



Recent wins of Remat Al-Riyadh & King Khaled International Airport contracts, and Faden acquisition to more than double the number of faces installed by FY25

Optimism around the stock remains buoyant upon the recent project signings, especially the Al-Riyadh and King Khalid Airport projects. We believe these events will materially drive AlArabia's revenue growth going forward. The Faden acquisition will likely enhance company's outdoor advertising business and help foray into transit advertising, thereby aiding to advance its market share. The long-term projects (10-year contracts) provide stronger revenue visibility. A digitalization of their billboards for their planned expansions through these projects will likely expand the gross margins once these projects mature (however the details on the expense structure/accounting treatment are yet to be disclosed). We believe these material developments are likely to support a revenue CAGR of 22.6% over FY22–28E (versus 12.7% CAGR in FY19–22). The higher skew of digitized billboards in these projects is expected to aid towards 23.4% CAGR in net income over FY22–28E. Although the stock currently trades at a higher multiple of 28.4x FY24E P/E, we believe this high multiple is justified given the impending growth potential from the recent project wins and the full integration of the Faden acquisition. Consequently, we raise our TP to SAR 279 and maintain our “Overweight” stance.

Faden acquisition to strengthen outdoor advertising, enable foray into transit advertising and reduce competition: In October 2023, the company completed its long due acquisition of Faden for a consideration of SAR 1.05bn, which has been entirely funded via debt. Faden is one of the top five outdoor advertising players in KSA. Apart from enhancing the market share for AlArabia, it is also likely to provide access to building advertising and transit advertising, which has been a whitespace for quite a long time. The acquisition is further likely to reduce the competition, as Faden owns 42.5% of Wave Media, another key player in outdoor advertising in KSA. The financial impact from this acquisition is said to be consolidated from Q4-23, which would also be enhanced with the recent project win to operate 500 ad-spaces on buses and taxis in Dubai. The synergic cost saving is expected to support Faden's historically high margins (60% in FY21). We estimate that the Faden acquisition can add SAR 26 to SAR 29 per share to the stock, and is expected to contribute further amid lower costs of funding post FY24.

Signing of Remat Al-Riyadh and King Khalid International Airport projects to provide considerable revenue visibility: In October 2023, the company signed two 10-year projects with Remat Al-Riyadh Development Company and Riyadh Airport Company. Through the Riyadh project it will harness artificial intelligence into outdoor advertising and transform Riyadh into a digital and smart city. It already operates 1,325 outdoor billboards in Riyadh, with the ability to increase it to 3,000. To operate these billboards, the company will be paying either some portion of the project income (revenue sharing model) or a minimum guarantee of SAR 1.5bn after applying specified discount rates, whichever is higher. We assume a minimum guarantee-based business model and believe the Riyadh project could generate SAR 1,005mn revenues in FY24E and SAR 1,574mn in FY25E. With regards to King Khalid project, AlArabia is likely to operate 525 billboards near the airport, with the aim of setting new standards for airport designs and increase advertising revenue through high margin innovating advertising solutions. For this project, the minimum guarantee of SAR 1.8bn spans across nine years out of the ten, starting from the second year (FY25). We believe the gross margins from both these projects could remain under pressure from the initial kick-offs, as these projects are expected to be in an expansionary phase till FY25E. However, as these projects start maturing, the margins are likely to expand as the additional billboards are likely to be digitized, which happen to be margin accretive. We await further disclosures from the firm, planned for Q1-24, which will detail the accounting treatments for how the major contracts will be expensed. Margin expectations can differ according to the final accounting treatment.

Recent UAE contract to diversify the revenue mix, whereas Dammam contract to enhance domestic market share: AlArabia was awarded a SAR 533mn 10 year contract to operate 294 billboards across Dubai, which is likely to strengthen its presence in the UAE where it currently operates 75 billboards. AlArabia will have 60% ownership of the project through its subsidiaries to provide the billboards and expected to diversify the geographic mix for the company. 38% of the billboards will be digitalized. Whereas the previously signed Dammam contract will further support the company's foray into transit advertising with the 1,000 ad-spaces awarded in travel locations such as taxis, buses.

