GIB CAPITAL جي آي بي كابيتال

Target Price: SAR90/share
IPO Price: SAR64/share
Upside: ~41% (+Div. Yield: 4.6%)
Rating: Overweight

Al Mawarid Manpower Co. (Mawarid)

Attractive IPO valuation

- Mawarid is one of the largest manpower companies in KSA (>10% market share). After being affected by COVID in 2020/21, sales bounced back in 2022 with better than avg. market growth and improved gross margin. 1Q23 has likely seen accelerated growth.
- Corporate sector exposure is weighed towards construction and hospitality which are currently key growth sectors in KSA.
- Valuation appears favorable – however longer-term regulatory risks may pose a challenge. We value using an average of 13x P/E and DCF at SAR90/share and OW rating.

Stock data	
Listing MCap (SARmn)	960
Issue Size (mn*)	4.5
Offering	30%
Inst. Offering (mn*)	4.1
Retail Offering (mn*)	0.4
IPO size (SARmn)	288
TASI Ticker	1833

*Source: Bloomberg, * shares*

Exposure to the right sectors: We are seeing an unprecedented focus on tourism and mega projects in Saudi Arabia as the Kingdom diversifies away from oil. Mawarid is positioned at the center of the two allied sectors which are to benefit the most - hospitality and construction sectors, contributing 55% of corporate revenues. Historically, the sector has witnessed cyclical demand patterns, and with unemployment at record low levels in Saudi, hiring and economic activity are in the upcycle. The regulator plans to continue institutionalization of this space with organized market players and accordingly, the company has gained market share in 2022, and benefitting from economies of scale as well.

Track record: From 2019 to 2021, revenues declined by 7% as travel restrictions curtailed hiring. 2022 revenues bounced back from a low base and were better than overall sector growth. The company had a revenue mix of 66%/34% from stable, low-margin corporate / more variable individual segments in 2022. As per our understanding, the workforce reached 32.5k in 1Q23 (32% more than the average 2022 levels of 24.6k). Despite this, P/ 2022 EPS at IPO valuation is 12.6x. Our target price of SAR90/share implies 13x P/E ('23e) based on conservative revenue growth of 17% and stable net margin though the company expects margin improvement. The company is cash rich with a negative cash conversion cycle. Our conservative forecasts give us a 4.7% dividend yield with a net cash position (debt<cash). RoE stands at 26%.

Risks: Cyclicality of industry, increase in Saudization, high competition, regulatory changes that can increase the cost of operation, risk of receivables, pending legal issues/liabilities, economic downturn etc.

Figure 1: Key financial metrics

SARmn	2021a	2022a	2023e	2024e
Revenue	664	945	1,140	1,230
Revenue growth	*-3%*	*42%*	*21%*	*8%*
Gross margin	*14.6%*	*13.5%*	*13.3%*	*13.3%*
Operating profit	62	84	100	108
Operating margin	*9.4%*	*8.9%*	*8.8%*	*8.8%*
Net profit	56	76	91	97
Net profit margin	*8.4%*	*8.0%*	*7.9%*	*7.9%*
Net profit growth	*21%*	*37%*	*19%*	*7%*
EPS (SAR)	3.7	5.1	6.0	6.5
DPS (SAR)	1.3	1.0	3.0	3.2
P/E	17.2x	12.6x	10.6x	9.9x

Source: Company, GIB Capital

Pritish Devassy, CFA, CPA
+966-11-834 8467
Pritish.devassy@gibcapital.com

Khaled Bin Ateeq
+966-11-834 8498
khaled.binateeq@gibcapital.com

Investment case

The Group is engaged in labour recruitment activities and the provision of manpower services in the Kingdom for over 10 years. The manpower is sourced from mainly 6 countries (94% in 1H22). ~66% of the company's revenues came from the corporate segment in 2022. Out of the remaining 34% of revenues, 2/3rd were from individuals on a contracting basis (mainly housemaids, drivers, etc.) and 1/3rd from its relatively newer on-demand (on an hourly basis) individuals for various activities mainly via its online/application.

Drivers:

One of the key drivers for the company is hiring which depends on the **economic growth** and cycle. Currently, Saudi has low unemployment levels and is strongly in the upcycle of demand. At 8%, unemployment is at record levels at the end of 4Q2022.

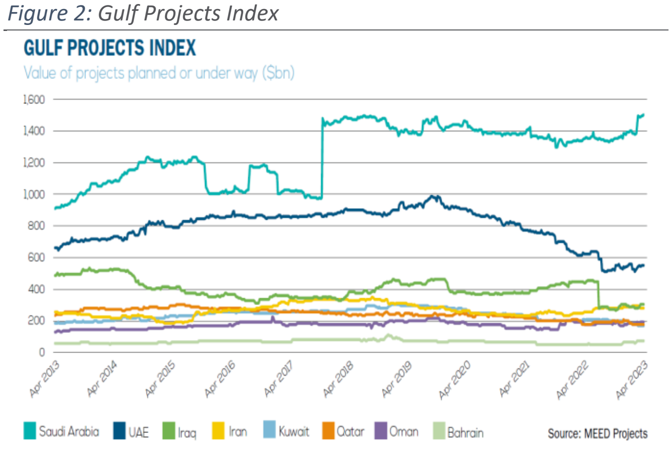
More specifically in hiring, currently there is a huge increase in number of tourism related visits in Saudi which implies demand for hotels, restaurant etc. This is likely to be structural and bodes well for Mawarid as 53% of its corporate revenues in 2022 came from 2 sectors – **construction and hospitality**.

In the construction sector KSA is ahead of its Gulf peers in terms of total value of projects and with mega projects, the value of projects is expected to increase. This is expected to drive growth for employees in the construction sector.

The demand for maids in Saudi households is increasing as the participation of female workers also increase in the force. Moreover, the total number of maids employed are yet to reach the pre-COVID levels.

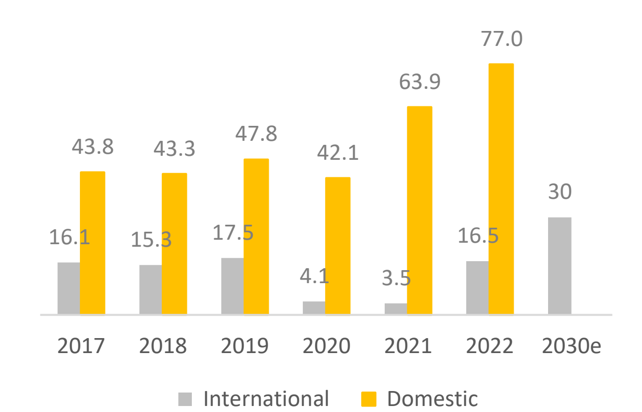
Apart from this, the Saudi non-oil GDP has risen sharply in the last two years indicating a rise in demand for manpower in general.

Figure 2: Gulf Projects Index



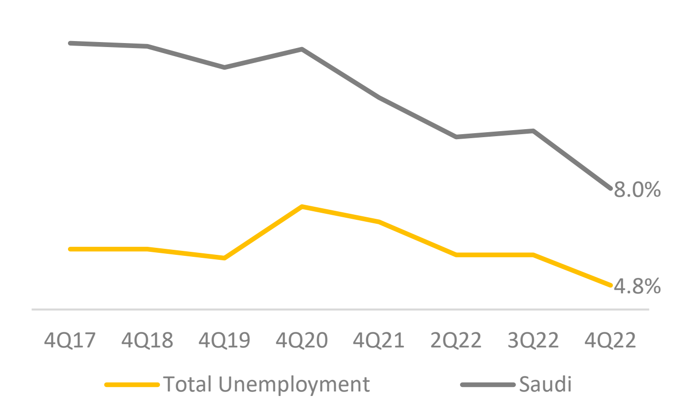
Source: Meed Projects

Figure 3: Domestic and International tourists (million)



