Target Price: SAR60/share
Current Price: SAR49.3/share
Upside: 22% (+Div. Yield: 4.5%)
Rating: Overweight

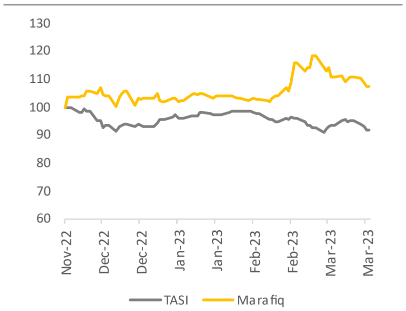
The Power and Water Utility Company for Jubail and Yanbu (Marafiq)

Upside triggers on top of a stable business

Stock data	
TASI ticker	2083
Mcap (SARmn)	12,350
Trd. Val (3m) (SARmn)	86.2
Free float	30.0%
QFI holding	1.7%
TASI FF weight	0.21%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- Defensive and monopolized nature of business with clear visibility into revenue growth and margins for the next few years
- Multiple upside drivers include a) transition into RAB model, b) upward revision to water/power tariffs, c) newer project wins and d) KSA's industrial expansion plans
- We view the company as more than a dividend play given the triggers and FCF (14.4% yield in 2024e), supported by a low WACC. We initiate with an Overweight rating and SAR60/sh. target price.

As stable as it gets: Marafiq is the sole water provider for Jubail and sole water and power provider for Yanbu, two large industrial cities in KSA. There is clear visibility into revenues and margins as all its businesses are either regulated (58%) or are long-term contracts (42%). Our current estimates imply 12% CAGR for Profits (PBT) over 2022-25 driven by a 3% revenue growth and expansion in EBITDA margins to 37% (from c35% in 2022). Dividends are also guided at SAR2.2/sh for 2022&23 (with already announced '22 dividends inline with guidance). From 2024, we believe dividends could jump higher.

Upside triggers: A key trigger for a jump in profits is the transition to RAB model. The company expects a 'good upside' post the transition. Based on our rough analysis on a 7% required rate, we see a 15% profit jump (Fig. 5 for detailed scenario analysis). Secondly, Water segment (47% of revenues) also has a confirmed increase in tariffs. Even industrial Power tariffs have not seen any upwards revision for 5 years. Thirdly, the company is also bidding for certain projects which amount to 1.64x of its capacity (Power alone). Fourth, with the expansion of petrochemicals and other industrials sector in Jubail/Yanbu as per Vision 2030, there are likely to be more projects. The company is already expanding into Jazan, Ras Al Khair, & Jeddah.

Risks: Unexpected or unplanned breakdown of the company's facilities, a delay in tariff review, failure to fulfil licensing requirements leading to penalties, delay in expansions, customer concentration, dependence on Aramco for fuel and gas and failure to commence operations as per plan are some of the key risks to our valuation.

Figure 1: Key financial metrics

SARmn	2021a	2022a	2023e	2024e	2025e
Revenue	6,192	6,505	6,751	6,944	7,146
Revenue growth	*2%*	*5%*	*4%*	*3%*	*3%*
EBITDA	2,167	2,268	2,439	2,542	2,662
EBITDA margin	*35.0%*	*34.9%*	*36.1%*	*36.6%*	*37.2%*
Net Income	632	846	819	926	1,073
Net profit margin	*10%*	*13%*	*12%*	*13%*	*15%*
EPS (SAR)	2.5	3.4	3.3	3.7	4.3
DPS (SAR)	0.7	2.2	2.2	3.0	3.4
P/E	19.5x	14.6x	15.1x	13.3x	11.5x

Source: Company, GIB Capital

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Investment Case

1. Natural monopoly and high entry barriers

The Group has a natural monopoly in providing power and water in the industrial cities of Jubail and Yanbu, which generate 93% of revenue. Apart from Power (52% of revenues) and Water (47%), there is a small contribution (1%) from gas sales. The services are supplied through networks leased from Royal Commission for Jubail and Yanbu by the Group for its right to operate and maintain. No access rights have been granted by the Royal Commission or the Group to any third party. As a result, the Group does not compete with competitor suppliers in these industrial territories.

2. Guidance table

The management had guided spending a total capex of SAR3.2bn between 2022-26, of which ~SAR2bn was to be spent during 2022-23 (SAR754mn in 2022a) and SAR1.2bn during 2024-26. Capex plans for 2022 and 2023 are mainly due to the rehabilitation of Gas Turbine Generators in Yanbu, expansion of the water treatment plant in Jubail and installation of smart meters.

The company guided the dividend to be SAR550mn in 2022 (and met its guidance) and 2023 to be paid semi-annually, and from 2024 onwards, payout to be ~80%.

Figure 2: Company financial guidance

Guidance	2022 (actual)	2022 (guided)	2022-26 (guided)
Revenue growth	5.1%	3.5%	2.0%
EBITDA margin	34.9%	35.0%	37.5%
Net debt/EBITDA	5.0x	3.0-3.5x medium term	
Capex	SAR754mn	SAR2bn in 2022-23 and SAR1.2bn in 2024-26	
Dividend	SAR550mn	SAR550mn in 2022 and 2023, 80% payout from 2024	

Source: Company, GIB Capital

Figure 3: Company operational guidance

Guidance (2022-26)	Jubail	Yanbu
Potable water sales avg. annual growth	2.4%	3.8%
Treated water sales avg. annual growth	NA	3.4%
Sewage wastewater sales avg. annual growth	4.3%	4.3%
Industrial wastewater sales avg. annual growth	0.8%	3.8%
Irrigation water sales avg. annual growth	2.1%	2.0%
Electricity sales	NA	6.5%
Seawater cooling sales	0.7%	4.2%
Industrial water sales for Sadara	Stable	NA
Sales gas distribution	2.6%	
Water service business lines in RIC and JCPDI	High growth rate	
Energy service business lines in JCPDI	High growth rate	

Source: IPO Prospectus, GIB Capital

3. RAB analysis

The company is formalizing the required revenue framework for the power segment with the power authority, WERA. SEC switched to a RAB-based framework in 2021 with a WACC of 6%, which positively impacted SEC's financials.

To analyze the potential impact of the implementation of RAB based model on the power segment and the overall performance of Marafiq. We have tried to gauge the impact considering FY2022 annual results.

The company's total assets stand at SAR24.2bn, of which around SAR8.7bn (including power generation assets in Yanbu) is related to the power segment.

We assume regulated power segment assets to be SAR7bn and WACC to be 7% as a base case.

Considering, Return on RAB = RAB * WACC, the **Return on RAB comes to SAR490mn** compared to the actual operating profit of SAR362mn for the power segment, **implying an increase of 35%** where we calculate RAB as **PPE – Capital Work in Progress – Customer funded liabilities + working capital allowance,** which comes to around SAR6bn to SAR8bn.

If we assume revenue to increase by 10% for the power segment in RAB based framework and consider operating profits to be SAR490mn, **power segment EPS might rise to SAR1.6/share from SAR1.1/share, implying a 46% upside from current levels and group EPS will increase to SAR3.9/share from SAR3.4/share, implying a 15% upside from current levels.**

An increase in EPS will improve the payouts and yields for the shareholders.

Thus, we believe that the implementation of RAB based framework for the power segment is likely to have a positive impact on Marafiq's earnings and will create shareholder value.

Figure 4: RAB analysis

Existing Financials			
FY2022 - (SARmn)	**Power**	**Others**	**Total**
Total revenue	**1,949**	**4,556**	**6,505**
Total cost of revenue	1,489	3,868	5,357
% of revenue	76%	85%	82%
Gross Profit	**460**	**689**	**1,148**
Margin	24%	15%	18%
Total administrative and other expe	98	173	271
% of revenue	5%	4%	4%
Operating profit	**362**	**516**	**878**
Margin	19%	11%	13%
Net profit/(loss) for the year	**276**	**569**	**846**
Margin	14%	12%	13%
Weighted Avg. Shares - Basic & Dilu	250	250	250
EPS (SAR)	**1.1**	**2.3**	**3.4**

Source: Company, GIB Capital

RAB Model - Estimates			
FY2022 - (SARmn)	**Power**	**Others**	**Total**
Total revenue	**2,144**	**4,556**	**6,700**
Total cost of revenue	1,546	3,868	5,414
% of revenue	72%	85%	81%
Gross Profit	**598**	**689**	**1,286**
Margin	28%	15%	19%
Total administrative and other expens	108	173	280
% of revenue	5%	4%	4%
Operating profit	**490**	**516**	**1,006**
Margin	23%	11%	15%
Net profit/(loss) for the year	**405**	**569**	**974**
Margin	19%	12%	15%
Weighted Avg. Shares - Basic & Diluted	250	250	250
EPS (SAR)	**1.6**	**2.3**	**3.9**

Source: GIB Capital

Key Assumptions	Power	Others	Total
Total Assets	7,000	17,226	24,226
WACC	7%		
Operating profit	490		
Revenue Growth	10%		

Source: GIB Capital

We have also estimated the potential impact of RAB-based framework implementation at different RAB and WACC levels on the EPS. **Our mid-case scenario implies a 15% upside to the EPS. However, this can range from 0% to 33%.**

Figure 5: Sensitivity of RAB and WACC on group EPS

Sensitivity Analysis									
RAB (SARmn)	**6000**			**7000**			**8000**		
WACC	6%	7%	8%	6%	**7%**	8%	6%	7%	8%
EPS	3.4	3.6	3.9	3.6	**3.9**	4.2	3.9	4.2	4.5
Upside from existing	0%	5%	15%	5%	**15%**	24%	15%	24%	33%

Source: GIB Capital

4. Potential upside from new projects

Marafiq has been selected by the RC to serve as the sole power and water service provider for JCPDI and RIC's sole water service provider. The company's capacity will increase once the under-construction infrastructure comes online, supporting top-line growth going forward.

