Seera Group Holdings 1Q 2024 Earnings Call

21 May 2024

Ankur Agarwal: Good day everybody. I'm Ankur Agarwal, consumer analyst in HSBC. I welcome you all to Seera's first quarter, 2024, earnings call. We will have a brief presentation by the management, led by the CEO, Mr. Al Waleed Al-Nasser, the CFO, Mr. Muhammad Khalid, and the CEO of Almosafer, Mr. Muzzammil Ahussain, followed by a round of Q&A. I'll now hand over the call to the Seera management. Over to you, Mr. Al Waleed.

AlWaleed AlNasser: Thank you, Ankur. Good afternoon, everyone. Thank you for joining us today. I'm Al Waleed Al-Nasser, the CEO of Seera Group. I have been with the group for over eight years as a VP, and I'm proud of how far we have come as an organization. In the first quarter of 2024, Seera delivered robust results, marked by significant booking volumes and revenue growth, which directly contributed to a profitable quarter. To provide additional insights into our results dynamics, joining me today, Mr. Muhammad Khalid, the group CFO, and Mr. Muzzammil Ahussain, the CEO of Almosafer travel platform. Our agenda today will cover highlights from Seera's first quarter, 2024, the impact of various business segments on our overall results, and a detailed financial and operational performance of each segment. And finally, a Q&A session to address your questions.

In the first quarter of 2024, Seera showed improved financial performance across all business areas, with increased booking volumes and revenue boosting our bottom line. And as you can see at the financial highlights here, the net booking value rose to SAR 3.4 billion, a 30% increase from the first quarter of 2023, driven by our recent acquisitions in Portman and a growth in Lumi businesses. The revenue grew by 36% year-on-year to SAR 1.1 billion, marking the second consecutive quarter of revenue above the SAR 1 billion mark. EBITDA increased by 20% year-on-year reaching SAR 237 million. Net profit for the quarter was SAR 61 million, up 7% from last year. Return on invested capital continuously improved from a negative in early 2022 in the aftermath of COVID to 5.5% this quarter.

If you see, the EBITDA margin amounted to 22%. Net debt to equity remained at very conservative levels. We are working on deleveraging our balance sheet and refining our portfolio management approach to focus on returns. These steps are aimed at improving operational efficiencies and boosting future returns for our shareholders, underscoring our dedication to sustainable growth and value creation. If you allow me here, I'll pass it to Mr. Muhammad Khalid, MK.

Muhammad Khalid: Thank you very much, Mr. Waleed. Good afternoon, everyone. Let's review our financial results for the first quarter, 2024. An increase in travel demand, as Mr. Waleed mentioned, has positively influenced our financial results for the first quarter, leading to a notable growth in all key financial metrics. On top-line, net book value grew by 30%, posting SAR 3.4 billion, which is a historical high for the first quarter, and it's going to set a new norm for the future, principally driven by an increased travel activity across all business segments within the group. If we look at revenue, revenue increase by 36% to reach SAR 1.1 billion for the first quarter, and this revenue growth has outpaced the rise in the cost of revenue, resulting in a positive operational leverage for the period.

Consequently, if we look at our gross profit, our gross profit margin has improved to 42.7%, for the current quarter, with an increase of 3.5 percentage points from the same quarter last year. The focused cost management and the gains that we derived from technological investment have led to a 20% increase in EBITDA with an EBITDA margin now standing at, I would say a strong 22% for the current quarter. Despite a 38% increase in the finance cost due to higher interest rate environment at the moment, still our net profit rose up by 7% year-on-year basis posting SAR 61 million for the first quarter. If we look at the earnings per share for the quarter, it has slightly dropped as compared to last year by almost 17%, which is primarily due to the deduction of non-controlling interest following the Lumi IPO. Our return on invested capital has continued to improve, signalling a sustainable recovery post COVID.

Now, we'll be having an insight to the key financial components, starting with the net booking value. If we look at the group net booking value and revenue, it has continued to grow from quarter to quarter driven by resurgence and the travel demand across all the sectors following the challenges that was posed by COVID. A key contributor to the Q1 growth was our UK travel investment. That was largely driven by recent acquisitions that we made in late 2023, while almost all other business units have posted strong double-digit growth for the first quarter. In short, if we summarize, we have well and truly left behind the COVID era and are all set to reflect significant growth going forward. Now, let's have a look at the OpEx.

In the first quarter for 2024, the group operating expenses have increased by almost 38% year-on-year basis, which are in line with our growth and revenue. And the increase was primarily reflecting the expenses that are associated with the recent acquisitions that we did under the Portman umbrella, including Agiito and Mike Burton travel. The integration of these acquisitions is still ongoing, and we can say that we have yet to fully realize the anticipated benefits in the coming quarters. Our strategic investments such as Portman acquisitions are key to maintaining our growth trajectory, and to our long-term business development plans that have been disclosed earlier. Excluding the impact of these acquisitions, the group overall operating expense for the first quarter rose by a nominal 8% to 12%, being precise around 11% year-on-year basis demonstrating our prudent approach to cost management.

And we remain committed to strong cost control and focused on maximizing the integration benefits from these strategic acquisitions in order to enhance the overall efficiency and profitability of the group.