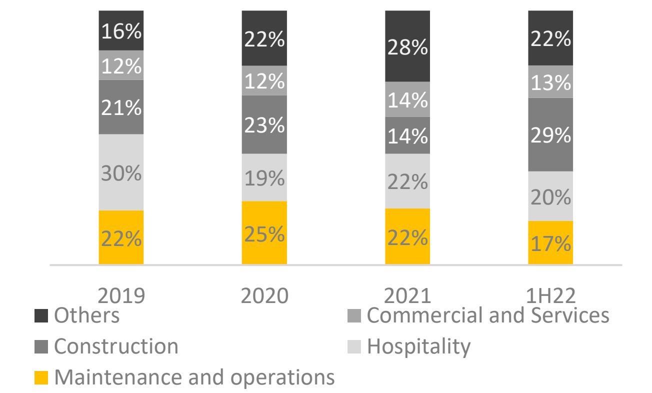
Source: Company data

Figure 4: Unemployment rates in KSA



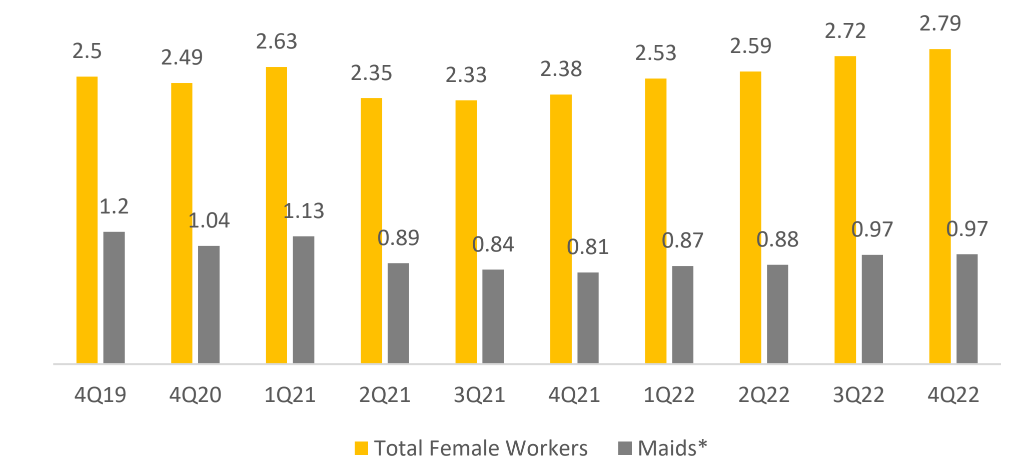
Source: Company data, Argaam

Figure 5: Corporate sector revenue break-up



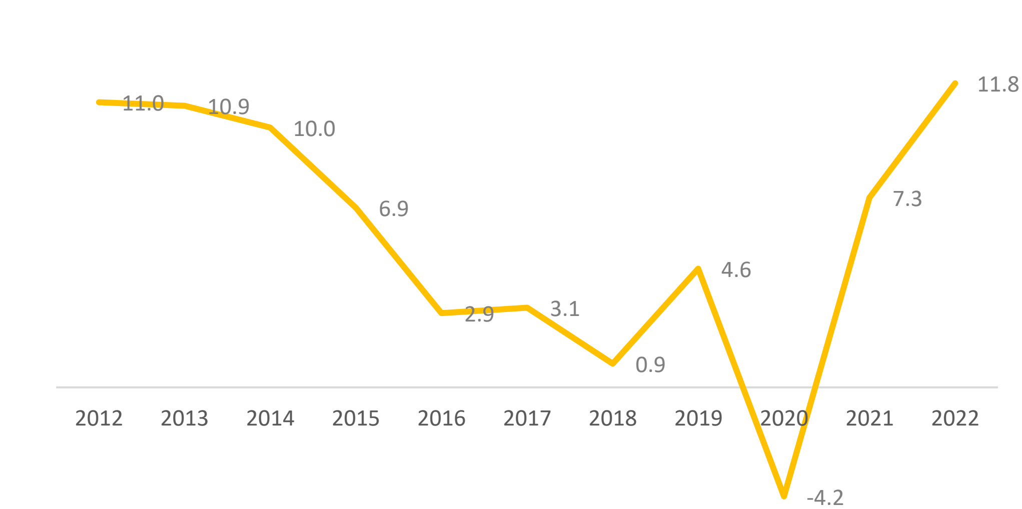
Source: Company data

Figure 6: KSA: total female workforce and maids (mn)



*Source: GASTAT; *Non-Saudi female domestic workers*

Figure 7: Saudi non-oil GDP growth (%)



Source: GASTAT

Business model:

Given that the **corporate segment** has a longer-term contract (average 2-year contract), this segment is more stable but has lower margins while the household segment is more variable in demand but has higher margins. The on-demand individual services have the most variability in our view.

With regards to sector drivers, companies, especially smaller ones, may find it difficult to handle end-to-end resource needs with a smaller human resources team and thus it becomes easier to outsource. Companies do not also need to pay bonuses/insurance etc. so it becomes cheaper and more manageable. Some of its key corporate clients include large players such as SAMA, AlRajhi Bank, Dallah, Riyad Bank, etc. It has more than 500 clients in the Corporate Segment and across more than 13 sectors. Top 5 clients contributed 25% of revenues in 1H22. In terms of its **individual segment** too, culturally, in most Saudi families, there is a requirement for a housemaid or a driver. Thus as the number of families increases and also as joint families decrease, there will be an increase in demand for housemaids/drivers, contributing to the individual segment. As such, we have seen an increase in home ownership and is expected to increase.

In terms of investment to operate the business the Company is required to provide the MHRSD (Ministry of Human Resources and Social Development) with an irrevocable bank guarantee amounting to SAR10mn. In terms of other investments required to run the business, the company purchases a visa for SAR2000 which is valid for 2 years. The Group maintains an inventory of visas whereby it regularly requests visa quotas from the MHRSD. Currently, licensed manpower companies may request any number of visas they require to carry out their activities without being subject to any cap. Not only this, the company typically bears all of the costs and fees related to the recruitment process as well as the manpower resources' salaries, work and residence permit fees, medical examinations and medical insurance costs, professional malpractice insurance costs and airfare costs, depending on the contractual arrangement with the clients.

The Company had a sizable network and partnerships with more than 35 supporting agencies for overseas recruitment based in more than 24 different countries. By utilizing its network of foreign recruitment agencies to select and recruit manpower resources, the resources are recruited and deployed at the client locations. The client approvals on the selected manpower resources typically take an average of 30 days to arrive in the Kingdom. After that, the recurring costs include providing accommodation, food, and transport services to and from the work location with its own transportation vehicles.

For each resource in the corporate segment, the company pays the resource depending on the agreed contract and in turn gets paid by the client an average of SAR3500/month (based on 2022 numbers) with the difference being the direct gross margin. There are no fixed prices for services in the Corporate Segment, as the price mainly depends on the salary of the workers, based on their profession and skills. The billing is on a monthly basis, and payments from clients are due within 60 days from the invoice date. Corporate clients are required to pay a refundable deposit at the beginning of the contractual relationship.

In the case of the individual segment, mostly the invoices for services provided in this sub-segment are paid in advance. As for the salaries for the individuals, at the end of each month, the Group is responsible for making payroll payments directly into the bank accounts of its full-time manpower resources after their deployment to customers. More specifically, within the contractual individual segment, the average secondment service price ranged from SAR 2,000 to SAR 3,500 per month, depending on the competence and salary of the worker; and as for the Individual Segment for Hourly Rental, the average service price ranged from SAR 90 to SAR 140 per visit, depending on the competence and salary of the worker and the timing of the visit (morning/evening).

Receivables amounted to SAR131mn in 2022, which corresponds to 50 receivable days. The Group is using working capital to pay expenses related to its temporary workers and to satisfy its workers' compensation liabilities. Related party sales amounted to only moderate 13% of revenues in 2022.

The utilization rate depends on the resources used as compared to the available resources. Only 3.4% of the Group's manpower resources were not utilized as of 1H22. Mostly the corporate resources are hired on requirement while the household resources are hired in anticipation of the demand. The company maintains a balance between supply and demand that helps in improving the utilization rate. The manpower industry has also historically been cyclical, with periods of high demand, limited supply, and high margins as well as periods of low demand, excess supply, and low margins. Moreover, intense competition may result in price reductions and lower gross margins.

We believe the continuity of the contracts is mainly about relationship management and reputation– a good experience of dealing with employees implies continuity in the offering. So the easier and more accessible it is, the better will be the sustainability of revenues. The company aspires to do this as mentioned in its strategy.

Companies such as Mawarid are volume-based with low value as they do not deal very with high-end jobs. They are different from recruitment companies such as Michael Page because these companies earn when they place a candidate but in the case of Mawarid, revenues are recurring for the whole contract.

VAT issues have been resolved at the start of the year and there is no overhang related to this on the stock. Apart from this, the insurance on absenteeism would be positive for the company as it could help to improve margins.

