africa. Roughly 12% of global trade and 30% of global container traffic flow through the Suez Canal, highlighting the route's significance. The Red Sea shipping crisis began in Nov 2023 due to geopolitical tensions in the region. This prompted major shipping companies like Maersk, Hapag-Lloyd, and MSC to suspend using the Suez Canal and reroute their vessels around southern Africa via the Cape of Good Hope (Figure 5). This lengthy detour adds approximately 4,000 miles to each trip, resulting in increased voyage times (Figure 5) and freight costs (Figure 6 & 7). This, along with the historic drought in the Panama Canal, has further compounded the global maritime supply chain crisis. We believe SAL has been experiencing a significant improvement in cargo volume, likely due to the ongoing shipping crisis and the resulting shift in some sea cargo volumes to air cargo.

Figure 5: Rise in voyage time for select shipping routes*



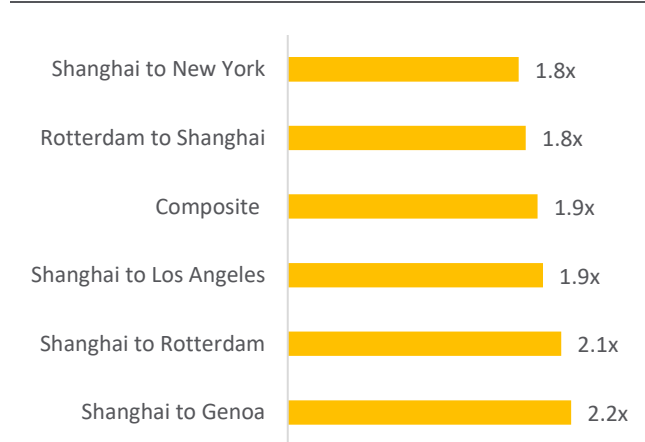
Source: US EIA, Vortexa *Approx. voyage time calculated for laden Suezmax tankers traveling at 14 knots, assuming no extended chokepoint delays.

Figure 6: Drewry World Container Index (US\$/40ft box)



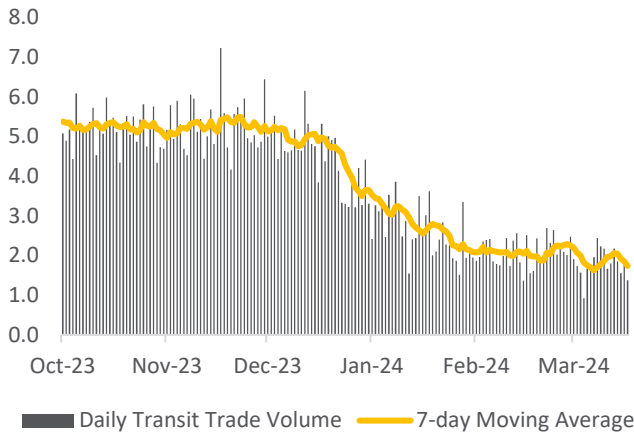
Source: Drewry, Bloomberg, GIB Capital

Figure 7: Increase in shipping costs by route since Dec 2023



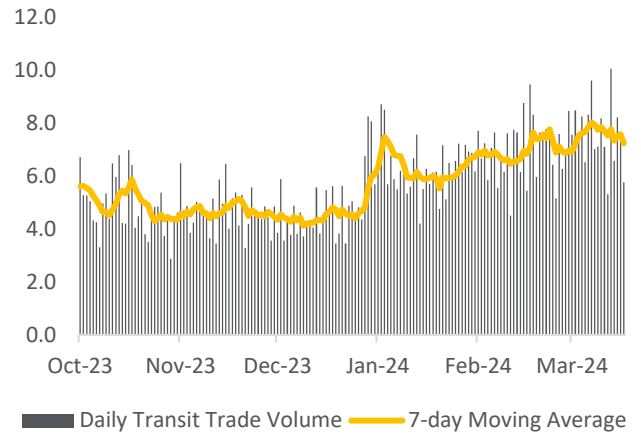
Source: Drewry, Bloomberg, GIB Capital

Figure 8: Daily trade volume passing through Suez Canal (million metric tons)



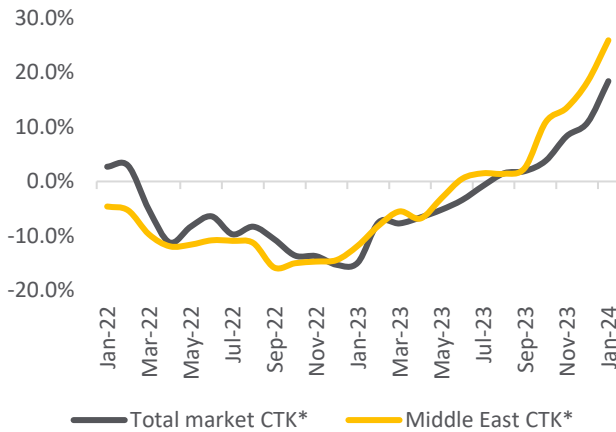
Source: IMF Portwatch, GIB Capital

Figure 9: Daily trade volume passing through Cape of Good Hope (million metric tons)



