Seera Group Holdings 2Q 2024 Earnings Call

13 August 2024

Hatem Alaa: Hello, everyone. This is Hatem Alaa from EFG Hermes. And welcome to Seera's second quarter 2024 results call. I'm pleased to have on the call today from Seera, Al-Waleed Al-Nasser, acting CEO, Muhammad Khalid, group CFO, and Muzzammil Ahussain, CEO of Almosafer. We'll start by a presentation from management, and then we'll open the floor for Q&A. As an initial reminder, to ask a question, you can either type it in the Q&A chat box, or you can click on the raise hand button. Waleed, please go ahead.

AlWaleed AlNasser: Thank you. Hatem. Good afternoon, everyone. This is AlWaleed bin Nasser, CEO of Seera Group. Alhamdulillah, we have positive results to report for this first half of 2024. And appreciate you joining us today.

With me, Mr. Muhammad Khalid, the group CFO, and Mr. Muzzammil, the CEO of Almosafer travel platform. Our agenda today includes an overview of Seera's first half of 2024, the impact of various business segment on our overall result, and a detailed review of the financial and operational performance of each segment. And finally, a Q&A session.

Let's go through the key highlights of the first half. In the first half of 2024, Seera demonstrated a healthy financial performance across all businesses areas. Net booking value rose to SAR 7.3 billion, a 25% increase from the first half of 2023. That's driven by expansion across all segments and recent acquisitions. Revenue grew by 43% year on year, to SAR 2.1 billion. Net profit for the quarter was SAR 131 million, up 6% from last year. Beyond these numbers, we are working on reducing our debt and refining our portfolio management approach to focus on returns, underscoring our commitment to sustainable growth and value creation. Now if you allow me, I will hand it over to MK to walk you through the financials. Please go ahead. Thank you.

Muhammad Khalid: Thank you, Mr. Waleed. Good afternoon, everyone. And thank you for joining us today. Now let's move on to the income statement for a deep dive.

As you can see on this slide, the rise in travel demand has had a positive impact on all our key metrics. Net booking value grew by 25%, and revenue has jumped by 43% for the first half of 2024. Our gross profit grew by 36%, reaching SAR 894 million for this period, while the gross profit margin reached 42.5% in the first half of 2024. While we did face some margin pressure, we expect improvements in the following quarter, especially with the summer season boosting demand across all travel segments, and operational improvements in the our car rental segment. Thanks to our focused management of operating expenses, the EBITDA has increased by 16% in the first half of 2024, with the EBITDA margin now at 22.9% for this period. Even though the finance cost rose by 36% during this first half of 2024, our net profit still grew by 6% year on year basis, reaching SAR 131 million for H1 2024. If we exclude the impact of one-off income and reversals, the net profit before NCI effectively has grown by 35% during the first half of 2024. Our return on invested capital keeps on improving, indicating a strong recovery post-COVID years.

Now let's take a closer look at our net booking value and revenue dynamics of Seera. As we mentioned earlier, our group revenue and net booking value have continued to grow, specifically post-COVID, fueled by the resurgence in travel demand across all sectors. And we can say that we have well and truly moved past the challenges of COVID and are all set for the significant growth going forward.

Now let's have a look at our operating expenses across the group. During the second quarter of 2024, our group operating expenses went up by 28% compared to the last year, which is still lower than our revenue growth, which has remained 44% and above during this period. The rise in expenses is primarily due to the costs associated with the recent acquisitions by the Portman Travel Group and an increased business volume within the Lumi segment. These strategic investments are essential for our ongoing growth and long-term business plans. If we exclude the impact of these acquisitions, our operating expenses have increased by almost 18% year-on-year basis. We are dedicated to keeping a tight control on the cost, to improve the group overall efficiency and profitability going forward.