Risk factors:

- The manpower industry is historically competitive, cyclical, and subject to intense price competition. We believe that given low unemployment levels we are probably at already low levels and thus may have already reached almost the top.
- Additional fees: Any introduction of regulatory fees may be detrimental.
- Margins are currently higher than historical levels mainly due to a jump in individual hourly segments–which may not be sustainable.
- Receivables risk: The company has provisioned only SAR25mn for SAR41mn receivables that are more than 360 days due and could be a risk factor.
- Deterioration of agency relationships and diplomatic relationships with countries could impact the business.

- Any pending lawsuits or resolution of disputes may end up in higher costs. There are around 480 ongoing disputes between the Company (as the plaintiff) and many parties, with an estimated value of SAR20.3mn.
- Changing regulations: In 2015, the MHRSD enforced rules to require all licensed companies to allocate no less than 20% of their manpower resources to household manpower, of which 50% must be females, and restricted all licensed companies, including the Company, from obtaining new work visas for corporate clients until they complied with such requirement. Such regulations may affect the company's profitability.
- Foreign manpower resources recruited by the Group generally arrive in the Kingdom by plane and the Group bears all costs related thereto, including airfare. Any increase in costs for leasing/vehicles etc. may increase costs.
- MHRSD has officially announced the launch of its "Improving Contractual Relationships" initiative, which encompasses many policies and controls, including the replacement of the kafala (sponsorship) system.
- Impact of Saudisation: Saudisation may lower growth for the company as the Market size is smaller and access becomes larger. The company mainly has its expertise in the foreign workforce.

Assumptions/valuation

Revenue:

Revenue is driven by the product of the average number of workers invoiced (which represents the average number of workers utilized and invoiced) and the average revenue per worker invoiced.

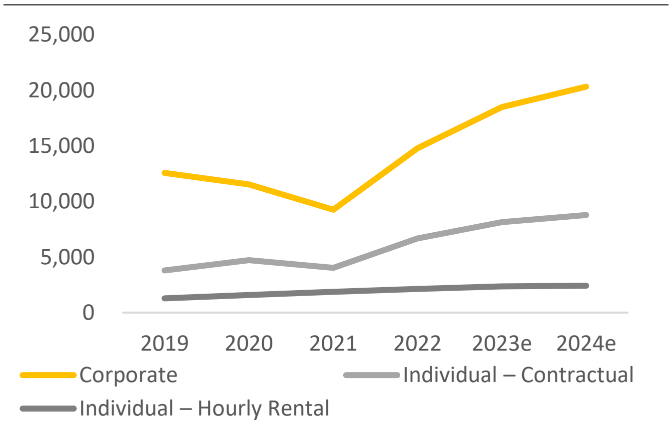
The utilization rate is the ratio of the average number of workers utilized over the average number of workers available. In the Individual Segment – Hourly Rental: it represents the average number of hours invoiced as a percentage of the total number of hours available. The workers available represent the average number of workers in the Kingdom available and ready to be utilized upon customer request.

As average prices have been range bound, the main driver is the number of workers. The key event which led to the variability in the number of workers was COVID. The pandemic resulted in a decrease in the number of arrivals of new workers due to travel restrictions imposed in the Kingdom in 2020 and 2021. This had a major impact on the manpower services offered to Corporate Segment customers, which resulted in a) several industries being directly affected by the lockdowns and restrictions imposed including the restaurant, construction and contracting sectors, and b) exceptional discounts granted to corporate clients. However, demand for contract maids and cleaners increased.

The corporate segment's utilization is not 100% only because of job changes but it is higher than the individual contract segment which generally has resources on the bench given the nature of demand.

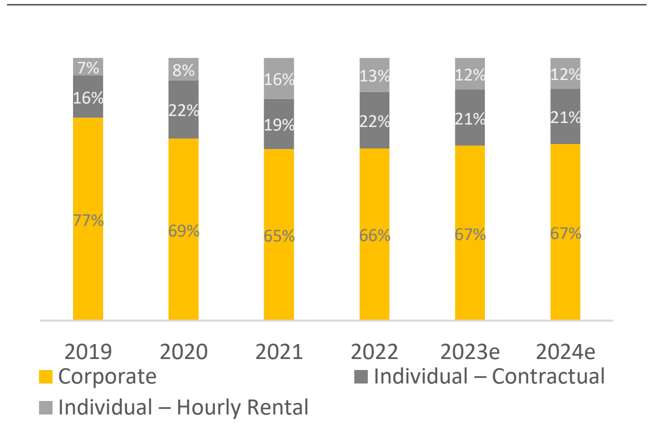
As for the on-demand hourly services, the company developed and launched its smartphone application for "Hemma" services in 2018. It was suspended from mid-March to June 2020 due to the pandemic and after the weak operating rate, the resumption of the activities and the increased hourly rate resulted in a jump in revenues and thereby margins because of the operating leverage. Also notably, 2019 was a test and trial period resulting in losses at the gross margin level.

Figure 8: Average number of workers



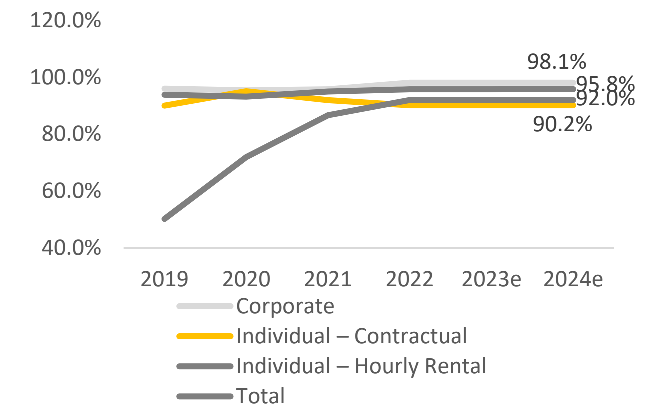
Source: Company data

Figure 9: Revenue mix by segments



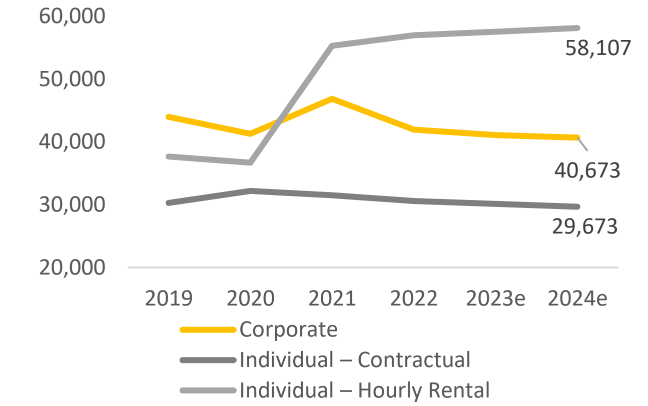
Source: Company data

Figure 10: Utilization rate evolution



Source: Company data

Figure 11: Pricing – Average revenue per hour (SAR)



Source: Company data

Costs:

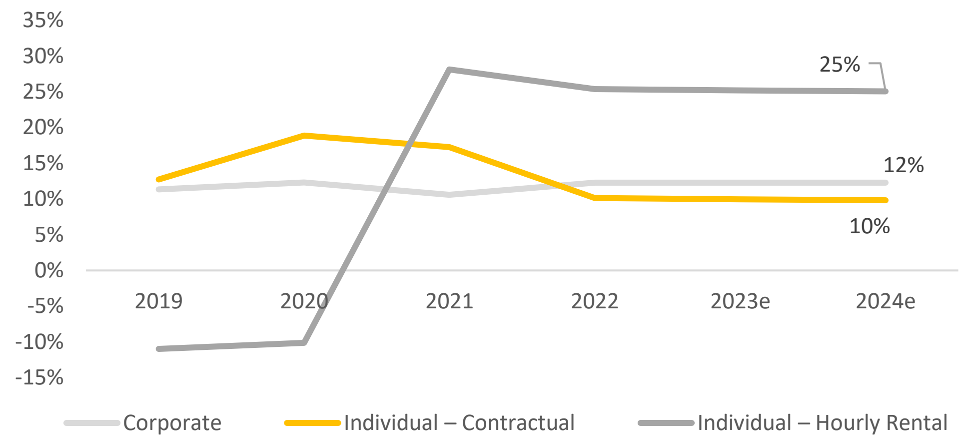
The cost of revenue mainly comprises employee salaries, Government costs, and indirect overhead costs. Employee salaries pertain to the cost of the available workers for which salaries are paid irrespective of utilization. In terms of cost during COVID, there was some relief mainly driven by the exemption from paying basic salaries to unutilized workers between April 2020 and September 2020, based on the circular of the MHRSD, whereby initiatives were taken to support the private sector and mitigate the effects of the COVID-19 pandemic.