Recommendation	Overweight
Target Price (SAR)	279
Upside / (Downside)*	9.3%

Source: Tadawul *prices as of 22 of January 2024

Key Financials

SARmn (unless specified)	FY22	FY23E	FY24E	FY25E
Revenues	1,126	1,247	2,069	2,892
Growth %	56.3%	10.7%	66.0%	39.8%
Net Income	275	328	450	655
Growth %	33.2%	19.4%	37.1%	45.7%
EPS (SAR)	5.5	6.6	9.0	13.1
DPS (SAR)	3.2	0.0	0.0	0.0

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23E	FY24E	FY25E
Gross Margin	43.2%	44.7%	36.7%	36.5%
Net Margin	24.4%	26.3%	21.7%	22.6%
ROE	35.4%	33.7%	33.3%	34.4%
P/E (x)	18.2	39.0	28.4	19.5
P/B (x)	6.1	11.4	8.1	5.7
EV/EBITDA (x)	7.7	16.4	17.1	14.2
Dividend Yield	3.2%	0.0%	0.0%	0.0%

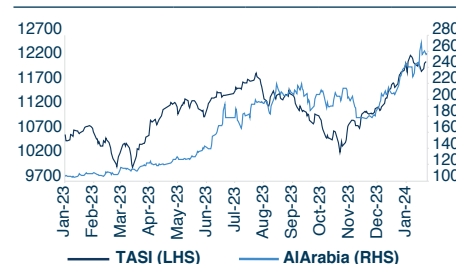
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	12.79
YTD%	4.4%
52-week (High)/(Low)	283.4/105.2
Share Outstanding (mn)	50.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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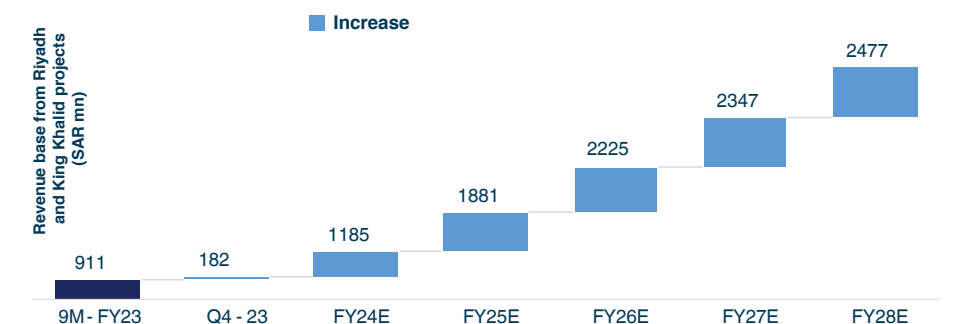


Material developments to keep debt/equity ratio and finance costs elevated, along with ROE: The aforementioned developments could increase the company's debt/equity ratio, finance cost, whereas the ROE could increase over the long term. The current debt/equity ratio of 0.1x in 9MFY23 will likely increase to 1.0x by FY23E due to SAR 1.05bn loan obtained to fund the Faden acquisition. This additional loan could add to the finance cost, which we estimate could increase from 4.9% of revenues in FY22 to 7.1% by FY23E. However, as the loan repayment starts, the debt/equity ratio is expected to normalize and reach 0.2x by FY28E, whereas the finance cost could decrease to 3.1% of revenues by FY25E as the projects start ramping up and a decreasing interest rate environment.

The company's return profile is subject to improve in the medium term once project ramp-ups commence. ROE could decrease from 35.4% in FY22 to 33.5% in FY23E, on account of the acquisition and billboard expansions. As the projects start maturing, ROE could improve to 36.2% by FY25E.

