November 2024

Tamkeen Human Resources Company

A growing player with impressive profitability in an expanding market but intensifying competition to be a challenge

Pre-IPO Report | November 2024

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Company Overview

Tamkeen Human Resources Company (Tamkeen) is a closed Saudi joint stock company established on 7th June 2018. The company operates in Saudi Arabia and offers comprehensive human resource services, including recruitment, outsourcing, and HR consulting. The company offers services across two key segments: the corporate segment and the individual segment. It has a wide range of service offerings and caters to multiple industries including healthcare, retail, contracting, and technology. Tamkeen has established subsidiaries such as Open Technologies for Communications and Information Technology, Eraf Medical Company, and Elaf Specialist Contracting Company. These subsidiaries expand the company's service range into information technology and specialized contracting services. The company offers temporary and permanent manpower solutions to both corporate clients and individual households, leveraging technology platforms and ensuring high standards of service delivery.

Valuation

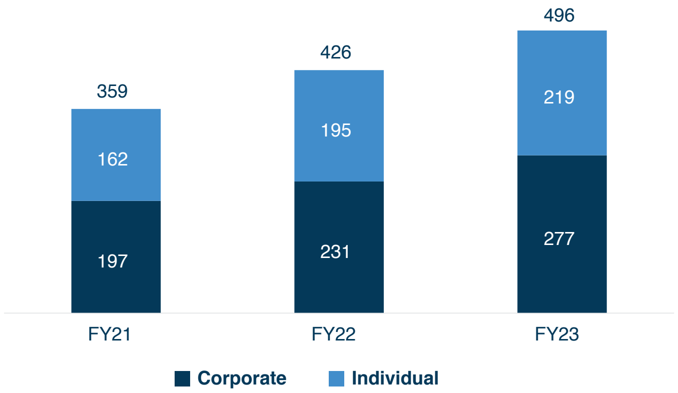
We value the company based on 50% weight to DCF valuation (WACC = 10.4%; terminal growth = 2.5%) and 25% each to P/E (19.0x) and EV/EBITDA (13.0x) multiples-based relative valuation applied to our FY25 estimates. The blended valuation implies an equity value of SAR 1.48bn thus resulting in a fair value of **SAR 55.9 per share**, an upside potential of **11.8%** from the IPO offer price of SAR 50.0/share. We expect Tamkeen to post a revenue CAGR of 24.6% during FY23-25E, mainly fueled by strong growth in corporate segment workforce amid the sector wide high de-mand, further assisted by momentum in individual segment. However, KSA manpower industry is also witnessing intense competition among key players to grab market share in expanding market. Hence, we believe pricing pressure will take a toll on Tamkeen's profitability going forward, as it competes with larger players in the industry. Thus, we expect the net margin to contract to 10.1% in FY25E from 12.1% in FY23. Accordingly, Tamkeen's net income is estimated to reach SAR 78mn in FY25E, implying a CAGR of 14.2% during FY23-25E. Hence, we expect bottom line growth to moderate next year owing to anticipated margin contraction and higher base this year. EBITDA is forecast-ed to increase to SAR 104mn in FY25E at FY23-25E CAGR of 15.6%.

Business activities and segmental analysis

Tamkeen offers a full range of manpower services to a diverse client base, serving both corporate clients and individual customers. The company's services include sourcing of international manpower resources, from capable unskilled workers to experienced professionals and skilled technicians. The company is accountable for all costs associated with the recruitment process, including salaries for manpower resources, fees for work and residence permits, medical exams, medical insurance, and sponsorship expenses. Furthermore, based on client contracts, the company may also assume airfare costs. The company usually deploys manpower resources to its clients for two-year periods, after which the manpower resources return to the company. In exceptional cases it also provides manpower resources on a short-term basis.

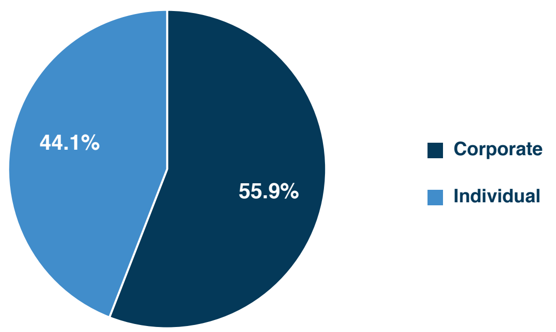
Tamkeen's business is broadly classified into two major segments 1) Corporate segment 2) Individual segment. The Corporate segment's revenue increased at CAGR of 19% from SAR 197mn in FY21 to SAR 277mn in FY23, with contribution to revenue growing from 54.9% to 55.9%, respectively. Individual segment's revenue grew at CAGR of 16% from SAR 162mn in FY21 to SAR 219mn in FY23 but its contribution to revenue decreased from 45.1% to 44.1%.

Fig 1. Revenue by segment trend (SAR mn)



Source: IPO Prospectus, AlJazira Capital research

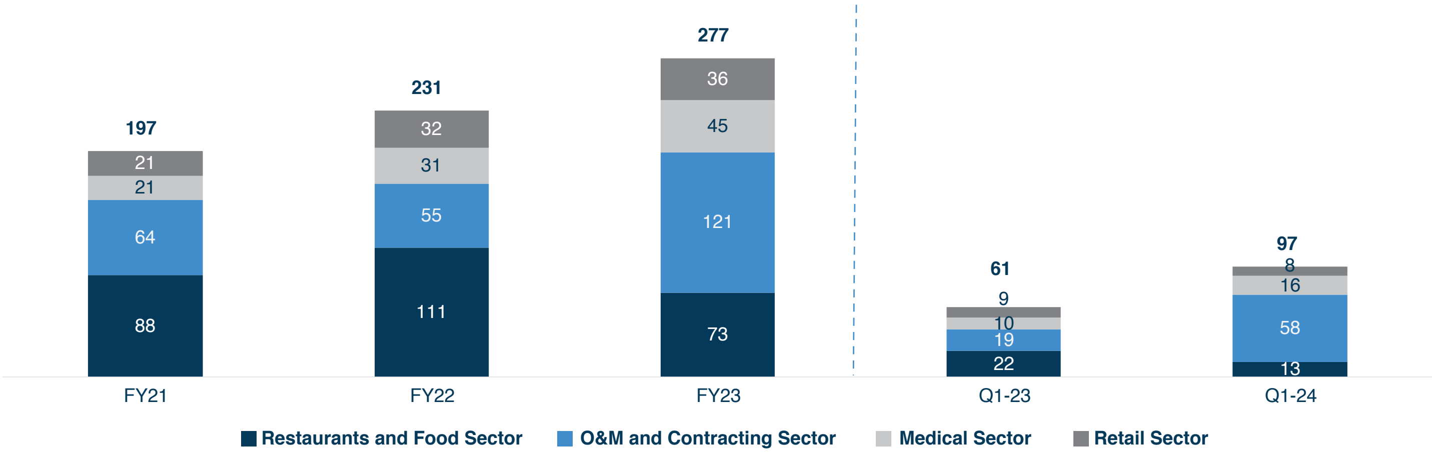
Fig 2. Revenue contribution by segment (FY23)