Our EBITDA for the group has further improved in the first quarter, 2024, reaching to almost SAR 237 million, with a 20% increase year-on-year basis. While the gross profit margin rose to 42.7%, benefiting from the revenue growth, which was almost 36% year-on-year basis, outpacing the rise in the cost of revenue, which has been 28% from quarter-to-quarter basis. Despite the pressures that we had on the margins due to higher operating expense, our EBITDA margin remains stable at 22% for quarter one. Net profit margin was slightly impacted during the first quarter, settling at 4.3% primarily due to the higher finance cost, and a rising interest rate environment, and specifically the impact of delay in vehicle delivery from the Aramco project, which is expected to be completed during the second quarter.

Now, we'll be moving on to the balance sheet, our financial position of the group, to have in-depth view on the assets and liabilities. On broader level, the group assets have expanded by almost 1% year-on-year basis versus the end of 2023 and posting around SAR 11.5 billion at the end of the current quarter. Property, plant and equipment grew by almost SAR 0.1 billion, or around 2%, primarily reflecting the addition of the car rental fleet in the car rental segment. Similarly, trade and other receivables rose by almost 1.3 billion, a 9% increase versus 2023. Primarily, it is due to the growth in our current businesses across all segments, and specifically the acquisitions that have been made under the Portman umbrella.

If we look at the investment part, it has slightly decreased as compared to December results almost by 0.3 billion, or we can say 30%. The key was the divestment of our shares in Uber, where we took the opportunity to sellat its peak. And these funds were utilized during the current quarter to deleverage the balance sheet. In fact, if we look at the liabilities piece, the group first quarter total liabilities are almost stable at 4.4 billion, which was influenced by multiple factors.

If we look at the borrowings, it remained almost stable with 1% change, primarily due to the fleet expansion in the car rental business, while short-term borrowings have reduced by almost SAR 200 million, principally due to de-leveraging of the Almosafer working capital requirements utilising the cash inflow from divesting the Uber shares. These actions are part of our broader financial strategy to improve the risk management, and enhance our capital structure.. Similarly, if we look at trade payables, on broader level, it remains stable with the minor fluctuation of almost SAR 100 million, which is primarily associated with the business growth, in line with trade and other receivables.

Now, we'll be moving on to the next section, reflecting the net-debt position of the group. Net debt of the group on totality has decreased by almost 4%, posting SAR 1.2 billion as of 31st March, a change driven by a slight increase in total debt, almost 1% primarily from Lumi, but it has been offset by a significant rise in cash and cash equivalent, almost 11% for the quarter. The net-debt-to-equity ratio improved slightly, moving from 0.18x at the end of 2023 to 0.17x, reflecting our ongoing commitment to prudent financial management. Similarly, the ratio of net-debt-to-LTM EBITDA (last

12 months EBITDA) decreased from 1.5x at the end of 2023 to 1.3x by 31st March, 2024, indicating a significantly enhanced financial stability of the group.

To minimize the borrowing risk and improve our debt maturity profile, we have continued to increase our long-term debt proportion while reducing the short-term liabilities. Recently, all the working capital and other loans have been paid off to deleverage the financial statements. By the end of first quarter 2024, only 33% of our borrowings are due within a year, down from 41% at the end of 2023, and 54% at the close of 2022. We remain dedicated to a cautious borrowing approach going forward, aiming for further deleveraging and aligning with our strategic objectives of the group.

Now, let's move on to the cash flow position for the current quarter. During the first quarter, cash flow from operations amounted to around SAR 80 million, marking a significant 38% decrease versus last year. Primarily, this was due to high working capital demands, mostly driven by growth in the business across all segments, but primarily from the car rental and Portman. Net cash flow from operations experienced a pressure from ongoing investments, which is the significant fleet expansion from the car rental segment. A significant driver of higher cash flow from investment was the divestment of Uber shares, which was done during the mid of the quarter, and was utilized to deleverage part of the balance sheet.

Cashflow from financing activities were influenced by changes in borrowings and payment of the lease liabilities. Now we will be moving to the next section, which will detail out the contribution of business segments to overall Seera results, starting with the net booking value.

So, here, if we look at the top line, the contribution of businesses to the net booking value of the Seera Group, we recorded a strong double-digit growth during Q1 across most of our segments. Key contributor was a UK-based travel investment, which added almost SAR 600+ million to the group net booking value during first quarter, which was largely driven by the recent acquisitions that we made in the second half of 2023. However the Almosafer travel platform experienced a slight decrease in the next book value, posting SAR 1.6 billion for the current quarter, with almost 3% year-on-year decline. This decline was primarily due to the changes in the regulatory landscape, specifically, the Ministry of Finance mandated that government flight bookings be processed directly through the government's platform, eliminating the third-party agencies for this segment of the business.

If we exclude the impact of this regulatory change, Almosafer's net booking value actually grew by almost 31% from SAR 1.2 billion to around SAR 1.5 billion for this current quarter. This growth was fueled by an increase in consumer travel, online distribution, and introduction of Nusuk flights under the Almosafer business line in the religious tourism segment.

Now, let's move on to the next section on revenue by segment. Seera achieved a strong double-digit revenue growth across all business segments in the first quarter, 2024. UK-based travel investment under the umbrella of Portman and the car rental segments were significant contributors, providing SAR 392 million and SAR 384 million respectively to the group revenue. The growth in UK business was driven by both organic expansion and the recent acquisitions made over the last year. Meanwhile, the car rental segment revenue was supported by an expansion of the fleet and increase in the sale of used car sales.