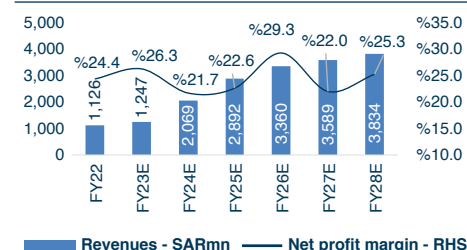
AJC view and valuation: AlArabia reported robust 18.0% Y/Y revenue growth in Q3-23 and is likely to continue this momentum going forward. Faden acquisition along with Al-Riyadh and King Khalid projects, (long-term, 10-year projects) would enhance revenue growth. We expect the Faden acquisition to contribute SAR 26-29 per share to the stock, as cost saving synergies are realized once AlArabia consolidates with the high margin Faden business (61% net margin as of 2021), and as Faden supports the expansion of AlArabia's GP and operating margins. With tourism and lifestyle changes being one of the focus areas for Vision 2030, we believe AlArabia could be at forefront to reap benefits from these two long term projects, given its dominance in outdoor advertising industry in KSA (62.3% market share). We expect the revenues to grow at 36.9% CAGR over FY22-25E and 22.6% over FY22-28E. Given the focus areas of these projects to make Riyadh a smart and sustainable city, we believe the billboards to be added due to these projects will be digital in nature, thereby aiding the company to achieve its target of 100% digitization rate by FY30E, from its current 70% levels. This increase in digitization rate will not only expand the gross margins but also likely to expand net income margins by 90bps to 25.3% over FY22-28E, where we also expect net income to punctuate at a 23.4% CAGR across the same period. Major developments are expected to improve net income to reach SAR 970mn FY28, after a significant increase from FY22's 275mn. We value AlArabia with 100% weightage to DCF (risk free rate = 3.5%, WACC = 8.1%, terminal growth = 2.5%) to arrive at a TP of **SAR 279/share**. We retain our **"Overweight"** recommendation on the stock. The stock currently trades at a high multiple of 28.4x FY24E P/E, however we believe this high multiple is justified, given the robust growth likely to be added due to Faden acquisition and the two long-term projects.

Fig 1. Revenue from the Riyadh and KKIA projects likely to grow at 20.2% CAGR over FY24-28E and benefit AlArabia's topline growth



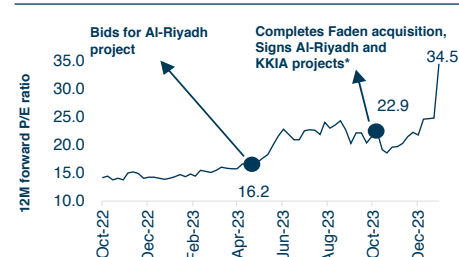
Source: Company Reports, AlJazira Capital Research

Fig 2. Revenues to grow at 22.6% CAGR over FY22-28E aided by Faden acquisition and long-term projects; Net margin to expand to 27.0%



Source: Company Reports, AlJazira Capital Research

Fig 3. Stock rallied 91% over May-Dec 2023 on acquiring Faden and signing of Al-Riyadh and King Khalid projects



Source: Bloomberg, AlJazira Capital Research. *Developments were completed across multiple dates in October 2023.





