

Target Price: SAR130/share
Current Price: SAR127.6/share
Upside: ~2% (+2.8% div yield)
Rating: Neutral

Al Mawarid Manpower Co. (ALMAWARID)

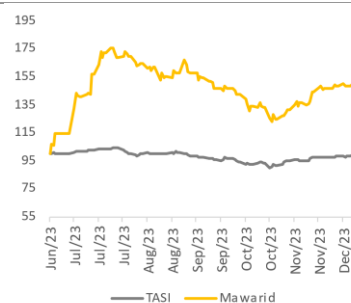
Strong growth prospects; although mostly priced in

Stock data

TASI ticker	1833
Mcap (SARmn)	1,914
Trd. Val (3m) (SARmn)	40.4
Free float	46.0%
QFI holding	1.6%
TASI FF weight	0.08%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- Revenue is expected to increase at a CAGR of ~11% over 2023e-26e, primarily driven by demand growth from the construction and hospitality sectors.
- Gross margins are likely to remain stable, although below the historical levels, mainly on account of the weak margin in the individual segment.
- We revise our 1yr fwd TP to SAR130/sh. (SAR90/sh. earlier) based on P/E (16.0x on 2024e EPS vs ~13x global peers' avg.) and DCF methods, implying a Neutral rating. The stock has gained 21% since Oct 2023, implying that the most positive fundamentals are already priced.

Poised to capture growth in construction and hospitality sectors: The construction and hospitality sectors are the primary catalysts for HR recruitment companies in KSA. Infrastructure activities are on a continuous upswing, fueled by the launch of giga/mega projects and several upcoming global events. The market size for workers in the construction sector is projected to grow at a CAGR of 8% over 2019-26e (source: 3Q23 presentation), requiring additional workforce going forward. Further, the hospitality sector is another thriving industry, given the government's focus on improving its contribution to GDP. We believe that Mawarid is effectively leveraging the growth potential in these sectors, given its substantial exposure. As of 9M23, construction comprised 50% (vs 37% in 2022), while hospitality accounted for 12% (vs 17% in 2022) of Mawarid's corporate segment revenue. Notably, Mawarid recently signed an MoU with the Ministry of Tourism to supply 5k Saudis over 2024-25e (as per the company).

Considering the robust demand from the above-mentioned sectors, we now expect the average workforce to reach ~32k in 2023 (~30k previous estimate, 3Q23: 31.5k), which is expected to rise further to ~37k in 2024 (~33k previous estimate). Consequently, total revenue is expected to grow by 34% and 16% y/y in 2023e and 2024e, respectively and at a CAGR of ~11% over 2023e-26e. However, we expect the company's overall gross margin to hover 11-12% over the forecast period (vs. 13.5% in 2022, 11.4% in 9M23), mainly due to ongoing challenges in the individual segment (price ceilings and other cost pressures).

Risks: The key downside risks are the cyclicity of the industry, high competition, regulatory changes resulting in higher cost of operation, price capping, and risk of receivables.

Figure 1: Key financial metrics

SARmn	2021a	2022a	2023e	2024e	2025e
Revenue	664	945	1,261	1,461	1,594
Revenue growth	-3%	42%	34%	16%	9%
Gross profit	97	128	145	169	186
Gross Profit margin	14.6%	13.5%	11.5%	11.6%	11.7%
Operating profit	62	84	103	119	133
Operating margin	9.4%	8.9%	8.1%	8.2%	8.3%
Net profit	56	76	93	108	120
Net profit margin	8.4%	8.0%	7.4%	7.4%	7.5%
Net profit growth	21%	37%	22%	16%	11%
EPS (SAR)	3.7	5.1	6.2	7.2	8.0
P/E	34.4x	25.2x	20.6x	17.7x	16.0x

Source: Company, GIB Capital

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