Now let's have a look at our balance sheet and leverage position within the group. In the second quarter, 2024, our group assets remained steady at almost SAR 11.4 billion. Our liability saw a 4% decrease, driven by a reduction in trade payables. Similarly, net debt also decreased by 6%, driven by both reduction in total debt and an increase in cash and cash equivalents. Similarly, net debt to equity ratio dropped to 0.16x by June 30, 2024, which reflects our commitment to prudent financial management. We maintain a cautious borrowing approach and prioritize long-term debt going forward.

Now let's move on to the cash flow position of the group for this period. If we look at our cash flow status, in the first half of 2024, cash flow from operations decreased by almost 33%, due to an increase in working capital, and primarily driven by the significant repayments made to the vendors for the purchase of vehicles in our Lumi segment. A significant driver of our higher cash flow from investments or investing activities, was primarily driven by the divestment of Uber shares that was done during the first quarter of 2024. Cash flows from financing activities were impacted by the repayment of borrowings, which has partially offset the loans taken during this period.

Now let's move to the next section, which will primarily detail out the contribution of our business segments to Seera overall profitability. On the first place, if we look at the overall net booking value and revenue contribution, in the first half of 2024, Seera recorded a double-digit growth in net booking value across most of our businesses, primarily from the UK, led by the recent acquisitions that were done late in 2023. Almosafer travel platform experienced a minor drop in its booking value, 1% year-on-year basis, while the revenue followed the similar trends of our NBV, with the strong double-digit growth across all key segments. Notably, the key component was that Almosafer travel platform saw a significant 49% improvement in its revenue as compared to the last year. Now, we can have a glance on our gross profit and EBITDA by segment on the next slide.

The major contribution to gross profit growth came from UK-based travel investment, and Almosafer travel platform. Specifically with the resurgence of the travel across all the travel platforms. Each of them accounted for more than 30% of the total gross profit. EBITDA showed a significant 16% growth year-on-year in the first half of 2024, with strong double-digit growth across all key segments. From the volume point of view, the car rental segment was the main contributor, accounting for more than 70% of the group EBITDA. Now let's move on to the detailed segment overview. And with that, I will hand over to my colleague, Muzzammil Ahussain, to cover Almosafer travel platform. Over to you, Muzzammil.

Muzzammil Ahussain: Thank you, Muhammad. Good afternoon, everyone. Thank you for joining us. It's a pleasure to be here. In the second quarter of 2024, Almosafer reported a stable net booking value of SAR 2.1 billion, ending the first half of the year at SAR 3.7 billion, down 1% year on year. This was driven by the regulatory changes as mentioned in the last quarter call. Excluding the impact of this change, the platform NBV actually grew by 35% in the first half of the year, driven by records in consumer travel and Hajj and Umrah. Despite the pressure on NBV in the first half of the year, revenue increased to SAR 324 million in the second quarter, up 74%, driven by more non-air bookings and higher take rates in the Hajj and Umrah and consumer travel business. Gross profit grew by 19%, and OpEx was under control, rising by only 1% in the second quarter of this year. Despite these challenges and the market changes, Almosafer saw an increase of 66% in EBITDA, in the first half of the year, reaching SAR 35 million.

Now we'll go to the dynamics by business line. The net booking value across the business lines was healthy, except for business travel. Consumer travel recorded its record of SAR 1.7 billion in the second quarter of 2024 and growing 26% year-on-year for the first half of the year. Business travel down 77% in the first half of the year, again, due to the government shift. However, we are continuing to see acquisition of new accounts and increasing non-air bookings reflecting in our future NBV. Online distribution continues to show great potential growing 127% in the quarter, and 130% year on year, to SAR 164 million for the first half of the year. Hajj and Umrah, in the second quarter, grew by 200%, driven by the direct Hajj initiative. And for the first half of the year, is up over 250%, driven by the direct Hajj and the Nusuk flight initiatives. Destination management, NBV grew by 38% for the first half of the year, driven by the Talemia tours program for students across KSA and our MICE projects.