Figure 6: Asset base – under construction

Infrastructure (under construction)			
Activities	**Plant/Facility**	**Capacity**	**% of existing**
RIC			
Wastewater Treatment	IWW	25,000 m³/day	6%
Wastewater Treatment	SWW	8,333 m³/day	2%
Seawater Cooling	SWC	1,440,000 m³/day	3%
Potable Water Pump Station	PW-PS	110,400 m³/day	9%
Potable Water Storage	PW Tanks	170,000 m³/ day	13%
JCPDI			
Potable Water	SWRO	60,000 m³/day	5%
Water Treatment	STP	25,700 m³/day	7%
Potable Water Storage	PW Tanks	265,000 m³/day	21%
Jubail			
Water Treatment	Stage - 6	120,000 m³/day	31%
Industrial Waste Water Treatment	Stage-4	125,000 m³/day	32%
Jeddah			
Sewage Treatment		500,000 m³/day	129%

Source: IPO Prospectus, GIB Capital

Across the KSA, 14 upcoming tenders are expected to have a combined daily capacity of 6mn m^3 of water services and 7.8GW of power generation (164% of the company's total power generation capacity of 4.8GW). The company may participate in these tenders. Even if the company wins some of the tenders, it will act as a catalyst for future growth.

Figure 7: Upcoming projects in KSA

Project	Capacity (m^3/day)	Status
Tabuk 1 IWP	400,000	TBA
Rak 2 IWP	600,000	TBA
Jubail 4 IWP	300,000	TBA
Ras Tanura IWWTP	20,000	Q2 2025
Haer ISTP	200,000	TBA
Jazan 1 IWP	300,000	TBA
Ras Muhaisan IWP	300,000	TBA
Juranah IWSR	2,500,000	May-24
Rabigh 4 & 5 IWP	600,000 & 500,000	TBA
Amasia	112-142 MW	Jun-24
	PW: 50,000-59,400 M^3/Day	Jun-24
	STP: 7,750-8,200 M^3/Day	Jun-24
Neom IWP	200,000	TBA

Source: IPO Prospectus

Figure 8: Future projects for power generation

Project	Capacity (MW)	Status
Tabuk 1 IWP	3,600	Bidding stage
Rak 2 IWP	3,600	Bidding stage
Jubail 4 IWP	500	Bidding stage

Source: IPO Prospectus

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5. Potential upside from the tariff increase

1. **Upside from water tariff reset:** The water tariff is set for an upward revision. We have tried to estimate the impact of the increase in water tariff on the overall Group's profitability. Assuming the rate of potable and process water increases by 5%, the **Group's EPS will increase by 7% for the forecast year compared to the base case**.

2. **The potential benefit from power tariff reset:** Historically Power tariffs have been reset periodically. It was last revised in 2018 for commercial customers in Yanbu. We believe any tariff reviews could add happen in the near term. The operating leverage will kick in a larger increase in profits.

Figure 9: Power tariffs for commercial customers in Yanbu

<table>
<tr><th>Sr No.</th><th>Service Line / Customer Category/ Monthly Consumption Slabs</th><th>UOM</th><th>2003 –09</th><th>2010 – 15</th><th>2016</th><th>New Rates 2018</th></tr>
<tr><td>A2</td><td>Commercial Customers</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>1</td><td>1-2,000</td><td>SAR /kWh</td><td>0.05</td><td rowspan="2">0.12</td><td rowspan="2">0.16</td><td rowspan="3">0.20</td></tr>
<tr><td>2</td><td>2,001-4,000</td><td>SAR /kWh</td><td>0.10</td></tr>
<tr><td>3</td><td>4,001-6,000</td><td>SAR /kWh</td><td>0.12</td><td rowspan="3">0.20</td><td rowspan="3">0.24</td></tr>
<tr><td>4</td><td>6,001-7,000</td><td>SAR /kWh</td><td>0.15</td><td rowspan="5">0.30</td></tr>
<tr><td>5</td><td>7,001-8,000</td><td>SAR /kWh</td><td>0.20</td></tr>
<tr><td>6</td><td>8,001-9,000</td><td>SAR /kWh</td><td>0.22</td><td rowspan="3">0.26</td><td rowspan="3">0.30</td></tr>
<tr><td>7</td><td>9,001-10,000</td><td>SAR /kWh</td><td>0.24</td></tr>
<tr><td>8</td><td>10,001 & Above</td><td>SAR /kWh</td><td>0.26</td></tr>
</table>

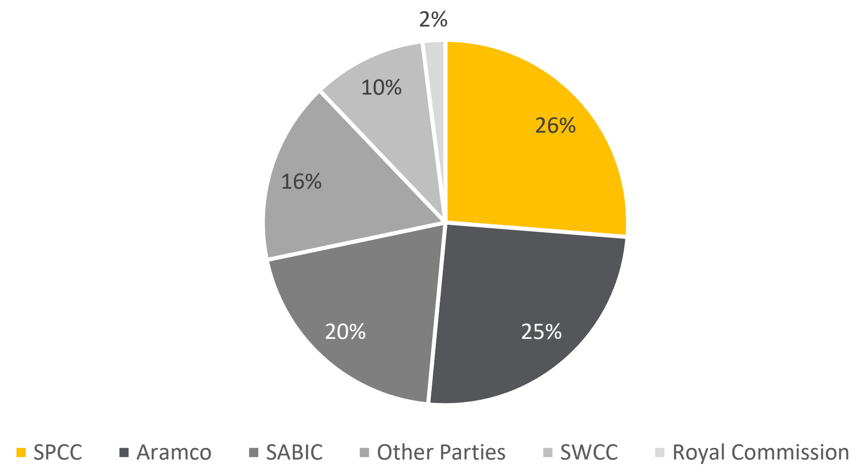
Source: IPO Prospectus

3. **Scope for margins improvement:** Alkhorayef Water & Power Technologies's (AWPT) gross margins has stood at ~29% in FY21, which is substantially higher than Marafiq's gross margins, which stood at 14% during the same period. This likely indicates sufficient headroom for the company to increase its gross margins in line with its peers operating in a similar segment and the same geography.

6. Strong customer base

Marafiq provides its services to large-scale customers. The five biggest clients include Saudi Power Procurement Co (SPPC), SABIC, Aramco, Saline Water Conversion Corporation (SWCC) and Royal Commission for Jubail and Yanbu, which accounted for 84% of the total revenue in 2021.

Figure 10: Revenue breakdown by major customers (FY21)

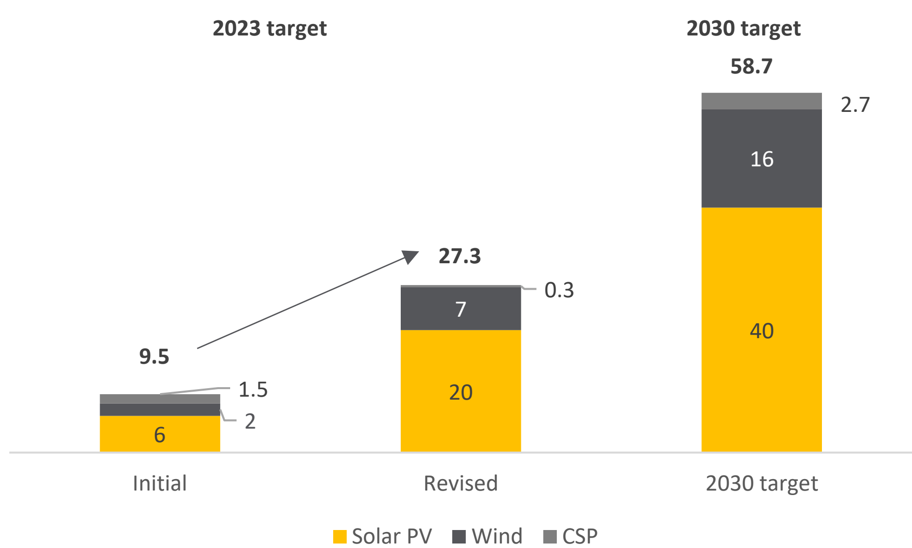


Source: Company, GIB Capital

7. Vision 2030 initiatives

- The primary objective of Vision 2030 important for the energy sector are as follows:
  - increase the contribution of renewable water use in the agricultural sector to 22.3% in 2025 from 9.5% in 2018
  - set a target for renewable energy (27.3 GW by 2023)

Figure 11: The National Renewable Energy Program (NREP) targets (GW)



Source: MEED

- To achieve the objectives of Vision 2030, the Council of Economic and Development Affairs (CEDA) established several Vision Realization Programs (VRPs). The following VRPs of Vision 2030 align with the water, power, and gas sectors.