Now, moving on to the gross profit composition. The gross profit for the group saw a substantial increase of 48% year-on-year basis in the first quarter, 2024. Major contribution to this growth came from UK-based business and Almosafer platform, each contributing almost 32% of the total gross profit. While the car rental segment contributed around 25% of the overall GP for the group.

Moving next to the OpEx. Almosafer travel platform was a primary contributor to the group operating expense in line with contributions to the top line, accounting for almost 40% of the total OpEx in the first quarter. The UK-based travel segment saw a significant spike in its operating expense during this quarter, this year-on-year increase was primarily due to acquisition and business expansion done during this period. Car rental segment accounted for almost 10% of the group OpEx, driven by business growth, while the hospitality segment contributed the least, making up only 5% of the total operating expenses, considering the volume of the business is smaller as compared to the other segments. Now, moving on to EBITDA next.

The car rental segment was the primary driver of EBITDA, contributing at around SAR 165 million, which accounts for almost 70% of the group total EBITDA in the first quarter, 2024, while the UK-based travel investment was the second largest contributor, adding around SAR 35+ million to the EBITDA, representing a 15% of the group EBITDA. This growth was primarily driven by, again, the acquisitions that were done recently, along with the expansion in the luxury leisure and sports travel. Both the hospitality and Almosafer travel platform have positively impacted the group EBITDA in the first quarter, showing improved results as compared to the same quarter for the last year.

Now we'll move on to the next section for a comprehensive overview of the business segment performance. And here, I will hand over to Mr. Muzzammil to walk us through the Almosafer travel platform for the first quarter financial performance.

Muzzammil Ahussain: Thank you, Muhammad. Hello, everyone. I'll walk you through the first quarter results for Almosafer. The first quarter of 2024, Almosafer saw a minor decrease in net booking value of 3% to SAR 1.59 billion. This decline, as mentioned earlier, was due to a directive by the Ministry of Finance that required government flight bookings to bypass third-party agencies, including Almosafer. Adjusting for this impact, the platform net booking value grew by 31% year-on-year, driven primarily by consumer travel, expanded online distribution, and the introduction of our flights business in Hajj and Umrah. Revenue on the platform reached 203 million, up 21%, driven, again, by the growth in the consumer travel and the Hajj and Umrah business. And gross profit increased by 23% year-on-year, while operating expenses increased by 21%.

It's important to note that the operating expenses included a one-time cost of approximately SAR 7 million due to the closure of the government flight travel business. Despite these challenges and the one-off costs, Almosafer achieved an EBITDA of SAR 5 million in the first quarter, showing a significant improvement from break even last year. On the net booking value by segment, our largest segment, the consumer travel business, showed an improving performance with 24% year-on-year increase in net booking value to SAR 1.2 billion. This growth indicates healthy demand and strong market share for consumer travel. The business travel segment, as mentioned previously, decreased by 71% to SAR 164 million in 2024 Q1. This came as a result of the directive of Ministry of Finance.

We are now focusing on acquiring new accounts and increasing contributions from the non-air bookings, both in government, corporate, and semi-government businesses.

Online distribution, our newest segment, posted robust growth of over 2.3x, growing to SAR 78 million in the first quarter. We continue to see great interest in the business from international clients around the world. Hajj and Umrah grew substantially, growing over 4x to SAR109 million, driven by the introduction of our flight business in partnership with Nusuk, the Ministry of Hajj's B2C platform, highlighting the use of Almosafer's technology platform across the ecosystem of businesses. Destination management experienced a decline of 18% in net booking value to SAR 35 million, primarily influenced by the shift forward Ramadan season from Q2 last year to Q1 this year.

On the net revenue by segment, net revenue saw an overall increase of 21% year-on-year to SAR 203 million, driven significantly by the consumer travel business which surged by 49% to SAR 114 million in the quarter. This was showcasing our pricing and purchasing power, as well as our increased growth in non-air share and ancillary revenue streams, contributing significantly to the overall revenue increase. Corporate and government travel, despite the significant loss in net booking value of over 71%, only decreased by 13% to SAR 22 million in the first quarter. We continue to see success in growing our semi-government and corporate travel space, as well as increasing our share of non-air bookings to mitigate the impact of the government business loss.

Online distribution grew revenue by 49%, reflecting continued sustainable growth in the business, and Hajj and Umrah expanded to 28% to SAR 31 million. As mentioned previously, destination management declined primarily due to the movement of Ramadan into Q1.

Just a quick highlight on some business metrics. The consumer travel business has seen notable growth both in the flight segments from 1.1 million to 1.4 million, and room nights growing by 38% to 461,800. This is significant as it continued to show expansion across both of domestic and international travel in the consumer business.

Excluding the impact of the government business in business travel, our segments for flights rose by 16%, and room nights increased by 13% to 5,000.

Hajj and Umrah expanded significantly with number of pilgrims increasing by 51% to 27,700, and significant growth in our key inbound markets of Indonesia, Egypt, Pakistan, Libya, and Morocco. Destination management also saw a significant increase in number of passengers on the back of our contract with the Talemia organization with Ministry of Education grew by over 3.6x to almost 27,000, supported also by strong inflows from UAE, Qatar, France, the UK, and parts of South Korea and Japan. I'll hand it now back over to Muhammad Khalid to cover an update on Lumi. Thank you.