Purchased visas represent the amounts paid to Government agencies for issuing workforce visas and are recorded at cost as available visas. Cost comprises all of the purchase cost paid to Government agencies to secure the workforce visas. The validity period of these visas is two years, and if they are not used during such period, they are then reimbursed by the Government agencies to the Group's accounts.

Recruitment costs represent the amount paid to recruitment agencies in connection with services obtained. These costs are amortized at the time of visa activation in the consolidated statement of profit or loss over a period of two years in line with the employment contract period. Residence and work permit fees are amortised in the consolidated statement of profit or loss over one year in line with the validity of such permits. We understand that while there is not much seasonality overall, 4Q generally has higher costs due to the annual cleaning up of accounts.

Margins: The margins mainly depend on the revenue mix, utilization rate, and the demand environment. The individual hourly segment has high operating leverage and variability in profits. Thus, in 2020 and 2021, when the service was new and the overall demand was affected, the profit margin was lower. However, the segment's profit margin jumped to 25% in 2022, pushing up the overall gross margin of the company to 32%. The other two segments, that is corporate and individual households, have broadly stable margins. The company also expects an improvement in margins going forward because of improved per-hour revenue (higher prices) and a favorable revenue mix.

Figure 12: Segment wise margins



Source: Company data

Overall we understand 1Q23 net profit was SAR22mn vs SAR12mn in 1Q22 with the rest of the quarters, SAR18mn in 2Q22, SAR19mn in 3Q22, and SAR20mn+ in 4Q.

Valuation: We use an average of PE and DCF-based valuations, giving us a blended target price of SAR90/share and initiate on the company with an Overweight rating.

The nature of the company's business is cyclical and deserves a high beta. We assume a cost of equity of 11% for our DCF valuation. For DCF valuation, based on a terminal growth of 2.5% and a WACC of 11% with a target capital structure of 0% debt to asset, we arrive at a rounded target price of SAR93/share.

For PE valuation, we use a 13x multiple on SAR6.5 EPS (2024e) and arrive at a PE-based target of SAR88/share.

Dividends: The dividends paid for 2020 and 2021, were SAR20mn, though they declined to SAR15mn in 2022. We expect a 2023 dividend payout of 50%, which implies a dividend yield of 4.7%.

Risks: The manpower industry is highly competitive and faces price competition. Additional fees could harm the industry, and current high margins may not be sustainable. The company has a risk of unpaid receivables, as they have only provisioned a fraction of the overdue amount. The company's agency relations and diplomatic ties with countries can impact its operations. There are several pending disputes and lawsuits that may increase costs. Changing regulations, such as manpower allocation requirements and work visa restrictions, pose significant risks. The company covers expenses for foreign manpower arriving by plane. The MHRSD's initiative to replace the sponsorship system could decrease the company's revenues. Additionally, Saudization policies will have a negative impact due to a smaller market size and limited access to foreign manpower.

Figure 13: DCF Valuations

SAR mn	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
EBIT	100	108	115	121	128	134	141	149
tax	(10)	(11)	(11)	(12)	(13)	(13)	(14)	(15)
Change in WC	(27)	(12)	(12)	(11)	(11)	(11)	(12)	(12)
Dep	16	16	15	16	17	17	18	19
Capex	(4)	(4)	(4)	(5)	(5)	(5)	(6)	(6)
FCF	75	97	101	109	116	122	128	135
Terminal Value	-	-	-	-	-	-	-	1,629

Enterprise value of explicit period	532
PV of Terminal Value	785
EV	**1,317**
(-) Debt, incl. lease liabilities	(21)
(-) Pension/liabilities	(26)
(+) Cash	55
(+) Investment in JV/associate	4
(-) Minority	-
Equity value	**1,330**
Number of Shares	15
Equity value per share	89
Adjusted DCF-based equity value per share*	**93**
Cost of Equity	11.0%
Cost of debt	5.0%
Target D/A	0%
WACC	11.0%

Source: GIB Capital

Figure 14: Peer comparison

	Mkt Cap (USDmn)	P/E Ratio (TTM)	Est P/E Current Yr	P/E - FY2	EV/T12M EBITDA	Est. EV/ EBITDA - 1FY	Dividend Yield - FY1	P/B	Country
Maharah	656	15	13	11	20	13	5.2	4.1	656
Groupe Crit	892	N.A.	12	12	N.A.	4	2.1	N.A.	892
Insperity Inc	4221	21	19	18	12	10	1.9	31.6	4221
Randstad NV	9275	10	11	10	1	7	5.0	1.9	9275
Adecco Group AG	5243	14	10	9	10	9	8.7	1.3	5243
Synergie SE	883	10	9	9	4	3	2.6	1.4	883
Kelly Services Inc	659	14	11	9	6	6	N.A.	0.5	659
Humansoft	1401	9	10	9	7	6	10.0	3.0	1401
Median	**1147**	**14.1**	**11.1**	**9.9**	**6.5**	**6.6**	**5.0**	**1.9**	**1147**
Mawarid	**960**	**12.6**	**10.6**	**9.9**	**10**	**8**	**5%**	**3.3**	**960**

Source: Bloomberg, GIB Capital

Figure 15: Relative valuations and Average valuations

P/E based valuation	
P/E	13
EPS 2024	6.5
1yr fwd PE-based price	**88**

Valuation	
PE price	88
DCF price	93
Average target price (SAR)	**90**

Source: GIB Capital

Company Profile

The Group's three principal business segments consist of the following:

- **Corporate Segment:** This segment represents revenue generated from corporate clients, mainly in connection with the following client industries: maintenance companies, restaurants, construction and contracting, transportation, and hospitals. The contracts signed under the Corporate Segment have an average length of two years. The billing is monthly, and payments from clients are due within 60 days from the invoice date. There are no fixed prices for providing services to the Corporate Segment, as the price depends mainly on the salary of the workers, based on their profession, skills and competence.
- **Individual Segment – Contractual:** This segment represents revenue generated from contracts signed with individual customers, mainly in connection with housemaids, cleaners, and private drivers. The invoices are paid in advance (except for automatically renewed contracts with existing customers). In the three-month period ended 31 March 2022G, the average secondment service price ranged from SAR 2,000 to SAR 3,500 per month, based on the competence and salary of the worker: and
- **Individual Segment – Hourly Rental:** This segment represents revenue generated from individual customers on an hourly basis, mainly in connection with housemaids and cleaners. In the three-month period ended 31 March 2022G, the average service price ranged from SAR 90 to SAR 140

In 2017, the Company started providing manpower solutions in the Individual Segment – Hourly Rental based on the "Hemma" hourly rental rate, including the provision of housemaids and cleaners. In order to make the process of requesting labourers more convenient for clients, the Group developed and launched its smartphone application for "Hemma" services in 2018G. The Group's headquarters are located in Riyadh, the Kingdom and it has 13 branches in seven major cities across the Kingdom.

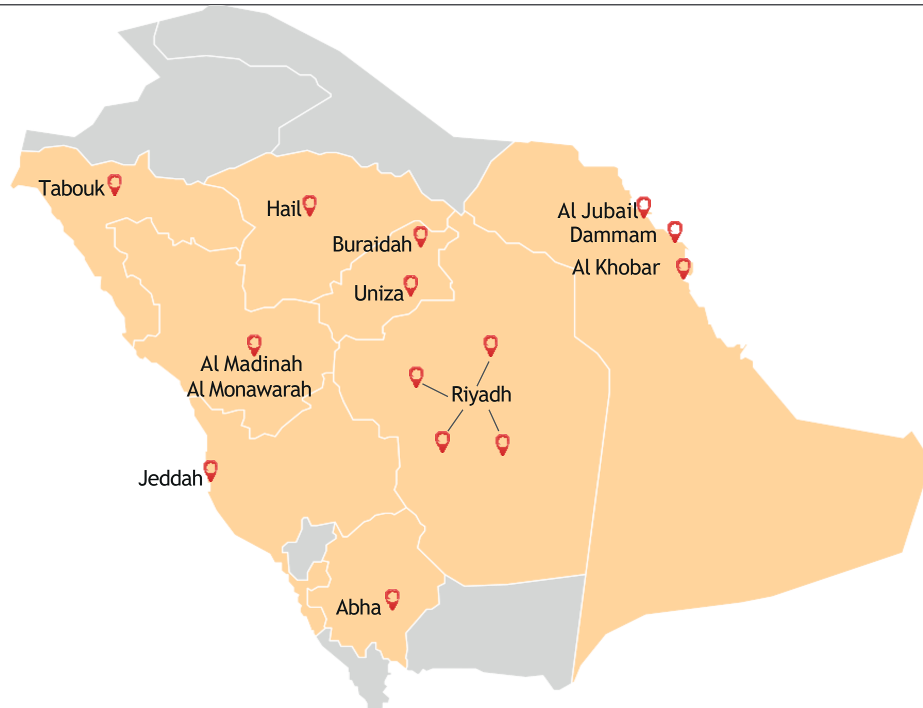
1) Top 20 clients amounted to 46% of revenues.
2) % of revenue generated by related party transactions from the total value of revenue generated by the top 20 clients was 26.1% in 1H22
3) Majority of its manpower resources are recruited from six countries, namely Indonesia, the Philippines, Bangladesh, Uganda, Pakistan, and India. As of 1H22, 93.8%. of the Group's foreign manpower resources were recruited from such countries.