Source: IPO Prospectus, AlJazira Capital research

1) Corporate segment: Under this segment the company provides manpower services across sectors like restaurants, food service, operations, maintenance, contracting, healthcare, retail, and technology. Its specialized teams deliver ongoing support, from staffing skilled professionals to meeting sector-specific needs. Serving both multinational corporations and SMEs, Tamkeen demonstrates adaptability and deep operational insight. The O&M and contracting sector is the major contributor to the company's corporate revenue (FY23: SAR 121mn, 43.7% contribution; Q1-24: SAR 58mn, 59.7%), followed by Restaurants and Food, Medical and Retail sectors. The Technology and Information Systems sector has made very small contributions to the revenue.

Fig 3. Corporate Revenues by Industry (SAR mn)

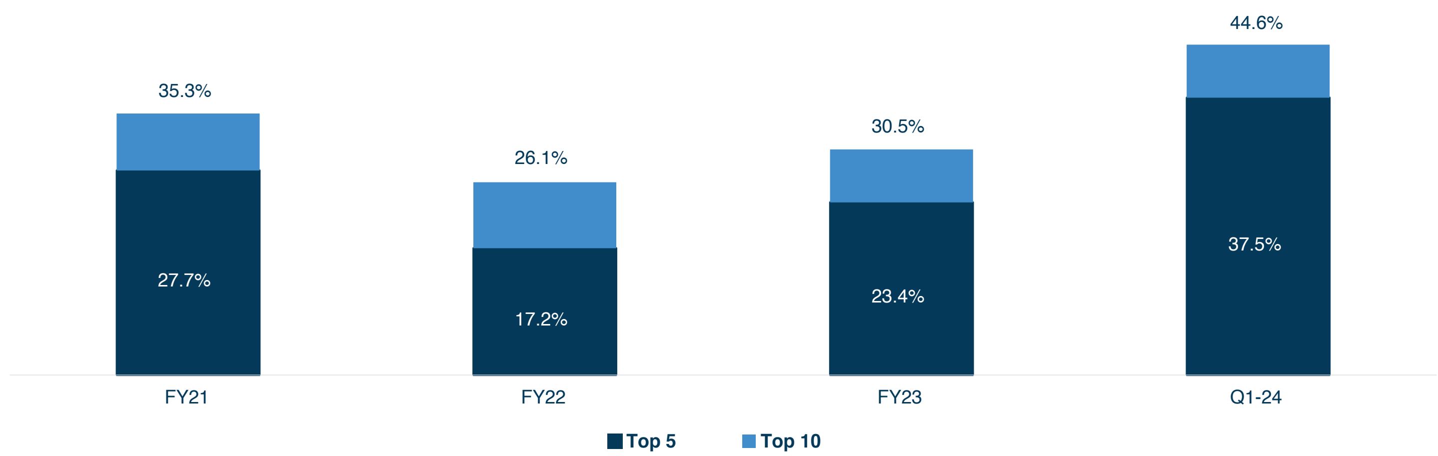


Source: IPO Prospectus, AlJazira Capital research

Top clients form a substantial portion of corporate revenue, indicating ability to secure high value contract but also reflect revenue concentration

Tamkeen's corporate client base, spanning a diverse mix of public and private sector entities, highlights its ability to meet a wide range of manpower needs across industries. This varied clientele includes multinational corporations as well as small to medium-sized enterprises. However, the company's revenue from its top ten corporate clients has shown a notable upward trend in recent periods, both as a share of the Corporate segment's total revenue and as a percentage of the company's overall revenue. In FY21, the top ten clients contributed SAR 126.4mn, representing 32.9% of the Corporate segment and 35.3% of total company revenue. This concentration rose over subsequent years, reaching SAR 151.4 million, or 54.6% of the Corporate Segment and 30.5% of total company revenue, in FY 2023. By Q1 2024, reliance on these key clients increased further, with revenue from the top ten clients accounting for 67.0% of Corporate segment revenue and 44.6% of the company's total revenue. Furthermore, revenue was more concentrated among the top five clients averaging around 3/4th of the top 10 clients over the past three years.

Fig 4. Top corporate clients' contribution to total revenues (SAR mn)



Source: IPO Prospectus, AlJazira Capital research

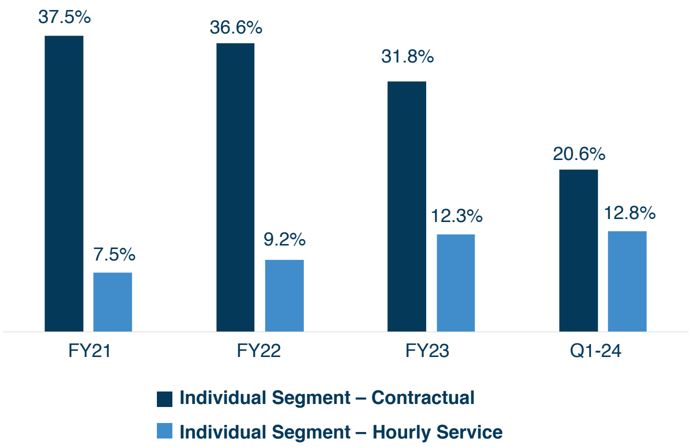
This trend underscores both 1) the company's success in securing high-value, long-term relationships with its largest clients and 2) the growing concentration risk associated with this client base. The increasing reliance on a limited number of clients highlights the importance of diversifying the client portfolio to mitigate potential revenue volatility if any of these key clients reduce their commitments.

2) Individual segment: The Individual segment caters the varied needs of individual customers with a wide range of personalized manpower services. This segment focuses on essential household services. The segment consists of two sub-segments i) Individual Segment – Contractual ii) Individual Segment – Hourly Service.

i) Individual Segment – Contractual: This sub-segment focuses on long-term contracts with individual clients, offering essential household services such as housekeepers, chefs, and drivers. As of March 31, 2024, Tamkeen placed 4,262 resources under contractual services, catering to a broad spectrum of client needs. The sub-segment's contribution to total revenue decreased to 31.8% in FY23 and 20.6% Q1-24 from 37.5% in FY21.