Muhammad Khalid: Thank you. During the first quarter of 2024, Lumi revenue increased by almost 44% year-on-year basis, posting SAR 384 million for the quarter. This rise was primarily driven by strong demand across all three service offerings that Lumi has. The gross profit for the first quarter reached to SAR 113 million up by 20% from the first quarter of the previous year. And if you look at the operating expenses for the quarter, the operating expenses were around SAR 36 million, which is up by 17% from the previous year, reflecting Lumi's ongoing investment in its team, technology, and infrastructure to support the future growth and remain competitive. And if we look at the EBITDA, for the current quarter, Lumi posted almost SAR 165 million, which is up by 25% from the previous year, demonstrating Lumi's operational efficiency and its ability to grow with significant profitability.

If we look at the Lumi business segments, Lumi offers rental, leasing, and used car sales, characterized by omnichannel distribution, and a focus on quality, leading to an outstanding customer satisfaction and repeat business. The company operates on an omnichannel service model, which includes a mobile app, website, call center, and a network of 36 branches strategically located at airports and across all the major cities in the Kingdom. Revenue streams across Lumi’s three operating segments, rental, lease, and used cars sales are well balanced with each segment contributing roughly one third of the total revenue.

By the end of the first quarter, 2024, Lumi's fleet has expanded significantly and now includes around 11,000 rental vehicles and 23,000 lease vehicles, marking a 39% increase in the fleet size compared to the previous year. In the first quarter, there was a notable increase in the used car sales segment where the number of vehicles sold grew by almost 70% compared to the first quarter of the previous year. The company's cash flow, if we look at, the cashflow from operations remained at around SAR 80+ million for the quarter, reflecting a pressure from the increase in working capital, principally driven by the vendor liabilities. If we look at the overall fleet offering, Lumi continued to enhance its fleet offerings by investing more in the fleet size, that has increased by 15% in year-on-year basis until the end of first quarter.

If we look at the Portman Travel Group. Portman is a premier travel company, primarily operating in the UK with a diversified portfolio across business travel, sports, and luxury travel sectors. The company specializes in business travel under the umbrella of Clarity, sports travel operated under the brand of Destination Sports, and luxury travel, which is being run under the brands of Elegant Resorts and If Only. Portman has achieved a rapid growth through its strategic acquisitions that it has made over the period, expanding in Europe, Australia, and North Africa. The key acquisitions that drove the results significantly during the first quarter 2024 include Agiito, that was acquired in the second half of 2023. a UK corporate travel specialist, and Mike Burton Travel, which is the leading rugby sports travel company in UK and across the globe.

These additions have contributed to a substantial increase in its net booking value, which grew by almost 92% for the current quarter as compared to the same period for the last year. If we look at the revenue, revenue for the first quarter grew by 25% fueled by these strategic acquisitions and an increase in overall travel demand post-COVID. Portman saw its gross profit surge by 91% for the first quarter, 2024, with EBITDA also rising impressively to SAR 36 million, marking a 56% increase from the previous year.

Now let's have a look at the segment-wise performance within Portman. The business travel segment saw a 23% increase in trips this quarter, maintaining a high customer retention rate of almost 97% for this period. Clarity, strengthened by the recent acquisition, has advanced to become the UK's fourth largest travel management company up from the eighth position in early 2023. The luxury travel segment reported a 5% growth in average order value with a continued customer retention. Our clients preferred destinations for this season has been Barbados, Maldives, Europe, and North Africa, reflecting our commitment to the offerings that are exclusive for our clients. In the sports sector, we experienced a 27% increase in customer trips totaling to almost 16,500 in this quarter. We principally are the top football provider from the sports division. And proudly, we can say all the major football clubs like New Castle United, Manchester City, Manchester United, Liverpool, and Chelsea are all clients. Portman plans to drive the future growth organically through its strategic partnership and synergies, along with inorganic expansion where appropriate over the period.

Now let's move on to the last part, which is the hospitality segment. The hospitality segment overseas eight hotels at the moment, including Sheraton Jabal Al Kaaba, Movenpick, City Star, three unbranded properties in Makkah, and three properties that are being operated under the Choice Hotels with Seera being the regional master developer. The hospitality segment saw a significant improvement across its total portfolio during this quarter, primarily driven by increase in demand from both inbound and domestic tourists. This was further supported by enhanced occupancy rates and higher average daily rates notably within the Sheraton Hotel specifically.

Additionally, the performance normalization of the recently opened Choice Hotel has contributed positively to the overall up trend in this segment. And the robust demand resulted in a significant 65% year-on-year increase in revenue reaching to SAR 55 million for the quarter. If we look at the segment, this gross profit, this segment has experienced a substantial increase in gross profit during this period, which is 2.7x higher than the previous year, and posting around SAR 26 million for this period. Similarly, EBITDA continued its positive trajectory rising by 28% from the first quarter, 2023, and posted around SAR 22 million for the quarter. The group is transitioning to an asset-light model focusing on divesting assets, and shifting to the management and franchising of third-party-owned hotels going forward.