If we now go to revenue by business line, we continue to see healthy revenue growth, especially in consumer travel. Revenues grew 60% for the first half of the year, driven by take rate improvements and ancillary product additions to the platform. Business travel revenue decreased much lower than the loss of NBV, due to the increase in margins of non-air bookings and new accounts. All other businesses were relatively stable. Hajj and Umrah revenue growth is primarily due to the Hajj initiative for direct Hajj.

Let's look at the key performance metrics by business. Consumer travel saw significant growth in flight segments in the second quarter of the year, up 34% year-on-year, and room night growth was steady at 16%, expanding both internationally and domestically. Excluding the government travel business for flights, business travel saw 22% year on year growth in flights and 57% growth in room nights, driven by the continued focus in this segment. We continue to see positive trends and metrics across our Hajj and Umrah destination management and distribution business, with distribution growing over 300% in terms of volume and room nights this quarter.

Onto the next slide please. As previously mentioned in our calls, we're confident in the future of Almosafer platform, and the growth it brings in both the short, medium, and long term. We previously announced as part of Seera's guidance, a target for Almosafer by 2025. We expected it to achieve SAR 10 billion in net booking value and 1.5% EBITDA margin. However, this was impacted by the government bookings. So, we're now reissuing medium-term guidance for Almosafer. By 2027 Almosafer will achieve, inshallah, SAR 12 billion in NBV, which equates to a CAGR of 16 to 18%. And we expect that consumer travel will contribute about SAR 9 billion of this SAR 12 billion bookings. EBITDA margin, the previous guidance for 2025 was 1.5%. This year, we're on track to close slightly below 1%, that's 60 million, and that is the guidance for this year. By 2027, the EBITDA target margin is between 1.8 and 2%. So, with the continued growth in the tourism sector in Saudi Arabia, both inbound, domestic and outbound, and despite the challenges of the government bookings, we're very confident in the outlook for Almosafer going forward, and are issuing this guidance today. With that, I will hand it back over to Muhammad, to cover the rest of the segments. Thank you.

Muhammad Khalid: Thank you, Muzzammil. Let's move to the car rental. During second quarter of 2024, Lumi's revenue increased by almost 55% on a year-on-year basis, driven by strong demand across all our service offerings. Gross profit for the second quarter grew by 22%, as compared to the last year. Operating expense for the first half of 2024 was SAR 75 million. The increase from the last year is reflecting the expansion of our administrative functions to support the growing operations of the business. Despite this higher cost, EBITDA for the second quarter was up by 28% from the same period last year, showcasing Lumi's operational efficiency across all its business lines. Now let's move to the next slide to have a quick look at some of Lumi business performance metrics.

By the end of the first half of 2024, Lumi fleet grew to 34,000 vehicles. The cash flow from operations showed some pressure, specifically due to increase in working capital needs, Lumi continued to invest in its fleet offering, and the spending for the first half of 2024 was almost SAR 450 million. If we look at the used car sales, they have significantly grown during the period, the number of vehicles sold went up almost by 60% from the same period of last year.

Now let's move to the next segment, which is the UK-based travel platform. The key acquisitions that drove significant growth in the first half of 2024 for the UK has been Agiito and Mike Burton travel. These additions and a further rise in our travel demand have led to almost 90% growth during the first half of 2024. Revenue for the first half grew by almost 41%, driven by the same factors, while the gross profit surged by almost 88% in the first half of 2024, directly reflecting a growth in the net booking value. If you look at the operating expense post-acquisition, it increased by almost 97%. And the realization of the synergies and integration benefits are yet to come, which we are expecting to materialize in the following quarters. EBITDA also rose impressively to SAR 59 million for the period, marking a 63% increase from the previous year.

Now let's have a look at Portman performance for its business lines. As you can see on the left part of this slide, our business travel segment saw a 15% increase in trips during the first half of 2024, thanks to the recent acquisitions, specifically the Agiito. Clarity has moved up to become the UK's fourth largest travel management company. In the luxury travel segment, there was a slight pressure on the average order value, but the customer retention stayed strong over the period. Similarly, sports travel saw a 31% increase in the number of events delivered, totaling 1,436 in the first half of 2024, with a 16% rise in the number of travelers during this period. We are proudly serving the top football clubs within UK, namely, Newcastle United, Manchester United, Manchester City, Liverpool, and Chelsea. Portman plans to drive future growth organically through strategic partnerships and synergies within the group itself.