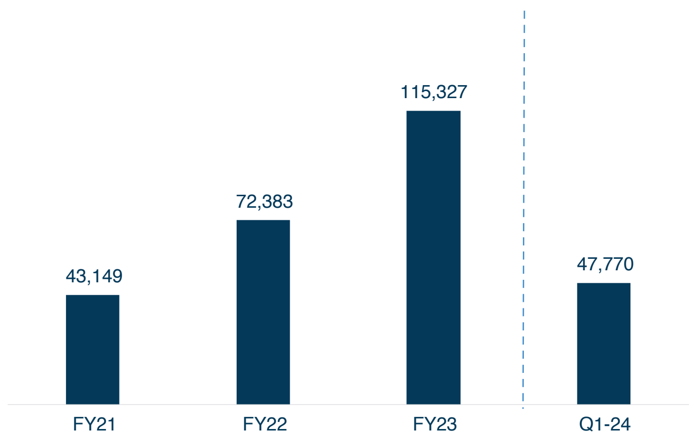
ii) Individual Segment – Hourly Service: Designed for flexibility, this sub-segment provides hourly-based household assistance, primarily housemaids and cleaners, without long-term commitments. As of March 31, 2024, the company placed 1,781 resources in this model, highlighting its adaptability to changing client preferences and demand for short-term services. The subsegment's contribution to total revenue increased to 12.3% in FY23 and 12.8% Q1-24 from 7.5% in FY21.

Fig 5. Individual sub-segments contribution to revenue



Source: IPO Prospectus, AlJazira Capital research

Fig 6. No. of individual customers served



Source: IPO Prospectus, AlJazira Capital research

Diversified human resources across nationalities and professions

Based on nationality Tamkeen's human resource are mainly sourced from South Asian and African countries. As of March 2024, India leads the pack with 5,516 workers out of total 14,196. It was followed by Indonesia (2,419), Uganda (2,161) and Philippines (2,043).

Fig 7. Human resources by nationality

Nationality	FY21	FY22	FY23	Q1-24
India	1,580	1,585	4,603	5,516
Indonesia	2,275	3,095	2,543	2,419
Uganda	840	2,188	2,110	2,161
Philippines	1,359	1,325	1,867	2,043
Kenya	1,743	1,314	645	552
Nepal	665	694	583	495
Bangladesh	405	350	376	435
Pakistan	-	216	369	434
Others	249	177	173	141
Total	**9,116**	**10,944**	**13,269**	**14,196**

Source: IPO Prospectus, AlJazira Capital research

Based on profession, builders accounted for more than half of corporate segment workers (4,727 out of 8,159 as of March 2024), while ordinary workers (1,414) were second highest in the corporate segment. In individual segment, Housemaid was the dominant profession (6,011 out of 6,037).

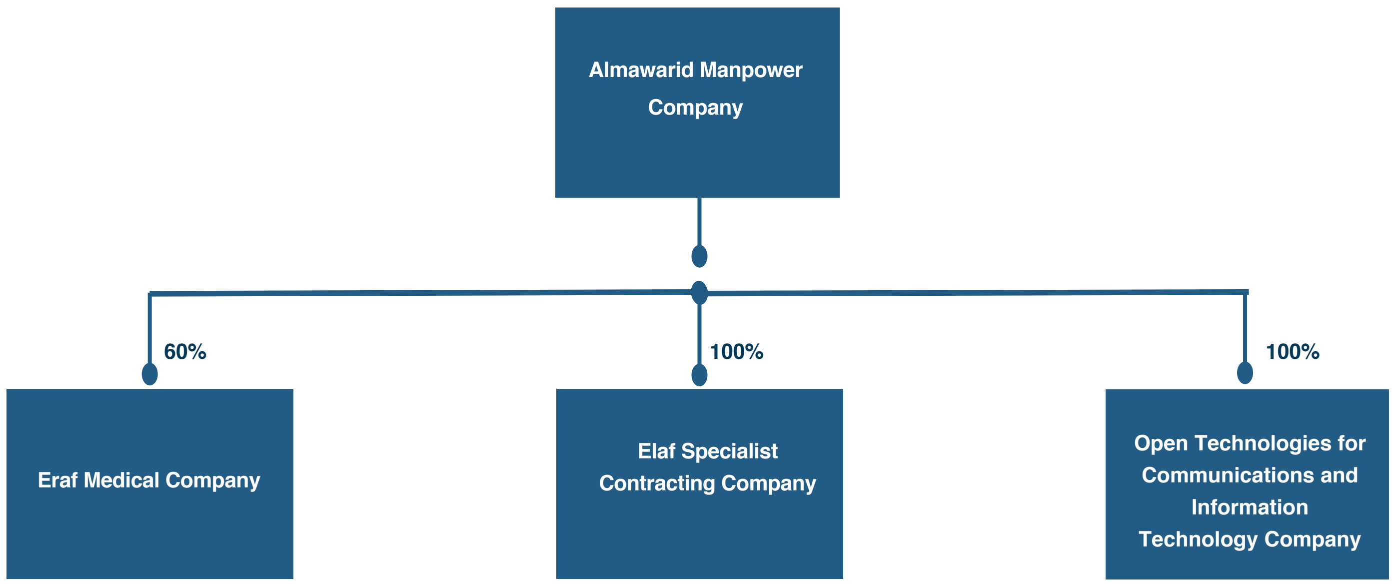
Fig 8. Human resources by profession

Profession	FY21	FY22	FY23	Q1-24
Corporate Segment:				
Ordinary worker	3,129	2,716	1,978	1,414
Builder	-	343	3,423	4,727
Restaurant worker	483	359	223	194
Nurse	213	289	238	320
Electrician	-	250	226	225
Cleaner	432	473	350	357
Driver	156	137	86	85
Nursing technician	-	21	232	234
Motorcycle driver	-	78	89	84
Hairdresser	22	16	16	19
Chef	22	15	263	335
Nurse assistant	14	13	-	103
Others	86	25	103	62
Corporate Segment Total	**4,557**	**4,735**	**7,227**	**8,159**
Individual Segment:				
Housemaid	4,538	6,192	6,012	6,011
Private driver	21	17	30	26
Individual Segment Total	**4,032**	**5,274**	**4,271**	**6,037**
Total	**9,116**	**10,944**	**13,269**	**14,196**

Source: IPO Prospectus, AlJazira Capital research

Group Structure

The company directly owns three Subsidiaries located inside the Kingdom. Elaf Specialist Contracting Company and Open Technologies for Communications and Information Technology Company are fully owned by Tamkeen, while Eraf Medical Company is 60% owned by Tamkeen and remaining 40% is owned by Dr Sulaiman Al Habib Medical Services Group Company.