During the first quarter of 2024, we observed notable improvements across all our hospitality portfolio operations. The number of room nights sold reached to 69,800, marking a 16% increase from previous year, accompanied by a 15% improvement in the average delivery rate, and posting around SAR 480 average daily rate for the period. With the total number of operational room keys remaining the same steady at 2,200, our hotels have successfully enhanced their occupancy rate by almost 10 percentage points, achieving an impressive 79% occupancy for the quarter. Additionally, the revenue per available room improved by 31% up to SAR 381 for the period, reflecting a more profitable operation as compared to what it has been. I'll now be concluding this presentation and open the floor for any questions you may have.

Ankur Agarwal: So, thank you, Muhammad Khalid. And thank you all, Muzzammil and Mr. Al Waleed. So, I think our first question is from Sara Abomoati. Sara, your line is open, please go ahead.

Sara Abomoati: Hi, everyone. First, thank you for taking my questions. Second, I want to ask you about the Portman Group. So, given that it's a B2B business, how much of the revenue can we consider as sustainable in the medium term based on the existing contracts? The second question is that, given that it has the sport travel segment, does it solely participate in the football or can it participate in any other form of sport, for example, the Olympics that are going to happen this year?

Muzzammil Ahussain: So, yes, the Portman Group does have the sports business, does have some work in the Olympics, but it's not a significant contributor to the revenue. The bigger contributors are, for example, the Rugby World Cup or the UEFA Champions League, and the UK Premier League.

Sara Abomoati: And as for the first question, how much of the Portman revenue can we consider as sustainable given that it's a B2B and there is a contract that can give you visibility over the medium term?

Muzzammil Ahussain: Overall, you can see the history of Portman has shown consistent revenue growth across most of its businesses, both organically and inorganically. We're quite confident that the business is sustainable. The new acquisition is also bringing new contracts and new ability to win new contracts. So, we're quite confident in Portman's ability to achieve our medium-term target of SAR 6 billion booking value in the next two years.

Sara Abomoati: And is it fair to assume that we will see sequential growth over the coming quarters?

Muzzammil Ahussain: This year you will see the impact of the acquisition. Going forward, we expect more sustainable growth levels, not this significant spike as this year, which is primarily driven by the acquisition.

Sara Abomoati: That's clear. One more question regarding Almosafer. So, just from the new government directives regarding the sale of the flight tickets, so how much are the expected lost revenue or NBV from the remaining quarters?

Muzzammil Ahussain: Sure. There's a couple of questions in the chat as well on this. So, let me shed some light on the history with the government travel which is relevant formany of you who probably have been following the Group since the time of Al Tayyar. During the early phase of government travel, when Al Tayyar went public in 2012, government travel was extremely working capital intensive and it was done directly between a ministry and a travel agency. In 2016-2017, post the government budget cuts and change in government procurement policies set by the Ministry of Finance to support budget control, government travel was moved to a process known as CCGR. CCGR applied a government rate for air tickets booked on Saudia Airlines for travel agencies such as Almosafer. This was present from 2017 until 2023.

Almosafer had the largest market share in this space of around 25% going into the end of last year. It contributed around SAR 2 billion in Almosafer's net booking value last year. Now, with the new Ministry of Finance directive, while there is still some uncertainty, essentially ministries have now shifted away from government air travel being booked with any travel agency, it's booked directly with the Ministry of Finance system under the EXPRO agency. And they work directly with Saudia to issue the tickets. We are still in discussion with them to provide additional services, but there is nothing concrete at this time. That's why we decided to officially terminate the business, as you saw, at the one-time cost.

Now, going forward, as we evidenced in Q1, we have been able to recover the net booking value of the lost government business by the growth in the consumer and the Hajj and Umrah businesses. The take rate in the government business is quite low, it's around between 3% to 3.5% revenue margins on the SAR 2 billion of the last year's NBV. So, SAR 60 million to SAR 70 million was the loss of revenue on a 2023 full-year basis. So, that's the summary of the government business. In terms of Almosafer this year, we expect to fully recover the SAR 2 billion NBV of the lost government business. So, there will not necessarily be growth this year, but we will be able to maintain NBV as last year, even without the government business with higher revenue margins given the significant improvement in margins from consumer travel or other corporate & government or Hajj and Umrah businesses.

Sara Abomoati: That was very clear. Thank you very much.

Ankur Agarwal: So, our next question is from Taher Safieddine. Taher, your line is open. Please go ahead.

Taher Safieddine: Good afternoon, gents. This is Taher from JP Morgan. Muzzammil, I think the first question is really on the government travel. I mean, this is a bit of a surprise in Q1, and I think you've explained, you know, the economics and the trends, but my key question is really on the growth runway for Almosafer. You know, now the PIF deal is off the table, government air travel is again off the table. How should we think about the 2025 targets? And I'm really intrigued just to get your understanding on the NBV and also on your, you know, target of delivering this 1.5% EBITDA margin as percentage of NBV. I mean, is there any change to that? What do you think will be the drivers potentially, you know, to deliver such growth? And at the same time, does it change any view on you unlocking value or potentially taking Almosafer public through an IPO mechanism by end of 2025, early 2026? Maybe your thoughts on that? That would be my first question.

Muzzammil Ahussain: Sure. So, I'll take the second part first. We don't believe that any of the business dynamics actually impact our target IPO timeline of 2 to 3 years which we announced in the end of 2023. So, we still are targeting end of 2025, 2026 for Almosafer IPO. We don't believe there is a fundamental change in the dynamics of the business that could impact that. In terms of the NBV and the EBITDA margins, we will be forthcoming with new guidance as we get more clarity. But I would emphasize that I don't think that fundamental numbers of SAR 10 million NBV or 1.5% EBITDA margins change. They may be delayed slightly due to the loss of the government air business, but we've already seen great success in mitigating this by new revenue streams, such as the Hajj and Umrah business. And again, the termination of the PIF deal did not impact our targets. We've already made great progress partnering with many PIF companies in the last couple of months, and we continue to work closely within the ecosystem.