Now let's move to the last but not the least part, to have a closer look at our hospitality segment performance. During the second quarter of 2024, hospitality's revenue and gross profit slightly dropped, as compared to the first quarter, considering there has been a shift of Ramadan from one quarter to the other. While for the overall first half of 2024, our hospitality segment saw a significant growth due to higher occupancy rates and improved daily rates. Revenue for this period increased by 16% year on year basis, and the gross profit rose by 24%. Operating expenses largely remained stable, contributing to margin improvements. EBITDA also grew by almost 19% year-on-year basis, reaching SAR 53 million in the first half of 2024. As we are moving towards an asset-light model, with the focus on managing and franchising third-party owned hotels, we expect to have the much more synergized and improved operational efficiency going forward. Now, let's move on to the last slide with the selective hospitality segment business metrics, before we open the floor for the questions.

The number of room nights sold during the second quarter of 2024 has increased by 3% year-on-year, reaching 66,000 nights, with an average daily rate rising by almost 2% and reaching SAR 577. We achieved a two-percentage point increase in occupancy rate, reaching almost 75% for the first half of 2024. Revenue per available room has also improved by almost 6%, reaching SAR 434, indicating more profitable operations for this period and going forward. I will now conclude the presentation at this point, and I will open the floor for any questions you may have.

Hatem Alaa: Thank you, gentlemen. We'll take the first question from the line of Duhaiby Raghad. Please unmute yourself. Yes, we can hear you now.

Raghad Duhaiby: Thank you so much for your time, gentlemen. Two questions that I have. The first questions regarding SG&A. You did mention in the beginning that the increase in the operating cost is related to the acquisitions. So, can we think about it as a new norm, or are we thinking that the acquisition is recent, so there are still some one-offs that are related to that? And another question that is in line with that is, you talked about synergies, if you can elaborate on it, and what kind of savings can we look at in the coming period? Thank you.

Muhammad Khalid: Thank you. From the Opex point of view, on a broader level, as discussed, there have been two major acquisitions that were done during the second half of 2023 within our Portman business, Agiito and Mike Burton travel. You have rightly mentioned, the quarter two, if we look at the Opex on broader level, this will be a baseline going forward. You can consider this as the new base for our future growth from Opex point of view. When we look at synergies, principally, when we did the M&A, there have been integration processes, a lot of redundancy of cost and even improvement on the sourcing side. These synergies are expected to be around 5 to 7 million pounds, in addition to an organic growth within these businesses. That is expected to be achieved post end of this year, when the complete integration of Agiito is being done with the Clarity Travel Management company. I hope this will answer the question.

Raghad Duhaiby: Yes, very clear. Thank you.

Hatem Alaa: We'll take the next question from the line of Shahrukh Saleem. Shahrukh, please unmute yourself.

Shahrukh Saleem: So, my question is primarily related to the take rate. So, you mentioned that it has increased. So, can we just have a split of, you know, how much of the revenue is a function of increasing take rate, and an increase in the overall business? And on the take rate, do you have a particular target moving forward, where you want to take it? What are you looking at in terms of take rate moving forward? Because I'm assuming a lot of it also has to do with decreasing share of government revenue, which must have, you know, propelled up the take rate for you guys.

Muzzammil Ahussain: Yeah, so I think you're referring to, Almosafer, correct?

Shahrukh Saleem: Yeah, Almosafer.

