



Strong corporate demand led by construction sector to drive topline; margins likely to be range bound amid competitive pressure

AlMawarid Manpower Company (AlMawarid) is expected to benefit from growing manpower demand in corporate as well as individual segment. The corporate segment demand is likely to be led by sectors such as construction, healthcare and hospitality driven by Vision 2030 initiatives. The recent growth in the company's workforce and that translated into topline growth are indicative of AlMawarid being able to leverage its market leading position. We expect the company to maintain its market share in the growing Saudi manpower market delivering a revenue CAGR of 11.2% during FY23-28E. However, the company is likely to see pressure on its margin due to an increase in competition, leading to steady GP margin of 11.1-11.3% during the same period. Net income is forecasted to increase at a CAGR of 11.9% during FY23-28E. We keep **"Overweight"** recommendation on AlMawarid with a revised TP of SAR 136/share.

Strong revenue growth in Q1-24 on the back of more corporate workers deployment and better utilization: AlMawarid posted net profit of SAR 26.4mn in Q1-24 (+19.2% Y/Y), above AJC's estimate of SAR 24.2mn primarily due to higher revenue and lower finance expenses. The revenue growth was fueled by an addition ~4,000 to corporate workforce and improved utilization. GP margin contracted ~30bps Y/Y to 11.4% (AJC estimate: 11.5%) resulting in gross profit of SAR 42.7mn (+22.1% Y/Y). Operating profit grew 18.8% Y/Y, as provision for expected credit losses worth SAR 2.4mn limited the growth partially offset by higher other income. The company recorded finance expenses of SAR 0.8mn in Q1-24, lower than our expectation.

Workforce expansion anticipated to continue amid strong corporate demand: AlMawarid is expected to benefit from expected high demand for workers from construction sector due to labor requirements of ongoing and upcoming mega/giga projects. In Q1-24, the company's revenue from the construction sector grew 68.5% Y/Y and accounted for 42% of the total revenue (FY23: 36%). The increased workforce deployed in the corporate segment (~4,000 to ~25,000 in Q1-24) is primarily attributable to growing demand for construction workers. AlMawarid is aiming to deploy 2,000 workers for the NEOM project by FY25. Besides construction, the company is also witnessing good traction in the healthcare sector (Q1-24: +43.9% Y/Y revenue growth). Moreover, the hospitality sector also anticipated to see growth in demand due to the government's focus on boosting travel and tourism activities; upward revision of target for no. of visitors' to 150mn from 100mn by FY30. AlMawarid has signed a contract with the Ministry of Tourism to provide 5,000 Saudi employee. Thus, driven by favorable demand dynamics AlMawarid's corporate segment revenue is forecasted to post a CAGR of 12.2% during FY23-28E with an average contribution of ~70% to the total revenue. Additionally, individual segment is also expected to see healthy growth on the back of growing demand for domestic helpers with rising female participation in the workforce. Further, the company's ongoing expansion of service portfolio and digitalization could aid in expansion of customer base. Hence, we forecast the company's total revenue to grow at a CAGR of 11.2% during FY23-28E.

Competitive pressure to curb the margins: We believe AlMawarid will focus on maintaining and growing its market share amid increasing competition in Saudi manpower industry to make most of the upcoming opportunities. This is turn is likely to put pressure on the company's margins. We expect the GP margin to decrease to 11.3% in FY24E, after falling to 11.5% in FY23 from 13.5% in FY22. GP margins are expected to stay steady in the range of 11.1-11.3% during FY24-28E. Net margins are estimated to remain unchanged in FY24E at 7.0% and improve gradually to 7.3% in FY28E.

AJC view and valuation: AlMawarid's growth prospects are strong as the company is anticipated to leverage its market leading position to make the most out of growing demand in Saudi manpower market. However, the company is also expected to face intensifying competition. We believe AlMawarid's well established business model, its relations with clients, expansion of services offered will help it maintain market share. Moreover, the company's debt free balance sheet adds to its strength. We valued AlMawarid with 50% weightage to DCF (WACC = 9.8% and terminal growth = 2.5%) and 50% weightage to P/E multiple (18.0x) based on average EPS for FY24-25E to arrive at a blended TP of **SAR 136/share**. We maintain our **"Overweight"** recommendation on the stock.

Recommendation	Overweight
Target Price (SAR)	136.0
Upside / (Downside)*	18.3%

Source: Tadawul *prices as of 6th of June 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	944.7	1,260.9	1,536.8	1,763.7
Growth %	42.3%	33.5%	21.9%	14.8%
Gross Profit	127.6	145.3	173.9	197.8
Net Income	76.0	88.8	107.1	125.9
Growth %	36.5%	16.8%	20.7%	17.5%
EPS	5.07	5.92	7.14	8.39
DPS	1.33	2.50	3.00	4.00

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	13.5%	11.5%	11.3%	11.2%
Net Margin	8.0%	7.0%	7.0%	7.1%
ROE	28.9%	27.9%	28.6%	28.7%
ROA	16.7%	15.5%	15.7%	16.3%
P/E (x)	NM	21.1	16.1	13.7
P/B (x)	NM	5.4	4.2	3.7
EV/EBITDA (x)	NM	15.7	12.3	10.5
Dividend Yield	NM	2.0%	2.6%	3.5%