<u>The company has 2 subsidiaries:</u>

Musanid Al Marafiq for Maintenance and Cleaning Company Activities - The principal activities of the company are the temporary provision of workers for client businesses to compensate or supplement the client's workforce and the general cleaning of buildings.

Sawaid Recruitment Company: The principal activities of the company include searching for employees for positions, whether by orientation or testing, online recruitment agencies, and the provision of other human resources (including providing human resources on a long term or permanent basis in general).

Figure 16: Geographical Presence



Source: Company data

Figure 17: Saudization rate

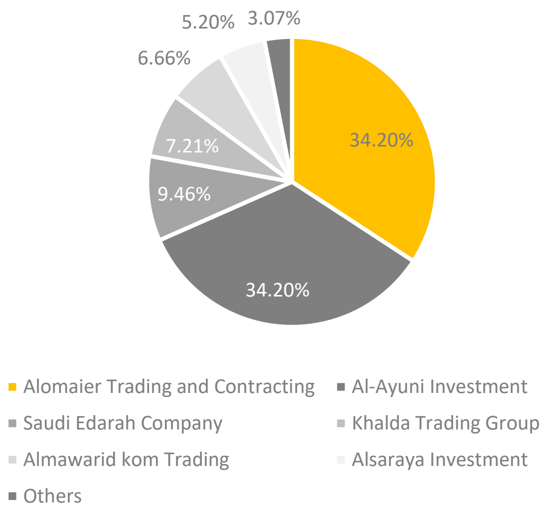
	Saudi	Non-Saudi	Total	Saudization %	Category
Al Mawarid Manpower Company	162	26	188	87%	Platinum
Musanid Facilities for Op & Maint.	41	45	86	47.98%	High green
Sawaid Recruitment Company	7	0	7	100%	Platinum

Source: Company

Ownership

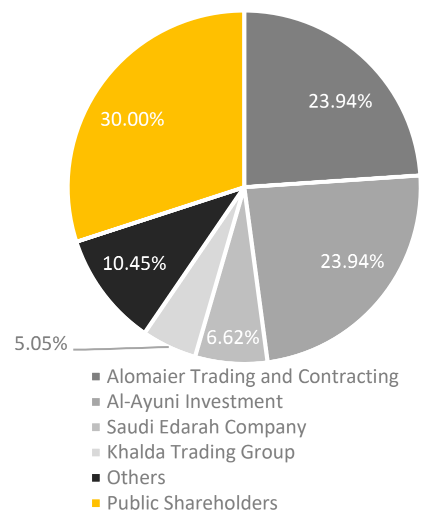
The ownership of the two of the group's largest shareholders i.e., Alomaier and Al-Ayuni is expected to come down by nearly 20% combined. The rest of the shareholders combined will reduce their shareholding by 10%. Therefore, the public shareholding will result in 30% of the total shares.

Figure 18: Ownership Structure – pre-IPO



Source: Company data

Figure 19: Ownership Structure – post-IPO



Source: Company data

Mawarid is offering 30% of its 15mn shares i.e., 4.5mn shares for the IPO. The IPO price has been set at SAR64/share translating into a total IPO size of SAR288mn. The IPO was initially offered to Institutional investors, which was subscribed 54x times. Only 10% of the total offering has been offered to the Retail investors between 28-30 May 2023.

Figure 20: IPO details

Total shares (mn)	**15**
Shares offered (mn)	4.5
Stake offered	30%
Offering price (SAR)	**64**
Size of IPO (SARmn)	288
IPO open date	9-May-23
Final allocation date	5-Jun-23
Retail coverage	16.5x
Institutional coverage	54x

Source: Tadawul, Argaam

Market dynamics

The Company is amongst the five largest players in the market. Other key players in the Kingdom include Saudi Manpower Solutions Co. (SMASCO), Maharah Human Resources Company, International Recruitment Company (IRC), and JawaHR. These top five players in the market combined command around 55% of the overall Saudi market for outsourced manpower services.

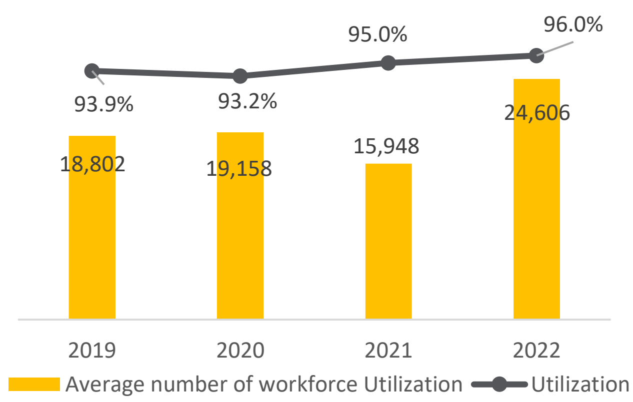
Corporate segment:

- The Corporate manpower services market constitutes 70% of the total manpower in KSA. It is expected to reach SAR15bn as companies move to outsourcing.
- Healthcare, Agriculture, ICT are segments that are expected to grow exponentially to form 7.4% of the market by 2026.
- Growth will be driven by the construction industry because of the Giga Projects in Saudi Arabia

Individual:

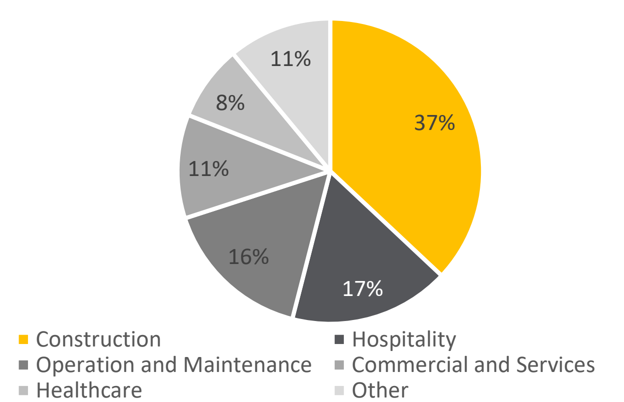
- Growth is mostly fueled by policies and programs run by the Government which support the participation of women in the workforce and ultimately will result in a greater need for domestic helpers including housekeepers, cooks, and nannies.
- Housekeeping makes up the largest segment, growing at 12.4% p.a.
- Homecare initiatives driven by the Ministry of Health will increase demand for caregivers and personal assistants.
- Private teachers' and nannies' services are increasingly becoming popular.