Source: IPO Prospectus, AlJazira Capital research

Ownership (pre and post IPO)

Fig 9. Pre and post offering ownership structure

Shareholder	Pre-Offering		Post-Offering	
	No. of Shares	Shareholding %	No. of Shares	Shareholding %
Tasheel Real Estate Company	9,043,125	34.13%	5,634,563	21.26%
Dr Sulaiman Al Habib Medical Services Group Company	6,625,000	25.00%	4,637,500	17.50%
Fares Saleh Mutlaq Al Henaki	2,650,000	10.00%	2,650,000	10.00%
Saleh Mohammed Saleh Al Hajaj	2,650,000	10.00%	1,523,750	5.75%
Abdulrahman Ali Abdullah Al Gubaisi	1,987,500	7.50%	1,325,000	5.00%
Others	3,544,375	13.37%	2,779,187	10.49%
Public	-	-	7,950,000	30.00%
Total	**26,500,000**	**100%**	**26,500,000**	**100%**

Source: IPO Prospectus, AlJazira Capital research

IPO Offering Summary

Tamkeen is floating 7.95mn shares, representing 30% of the company's total share capital, with a fully paid nominal value of SAR 10 per share. The IPO is divided into two tranches: one for institutional investors and the other for retail investors. A total of 6.36mn shares (80%) were offered to institutional investors. The retail offering, on the other hand, accounts for up to 20% (1.59mn shares) of the offer size. The book building process ran from October 13-17. The company has set the final price of its IPO at SAR 50.0 per share. The institutional offer was 138.2x covered, while retail offering was 14.4x subscribed. Tamkeen allocated a minimum of four shares per individual subscriber.

Source: IPO Prospectus, Argaam

Key Strategies

The company's strategy is anchored in three key pillars: strengthening its core, expanding into high-margin adjacent businesses, and developing future-ready corporate infrastructure. These pillars are designed to meet the changing needs of the manpower industry, shifting from traditional recruitment to a holistic suite of services. By deepening client engagement and broadening offerings, the company aims to lead the market while remaining adaptable, innovative, and committed to excellence.

Corporate Segment

Customer Experience & Engagement: Prioritizing tailored talent solutions, the company ensures clients benefit from seamless onboarding, account management, and value-added services like flexible contracts and accommodation options.

- Diverse Hiring: Focus on recruiting skilled talent domestically and internationally, emphasizing cultural alignment and soft skills.
- Streamlined Processes: Using technology, the company enhances onboarding and account management for a smooth client and talent experience.
- Value-Added Services: Offers supplementary services, such as seasonal contracts, to enhance client satisfaction and expand market reach.
- Customized Solutions: Services are tailored and competitively priced to meet unique client objectives.
- Sector Expansion: Engages new clients in established industries to grow market share.

Strategic Market Penetration: The company explores new sectors like tourism and hospitality, aligning with Vision 2030, while diversifying recruitment profiles to meet evolving corporate demands.

- Sector Exploration: Expands into high-growth areas like tourism, logistics, and industrial sectors.
- Partnerships: Establishes long-term partnerships in key Vision 2030 sectors to drive growth.
- Diverse Roles: Recruits for high-value roles across sectors, positioning as a trusted partner for varied client needs.
- Saudi Recruitment Outsourcing: Expands capabilities in recruitment outsourcing, addressing Saudi Arabia's localisation goals.

Commercial Excellence: Implements a best-practice model for client segmentation and relationship management, with a strong focus on talent acquisition and retention to sustain growth.

- Operating Model: A specialized commercial model to enhance customer acquisition and retention.
- Talent Retention: Competitive incentives and development programs to attract top industry talent.
- Sales Talent: Focuses on high-caliber sales professionals to drive growth.

Individual Segment

Service Differentiation: The company leverages analytics and feedback to offer tailored, client-centric services that meet evolving market needs.

- Customer Needs: Advanced analytics and customer feedback ensure service alignment with market demands.
- Diverse Offerings: A broad service portfolio with flexibility in contracts and payment.

Brand and Omni-Channel Engagement: Enhances brand visibility and delivers a seamless, omni-channel experience.

- Brand Equity: Strategic communication to elevate brand perception and client loyalty.
- Omni-Channel Presence: Provides clients with a cohesive experience across all channels.

Quality of Service: Focuses on recruiting skilled talent and fostering client relationships to uphold service quality.

- Recruitment Excellence: Taps global talent pools, ensuring skilled hires.
- Customer Loyalty: Implements loyalty programs to strengthen client relationships.

New Service Expansion: Enters emerging high-margin segments and utilizes cross-selling for a complete client experience. Infrastructure & Core Capabilities: Strengthens operational capabilities, digital infrastructure, and internal culture to support growth objectives.

- Digital Transformation: Implements CRM and marketing tools to streamline operations.
- High-Performance Culture: Establishes a culture of excellence through a new Business Development Department focused on strategic growth and risk management.

Strengths and Competitive Advantages

- **Robust Three-Year Growth**

  With a 17.6% CAGR over the past three years, the company's growth outpaces many competitors, driven by strong leadership, operational efficiency, and a commitment to client satisfaction.

- **Outstanding Financial Performance**

  The company's high profitability and zero-debt stance, including a 21.1% gross margin and 12% net profit margin for FY23, reflect its operational efficiency and effective strategic planning.

- **Global Recruitment Partnerships**

  Partnerships with 36 international recruitment offices across 15 countries provide rapid, high-quality staffing solutions, ensuring top talent and the integration of best practices.

- **Extensive Branch Network and Regional Insight**

  The company's nationwide presence facilitates tailored, accessible services across urban and rural areas, strengthening its market reach and local adaptability.

- **Diverse Corporate Clientele**

  Relationships with major enterprises and SMEs underscore the company's versatility, showcasing its trusted reputation across various industries.

- **Expert Leadership**

  The experienced management team guides the company's strategic growth, leveraging industry knowledge to adapt to changing market conditions.

- **Flexible Staffing Solutions**

  Offering a range of manpower options, from temporary staffing to executive searches, the company meets diverse client needs across sectors, enhancing its reputation for adaptability.

- **Ownership of Key Assets**

  Direct ownership of branches, housing, and transportation assets enables operational efficiency, cost savings, and better support for its workforce.