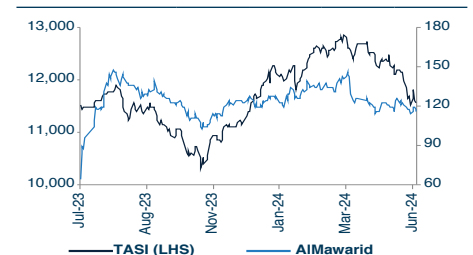
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	1.7
YTD%	-7.9%
52 weeks (High)/(Low)	149.8/70.4
Share Outstanding (mn)	15.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa





Key Financial Data

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement								
Revenues	664	945	1,261	1,537	1,764	1,909	2,029	2,141
Y/Y	-3.3%	42.3%	33.5%	21.9%	14.8%	8.3%	6.3%	5.5%
Cost	(567)	(817)	(1,116)	(1,363)	(1,566)	(1,697)	(1,802)	(1,902)
Gross profit	97	128	145	174	198	212	226	239
Sales and distribution expenses	(7)	(13)	(12)	(15)	(17)	(18)	(19)	(20)
General and administrative expenses	(23)	(30)	(33)	(38)	(42)	(44)	(47)	(50)
Operating profit	62	84	101	122	142	154	165	174
Y/Y	18.9%	34.9%	20.0%	20.3%	16.8%	8.1%	7.5%	5.5%
Finance expense	-	-	(2)	(4)	(4)	(3)	(3)	(3)
Income before zakat	62	84	99	118	138	150	162	171
Zakat	(7)	(8)	(10)	(11)	(13)	(14)	(15)	(16)
Net income	56	76	89	107	126	137	147	156
Y/Y	21.4%	36.5%	16.8%	20.7%	17.5%	8.6%	7.9%	5.7%
EPS (SAR)	5.57	5.07	5.92	7.14	8.39	9.11	9.83	10.39
DPS (SAR)	2.00	1.33	2.50	3.00	4.00	5.00	6.00	7.00
Balance sheet								
Assets								
Cash & equivalent	27	55	81	94	125	164	207	245
Other current assets	303	365	419	496	562	613	658	702
Total current assets	330	420	500	590	687	777	865	947
Property plant & equipment	12	13	15	17	19	21	24	27
Other non-current assets	64	71	126	118	114	110	103	99
Total assets	405	504	642	725	820	908	992	1,072
Liabilities & owners' equity								
Total current liabilities	136	174	204	223	243	257	269	280
Total non-current liabilities	36	37	94	97	106	118	132	150
Paid -up capital	100	150	150	150	150	150	150	150
Statutory reserves	28	35	44	55	67	76	76	76
Retained earnings	85	108	150	201	254	307	365	415
Total owners' equity	233	293	344	406	472	534	591	642
Total equity & liabilities	405	504	642	725	820	908	992	1,072
Cashflow statement								
Operating activities	(19)	40	86	85	113	134	153	163
Investing activities	13	23	(5)	(5)	(6)	(6)	(7)	(9)
Financing activities	(31)	(34)	(55)	(68)	(76)	(89)	(103)	(117)
Change in cash	(37)	29	26	13	31	39	42	38
Ending cash balance	27	55	81	94	125	164	207	245
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.4	2.4	2.5	2.7	2.8	3.0	3.2	3.4
Quick ratio (x)	2.0	2.4	2.5	2.7	2.8	3.0	3.2	3.4
Profitability ratios								
Gross profit margin	14.6%	13.5%	11.5%	11.3%	11.2%	11.1%	11.2%	11.2%
Operating margin	9.4%	8.9%	8.0%	7.9%	8.1%	8.0%	8.1%	8.1%
EBITDA margin	11.4%	10.5%	9.6%	9.2%	9.3%	9.2%	9.3%	9.3%
Net profit margin	8.4%	8.0%	7.0%	7.0%	7.1%	7.2%	7.3%	7.3%
Return on assets	14.4%	16.7%	15.5%	15.7%	16.3%	15.8%	15.5%	15.1%
Return on equity	25.7%	28.9%	27.9%	28.6%	28.7%	27.2%	26.2%	25.3%
Market/valuation ratios								
EV/sales (x)	NM	NM	1.5	1.1	1.0	0.9	0.8	0.8
EV/EBITDA (x)	NM	NM	15.7	12.3	10.5	9.6	8.8	8.3
EPS (SAR)	5.57	5.07	5.92	7.14	8.39	9.11	9.83	10.39
BVPS (SAR)	23.3	19.5	22.9	27.1	31.5	35.6	39.4	42.8
DPS (SAR)	2.00	1.33	2.50	3.00	4.00	5.00	6.00	7.00
Market price (SAR)*	NM	NM	125	115	115	115	115	115
Market-Cap (SAR mn)	NM	NM	1,872	1,725	1,725	1,725	1,725	1,725
P/E ratio (x)	NM	NM	21.1	16.1	13.7	12.6	11.7	11.1
P/BV ratio (x)	NM	NM	5.4	4.2	3.7	3.2	2.9	2.7
Dividend yield	NM	NM	2.0%	2.6%	3.5%	4.3%	5.2%	6.1%

Source: Company Reports, AJC Research





RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH
DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING
TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
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.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Investment Banking | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068