Muzzammil Ahussain: Sure. So I'll take that one. So overall, there are two primary drivers for the take rate increase. One is, increased take rates on the consumer travel business, which is driven by margin expansion through adding additional products and ancillaries. Consumer travel take rate now is around almost 9%. So, we did SAR

276 million in revenue on 2.9 billion. We think that's going to be kind of the steady state for consumer travel. Business travel, as you said, the loss of government flight booking actually increased our take rate significantly, given the overall composition of the business. And overall take rates will remain steady at the business travel with the new guidance. We're around 14%. It'll stabilize around 12 to 13%. The other major reason for the take rate is the accounting treatment for Hajj and Umrah. Hajj and Umrah, the Hajj packages themselves are booked as gross. So that's not a take rate increase, it's just accounting treatment. But consumer travel is a much higher take rate. Business travel is also higher at a lower volume. And Hajj and Umrah is just accounting. So, at the overall business level, you have a take rate of approximately 14%. We, again, think that's going to be steady around that level. So that's where we end up.

Shahrukh Saleem: Okay. Just one more question regarding this. Can we see some pressure on this take rate moving forward, given, you know, you will be tapping higher consumer market, and I'm assuming there is a higher competition there?

Muzzammil Ahussain: We don't see significant pressure on take rates in consumer market. We see limited growth in the take rate, but we don't see significant risk of the take rates dropping dramatically.

Shahrukh Saleem: Perfect. Thank you.

AlWaleed AlNasser: Thank you.

Hatem Alaa: We'll take the next question from the line of Usman Siddiqui. Usman, please mute yourself.

Usman Siddiqui: Two questions. One is on the utilization of funds from Lumi IPO. If you can share on a macro level, like around 1 billion was raised from the Lumi IPO, where they have been spent, apart from Kayanat, how much of the debt has been reduced on the standalone Seera business?

Muhammad Khalid: Sure. If I can respond. So broader level, out of 1 billion, as you have rightly mentioned, almost 600 million has been utilized for Kayanat funding, and around 350 million was used for repayment of debt at the Seera group level, other than Lumi. Because we had small debt within our hospitality sector, and a little bit of working capital within Almosafer. Considering now Almosafer platform is quite working capital positive, and there is no more funding required or Capex required going forward, so we don't see any future debt within the group, other than what we had. So primarily that cash was utilized to deleverage the balance sheet across the group within KSA.

Usman Siddiqui: All right. And the next question is on the hospitality segment, if you may guide us. I mean, what is the net book value of the eight hotels that you currently have? And if you have done any recent fair value assessment, what's the fair value for the combined hospitality segment?

Muhammad Khalid: Our net book value of this asset is between SAR 3.0 to SAR 3.5 billion, considering not all the properties are operational, some of the properties are free hold within our balance sheet. And as a general practice, on a yearly basis, we do the market value exercise to ensure that our net book value is closer to the market value. And any upside or downside is being reflected in the financial statements. And going forward, in broader context, we don't see any material difference between the NBV and the resale price.

Usman Siddiqui: So, fair value is closer to SAR 3.0 – SAR 3.5 billion, right?

Muhammad Khalid: Yeah.

Usman Siddiqui: Yeah. And my last question is on the Almosafer business. I mean, you mentioned the target to reach around 12 billion by 2027. Can you just specify, I mean, what will be the drivers of growth? Will it be all organic, or you intend to acquire some businesses in the similar space?

Muzzammil Ahussain: Yeah, sure. This target in the mid-term is an organic target, driven by three main areas. One is driven by the consumer travel continued expansion. The market continues to expand in Saudi Arabia. The total leisure travel market is over SAR 50 billion. So, we're continuing to grow our market share there and work on our digitalization. The second is continued growth in the Hajj and Umrah space. And lastly, our distribution business, which is driving significant growth. So, all of these growth sources are organic. Inorganic is not included in these assessments. We have no intention or current plans for inorganic expansion in Almosafer.

AlWaleed AlNasser: Have we answered your question?

Usman Siddiqui: Yes.

Hatem Alaa: Thank you. Okay, I'll move to some questions from the Q&A box. A question from Sara Abomoati. How much of the Hajj and the Umrah growth was related to seasonality shift?