Key Financial Table

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement								
Revenues	721	1,126	1,247	2,069	2,892	3,360	3,589	3,834
Y/Y	44.8%	56.3%	10.7%	66.0%	39.8%	16.2%	6.8%	6.8%
Cost	(390)	(639)	(689)	(1,310)	(1,837)	(1,924)	(2,360)	(2,420)
Gross profit	330	487	557	759	1,055	1,436	1,229	1,413
Selling & distribution expense	31	46	56	97	138	158	158	157
General & administration expense	40	49	59	89	126	143	148	150
Impairment loss in trade receivables	3	(7)	(7)	(12)	(17)	(20)	(22)	(23)
Operating profit	261	384	435	560	773	1,115	901	1,084
Y/Y	408.2%	46.9%	13.4%	28.8%	38.0%	44.2%	-19.2%	20.2%
Other income	(11)	(9)	1	4	6	7	7	8
Financial charges	(33)	(55)	(89)	(91)	(90)	(85)	(76)	(70)
Other adjustments	-	(24)	(2)	-	-	-	-	-
Income before zakat	218	296	345	473	689	1,037	832	1,021
Zakat	(11)	(11)	(16)	(24)	(34)	(52)	(42)	(51)
Net income	206	275	328	450	655	985	790	970
Y/Y	718.4%	33.2%	19.4%	37.1%	45.7%	50.4%	-19.8%	22.7%
Balance sheet								
Assets								
Cash & equivalent	190	115	512	112	369	1,152	1,088	1,115
Trade receivables	419	628	847	1,575	1,961	2,062	2,159	2,260
Other current assets	411	249	207	224	235	240	243	247
Total current assets	1,020	992	1,566	1,911	2,565	3,454	3,490	3,623
Property plant & equipment	193	200	271	570	768	803	841	883
Right of use assets	2,027	1,446	758	833	993	1,174	1,377	1,606
Assets from discontinued operations	-	4	-	-	-	-	-	-
Total assets	3,240	2,642	2,595	3,314	4,326	5,431	5,709	6,111
Liabilities & owners' equity								
Lease liabilities - current	314	196	99	114	146	182	223	269
Short term loans	448	349	109	411	724	790	534	277
Other current liabilities	145	241	290	297	301	303	305	306
Total current liabilities	907	786	498	822	1,172	1,276	1,061	851
Lease liabilities - non current	1,587	1,020	557	617	745	889	1,052	1,235
Long term loans	-	-	1,050	936	814	685	548	403
Employee benefit obligations	15	13	14	14	14	14	14	14
Total non current liabilities	1,602	1,034	1,621	1,567	1,573	1,589	1,615	1,653
Share capital	500	500	500	500	500	500	500	500
Statutory reserve	46	73	73	73	73	73	73	73
Retained earnings	186	247	555	1,005	1,660	2,645	3,112	3,686
Foreign currency translation reserve	-	(1)	(5)	(5)	(5)	(5)	(5)	(5)
Non-controlling interest	-	1	3	3	3	3	3	3
Proposed dividend	-	-	-	-	-	-	-	-
Total owners' equity	731	821	1,126	1,576	2,231	3,216	3,683	4,257
Total equity & liabilities	3,240	2,640	3,245	3,964	4,976	6,081	6,359	6,761
Cashflow statement								
Operating activities	208	501	578	103	627	1,249	1,092	1,307
Investing activities	(78)	(49)	388	(675)	(632)	(499)	(565)	(641)
Financing activities	33	(526)	91	151	238	3	(625)	(681)
Change in cash	163	(74)	1,057	(421)	233	754	(99)	(14)
Ending cash balance	190	115	1,169	91	344	1,122	1,053	1,074
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.1	1.3	3.1	2.3	2.2	2.7	3.3	4.3
Quick ratio (x)	0.9	1.1	2.1	2.2	1.9	1.8	2.3	2.9
Profitability ratios								
Gross profit margin	45.8%	43.2%	44.7%	36.7%	36.5%	42.7%	34.2%	36.9%
Operating margin	36.3%	34.1%	34.9%	27.1%	26.7%	33.2%	25.1%	28.3%
EBITDA margin	80.0%	74.3%	69.0%	41.6%	36.2%	41.6%	34.1%	37.9%
Net profit margin	28.6%	24.4%	26.3%	21.7%	22.6%	29.3%	22.0%	25.3%
Return on assets	6.4%	10.4%	10.1%	11.3%	13.2%	16.2%	12.4%	14.3%
Return on equity	32.8%	35.4%	33.7%	33.3%	34.4%	36.2%	22.9%	24.4%
Leverage ratio								
Debt / equity (x)	0.6	0.4	1.0	0.9	0.7	0.5	0.3	0.2
Market/valuation ratios								
EV/sales (x)	9.8	5.7	11.3	7.1	5.1	4.2	3.9	3.6
EV/EBITDA (x)	12.2	7.7	16.4	17.1	14.2	10.1	11.5	9.5
EPS (SAR)	4.1	5.5	6.6	9.0	13.1	19.7	15.8	19.4
DPS (SAR)	1.8	2.3	-	-	-	-	6.5	7.9
BVPS (SAR) - Adjusted	14.6	16.4	22.5	31.5	44.7	64.4	73.7	85.2
Market price (SAR)*	97.8	99.7	255.8	255.8	255.8	255.8	255.8	255.8
Market-Cap (SAR mn)	4,897	4,990	12,788	12,777	12,777	12,777	12,777	12,777
Dividend yield	1.89%	2.30%	0.00%	0.00%	0.00%	0.00%	2.53%	3.09%
P/E ratio (x)	23.7	18.2	39.0	28.4	19.5	13.0	16.2	13.2
P/BV ratio (x)	6.7	6.1	11.4	8.1	5.7	4.0	3.5	3.0

Source: Company Financials, Aljazira Capital Research





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TERMINOLOGY

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4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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