  - The Privatization program includes the water, gas and power sectors since the government has handled them. The program aims to increase the participation of the private sector, which is expected to enhance quality and efficiency.
  - The National Transformation program focuses on improving living standards by fast-tracking the execution of primary infrastructure, thus, aiding the growth of gas, water and services.
  - The National Industrial Development and Logistics program aims to transform the Kingdom into an industrial centre and a global logistics hub.

- National Water Company (NWC) announced projects worth SAR108bn to increase water and sewage network coverage.
- National Water Strategy announced in 2018 targets to increase the participation of the private sector to 100% in desalinated water production by 2030. MEWA set a directive of meeting 90% of the demand using desalinated water and 10% using ground and surface water by 2030.
- SWPC targets 20 desalination plants having a cumulative capacity of 8.5mn m^3/day by 2025, and 14 sewage treatment plants with 11 expansions are targeted to deliver a cumulative capacity of 2.4mn m^3/day by 2031.

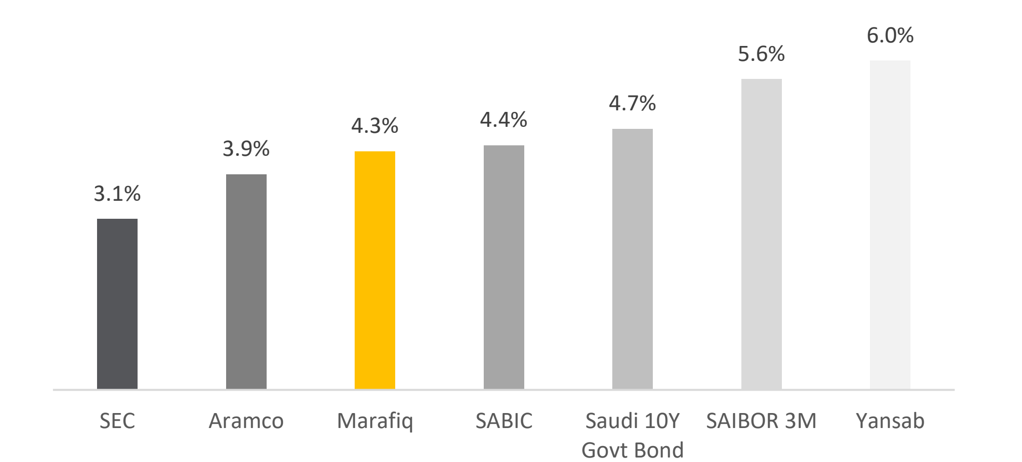
We believe the company is well poised to benefit from the various programs initiated in line with Vision 2030.

8. Dividend analysis

The company has committed SAR550mn for FY22 (and announced) and FY23. After that, the payout ratio is targeted to be at 80%.

The current dividend yield stands at 4.3%, a reasonable level compared to other dividend players. The yields are slightly lower as compared to the Saudi 10Y government bond.

Figure 12: Dividend yield



Source: Bloomberg, GIB Capital

Valuation and risks

We have used DCF for valuing the company because this captures the strong free cashflows of the company. The company has stable revenue growth and is not exposed to seasonal or cyclical trends.

Based on a terminal growth of 2% and a WACC of 8.6% with a target capital structure of 30%, we get SAR60/share (rounded) as the target price.

Figure 13: DCF valuation model

DCF model (SARmn)	**2022**	**2023e**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**	**2029e**	**2030e**
EBIT	1,094	1,258	1,327	1,412	1,454	1,497	1,539	1,577	1,617
tax	-6	-96	-109	-126	-132	-139	-145	-150	-155
Change in WC	98	-45	-36	-37	-39	-41	-43	-39	-41
Dep	1,165	1,181	1,215	1,250	1,286	1,325	1,365	1,402	1,440
Capex	-754	-1,249	-625	-643	-662	-682	-703	-722	-742
FCF	**1,597**	**1,049**	**1,773**	**1,856**	**1,907**	**1,960**	**2,013**	**2,068**	**2,120**
Terminal Value									**33,017**

Enterprise value of explicit period	10,091
PV of Terminal Value	17,128
Total Enterprise Value	**27,218**
(-)Debt, incl. lease liabilities	(13,600)
(+) Cash	686
(+) Associate	-
(-) Minority	-
Equity value	**14,304**
Number of shares	250
Equity value per share	57
Adjusted DCF-based equity value per share*	**59**
Cost of Equity	10.5%
Cost of debt	4.0%
Target D/A	30%
WACC	**8.6%**

Source: GIB Capital

We have also shown various dividends at a target yield of 4.5%. While 2023 dividends could be SAR550mn given the capex requirements, 2024 dividends could be significantly higher. Over and on top of this, we have other upside drivers such as a) transition into the RAB model, b) upward revision to water tariffs, c) newer project wins and d) industrial expansion plans of KSA, and thus the company may record better than expected results and increase the dividend.

Figure 14: Dividend yield analysis

Dividend yield valuation scenario analysis					
Dividend (SARmn)	**550**	**600**	**650**	**700**	**750**
Target Yield	4.5%	4.5%	4.5%	4.5%	4.5%
Equity value (SARbn)	12.22	13.33	14.44	15.56	16.67
Value per share (SAR)	**48.9**	**53.3**	**57.8**	**62.2**	**66.7**

Source: GIB Capital

Peer multiples

Figure 15: Peer valuations

	Country	Mkt Cap (US$mn)	P/E Ratio (TTM) (x)	Est P/E Current Yr (x)	EV/T12M EBITDA (x)	Dividend Yield - FY1 (%)	P/B (x)
Sector							
Qatar Electricity & Water	Qatar	4,920	10.6	11.8	17.1	5.3	1.2
Abu Dhabi National Energy	UAE	98,576	44.1	31.0	20.7	1.1	5.1
ACWA Power	Saudi Arabia	26,241	74.5	44.9	46.3	2.4	5.3
Saudi Electricity	Saudi Arabia	24,629	10.0	NA	5.3	NA	0.4
Dubai Electricity & Water	UAE	32,265	15.8	14.4	10.7	5.3	1.3
TAQA Morocco	Morocco	2,162	17.2	16.7	8.1	3.8	3.6
NTPC Ltd	India	20,918	10.4	9.9	8.9	4.9	1.3
National Grid PLC	Britain	47,529	NA	14.2	NA	5.9	NA
Median		**25,435**	**15.8**	**14.4**	**10.7**	**4.9**	**1.3**
Top Saudi companies							
Saudi Arabian Oil	Saudi Arabia	1,880,392	12.1	12.6	5.7	4.9	4.4
Saudi Basic Industries	Saudi Arabia	71,333	16.2	20.8	7.9	4.9	1.4
Saudi Telecom	Saudi Arabia	50,391	15.5	14.4	7.3	4.6	2.6
Saudi Arabian Mining	Saudi Arabia	41,286	16.7	21.1	10.3	0.0	3.4
ACWA Power	Saudi Arabia	26,241	74.5	44.9	46.3	2.4	5.3
Saudi Electricity	Saudi Arabia	24,629	10.0	NA	5.3	NA	0.4
Dr Sulaiman Al Habib Medical	Saudi Arabia	23,317	53.0	46.6	43.9	1.6	14.9
SABIC Agri-Nutrients	Saudi Arabia	16,757	6.3	10.5	4.6	5.9	3.2
Almarai	Saudi Arabia	14,512	30.4	27.1	13.5	2.1	3.3
Elm	Saudi Arabia	8,627	33.9	29.4	26.2	1.7	10.3
Median		**25,435**	**16.4**	**21.1**	**9.1**	**2.4**	**3.4**
Marafiq	**Saudi Arabia**	**3,386**	**14.6**	**15.1**	**11.1**	**4.5**	**1.5**

Source: Bloomberg, GIB Capital

Risks:

Key downside risks include the following:

- **Unexpected network outage:** Any unexpected and unplanned breakdown of the company’s facilities may adversely affect company operations and financial position.

- **Delay or unfavourable tariff review:** Delays in adjusting regulated power and water rates in the event of notable increases in energy sourcing prices can result in a difference in margins and profitability from our projections.

- **Failure to fulfil licensing requirements:** The company owns different licenses to operate, which are issued by a regulatory authority. If the company fails to comply with the licensing requirement, it may face penalties, which can negatively affect its performance.