Muzzammil Ahussain: Very, very limited. Last year was not a big year for Almosafer and Hajj. We had only a small pilot group on the new initiative. Hajj last year was recorded partially in Q2 and partially in Q3. But it's very, very limited impact on seasonality. Going forward, there may be impacts because of the growth of the size of the Hajj, but last year season shift did not impact the results this year.

Hatem Alaa: Thank you. Question from Abdulaziz. I know that the treatment of Hajj and Umrah is as an agent, not principal, but what is usually the take rate of this service?

Muzzammil Ahussain: I think it's actually the opposite. The Hajj packages are sold as principal. So, the entire booking value gets recorded as revenue. The gross profit for Hajj bookings is approximately 10 to 12%.

Hatem Alaa: Thank you. Questions from Yacine. First question is, can you give more colour on what caused the margin compression? And second question is, do you think some assets such as Almosafer reached maturity, and do you have plans to sell such assets?

Muhammad Khalid: Sure. Let me respond to the first question on the margins. If we look at all the business segments during this period, with the exception of Lumi, irrespective whether it was Portman, Almosafer, and hospitality, they have shown significant growth in revenue and improved margins. There has been a drop in the margins of car rental business, primarily due to the delivery of vehicles to one of the major corporate account, where vehicle delivery was delayed partially. It has been completed with the majority of vehicles delivered by end of this quarter. And the last piece was completed in July. So, this pressure on the margin was primarily driven by the car rental segment, specifically the lease section, which we are expecting to bounce back strongly starting from quarter three onwards, considering this was the one-off event that has triggered this specific scenario.

AlWaleed AlNasser: Yes. And for the divestment, I think we plan to divest under the optimal conditions, through the appropriate exit mechanisms, particularly for properties in strategic locations. However, we're not interested in fire sale, and want to divest at appropriate exit values. And we have already made progress in the divestment of unproductive assets and sold some small properties in Riyadh and Dammam. Yeah, that's it for the divestment.

Muzzammil Ahussain: I think the question was around divesting also Almosafer.

AlWaleed AlNasser: For Almosafer divestment, as we already announced, we are aiming to have Almosafer IPO within two to three years from the announcement of our strategy. And, inshallah, we are on track for this.

Hatem Alaa: Thank you. Okay, a question from Kieran on Almosafer. What is the annual CapEx for Almosafer?

Muzzammil Ahussain: Very, very limited. Our annual CapEx is below SAR 10 million, primarily only to office and laptops, etc., IT equipment and infrastructure. We don't capitalize our technology team or people. We only capitalize specific CapEx items as furniture, infrastructure, hardware, etc., which is less than SAR 10 million a year.

Hatem Alaa: Okay. A follow up from Raghad. Can you please give us an update on the Kayanat project? And what is the logic for this project, since the company strategy is to be asset-light?

AlWaleed AlNasser: We have the Kayanat project to support and maximize the free cash flow per share in the long term. Seera requires a stable investment, with relatively guaranteed returns and potential for capital appreciation. The Kayanat central project actually fulfils several objectives. It is a unique and competitive opportunity. It has also a stable profitable investment profile. Real estate investments can weather all market cycles in the long term, and will build resilience into the portfolio. The Kayanat is a mixed-use development that is resistant to seasonality with the stable lease rates. Returns are immediate, as leases are locked in for fixed contracts. So, yeah, that's it for Kayanat.

Hatem Alaa: There's another question on Kayanat from Nitin, asking about the CapEx. You've already spent 600 million, how much of that was spent on land and construction, and how much more CapEx is needed? And when will this project contribute to revenues? And how should we think about it for modeling purposes?

Muhammad Khalid: Sure. On broader level, we expect the 600 million of the cash injected in the business to be enough till end of the next year, and then the business will require another SAR 600 to SAR 700, which as of today, the plan is that the fund itself will be utilizing from the financing facility or from the other parties. From the cash flow point of view, we are expecting this project to be completed by late 2026 or early 2027. And on an annualized basis, to generate a free cash flow of SAR 230 to SAR 250 million year-on-year basis. So that's the broader overview, or else Mr. Waleed could add more if I missed something.