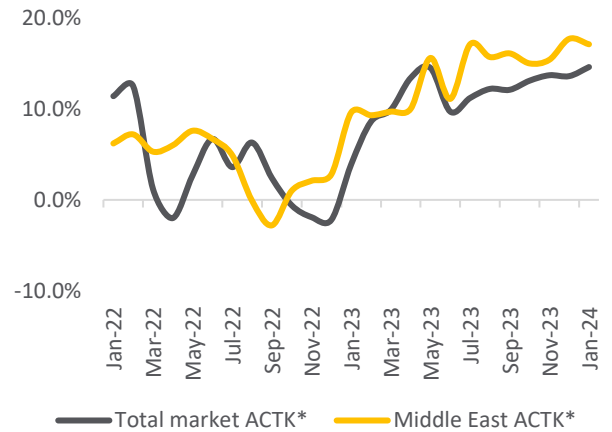
Source: IMF Portwatch, GIB Capital

Figure 10: Trend in y/y growth of cargo ton kilometers (CTK)*



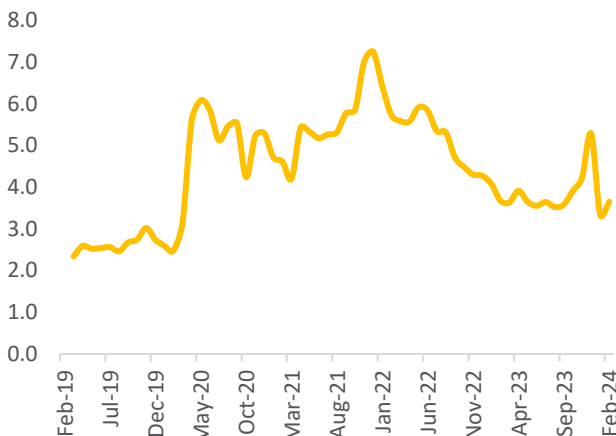
Source: IATA, GIB Capital *CTK signifies demand for air freight goods

Figure 11: Trend in y/y growth of available cargo ton kilometers (ACTK)*



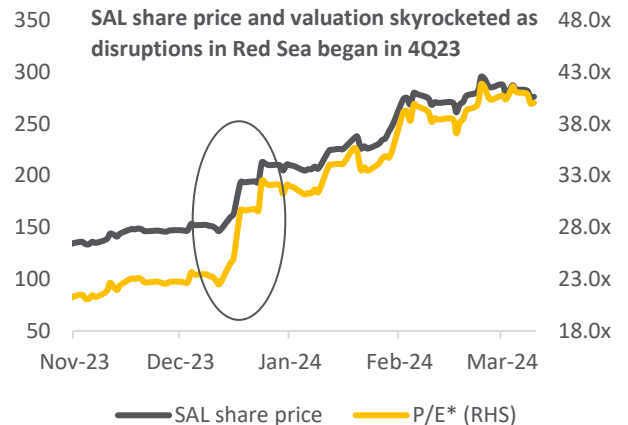
Source: IATA, GIB Capital *ACTK signifies capacity for air freight goods

Figure 12: Trend in average air freight rate (US\$/kg)



Source: Drewry, Bloomberg, GIB Capital

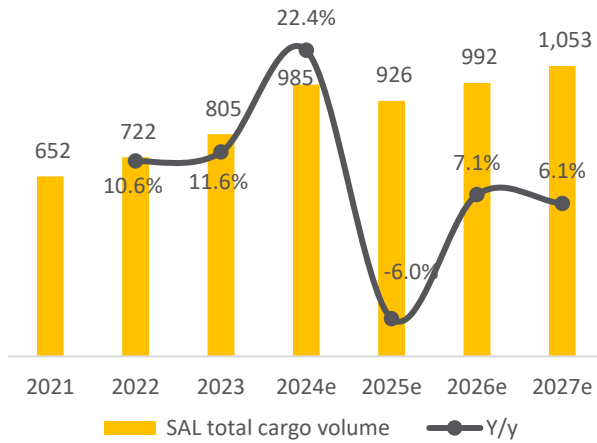
Figure 13: Trend in SAL's share price (SAR) and valuation (P/E)