- **Broad Sector Expertise**

  Serving both corporate and individual clients across various industries, the company mitigates sector-specific risks and remains resilient in a dynamic market.

- **Strength in the Medical Sector**

  The company is a key player in medical staffing, partnering with Dr. Suliman Al Habib Medical Services Group to enhance healthcare services, including home care, through its subsidiary, Eraf Medical Company.

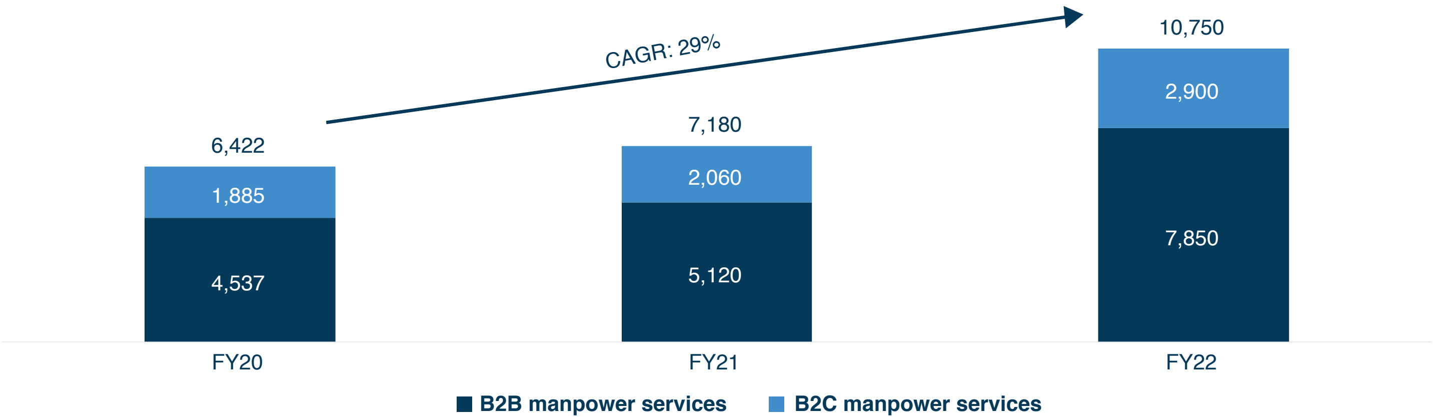
Key Risks

- Tamkeen's revenue concentrated at the top 5 and top 10 clients. The top 10 clients accounted for 30.5% of revenue in FY23 and 23.4% of the total revenue came from the top 5 clients. Similarly, construction, operation, and maintenance sectors contributed 24.3% to FY23 revenue. Thus, the company faces risk of revenue concentration.
- The company's operations require substantial working capital, primarily funded by cash from its operations. With working capital in the range of ~40-50% of the revenue, any significant drop in profits or unexpected cash flow issues could lead to cash shortfalls. This would impact the company's ability to pay temporary workers and meet liabilities, potentially forcing it to seek additional financing, which may not be available on favorable terms.
- Tamkeen operates in a competitive market where it faces challenges from both local and international players. Intense competition may lead to pricing pressures, reduced market share, or higher costs to retain and attract clients. This could impact on the company's revenue growth, profitability, and overall market position, especially if competitors introduce more attractive offerings or innovate faster.
- Manpower resources industry is highly regulated, with significant costs tied to compliance with labor, tax, health, and safety laws. Changes to these regulations, or non-compliance, could increase operating costs, require additional capital, or lead to penalties and reputational damage. This regulatory uncertainty could affect the company's financial stability, competitiveness, and demand for its services.
- The company relies on third-party suppliers for key support services, including technical support, software licensing, employee travel, and expatriate manpower resources. Any failure by these providers to meet expectations could lead to operational delays, increased costs, and reputational damage, potentially impacting the company's overall performance and customer satisfaction.

Competitive Landscape

Market Size Overview: Market Size Overview: The total Manpower Services sector in Saudi Arabia has shown significant growth between FY20 and FY22. The sector is split into B2B and B2C manpower services. In FY22, the overall market size was valued at SAR 10,750mn, with the B2B segment dominating at SAR 7,850mn and the B2C segment contributing SAR 2,900mn.

Fig 10. Saudi Manpower Services Market Size (SAR mn)



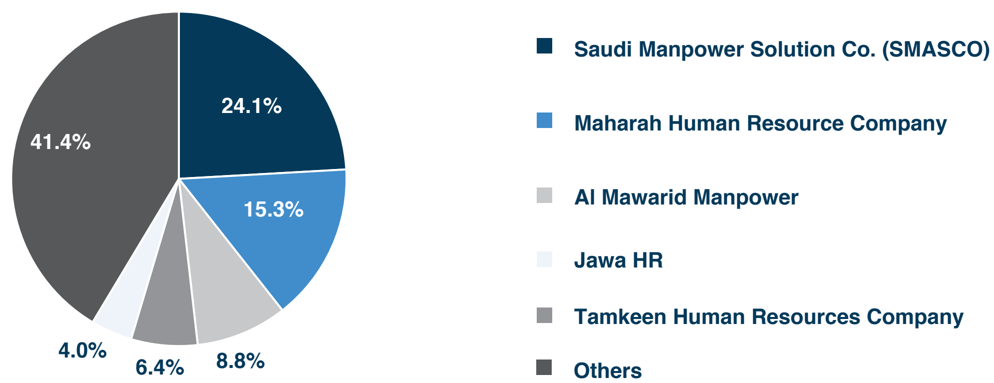
Source: IPO Prospectus, AlJazira Capital research

Key Players and Market Share: The Saudi manpower services market is highly consolidated, with the top five players holding a combined market share of 58.6% as of FY22. Notable competitors include:

1. **Saudi Manpower Solution Co. (SMASCO):** Leading with a 24.1% market share, SMASCO operates across various regions and sectors, including construction, a key driver for manpower demand due to ongoing Vision 2030 projects.
2. **Maharah Human Resource Company:** Holds the second-largest share at 15.3%. Maharah has shown adaptability by expanding into the B2C segment and growing its workforce significantly to 37,000 by the end of 2022.
3. **Al Mawarid Manpower:** Ranks third with an 8.8% share. Al Mawarid offers a broad range of services across multiple industries, including both local and foreign workforce recruitment.
4. **Jawa HR:** Secures a 6.4% share by focusing on B2B manpower solutions and venturing into the B2C segment to address unique needs such as household staffing.
5. **Tamkeen Human Resources Company:** Holds a 4.0% market share, positioning itself as a dynamic and fast-growing player, with notable ventures into B2C services for direct employment and household services.