AlWaleed AlNasser: I think Kayanat, as we announced, it's three years from the strategy announcement. So, we think maybe late 2026 or early 2027, we'll finish.

Hatem Alaa: Thank you. A question from Abdulrahman Alsalloom. Two questions. In Almosafer take rates, it reached 9% for consumer and 12% to 14% for business. How does that compare with the first half of 2023? And what is the reason for the declining business revenue in the first half?

Muzzammil Ahussain: Sure. In the first half of 2023, consumer take rates were around 7.5%, now they are 9%. Business take rates were around 5%. This was driven primarily by the government business. So, revenue is dropping in business, primarily due to the loss of the government flight business, due to change of regulations, but revenue margins have significantly improved in the corporate and government business.

Hatem Alaa: A question from Abdullah. What is your plan to improve revenues from Almosafer?

Muzzammil Ahussain: We focus on two main areas, two key revenue drivers. I think ultimately the NBV is the key focus. Our NBV pillars are consumer travel, Hajj and Umrah, and online distribution. Each of them has their own revenue dynamics. Our platform has a significant leverage. So, our OpEx will continue to grow at less than NBV and revenue. Revenue may change based on accounting treatment, so revenue growth can skew based on certain accounting treatments. But overall, NBV will be driven by the consumer travel business, and Hajj and Umrah, these are the two main pillars of the NBV growth and revenue growth going forward.

Hatem Alaa: Thank you. I will take a question from an analyst. Please unmute yourself.

Abdulrhman Al-Shekh: Thank you for the presentation. I have two questions from my end. First, regarding Almosafer financials. So, basically, I have noticed a significant volatility in the gross margin, particularly in the COGS, where in 2Q 2024 there was approximately SAR 150 million compared to previous quarter, it was around SAR 60 million. So please, if you can elaborate on this. Secondly, on the hospitality segment. So, if we look at the KPIs, such as ADR and occupancy rate, it was higher than the previous year, yet the revenue has declined. So, if you can just please expand on that.

Muzzammil Ahussain: Sure. I'll take the first one for Almosafer. So, this is primarily driven by the growth of the Hajj packages. So, for the direct Hajj initiative, we sold over 3,000 packages to pilgrims on the Nusuk platform. The accounting treatment is where the cost of sale is the full cost of the package, not as in the consumer travel, where we record only the commission. So, in these bookings, that's why the COGS grew significantly, because the average package was around SAR 30 to SAR 40 thousand. The entire package was booked as revenue, and then the cost of goods went higher. So, we focus primarily on the net booking value and then the gross profit of the business. This is a better reflection that doesn't get impacted by accounting treatments.

Muhammad Khalid: Lower revenue in Hospitality segment was a function of Ramadan shift from second quarter to first quarter, as we mentioned earlier. Because last year a major part of Ramadan was in the second quarter. But this year, the booking has been in the first quarter. So that was the reason for drop in value. But from the margins or operational efficiency point of view, all the key metrics have shown significant improvement from the last year. So that was one of the key drivers for the value versus the margins or rates.

Abdulrhman Al-Shekh: Sorry, Muhammad, it's not clear. If we look at occupancy rate, ADR, all of them, it has been increasing. So, is there, like, certain change in room mix this year?

Muhammad Khalid: No, broader level within Sheraton or hospitality, no major change in room mix. But if we look at the Choice properties, one of the properties was not operative last year, where we had challenges to get the respective licenses from the government authorities. So that is something that was added during the year. But on broader level, as I mentioned, the key difference between this year versus last year was the last 10 days of Ramadan falling in quarter one versus quarter two. While from the operational metrics point of view, all the metrics have improved as compared to the last year. So, that was the only driver. On top of it, there was one small change in previous year. If we recall, from profitability point of view, there was SAR 12 million worth of reversal, considering we recovered an amount that belongs to previous years. Otherwise, there was no specific element that has additionally contributed to this.

Abdulrhman Al-Shekh: Okay, very good. Thank you. Muhammad.