- **Failure to start operations as planned:** The company is working on completing several projects; if there is any delay in completion, the company may not be able to commence its operations, impacting its business and prospects.

- **Concentration risk:** The company derives most of its revenue (FY21- 84%) from the top 5 customers. If demand for power and water services decreases from any of the customers, it may directly impact the company's top line.

- **Dependence on single gas and fuel supplier:** The company depends on Aramco for the supply of fuel and gas, which can expose it to several risks, including the supplier being impacted by global fuel market situations, which can have financial implications on the company’s financial position.

Company Profile

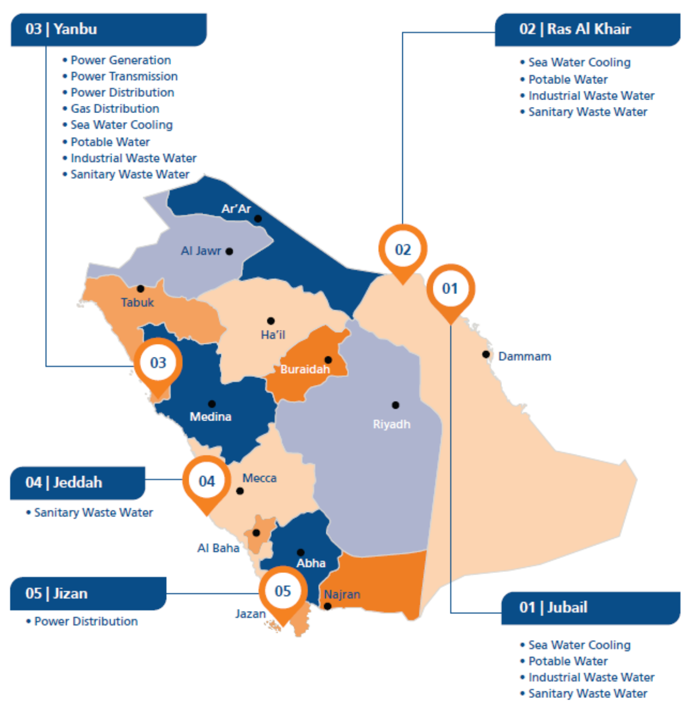
The Power and Water Utility Company for Jubail and Yanbu (Marafiq) was established in 2000 after the Council of Ministers Decision defined the charter of a new private utility company in July 1999. In January 2003, the company started operating commercially when all utility assets operated by the Royal Commission were transferred to the company.

The Group operates as an integrated utility delivery center, mainly in the industrial cities of Jubail and Yanbu. Furthermore, recently the company has expanded to Jazan Industrial City for Primary and Downstream Industries (JCPDI) and Ras al Khair Industrial City (RIC).

Marafiq provides its services through three segments:

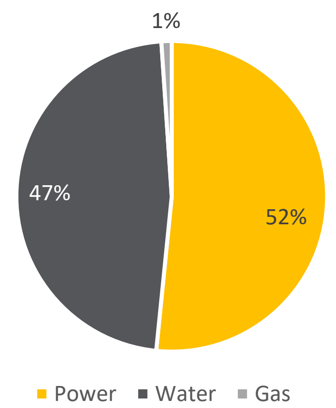
- **Power segment:** provides electric power, transmission and distribution and retail supply services in Yanbu and JCPDI
- **Water segment:** provides desalinated and treated water and potable, process and industrial water production and distribution services, as well as seawater cooling systems for heavy industries and industrial plants and sanitary wastewater collection and treatment in all four industrial cities
- **Sales Gas segment:** distributes sales gas for a light industrial park area in Yanbu.

Figure 16: Current and planned operations of the Company



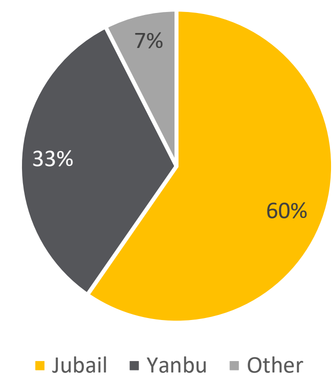
Source: Company

Figure 17: Revenue by services – FY21



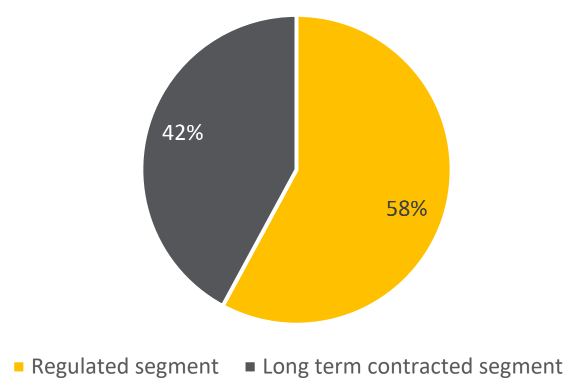
Source: Company data

Figure 18: Revenue by region – FY21



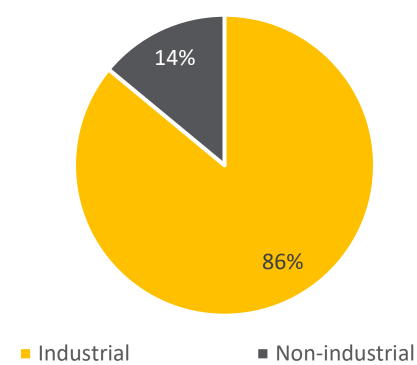
Source: Company data

Figure 19: Regulated and Long term contract revenue – FY21



Source: Company data

Figure 20: Revenue by customer type – FY21



Source: Company data

- **Revenue mix by services:** The company derives most of its revenue from power (52%) and Water (47%) operations in Jubail and Yanbu. Gas (1%) operations are limited to the distribution network in Yanbu.
- **Revenue mix by location:** Jubail (60%) and Yanbu (33%) contribute most of the revenue, while 7% is generated from cities like Jazan and RAK.
- **Revenue mix by customer:** The top five customers: Saudi Power Procurement Company (Principal Buyer), ARAMCO, SABIC, SWCC and the Royal Commission for Jubail and Yanbu, contributed to 84% of the total revenue in 2021.
- **Revenue mix by customer type:** Marafiq's customer mix consists mainly of government, industrial facilities, commercial and residential. Industrial customers represent 86% of total revenue, while non-industrial contribute 14%. Industrial customers have stable consumption and higher operating rates and make payments more promptly than non-industrial customers.
- **Revenue mix by the regulatory framework:** The company has two segments based on the underlying regulatory framework, mainly based on tariff setting mechanisms –regulated and long-term contracted segments.

- **Regulated contracts:** In 2021, the regulated segment contributed 58% to the total revenue. In the Power segment, tariffs are set by the Water and Electricity Regulatory Authority (WERA). Water segment, for industrial customers, tariffs are set by the Royal Commission Board of Directors, and for the non-industrial customer, it is set by MEWA (water regulator). The Ministry of Energy sets gas segment tariffs.
- **Long-term contractual agreements:** In 2021, 42% of the total revenue came from the long-term contracted segment. For the JWAP, invoicing is similar to standard Independent Power Producer (IPP), like tariff structure, where billing is per plant availability. For SADARA, water is provided in line with the Industrial Water Supply Agreement.

Figure 21: Asset base – existing

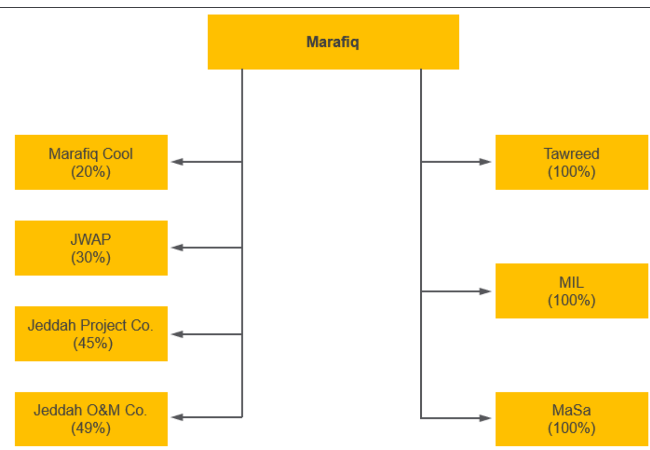
Infrastructure (existing)	
Power generation, transmission, distribution	**KPI**
Generation capacity	4,777 MW
Network length	Transmission - 440 km, Distribution - 3,558km
Power availability	c90%
Seawater cooling	**KPI**
Gross cooling capacity	56,582k m3/d
Cooling pipeline length	255 km
Cooling availability	c94%
Water desalination, transmission, distribution	**KPI**
Desalination capacity	1,287k m3/d
Pipeline length	Potable - 2,536 km, Industrial - 51 km
Water production availability (2021)	c98%
Wastewater treatment	**KPI**
Treatment capacity	387k m3/d
Treatment pipeline length	Sanitary - 1,787 km, Industrial- 179 km
Treatment availability (2021)	100%
Gas	**KPI**
Sales gas capacity	55 MMSCFD
Distribution network length	11 km
Gas availability	100%