The remaining 41.4% of the market share is distributed among smaller or emerging players, reflecting some room for competition outside of the major companies.

Fig 11. Market share of top players



Source: IPO Prospectus, AlJazira Capital research

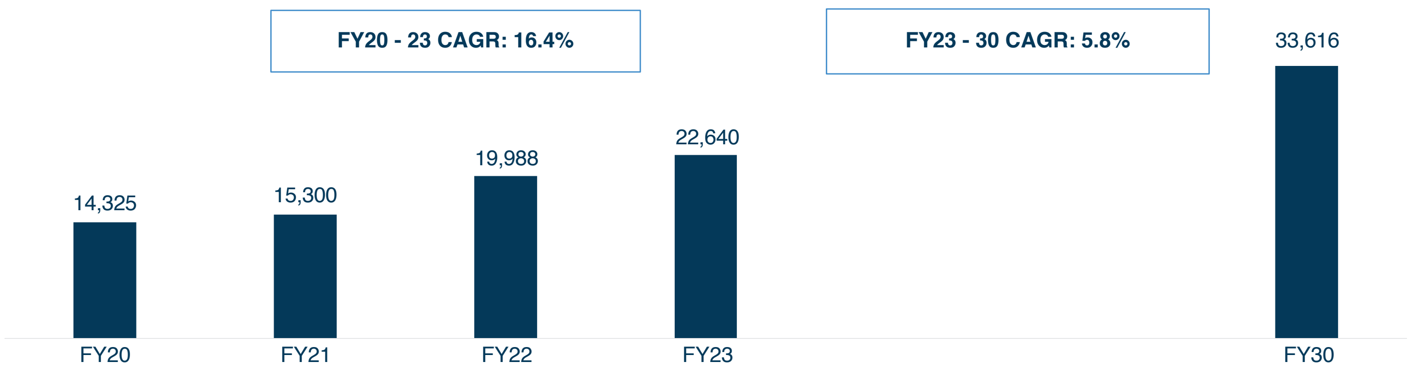
Manpower Services Sector Overview

The manpower services sector is a critical component of Saudi Arabia's economy, encompassing the recruitment, training, and supply of workforce on both permanent and contractual bases. This sector bridges the gap between the demand for skilled individuals across various industries and the supply of talent, ensuring businesses have efficient access to a workforce that meets their specific needs. By streamlining recruitment, manpower services save businesses time and resources, offering flexible solutions for long-term positions and short-term projects alike. As Saudi Arabia embarks on an ambitious journey of economic transformation under Vision 2030, its strategic policies and initiatives have significantly boosted demand across the manpower services sector. Large-scale construction projects, especially the nation's "giga projects" like NEOM and the Red Sea Project, have spurred the need for specialized labor in construction, transportation, logistics, and foodservice. This rapidly expanding demand underscores the growing importance of the manpower services sector in the Kingdom's future economic landscape.

Robust growth in Total Addressable Market (TAM) for manpower services in Saudi Arabia

The Total Addressable Market (TAM) represents the full potential of the manpower services sector in Saudi Arabia, encompassing various industries and capturing the scale of workforce demand. In FY23, the TAM for manpower services was estimated to reach SAR 22,640bn (USD 6,037bn), experiencing robust growth with a CAGR of 16.6% between FY20-23. This rapid expansion can be attributed to the post-pandemic recovery and the Kingdom's focus on economic diversification.

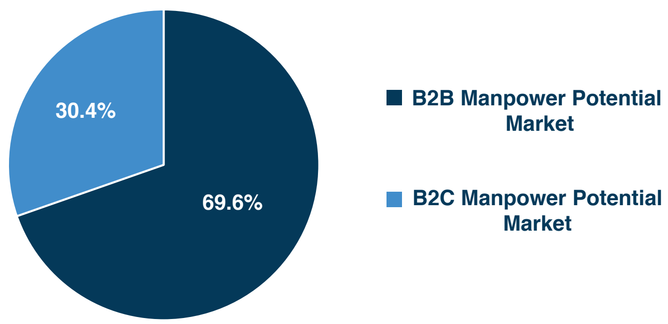
Fig 12. Growth of Total Addressable Market



Source: IPO Prospectus, AlJazira Capital research

The B2B (business-to-business) segment forms the core of the manpower services market, accounting for 69.6% of the total demand (FY23). This segment includes tailored workforce solutions for various industries, such as construction, healthcare, manufacturing, and technology, addressing the unique needs of each sector. On the other hand, the B2C (business-to-consumer) sector, comprising contractual and hourly manpower services, holds 30.4% of the market. This segment serves households, providing flexible, on-demand services like cleaning, childcare, and pet care. The overall market demand for manpower services exceeds the available supply by 46.2%, highlighting a significant gap that manpower service providers could address by expanding their offerings.

Fig 13. B2B vs B2C Market (FY23)

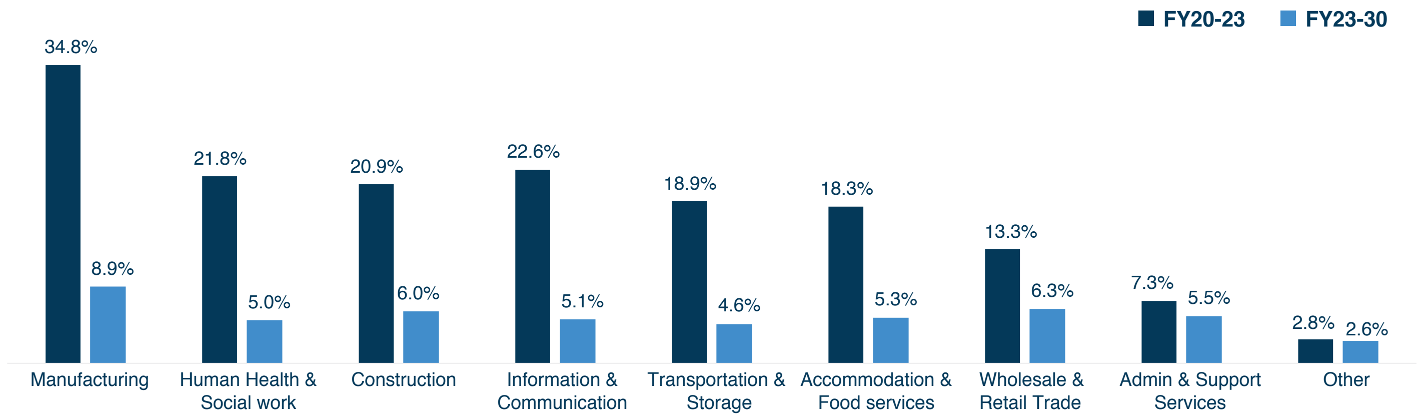


Source: IPO Prospectus, AlJazira Capital research

Manufacturing, Wholesale and retail, and construction to lead sectoral demand for manpower resources