Hatem Alaa: We'll take a question from Kieran in the chat on unbranded hotels in Mecca. Are these operated by Seera or leased out to third parties? If leased out, what is the agreement? Is it a fixed revenue or a percentage of revenue?

Muhammad Khalid: These properties are leased out to third parties on annual rental basis. And we are getting a fixed amount, which, as of today, is roughly around 6% to 8% of the net book value. I hope that answers the question, unless there is something that I missed.

Hatem Alaa: Okay, we have a question from Fawad Khan. Any timeline on the divestment of properties in the hospitality segment?

AlWaleed AlNasser: Yeah, as we said, we have already made progress in the divestment, and we are not interested in a fire sale. Yes, we are moving forward to achieve our strategy on the divestment. However, we're not interested in the fire sale. And yes, you will be seeing, inshallah, more and more of the divestments.

Hatem Alaa: A question from Abdulrahman Alsalloom. Can you put some color on the regulatory change which affected the business segment, and what was the reason for selling your shares in Uber?

Muzzammil Ahussain: I'll take the first one. So just to summarize, the changes in the business travel, the Ministry of Finance mandated that no travel agency is involved in the fight booking process for all government travel bookings. These are booked now directly with Saudia, through the Ministry of Finance portal. So, no travel agency is now involved in that booking process for flights. On the second one, I'll hand it over to Muhammad Khalid or AlWaleed to comment on the shares.

AlWaleed AlNasser: Go ahead. Go ahead. Thank you.

Muhammad Khalid: Sure. As you know, we are in a high interest rate environment at the moment. So, over the period, we have been quite patient with the Uber shares when it went down even below 30. So, we believe that was the right moment when we sold it at around USD 81.2 per share, which was the highest, I will say, for a specific moment of time. And this specific transaction was completed to make sure we completely deleverage Seera Group as we used partial funds from the Lumi proceeds, and rest of the funds were used from the Uber shares disposal to completely deleverage Seera Group across the Kingdom, with the exception of Lumi, which is utilizing the financing for the expansion and fleet acquisitions. So that was the key purpose. And the timing was, I would say, precisely selected to take the opportunity at the peak price.

Hatem Alaa: A question from Evgenii. What is the percentage of Hajj and Umrah of bookings coming from Nusuk? And do you see it increasing going forward?

Muzzammil Ahussain: So, this year was the second year of the Nusuk direct Hajj initiative. Last year was the first year. Last year we did around 500 passengers for Hajj as a pilot. The total quota last year was around 35,000 pilgrims. This year, the quota was around 60,000. So, the growth is linked to the ministry's expansion of the Nusuk

Hajj initiative. We are still waiting for full confirmation for the next year's plan, but we expect it to continue to grow over time, as they expand the reach and the portfolio of the Nusuk Hajj initiative.

Hatem Alaa: Someone is asking if you can please repeat the terms of lease of unbranded property.

Muhammad Khalid: On broader level, with the respect to terms, the operation and maintenance is on the lessee. So, it's the property that has been completely handed over to the lessee for a period of one year. And as I mentioned, key terms are that the lessee will manage and maintain the property in the same way as it has been handed over.

Hatem Alaa: Okay. Thank you. And Seera gets 6 to 8% of the booking amount, correct?

Muzzammil Ahussain: So, it averages up to 6 to 8% of the net value of the property. We don't have any link to the bookings on the property. It's an annual lease agreement, flat amount annually. There's no risk to the value. Correct, Waleed?

AlWaleed AlNasser: Yeah. Absolutely. It's a pure rent.

Hatem Alaa: Okay. There are no more questions at this stage, so I guess we can conclude now. So, I'd like to thank Seera's management for their time and today's presentation. And thank you everyone for participating.

AlWaleed AlNasser: Thank you.

Muzzammil Ahussain: Thank you.

Muhammad Khalid: Thank you, everyone.

Hatem Alaa: Thank you. This concludes today's call. Have a good rest of the day.

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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