Source: IPO Prospectus

Subsidiaries

MARAFIQ has the following seven subsidiaries:

Figure 22: Organizational structure



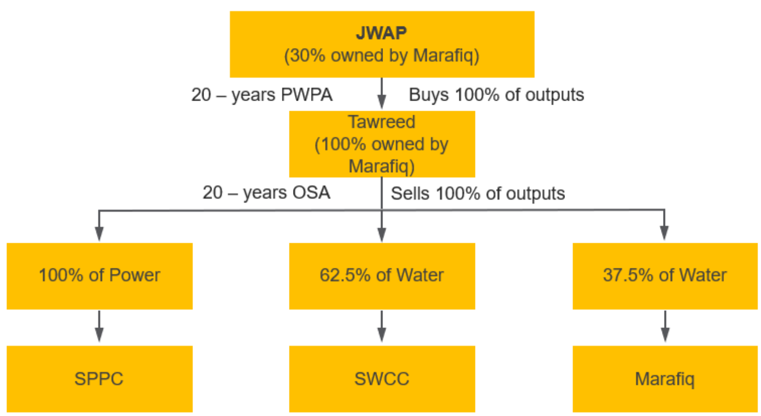
Source: IPO Prospectus

Marafiq Water and Power Supply Co. (Tawreed) and Jubail Water and Power Co. (JWAP)

JWAP's plant capacity is 2,743.6 MW of power and 800,000 m^3/day of water. The plant is a dual-purpose facility with a power plant based on combined cycle generation, which comprises four power blocks consisting of 3 GTGs and 1 STG each. The water facility includes 27 desalination units based on multi-effect distillation (MED) technology. The plant uses sales gas as the primary fuel and distillate No. 2 as backup fuel.

Tawreed and JWAP have an agreement for power and water purchase. Under the agreement, Tawreed will offtake all the power, water capacity, and output. The agreement is dated January 2007 and will expire after 20 years of the project's commercial operation (the commercial operation commenced in 2010). At the end of 20 years of operation, the plant will be transferred to Tawreed. Tawreed sells 100% of its power output to Saudi Power Procurement Company (Principal Buyer), 62.5% of the water output to Saline Water Conversion Company (SWCC), and 37.5% of the water to Marafiq.

Figure 23: JWAP- Tawreed – Relationship



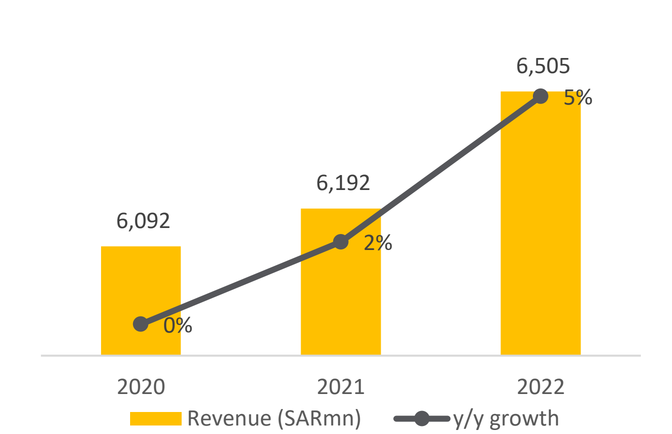
Source: IPO Prospectus, PWPA- Power and Water Purchase Agreement, OSA – On – Sale Agreement

Stable revenue

The company has recorded growth across all operating segments. Revenues have been between SAR6.1bn to SAR6.5bn in the last three years.

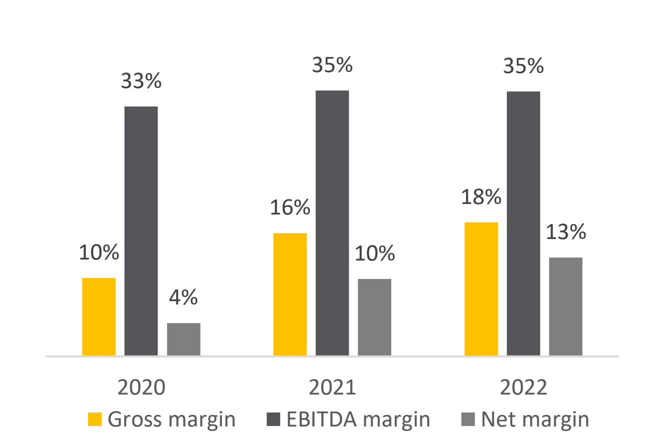
It has been possible for the Group to reinforce a stable demand for its utility services supported by its stable relationship with its industrial clients, who typically sign long-term (30-year) supply agreements with the Group with provisions for tariff increases if and when the regulator approves them. This high level of stability, along with regulated end-user tariffs, lessens the volatility of income and earnings.

Figure 24: Revenue trend



Source: GIB Capital, Company

Figure 25: Margin trend



Source: GIB Capital, Company

Cost dynamics

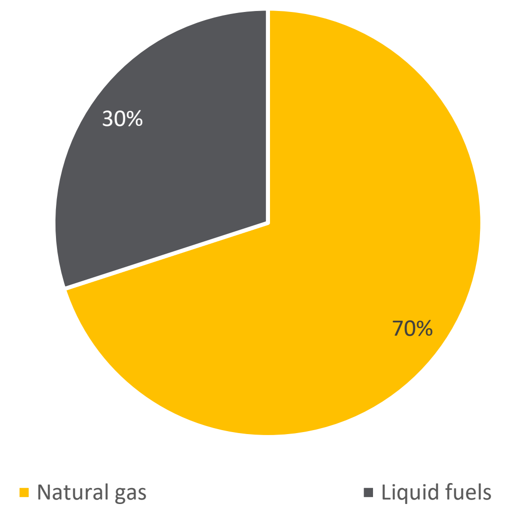
Marafiq has recorded an increase in gross margin in the last three years. In 2021, gross profit increased 60% y/y as the company reviewed the estimated useful life of PP&E, which resulted in a 17% y/y decrease in depreciation expenses included in the cost of revenue. Cost of revenue consists of power and water costs (28.4% of the total cost of revenue) in 2022; fuel and chemical costs (27.2%); depreciation of property, plant and equipment (21.1%), employee-related costs (11.8%), and operating and maintenance expenses (4.5%).

Power and water costs mainly comprised of the following:

- Costs associated with power and water generation from JWAP, which is later sold to the Saudi Electricity Company and Saline Water Conversion Corporation,
- desalinated water purchases from JWAP and Al-Fath to support potable and process water operations in Jubail.

Fuel and chemical costs relate largely to the different fuel types and gas for power and gas generation.

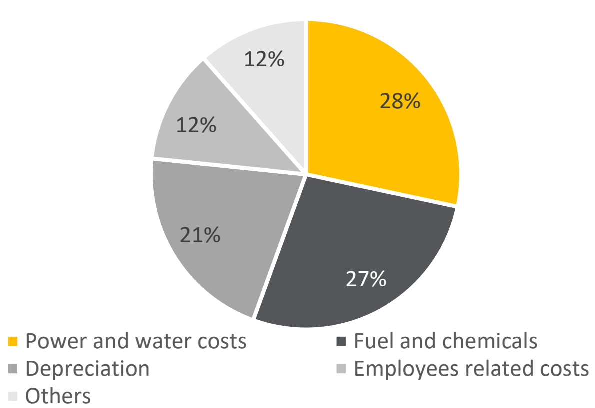
Figure 26: Feedstock mix – 2021



Source: Company, GIB Capital

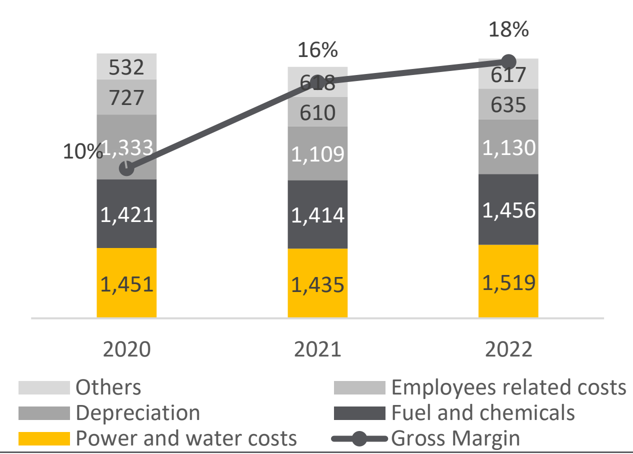
Employee-related costs comprised salaries and wages, allowances, benefits, bonuses, medical insurance, and early retirement compensation.