Taher Safieddine: Okay. That's clear. My second question is more outside Almosafer, maybe to the CFO and the CEO just on the overall, you know, hospitality non-core assets. I mean, it's been a while you are talking about potentially divesting or, you know, looking at this asset-light model for the hospitality and also divesting the non-core assets. But it feels that, the uptake has been extremely slow, which I think, again, risks, investors and analysts may be confirming a decent value for these transactions. I know you've communicated the net booking value for these assets. So, maybe hearing your thoughts on, is there an update? How serious are you regarding the timeline to exit the hospitality assets in terms of ownership and also divest the non-core assets? I think that would be my question.

And the other one is, how should we think about FY 2024 overall at a group level? Do you expect to continue seeing healthy growth specifically on the bottom line? Should the bottom line growth accelerate from the 7% year-over-year that you've delivered in Q1 as we go into the remaining quarters of the year? Thank you.

Muzzammil Ahussain: Taher, we are continuing to work within the ecosystem to offload these assets, but as we've said before, we're not going to do a fire sale. There are some discussions underway. Nothing to announce at this time, but there are discussions underway to try to offload the assets.

Muhammad Khalid: Broader level, on profitability we should expect stronger growth. One driving factor is the post-COVID recovery. Second is our businesses, particularly Portman and Lumi will continue to grow significantly, along with the profitability trajectory of the Almosafer and Hospitality. Which had not been achieved even before COVID.

Taher Safieddine: So, fair to assume, Mr. Muhammad, that the growth at the bottom line will accelerate from the 7% you delivered in Q1?

Muhammad Khalid: Yes, it'll be more than that.

Taher Safieddine: Okay. And sorry, just to follow up, is there a timeline for the Hospitality asset sale? I know Muzzammil, you've answered the question in terms of its ongoing, but is there a timeline for us to expect in terms of when are you looking to exit these assets?

Muhammad Khalid: On broader level, it's within the next two years, but we don't want to stick with specific dates so that we don't lose the negotiating power with potential buyers. But we're on it. In the back, the team is actively working with different stakeholders on opportunities for the strategic assets. Smaller unproductive properties, have already been divested and we're in the process of assessing opportunities to divest the rest.

Taher Safieddine: Okay. Thank you.

Ankur Agarwal: All right. I think we'll take some questions from the chat, most of which are around the government contracts. So, the question is, should we expect more decline in NBV in second quarter, sequential decline? Should we expect sequential decline in the second quarter in NBV because of the government contracts?

Muzzammil Ahussain: So, essentially, in the first quarter, there was some remaining government travel bookings of approximately SAR 50 million or SAR 75 million in NBV in the first quarter. But no additional further decline by year-end. We're on track to grow by replacing the rest. So, all the other businesses will have been able to make up for the SAR 2 billion decline. We're on track to do that for this year.

Ankur Agarwal: And revenue should actually grow, right? Because the fact is that take rate is very low for that business, you're replacing it.

Muzzammil Ahussain: Yes, sir.

Ankur Agarwal: Okay. All right. So, the other question is from Aliya. Can you give more color on the reason behind growth in Hajj and Umrah segment under Almosafer? How will you compensate for the lost business?

Muzzammil Ahussain: So, Hajj and Umrah growth was driven by two factors. One was seasonality. Ramadan moved into Q1, and we had additional room nights and passengers as a result of that. But the biggest driver of growth was our flight business that we launched in partnership with the Ministry of Hajj and supporting the entire ecosystem by using Almosafer's flight platform and capabilities across the Hajj and Umrah business, working with agents and directly with pilgrims via the Nusuk platform. So, we are the exclusive provider to flights for the Hajj platform. And this year served over 15,000 passengers for Hajj this year, which is a pilot year as the only B2C travel provider. So that was the shift, this first year was a great success. We continue to work with the ministry to see what else we can do and how we can expand that pool.

Ankur Agarwal: All right. So, I think another question on what led to this change in regulation from the Ministry of Finance? I mean, what was basically the intent? Was it cost-efficiency?

Muzzammil Ahussain: Honestly, this is something that's a discussion between Saudia Airlines and the Ministry of Finance. I don't have much visibility into it except that they want to keep it directly between the two parties rather than a third party. There have been a significant number of discussions that we continue to have, as I mentioned.

Ankur Agarwal: All right. I think there are some more questions in the chat, but we'll take it after we take the question from Usman Siddiqui. Usman, your line is open.

Usman Siddiqui: I just have one question to Muzzammil. I mean, last month, Saudia Airlines also launched a travel platform by the name of Travel Companion. I think it's a beta version right now. But how do you see this development coming in? At this stage, do you have any information? Will they be competing directly with Almosafer? Because as per the news article, they will be providing flight bookings and hotel booking as well. So, how do you see this?