Figure 21: Workforce utilization



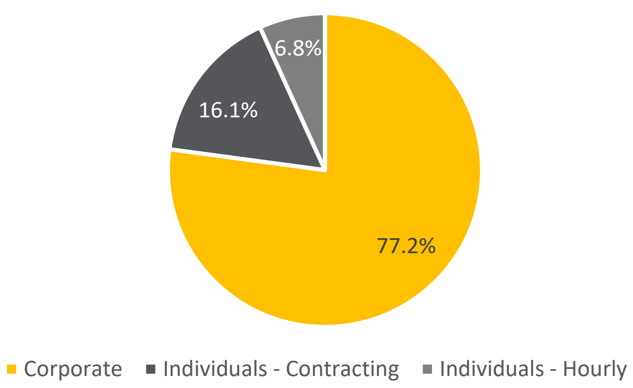
Source: Company data

Figure 22: Corporate Revenue Split



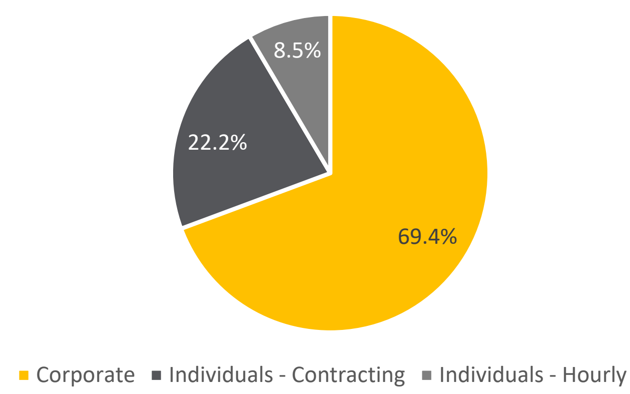
Source: Company data

Figure 23: Revenue split 2019



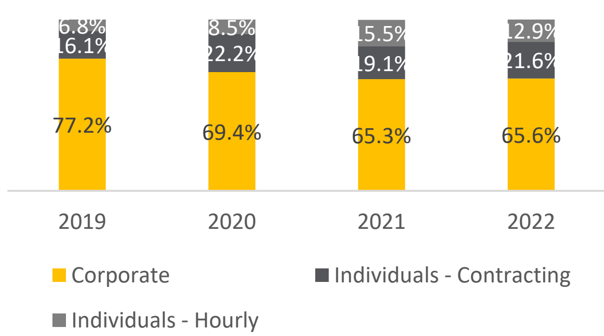
Source: Company data

Figure 24: Revenue split 2020



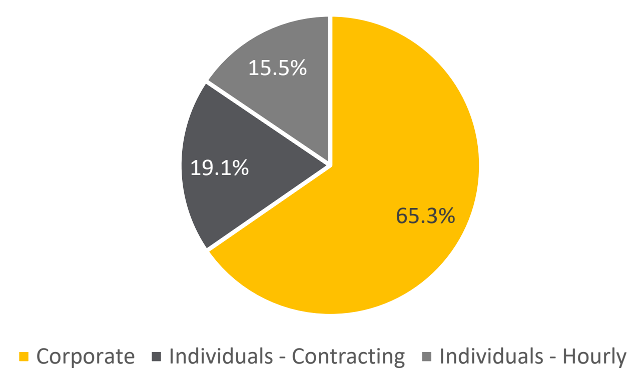
Source: Company data

Figure 25: Revenue Split 2019-22



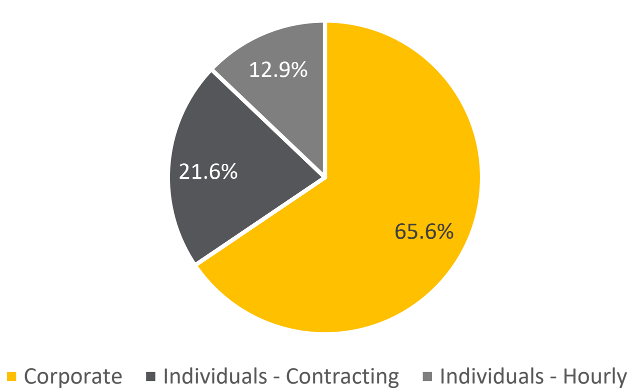
Source: Company data

Figure 26: Revenue split 2021



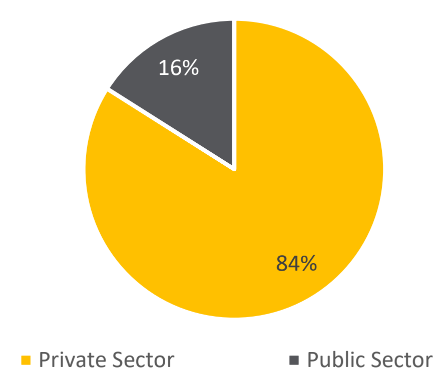
Source: Company data

Figure 27: Revenue split 2022



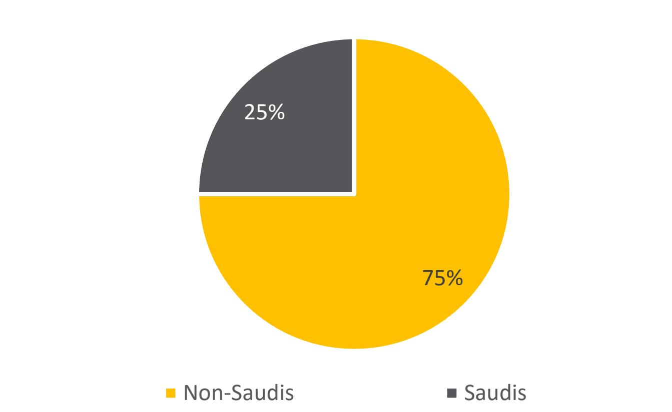
Source: Company data

Figure 28: Labor Force by sector



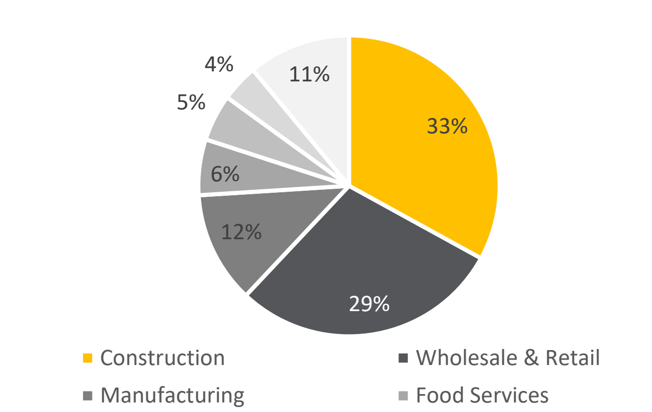
Source: Company data

Figure 29: Labor Force by nationality



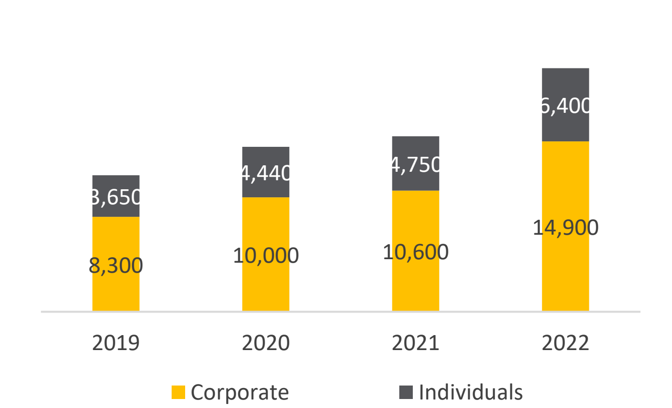
Source: Company data

Figure 30: Labor Force by industry



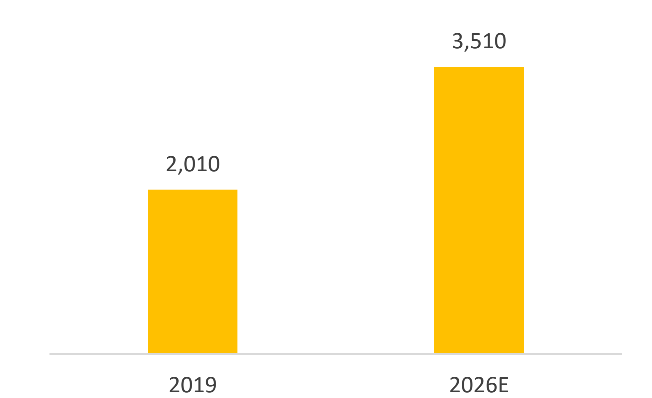
Source: Company data

Figure 31: Manpower – market size