Figure 27: Cost of revenues (COR) break up -2022



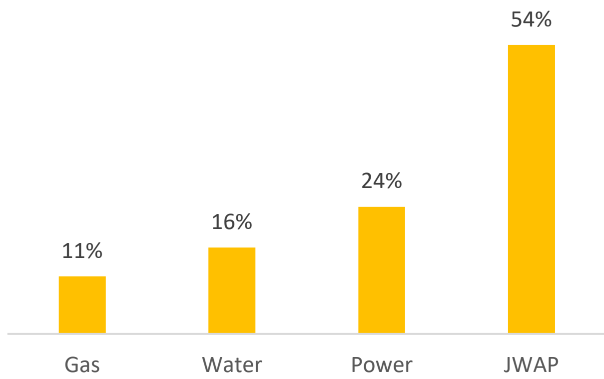
Source: GIB Capital, Company

Figure 28: Gross Margin development & COR (SARmn)



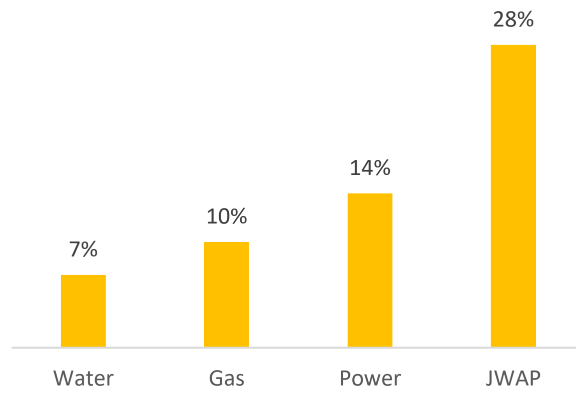
Source: GIB Capital, Company

Figure 29: Gross margin – segment wise - 2022



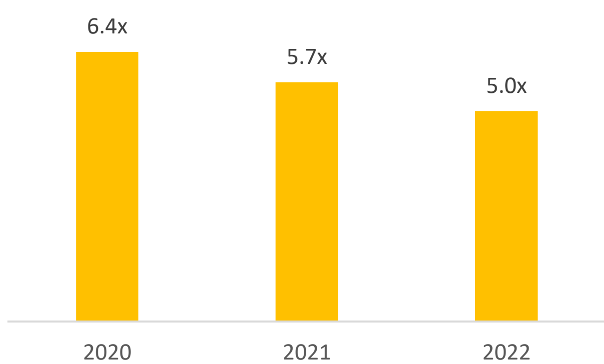
Source: GIB Capital, Company

Figure 30: Net margin – segment wise - 2022



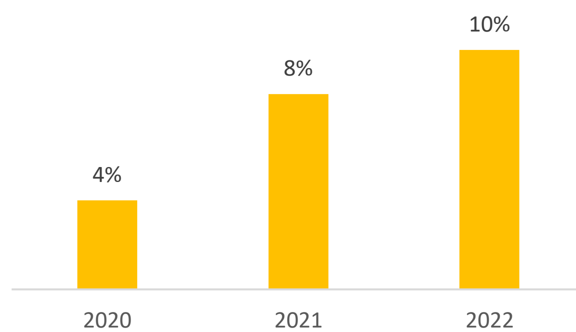
Source: GIB Capital, Company

Figure 31: Net debt/EBITDA



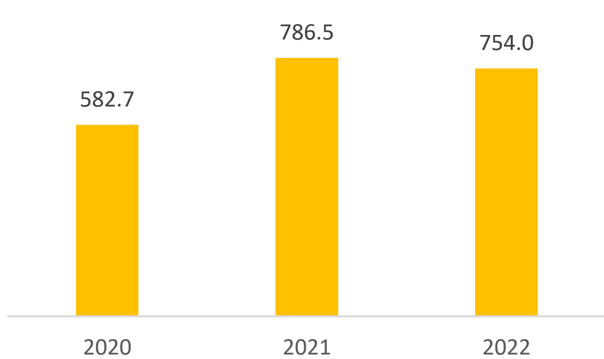
Source: GIB Capital, Company

Figure 32: ROE trend



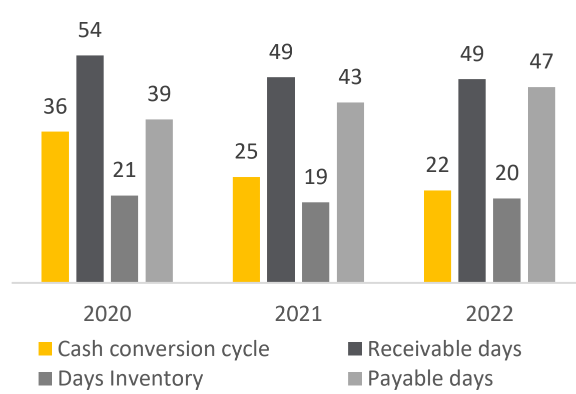
Source: GIB Capital, Company

Figure 33: Capex trend (SARmn)



Source: GIB Capital, Company

Figure 34: Cash conversion cycle trend

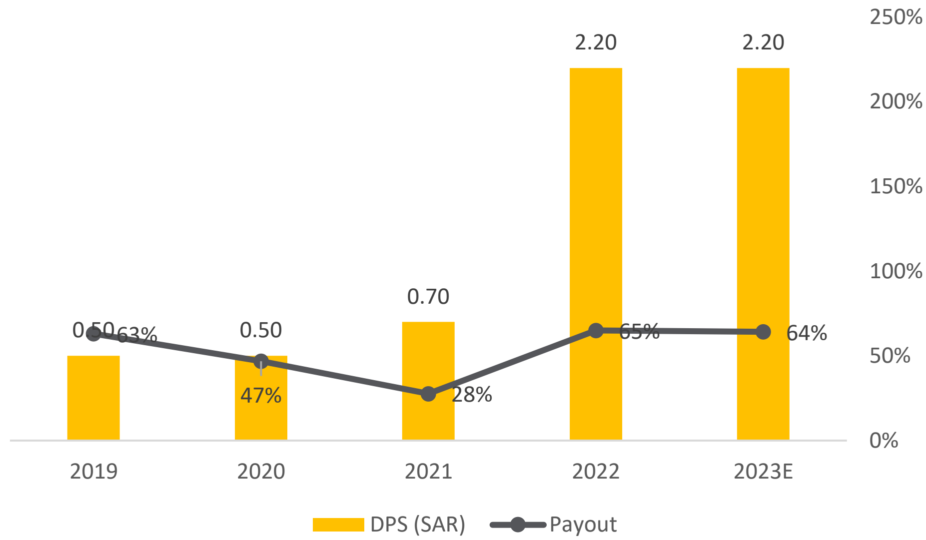


Source: GIB Capital, Company

Healthy dividend payout

The company has committed SAR550mn for FY22 (and met its guidance) and FY23. After that, the payout ratio is targeted to be at 80%.

Figure 35: DPS trend

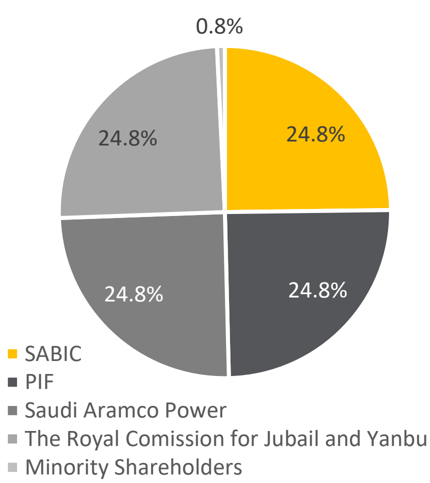


Source: Company, GIB Capital

Ownership

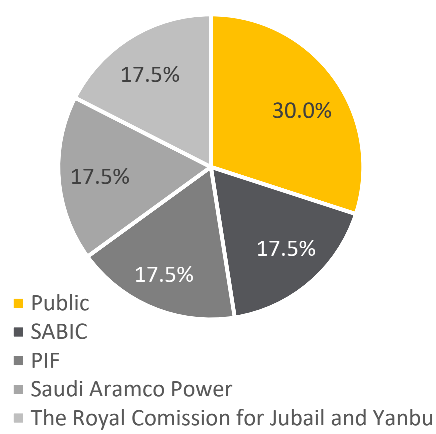
The major shareholders of Marafiq are SABIC, PIF, Saudi Aramco Power and the Royal Commission for Jubail and Yanbu, who owns 17.5% each. QFI holding currently is 1.7%.

Figure 36: Pre IPO ownership



Source: GIB Capital, Company

Figure 37: Post IPO Ownership



Source: GIB Capital, Company

IPO details

- **Offer price:** The IPO offer price was set at SAR46/share
- **Shares offered:** 73.09mn shares or 29.24% of capital
- **Listing date:** 24th November 2022
- **Retail offering subscription:** 632% oversubscribed
- **Institutional offering subscription:** 59x covered
- **Lock-up period:** The substantial shareholders are subject to a lock-up period of six months from the date on which trading of the shares commenced on Tadawul

Market Dynamics

In KSA, several sizable government-owned companies operate in the water and electricity sectors. The vertically integrated utilities, which offer power, water services, or both, define the market structure. In general, transmission and distribution, generation and retailing, and supply are all integrated operations. Wastewater and other industrial water services and desalination are mostly combined with electricity generation through cogeneration.