Source: Bloomberg* Blended 12m forward

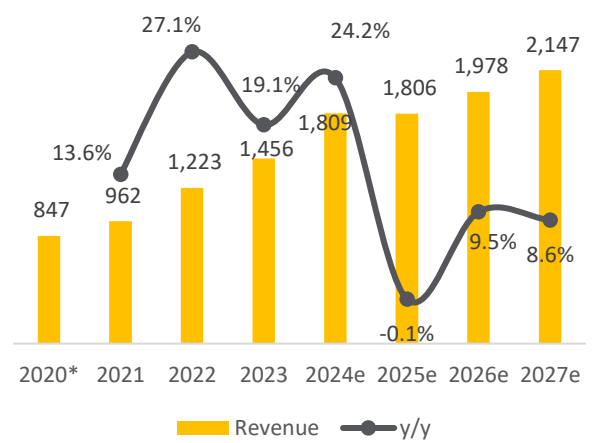
Key Charts for SAL

Figure 14: SAL cargo volumes forecast ('000 tons)



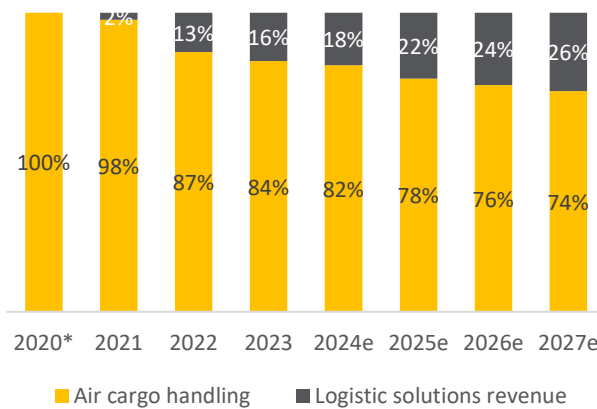
Source: Company data, GIB Capital

Figure 15: SAL's revenue growth (SARmn)



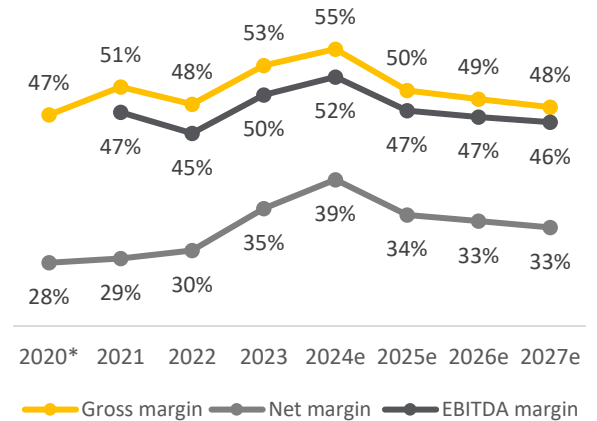
Source: Company data, GIB Capital *For the period from 16 October 2019 to 31 December 2020

Figure 16: SAL's segmental revenue mix



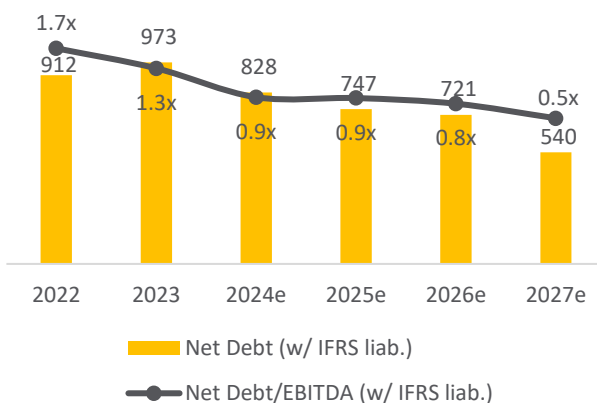
Source: Company data, GIB Capital *For the period from 16 October 2019 to 31 December 2020

Figure 17: Trend in SAL's margins



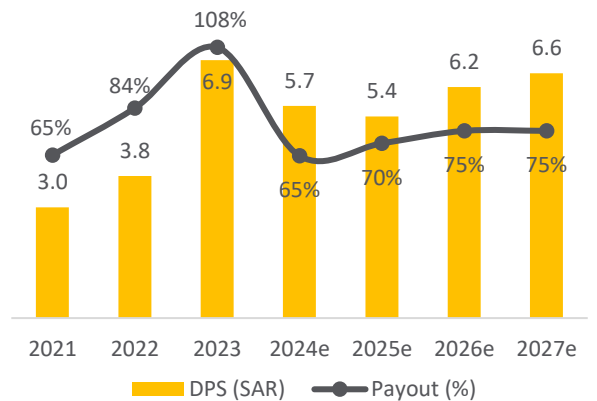
Company data, GIB Capital *For the period from 16 October 2019 to 31 December 2020