- **Manufacturing Sector** Saudi Arabia's manufacturing sector has shown remarkable growth, with a CAGR of 34.8%, reaching SAR 2,182.4mn (USD 582.0mn) in FY23. This growth aligns with Vision 2030's goals of economic diversification, infrastructure development, and foreign investment attraction. As Saudi Arabia positions itself as a manufacturing hub, its strategic location, technology-driven initiatives, and international partnerships are further fueling this sector's expansion. By FY30, the manufacturing sector's addressable market for manpower services is projected to reach SAR 3,963.2mn (USD 1,056.8mn).
- **Human Health and Social Work Sector** The health and social work sector has seen substantial growth, with a CAGR of 21.8% from 2020 to FY23, reaching SAR 776.3mn (USD 207.0mn) in FY23. This growth is supported by government initiatives promoting gender equality in the medical workforce and Vision 2030's healthcare objectives. Additionally, government efforts to address chronic diseases and enhance social welfare systems have spurred demand for skilled manpower in this sector. By FY30, this sector is expected to grow to SAR 1,091.2mn (USD 291.0mn), with a projected CAGR of 5%.
- **Construction Sector** Saudi Arabia's construction sector is a primary driver of economic growth, with a CAGR of 20.9%, reaching SAR 4,669.0mn (USD 1,082.7mn) in FY23. Mega-projects like NEOM and the Red Sea Project have created a substantial demand for manpower in this sector. By FY30, the construction sector's market size for manpower services is projected to reach SAR 7,007.9mn (USD 1,868.5mn). However, as major projects conclude, labor demand in this sector may experience shifts, necessitating strategic workforce planning.
- **Information and Communication Sector** Growing at a CAGR of 22.6%, the information and communication sector reached SAR 230.4mn (USD 61.4mn) in FY23. The Kingdom's push for digital literacy and technology integration in education has fueled demand for manpower in IT and communications. The market is projected to reach SAR 326.5mn (USD 87.1mn) by FY30, with a CAGR of 5.1%, driven by increased outsourcing and the need for specialized IT skills.
- **Transportation and Storage Sector** The transportation and storage sector has expanded with a CAGR of 18.9%, reaching SAR 453.6mn (USD 121.0mn) in FY23. Saudi Arabia's strategic location and ongoing infrastructure projects have positioned the transportation and logistics industry as a vital sector, with demand for skilled manpower in logistics and supply chain management. By FY30, this sector is anticipated to reach SAR 619.9mn (USD 165.3mn), with a CAGR of 4.6%.
- **Accommodation and Food Services Sector** Despite pandemic-related challenges, the accommodation and food services sector grew at a CAGR of 18.3%, reaching SAR 778.4mn (USD 207.6mn) in FY23. Hajj, Umrah, and tourism-related initiatives under Vision 2030 have been key drivers. By FY30, the sector is expected to grow to SAR 1,114.1mn (USD 297.0mn), with a CAGR of 5.3%.
- **Wholesale and Retail Trade Sector** The wholesale and retail trade sector achieved a CAGR of 13.3%, reaching SAR 3,536.3mn (USD 943.0mn) in 2022. Digital transformation and consumer behavior changes have driven growth, creating demand for e-commerce and retail specialists. By FY30, this sector's manpower market size is expected to reach SAR 5,408.8mn (USD 1,442.3mn), with a CAGR of 6.3%.
- **Admin and Support Services Sector** This sector grew at a CAGR of 7.3%, reaching SAR 1,694.0mn (USD 451.7mn) in FY23. Growing business complexities and expansion in industries have led to a higher demand for specialized support services. By FY30, the sector is expected to reach SAR 2,464.3mn (USD 657.1mn), growing at a 5.5% CAGR.

Fig 14. CAGR by sector



Source: IPO Prospectus, AlJazira Capital research

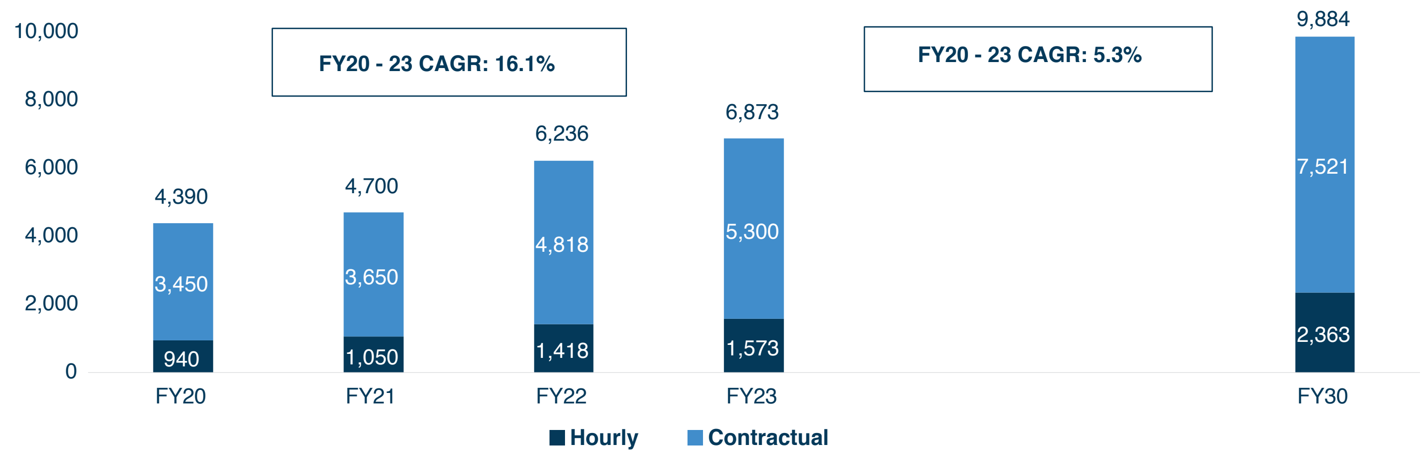
Hourly services demand to outpace contractual service in B2C manpower market

The B2C manpower services segment includes both hourly and contractual services, comprising 30.4% of the total market in FY23, with a value of SAR 6,873mn (USD 1,833mn). This segment has evolved to accommodate changing societal dynamics, such as the increasing number of women joining the workforce, which has intensified the demand for flexible domestic support.