In 2002, KSA's government gave the private sector a bigger role by allowing them to own and operate plants and utilities to produce electricity and desalinated water. As a result, several locally owned Independent Water and Power Producers (IWPPs) and Independent Power Producers (IPPs) started providing power and water services and capacity in accordance with long-term Power and Water Purchase Agreements (PWPAs) and Power Purchase Agreements (PPAs). The present Vision 2030 calls for even greater corporate sector engagement.

Figure 38: Electricity generation capacities

Producer		No. of Plants	Capacity (MW)	% in 2014	% in 2021
Service providers	Saudi Electricity Company (SEC)	39	55,680	71.2%	61.9%
	MARAFIQ	2	2,032	2.1%	2.3%
Independent Water and Power Producers	Jubail Water & Power Company (JWAP)	1	2,876	3.7%	3.2%
	Shuaibah Water & Electricity Company (SWEC)	1	1,191	1.6%	1.3%
	Shaqaiq Water & Electricity Company (SQWEC)	1	1,020	1.3%	1.1%
Independent Power Producers	Hajr for Electricity Production Company	1	4,098	4.4%	4.6%
	Al-Mourjan for Electricity Production Company	1	2,116	0.0%	2.4%
	Durmah Electric Company (REC)	1	1,756	2.3%	2.0%
	Rabigh Electric Company	1	1,320	1.7%	1.5%
	Fadhili Plant Cogeneration Company	1	1,549	0.0%	1.7%
Other Licensees	Saline Water Conversion Corporation (SWCC)	5	9,492	6.2%	10.6%
	Saudi Aramco	9	2,279	2.5%	2.5%
	Tihama Power Generation Company	4	1,643	1.4%	1.8%
	Power Cogeneration Plant Company	3	876	0.0%	1.0%
	Rabigh Arabian Water and Electricity	1	840	0.8%	0.9%
	Others	9	792	0.8%	0.9%
Renewable Energy	Sakaka Solar Company	1	335	0.0%	0.4%
	GDFI Haradh For Energy	1	26	0.0%	0.0%
	Taqnia Energy	1	13	0.0%	0.0%
	Saudi Electricity Company (SEC)	1	3	0.0%	0.0%
	Saudi Aramco	1	3	0.0%	0.0%
Total			**89,937**	**100.0%**	**100.0%**

Source: WERA

Key public players in the water sector

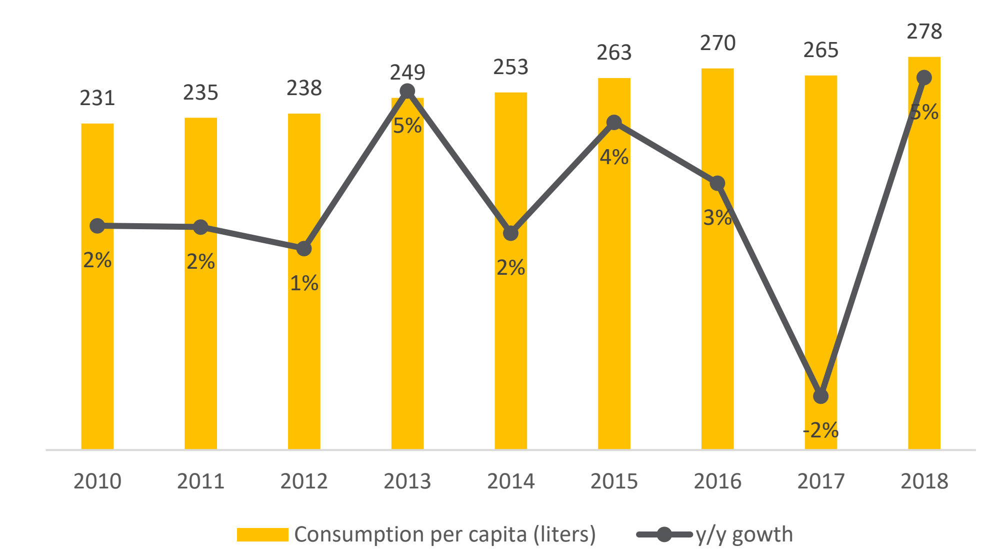
1. **The Ministry of Environment, Water and Agriculture (MEWA):** The ministry manages water resources. It also specifies the principles that define the privatization of water treatment and wastewater treatment in the Kingdom. MEWA is overall responsible for the broader goals of the sector.

2. **Saudi Water Partnership Company (SWPC):** It is a government-owned company that is mainly responsible for tendering the PPP projects by means of IWP, ISTP etc.
3. **National Water Company (NWC):** The company is completely owned by the Saudi government (specifically, the Public Investment Fund). NWC's mission is to receive water from sources and distributing them to consumers, collecting and treating wastewater, and collecting service charges for the same.
4. **Saline Water Conversion Corporation (SWCC):** It is a Saudi government organisation in charge of desalination and supplying of desalinated seawater. It is also responsible for tendering brownfield desalination assets.
5. **The Water Transmission and Technologies Company (WTTCO):** WTTCO is in charge of the operation and maintenance of the transmission/dispatch/distribution and storage systems in the Kingdom.
6. **National Center for Privatization and PPP (NCP):** It is a public centre of excellence that supports the development of regulations, a framework for privatization, and privatization readiness of government assets and services.

Water consumption

According to GASTAT, the country's average daily water usage per person climbed steadily from 2010 to 2018, with a small decline in 2017. The Kingdom had a per-person water use of 278 litres in 2018, compared to 141 litres in Oman in 2018 and 210 litres in South Africa.

Figure 39: Per-capita water consumption

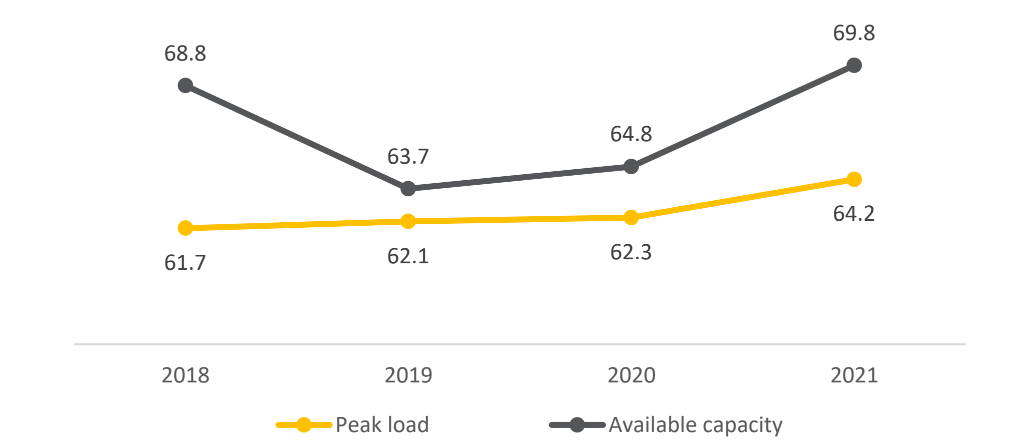


Source: GASTAT

Electricity demand and supply

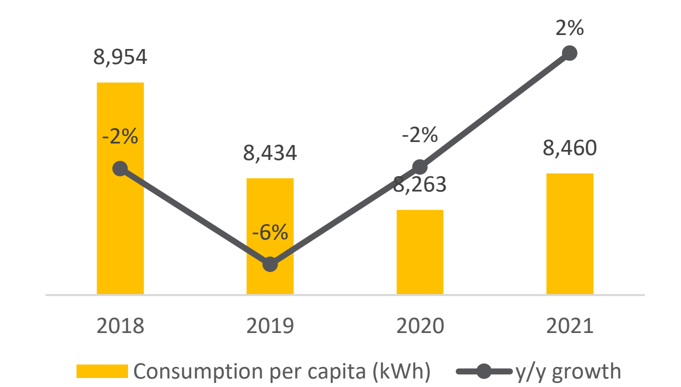
With 64.2 gigawatts (GW) of peak demand and 69.8 GW available capacity in 2021, the KSA has the largest electricity system in GCC. Its peak demand increased from 35 GW in 2007 to 64.2 GW in 2021, growing at a CAGR of 4.4%, indicating robust and consistent growth. Per capita consumption in the Kingdom is high largely due to climatic conditions, increasing use of modern electrical appliances and high residential consumption.