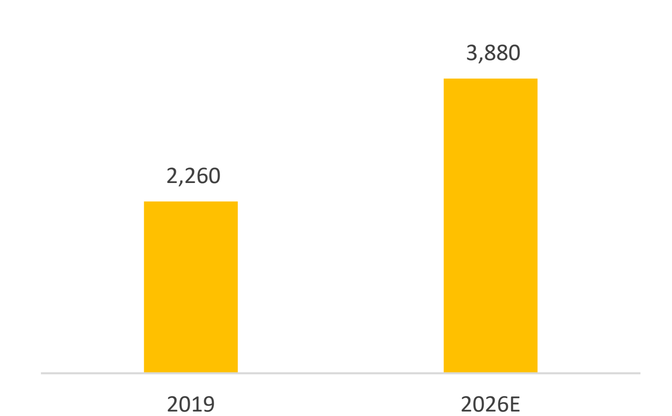
Source: Company data

Figure 32: Market size evolution of retail and wholesale



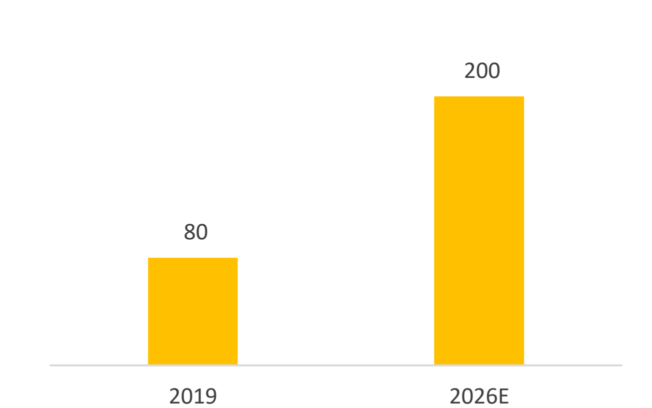
Source: Company data

Figure 33: Market size evolution of Construction



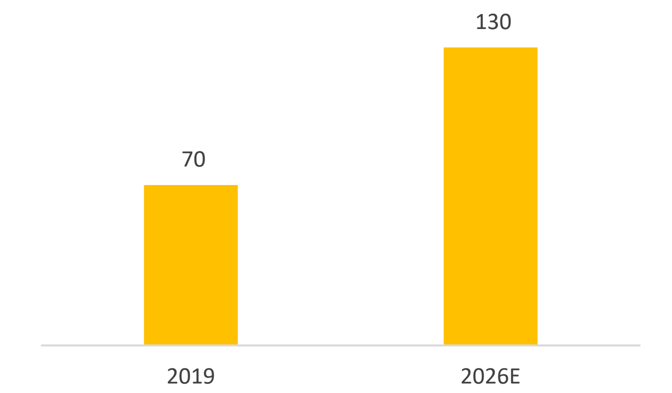
Source: Company data

Figure 34: Market size evolution of Agriculture



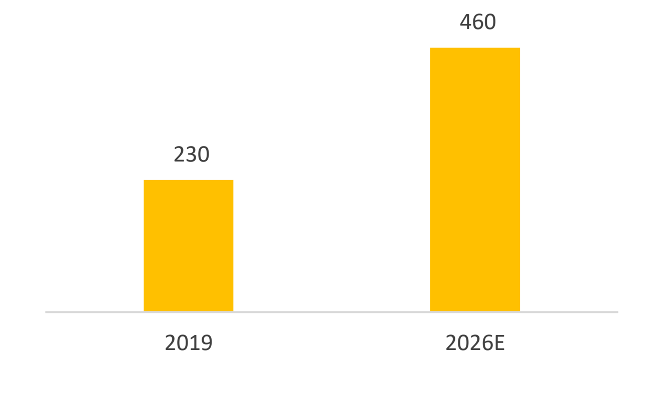
Source: Company data

Figure 35: Market size evolution of ICT



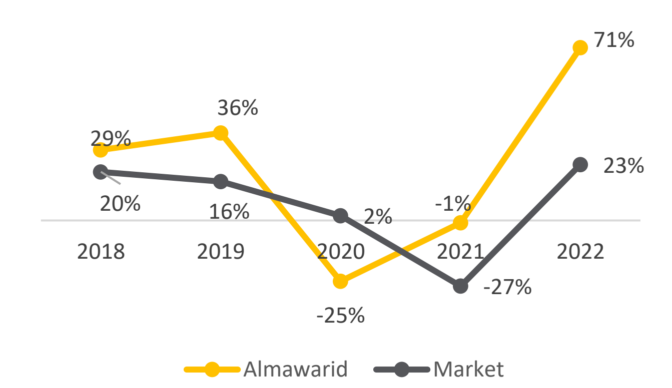
Source: Company data

Figure 36: Market size evolution of Transportation



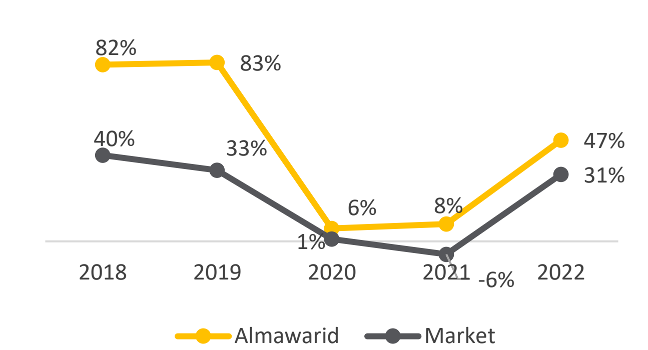
Source: Company data

Figure 37: Corporate Services Workforce



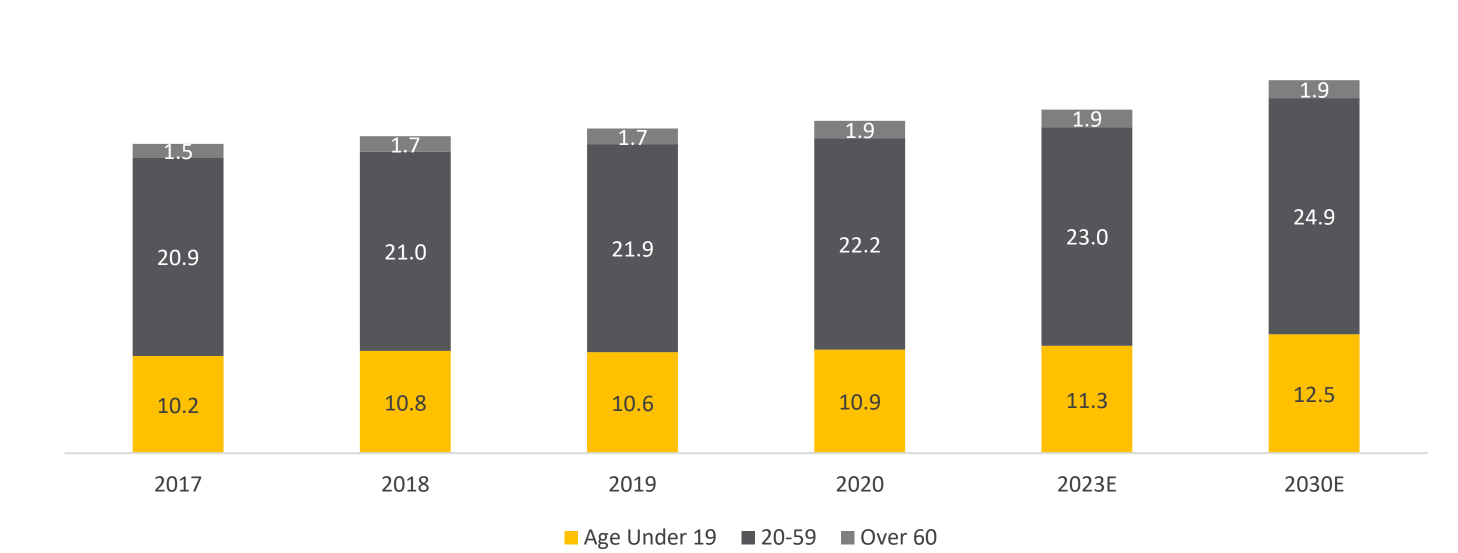
Source: Company data

Figure 38: Individual Services Workforce



Source: Company data

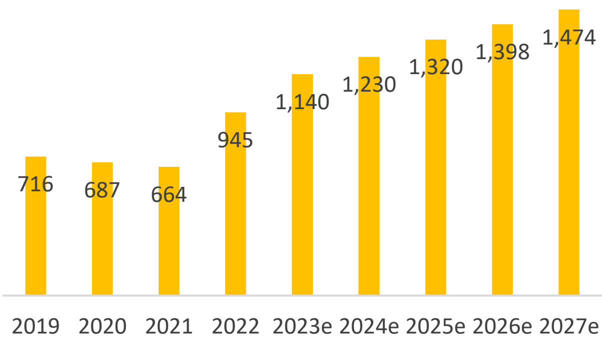
Figure 39: Saudi Arabia Population Forecast - in million



Source: Company data

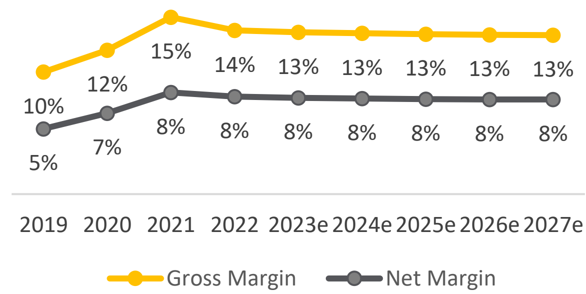
Financial analysis in charts

Figure 40: Annual revenues (SARbn)