Figure 18: Leverage trend (SARmn)



Source: Company data, GIB Capital

Figure 19: Dividend and payout (%)



Source: Company data, GIB Capital

Financials

Figure 20: Summarized basic financial statements (SARmn)

Income statement	2022a	2023a	2024e	2025e	2026e	2027e
Revenue	1,223	1,456	1,809	1,806	1,978	2,147
revenue y/y	27%	19%	24%	0%	9%	9%
COGS	632	680	807	902	1,009	1,118
Gross Profit	591	776	1,001	905	969	1,029
Gross Profit margin	48%	53%	55%	50%	49%	48%
Selling and distribution expenses	30	33	41	41	45	49
General and administrative expenses	131	142	145	145	158	172
Operating profit	427	586	799	702	747	789
Operating margin	35%	40%	44%	39%	38%	37%
Finance costs, net	56	36	39	31	29	29
PBT	370	551	761	671	718	760
Zakat/tax	8	41	61	54	57	61
Net income	362	510	700	618	660	699
Net margin	30%	35%	39%	34%	33%	33%
y/y	32%	41%	37%	-12%	7%	6%
EPS	4.5	6.4	8.7	7.7	8.3	8.7
DPS	3.8	6.9	5.7	5.4	6.2	6.6
Payout	84%	108%	65%	70%	75%	75%
EBITDA	545	721	937	858	924	989
EBITDA Margin	45%	50%	52%	47%	47%	46%

Balance Sheet	2022a	2023a	2024e	2025e	2026e	2027e
Trade receivables	233	391	446	445	488	529
Prepayments and other current assets	147	51	54	54	59	64
Cash and cash equivalents	940	710	828	874	846	976
Total Current Assets	1,351	1,652	1,828	1,873	1,893	2,070
Property and equipment	705	709	855	1,024	1,206	1,246
Right-of-use assets	1,213	886	844	801	759	717
Total Non-Current Assets	1,932	1,621	1,726	1,853	1,992	1,991
Total Assets	3,284	3,285	3,566	3,738	3,897	4,072
Current Liabilities	344	385	433	436	463	489
Non-current Liabilities	1,866	1,665	1,654	1,637	1,605	1,579
Equity	1,073	1,234	1,479	1,664	1,829	2,004
Total Equity and Liabilities	3,284	3,285	3,566	3,738	3,897	4,072
BVPS	13.4	15.4	18.5	20.8	22.9	25.1

Cashflow	2022a	2023a	2024e	2025e	2026e	2027e
Cashflow from Operations	556	696	929	874	908	973
Cashflow from Investing	282	(596)	(215)	(255)	(286)	(166)
Cashflow from Financing	(389)	(329)	(596)	(573)	(649)	(677)
Total Cashflows	448	(230)	118	45	(27)	130

Source: Company data, GIB Capital

Figure 21: Key ratios

Key ratios	2022a	2023a	2024e	2025e	2026e	2027e
Profitability ratios						
RoA	11%	16%	20%	17%	17%	17%
RoE	34%	41%	47%	37%	36%	35%
Sales/Assets	37%	44%	51%	48%	51%	53%
Net margin	30%	35%	39%	34%	33%	33%
Liquidity ratios						
Current Assets/ Current Liabilities	3.9	4.3	4.2	4.3	4.1	4.2
Receivable Days	70	98	90	90	90	90
Payable days	38	24	24	24	24	24
Cash conversion cycle	32	74	66	66	66	66
Debt ratios						
Net Debt/EBITDA (w/o IFRS liab.)	-0.8	0.0	-0.8	-0.1	-0.3	-0.4
Net Debt/EBITDA (w/ IFRS liab.)	2.6	3.2	1.7	1.3	0.9	0.9
Debt/Assets (w/o IFRS liab.)	0.1	0.2	0.2	0.2	0.2	0.1
Net Debt/Equity (w/o IFRS liab.)	-0.4	0.0	-0.4	-0.1	-0.2	-0.2
Net Debt/Equity (w/ IFRS liab.)	1.3	1.5	0.8	0.8	0.6	0.4
Valuation ratios						
P/E	61.4	43.7	31.8	36.0	33.7	31.8
P/B	20.7	18.0	15.0	13.4	12.2	11.1
EV/EBITDA	41.8	31.6	24.4	26.6	24.7	23.1
FCF Yield	0.0%	2.4%	2.9%	2.5%	2.5%	3.3%
Dividend Yield	1.4%	2.5%	2.0%	1.9%	2.2%	2.4%

Source: Company data, GIB Capital

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