Figure 40: Electricity peak load and available capacity (GW)



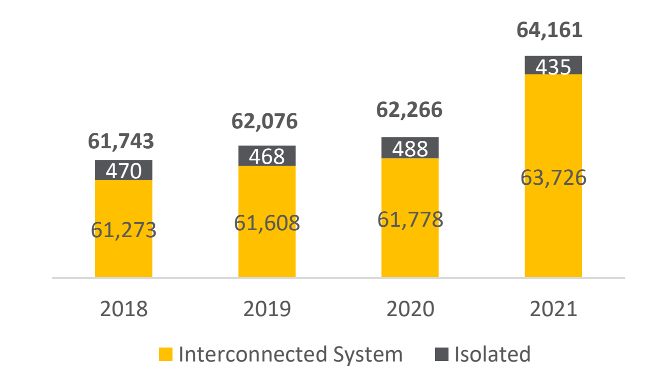
Source: Water & Electricity Regulatory Authority (WERA)

Figure 41: Electricity consumption per capita (kWh)



Source: Water & Electricity Regulatory Authority (WERA)

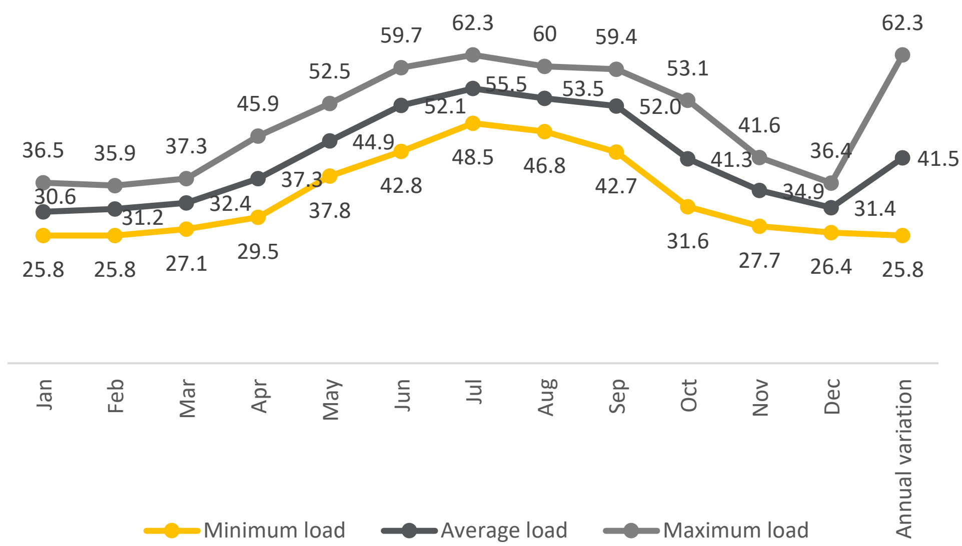
Figure 42: Electricity peak load (MW)



Source: Water & Electricity Regulatory Authority (WERA)

Seasonality in electricity consumption: The demand peaks from June to September, when temperatures are at their highest level, and people use their air conditioning the most. The below chart depicts the seasonality trend.

Figure 43: Electricity monthly demand variation (GW) - 2020



Source: Water & Electricity Regulatory Authority (WERA)

Figure 44: Marafiq's share in the electricity and water markets

	Region	Customer category	2015G	2016G	2017G	2018G	2019G	2020G
Licenced electricity generation capacity (MW)	Saudi Arabia	All	3.0%	3.7%	3.3%	3.4%	3.4%	3.2%
Electricity sales (Megawatt Hour (MWh))	Saudi Arabia	All	2.9%	3.0%	3.3%	3.1%	3.1%	
	Western	All	8.9%	9.2%	10.1%	9.2%	9.2%	
	Saudi Arabia	Residential	0.3%	0.3%	0.3%	0.3%	0.3%	
		Commercial	0.2%	0.2%	0.2%	0.2%	0.2%	
		Government	0.7%	0.6%	0.6%	0.5%	0.6%	
		Industrial	13.0%	13.2%	13.9%	12.1%	12.5%	
		Others	8.8%	8.8%	10.6%	7.5%	6.8%	
	Western	Residential	0.9%	0.9%	0.8%	0.8%		
		Commercial	0.6%	0.6%	0.5%	0.6%		
		Government	2.3%	1.9%	2.0%	1.7%		
		Industrial	53.6%	53.6%	56.5%	49.3%		
		Others	32.9%	37.8%	42.5%	14.5%		
Licensed desalinated water production capacity (m³/day)	Saudi Arabia	All	7.4%	10.1%	9.5%	9.5%		
Desalinated water production (m³)	Saudi Arabia	All	6.6%	6.9%	6.1%	7.2%		
	Western	All	5.0%	6.2%	5.4%	7.7%		
	East	All	8.3%	7.5%	6.8%	6.8%		

Financials

Figure 45: Summarized basic financial statements (SARmn)

Income statement	2021a	2022a	2023e	2024e	2025e
Revenue	**6,192**	**6,505**	**6,751**	**6,944**	**7,146**
revenue y/y	*2%*	*5%*	*4%*	*3%*	*3%*
COGS	5,187	5,357	5,515	5,659	5,794
Gross Profit	**1,005**	**1,148**	**1,235**	**1,285**	**1,352**
Gross Profit margin	*16%*	*18%*	*18%*	*19%*	*19%*
Administrative expenses	246	271	236	229	222
Other operating income	246	223	265	278	288
Operating profit	**998**	**1,094**	**1,258**	**1,327**	**1,412**
Operating margin	*16%*	*17%*	*19%*	*19%*	*20%*
Finance costs	237	298	388	306	231
PBT	**782**	**852**	**915**	**1,035**	**1,199**
Zakat/tax	117	6	96	109	126
NI (attributable to equity holders)	**632**	**846**	**819**	**926**	**1,073**
Net margin	*10%*	*13%*	*12%*	*13%*	*15%*
y/y	*137%*	*34%*	*-3%*	*13%*	*16%*
EPS	**2.5**	**3.4**	**3.3**	**3.7**	**4.3**
DPS	0.7	2.2	2.2	3.0	3.4
Payout	28%	65%	67%	80%	80%
EBITDA	**2,167**	**2,268**	**2,439**	**2,542**	**2,662**
Net debt (w/o IFRS liab.)	8,496	7,923	8,095	7,684	7,228
Net debt (w/ IFRS liab.)	12,316	11,338	11,190	10,459	9,683

Balance Sheet	2021a	2022a	2023e	2024e	2025e
Inventories	274	296	305	313	320
Trade receivables	834	868	900	926	953
Prepayments & other current assets	384	447	460	472	483
Short-term deposits	1,422	1,576	1,576	1,576	1,576
Cash and cash equivalents	483	686	164	225	281
Total Current Assets	**3,397**	**3,872**	**3,405**	**3,512**	**3,614**
Property, plant and equipment	20,412	19,991	20,067	19,485	18,887
Long-term rec. and prepayments	272	280	291	299	308
Total Non-Current Assets	**20,713**	**20,354**	**20,441**	**19,867**	**19,278**
Total Assets	**24,110**	**24,226**	**23,846**	**23,380**	**22,892**
Current Liabilities	2,197	2,413	2,433	2,452	2,469
Non-current Liabilities	14,362	13,568	12,898	12,228	11,508
Equity	7,551	8,245	8,514	8,699	8,914
Total Equity and Liabilities	**24,110**	**24,226**	**23,846**	**23,380**	**22,892**
BVPS	30.2	33.0	34.1	34.8	35.7

Cashflow	2021a	2022a	2023e	2024e	2025e
Cashflow from Operations	2,230	2,145	1,955	2,105	2,286
Cashflow from Investing	-972	-874	-1,257	-633	-651
Cashflow from Financing	-1,370	-1,068	-1,220	-1,411	-1,579
Total Cashflows	**-112**	**203**	**-522**	**61**	**56**

Source: Company, GIB Capital

Figure 46: Key ratios

Key ratios	2021a	2022a	2023e	2024e	2025e
Profitability ratios					
RoA	3%	3%	3%	4%	5%
RoE	8%	10%	10%	11%	12%
Sales/Assets	26%	27%	28%	30%	31%
Net margin	10%	13%	12%	13%	15%
Liquidity ratios					
Currrent Assets/ Current Liabilities	1.5	1.6	1.4	1.4	1.5
Debt to Total Equity (w/ IFRS liab.)	1.9	1.6	1.5	1.4	1.3
Receivable Days	49	49	49	49	49
Inventory Days	19	20	20	20	20
Payable days	43	47	47	47	47
Cash conversion cycle	25	22	22	22	22
Debt ratios					
Net Debt/EBITDA (w/o IFRS liab.)	3.9	3.5	3.3	3.0	2.7
Net Debt/EBITDA (w/ IFRS liab.)	5.7	5.0	4.6	4.1	3.6
Debt/Assets (w/o IFRS liab.)	0.4	0.4	0.3	0.3	0.3
Net Debt/Equity (w/o IFRS liab.)	1.1	1.0	1.0	0.9	0.8
Valuation ratios					
P/E	19.5	14.6	15.1	13.3	11.5
P/B	1.6	1.5	1.5	1.4	1.4
EV/EBITDA	11.6	11.1	10.3	9.9	9.5
FCF Yield	12.2%	13.0%	8.5%	14.4%	15.1%
Dividend Yield	1.4%	4.5%	4.5%	6.0%	7.0%

Source: Company, GIB Capital

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