Muzzammil Ahussain: Sure. So, look, Saudia Airlines is the largest travel online booking platform in Saudi Arabia. It has a significant direct consumer base and they will continue to serve their customers. As a travel agency, technically we do compete directly with airlines, but we are also their biggest partners and they're our biggest partners. They sell flights to the Companion, but the Companion is also about knowing your gate, knowing where to board. So, we're very close partners with Saudia. Saudia has done very successful marketing campaigns to drive traffic directly, but also we partner very closely and they offer exclusive deals to our customers as well. So, I wouldn't say it's a direct competition. I don't think that's the way to characterize it. It's improving the ecosystem, improving capabilities for customers, which will increase travel, which overall is positive to Almosafer.

Usman Siddiqui: So, were they also offering hotel bookings earlier?

Muzzammil Ahussain: They work with multiple third parties and offer it. It's not new, it's just about how to book it.

Usman Siddiqui: All right. Thank you so much.

Ankur Agarwal: So, I think there's a question on the Portman Group. NBV grew 92% versus revenue growth of 25%. Why did the take rate decline? What is the steady state take rate for Portman?

Muhammad Khalid: We have to look at the net booking value, because the net booking value reflects the true growth of the business, while revenue is being reported differently across the three business lines under Portman based on IFRS requirements. Two of the business are reporting revenue at gross level, the luxury leisure travel and sports division, while Clarity which is the business travel management company reports 90% of its revenue on commission-basis, while 10% is being reflected on the gross-basis. So, the link between revenue and booking value and take rates is slightly challenging, but if we look at the growth in net booking value and the growth in the gross profit, that will be consistent.

And in fact, Portman is going to have better synergies in the coming quarters because the acquisitions that were made during this period are currently in the process of being integrated with our existing ecosystem, they will be migrated to the same platform over the coming quarters. So, we'll see even more operational leverage on this business in coming quarters. So, it'll be, I would say, the right mechanism to see the net book value growth versus the gross profit rather than the revenue which is principally driven by how it's being reported in the financials. I hope this will address the question.

Ankur Agarwal: Yeah, I mean, broadly, what kind of take rate should we think about in the medium term? So, if you cut out the noise around Clarity.

Muhammad Khalid: Sure. So, if we look at the business in detail, it has three segment: the business travel, generally has a take rate of somewhere around mid-high single-digits, luxury leisure travel has upper single-digit take rate, caters to package services. And the last one, which is the sports, has the highest profit margins, mid-teens to higher teens. With the new acquisitions and potential synergies rates can go even higher.

Ankur Agarwal: Okay. All right. What is the sustainable revenue to gross booking value for Almosafer's consumer business? Muzzammil, any sort of range?

Muzzammil Ahussain: Yeah. It's around 8% to 9% depending on the seasonality.

Ankur Agarwal: Okay. All right. Why did the company not realize any gain on Uber in the first quarter? And I think there's a similar question. Why was it not booked in the profit and loss account?

Muhammad Khalid: At the time when Uber was recorded, there was an option whether we reported it under the income statement or reported it as fair value under the comprehensive income. And the key objective for this was to avoid distorting the quarterly or periodic reports because of fluctuation in the movement in value of shares of Uber, which is not in our control. So, at that time, the management concluded that the best approach for management as well as for investors and analysts, to get the right visibility on operational performance, is to reflect it in the other comprehensive income. So, that the profit and loss account reflects the actual operating business results and performance.

So, that was the reason, any gains or losses were reflected in other comprehensive income and the same applies to the divestment, where we generated around 302 million cash, but it was a balance sheet movement rather than income statement.

Ankur Agarwal: All right. I think there's a question from Frances Ames regarding, when did the change in government business come into effect? Who are the remaining customers in this segment and what is the take rate on the remaining clients? And I think a related question really is that, should it improve your working capital at all? I mean, if you do less of this government business, does it improve your working capital or it was actually already commission-based, so no working capital was being deployed.

Muzzammil Ahussain: Sure. So, in the corporate and government business, we have three segments of business. We have government air, government non-air, we call them semi-government, which is like the PIF or PIF-related companies, and true corporates, the STC, the Al Rajhis of the world, Almarai, etc. Now, on the government air business, this business stopped. The memo was released by the ministry on the 30th of December with a few weeks exception and then that business stopped by mid-January. That business is now zero. As I said, there are still discussions happening, but we've assumed it's now gone.

For the government non-air business, this is something that we continue to see healthy growth in. And this is where we provide non-air, which is hotels, transfers, other services to government ministries. The take rate on this business is closer to the upper single-digits.

The semi-government segment, which is PIF and PIF-related companies that are owned by the government, but not under the Ministry of Finance budgets, had their own independent budgets. Here we have, again mid to upper single-digit take rates because we do both air and non-air here. And then we have corporates, which again, mid to upper single-digits, which is air and non-air.

On the working capital side, technically, now our working capital requirements will increase as we move away from the government business because the government air business was a purely commission-based business where we only had a limited amount of working capital, not the entire booking. But the margins are significant higher, now they're closer to 8% or 9% in the government air versus non-air.

Ankur Agarwal: All right. I think there's also a question, is there an exclusivity condition in the Hajj & Umrah agreement that you've entered into

Muzzammil Ahussain: Exclusivity? No. There is a three-year agreement. Exclusivity is not there, but the platforms are very integrated. So, we're already in discussions for the coming years. Our platforms and technology are integrated. But it's not the exclusive agreement, it's a three-year agreement.