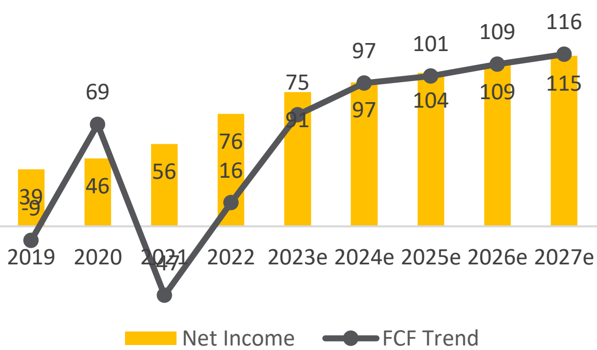
Source: Company data, GIB Capital

Figure 41: Annual gross and net margin



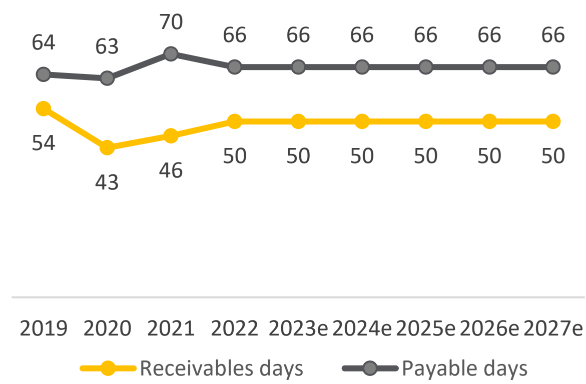
Source: Company data, GIB Capital

Figure 42: Net income and FCF trend (SARmn)



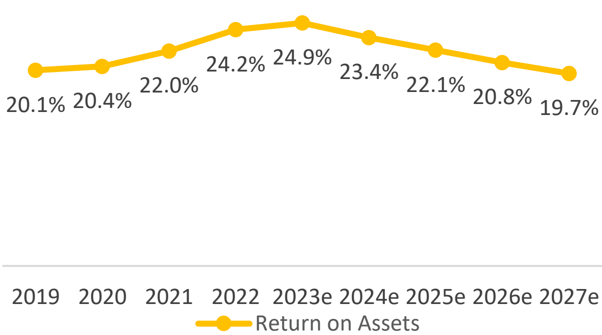
Source: Company data, GIB Capital

Figure 43: Receivables, and payable days



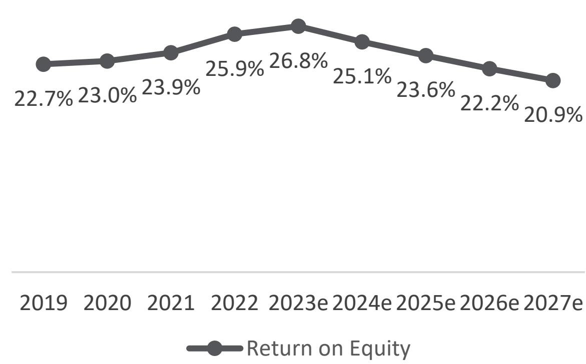
Source: Company data, GIB Capital

Figure 44: Return on assets



Source: Company data, GIB Capital

Figure 45: Return on equity



Source: Company data, GIB Capital

Financials

Figure 46: Summarized basic financial statements (SARmn)

Income statement	2021a	2022a	2023e	2024e	2025e
Revenue	**664**	**945**	**1,140**	**1,230**	**1,320**
revenue y/y	*-3%*	*42%*	*21%*	*8%*	*7%*
COGS	567	817	988	1,067	1,146
Gross Profit	**97**	**128**	**152**	**163**	**174**
Gross Profit margin	*15%*	*14%*	*13%*	*13%*	*13%*
Selling and marketing expenses	7	13	16	17	19
General and administrative expenses	23	30	36	39	41
Operating profit	**62**	**84**	**100**	**108**	**115**
Operating margin	*9%*	*9%*	*9%*	*9%*	*9%*
Finance costs, net	0	0	0	0	0
PBT	**62**	**84**	**100**	**108**	**115**
Zakat/tax	7	8	10	11	11
Net income	**56**	**76**	**91**	**97**	**104**
Net margin	*8%*	*8%*	*8%*	*8%*	*8%*
y/y	*21%*	*37%*	*19%*	*7%*	*7%*
EPS	**3.7**	**5.1**	**6.0**	**6.5**	**6.9**
DPS	1.3	1.0	3.0	3.2	3.5
Payout	36%	20%	50%	50%	50%
EBITDA	**76**	**100**	**116**	**124**	**130**
Net debt (w/ lease liabilities)	(7)	(35)	(35)	(61)	(93)

Balance Sheet	2021a	2022a	2023e	2024e	2025e
Trade receivables	84	131	158	170	183
Prepayments and other current assets	136	151	182	196	210
Cash and cash equivalents	27	55	60	89	122
Total Current Assets	**330**	**416**	**479**	**535**	**595**
Property and equipment	12	13	15	18	20
Right of use assets	20	23	28	30	32
Used and unused visas & non-current assets	41	47	57	62	66
Total Non-Current Assets	**75**	**88**	**106**	**115**	**123**
Total Assets	**405**	**504**	**585**	**650**	**718**
Current Liabilities	136	174	207	223	238
Non-current Liabilities	36	37	39	40	41
Equity	233	293	338	387	439
Total Equity and Liabilities	**405**	**504**	**585**	**650**	**718**

Cashflow	2021a	2022a	2023e	2024e	2025e
Cashflow from Operations	(19)	40	69	96	102
Cashflow from Investing	13	23	(4)	(4)	(5)
Cashflow from Financing	(31)	(34)	(59)	(63)	(64)
Total Cashflows	(37)	29	5	29	33

Source: Company, GIB Capital

Figure 47: Key ratios

Key ratios	2021a	2022a	2023e	2024e	2025e
Profitability ratios					
RoA	14%	15%	15%	15%	14%
RoE	24%	26%	27%	25%	24%
Net margin	8.4%	8.0%	7.9%	7.9%	7.8%
Liquidity ratios					
Currrent Assets/ Current Liabilities	2.4	2.4	2.3	2.4	2.5
Debt to Total Equity (w/ IFRS liab.)	0.1	0.1	0.1	0.1	0.1
Receivable Days	46	50	50	50	50
Inventory Days	0	0	0	0	0
Payable days	70	66	66	66	66
Cash conversion cycle	-24	-16	-16	-16	-16
Debt ratios					
Net Debt/EBITDA (w/ IFRS liab.)	-9%	-35%	-30%	-50%	-72%
Debt/Assets (w/ IFRS liab.)	5%	4%	4%	4%	4%
Net Debt/Equity (w/ IFRS liab.)	-3%	-12%	-10%	-16%	-21%
Valuation ratios					
P/E	17.2	12.6	10.6	9.9	9.3
P/B	4.1	3.3	2.8	2.5	2.2
EV/EBITDA	12.5	9.5	8.1	7.6	7.3
FCF Yield	NM	1.7%	8.0%	10.2%	10.7%
Dividend Yield	2.1%	1.6%	4.7%	5.1%	5.4%

Source: Company, GIB Capital

Disclaimer

This research report has been prepared by GIB Capital, Riyadh, Saudi Arabia. It has been prepared for the general use of GIB Capital's clients and may not be altered, redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of GIB Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by GIB Capital. The information contained was obtained from various public sources believed to be reliable, but we do not guarantee its accuracy. GIB Capital makes no representations or warranties (express or implied) regarding the data and information provided and GIB Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. GIB Capital or its officers (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. GIB Capital may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. GIB Capital and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document. Where the report contains or refers to a recommendation about a specific security or securities service, please note that it may not be suitable for all recipients. Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations. The subjectivity in future expectations is complex and may miss actual or reported numbers.

This research document and any recommendations contained are subject to change without prior notice. GIB Capital assumes no responsibility to update the information in this research document. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law, or which would subject GIB Capital to any registration or licensing requirement within such jurisdiction

The principal activities of GIB Capital are Dealing, Custody, Managing, Arranging and Advising pursuant to the Capital Market Authority ("CMA") License No. 07078-37.

We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/-10%, we have a Neutral rating.

Contact us for queries:

Pritish Devassy, CFA, CPA
Sell Side Research Department,
GIB Capital,
B1, Granada Business & Residential Park,
Eastern Ring Road, PO Box 89589, Riyadh 11692
Pritish.devassy@gibcapital.com | www.gibcapital.com