Ankur Agarwal: Okay. The other question is that, would your EBITDA margin guidance for Almosafer go up now that the government business is not there?

Muzzammil Ahussain: So, we will be releasing updated guidance as we fully stabilize the impact of the government business in the coming future. I don't want to make a premature comment now. So, as we fully analyze and assess, we will come back and update our guidance accordingly.

Ankur Agarwal: And how much does Saudia comprise of the total flights in Almosafer?

Muzzammil Ahussain: If you include Flyadeal as part of the Saudia Group, close to 30% of our total flights business.

Ankur Agarwal: All right. There are one or two pending questions. So, hospitality business, Choice Hotels, are these part of the Alinma REIT? I think that's one question. And are these operated by Seera and revenue recognized by Seera for Choice Hotels?

Muzzammil Ahussain: So, the Hospitality segment Choice Hotels are owned by the Alinma REIT, but they're operated by Seera. So, Seera has all of the revenue and Seera pays rents essentially from the REITs.

Ankur Agarwal: Rent it from the REIT, but I think you could recognize the revenue and everything?

Muzzammil Ahussain: Yeah. The revenue of the operations are fully recognized by Seera and there's a cost to the REIT based on the management agreement between the REIT and Choice.

Ankur Agarwal: All right. And can you talk a bit more about the online distribution business and what services are being provided by that business?

Muzzammil Ahussain: Sure. The online distribution business has two main components. One is air and the other one is non-air. Using our API capabilities and our exclusive content of special pricing, special access, special deals, primarily in Saudi Arabia, but also in other markets where we're very strong in, we distribute this content to other travel agencies around the world. One of the best examples is Trip.com. So, Trip.com does have traffic from China into Saudi Arabia and also has a local Trip.com Saudi Arabia. They are purchasing content from Almosafer. So, it's a high-volume low-margin business that has very little incremental cost.

So, we don't have to deploy any significant resources, but using our existing platform, we can provide content of primarily air and non-air. And soon, we'll be taking our joint venture activities with Klook into that capability to distribute the content and make it accessible to other travel agents around the world. We don't work with our competitors. We don't sell to our competitors. We sell to third parties around the world that are looking to access content from Saudi Arabia.

Ankur Agarwal: All right. I think two final questions. Why are the GBV and revenue of DMC and Hajj and Umrah are the same? So, that's a straightforward one. So, I think that's one question. And I think the final question is, how much are the receivables related to Almosafer and Portman, if you exclude Lumi?

Muzzammil Ahussain: I'll take the first question and Muhammad Khalid maybe takes the floor. And so, the NBV and revenue of Hajj and Umrah and DMC are the same purely because of IFRS accounting treatment. So, it's in the gross profit where we account for the cost of sales. So, it's not a commission-only, it's a principal business, where we recognize the full revenue. Muhammad Khalid for the second question.

Muhammad Khalid: On broader level, the key change in receivables is due to the new acquisitions within Portman, driven by Agiito, under the business travel segment, which is one of the top travel management companies in the UK. With the acquisition, a significant receivable balance came in. If we look at the composition as of today, Portman, Almosafer and Lumi are the major contributors, in terms of volume. From a growth perspective, Lumi's receivable balance is expected to grow in line with business volume, while Almosafer is expected to remain stable given largest contributor to booking value is the less capital-intensive consumer business. So, the key components of receivables in future will remain Portman and Lumi.

Ankur Agarwal: Okay. And I think one final concern to be addressed that you risk losing the non-air government business as well. I think people are worried about the direction of travel.

Muzzammil Ahussain: I understand the concern. And just to highlight, the reason the government air travel can move easily is because there's one provider in the country, Saudia only. Non-air business has thousands of private providers around the world, thousands of hotels, thousands of transfers in every different city when the government's traveling. So, that's not something where even within the country there can only be one provider. And there are discussions to be one of the preferred agencies. That's something the Ministry of Finance is evaluating for non-air. At this time, each government agency has their own procurement process for non-air. But it's very, very unlikely in our view that they can move to remove the agency given the complexity of non-air.

Ankur Agarwal: All right. That's very helpful. Thank you, Muzzammil. Thank you Mr. Al Waleed, and Muhammad Khalid for your insights and patiently answering all the questions. Very busy call, which extended by 15 minutes. So, thank you very much. Any closing remarks? And I think we'll close the call.

Muzzammil Ahussain: Thank you.

AlWaleed AlNasser: Thank you very much, all.

Muhammad Khalid: Thank you, everyone.

AlWaleed AlNasser: And I just want to say that we are moving forward to complete our strategy. So, nothing inshallah will change.

Ankur Agarwal: All right. Thank you, Mr. Al Waleed.

AlWaleed AlNasser: Thank you.

Seera Group Holdings at a Glance

Seera Group Holdings (Tadawul: 1810) showcases a dynamic portfolio of market-leading businesses in travel, car rental, and hospitality, deeply rooted in the Kingdom of Saudi Arabia and spanning five strategic segments: Almosafer Travel & Tourism, Lumi Rental, Portman Travel, Hospitality, and Investments. FY 2023 marked a period of strong financial achievements for Seera: net bookings surged to SAR 12,486m, reflecting a 35% increase year-over-year, while revenues soared by 56% to SAR 3,291m. EBITDA reached SAR 848m (26% EBITDA margin), and net income climbed to SAR 265m (8% margin).

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