In the B2C segment, hourly services grew at a CAGR of 18.7%, reaching SAR 1,573mn (USD 420mn) in FY23. Projected to grow at a 6.0% CAGR, hourly services are expected to reach SAR 2,363mn (USD 630mn) by FY30. Contractual services for household support demonstrated a 15.4% CAGR, reaching SAR 5,300mn (USD 1,413mn) in FY23, and are expected to continue growing at a 5.1% CAGR to SAR 7,521mn (USD 2,005mn) by FY30.

Overall, the B2C manpower services market is projected to grow at a CAGR of 5.3%, reaching SAR 9,883.8mn (USD 2,653.7mn) by FY30. The sustained expansion of the contractual and hourly segments highlights the resilience and potential of the B2C manpower market within Saudi Arabia.

Fig 15. B2C Manpower Potential Market



Source: IPO Prospectus, AlJazira Capital research

Financial Highlights

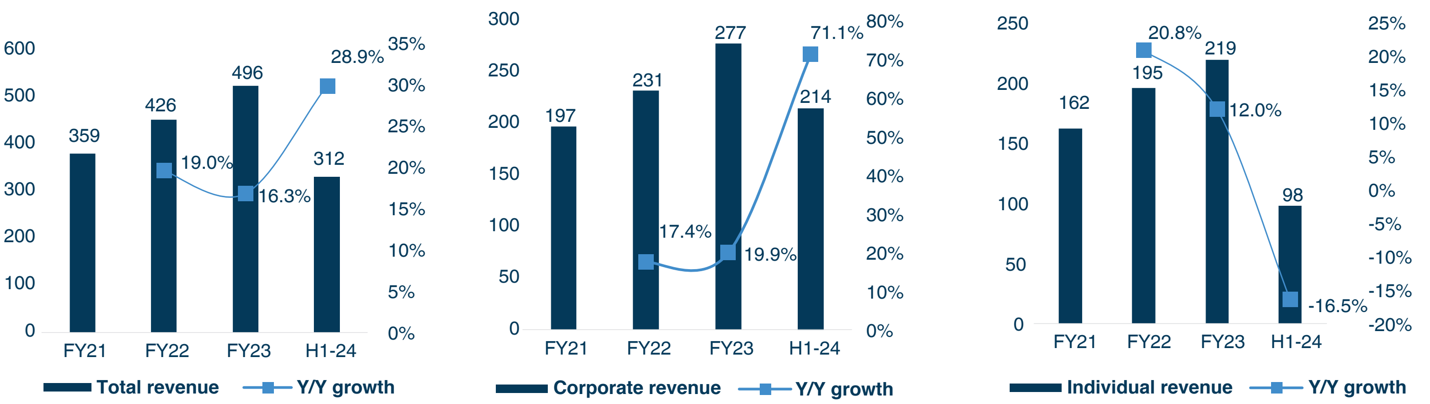
Revenue is divided into corporate and individual segments, with the corporate segment accounting for approximately 55% and the individual segment for about 45% of total revenue from FY21 to FY23. Total revenue grew from SAR 358.5mn in FY21 to SAR 495.8mn in FY23, reflecting a 17.6% CAGR, driven by growth in both segments.

Corporate revenue rose from SAR 197.0mn in FY21 to SAR 277.3mn in FY23 at an 18.6% CAGR, fueled by increased market demand for manpower services, especially in operations, maintenance, and medical sectors. This growth was due to (i) an increase in deployed resources from 4,183 to 5,529 and (ii) a rise in average monthly revenue per resource from SAR 3,924 to SAR 4,180.

The individual segment also saw growth, with revenue increasing from SAR 161.6mn in FY21 to SAR 218.6mn in FY23, at a 16.3% CAGR. This was driven by a rise in deployed resources from 4,370 to 7,092, as the company expanded into new regions. During this period, the company reduced prices on hourly and monthly packages and adjusted to competition and price ceilings imposed by the Ministry of Human Resources and Social Development (MHRSD) to focus on market share gain.

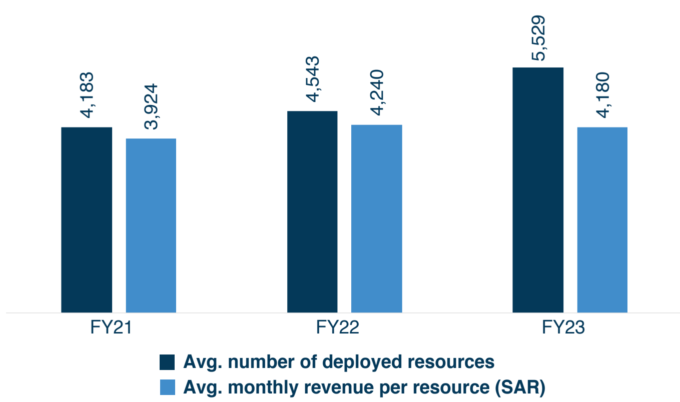
In H1-24, revenue grew 28.9% Y/Y driven by a robust 71.1% jump in corporate revenue, while individual segment revenue declined 16.5%.

Fig 16. Total and segment wise revenue (SAR mn) and Y/Y growth



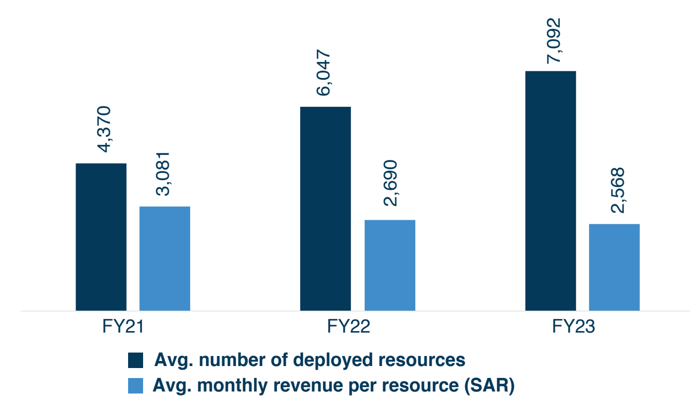
Source: IPO Prospectus, AlJazira Capital research

Fig 17. Corporate segment revenue drivers



Source: IPO Prospectus, AlJazira Capital research

Fig 18. Individual segment revenue drivers



Source: IPO Prospectus, AlJazira Capital research

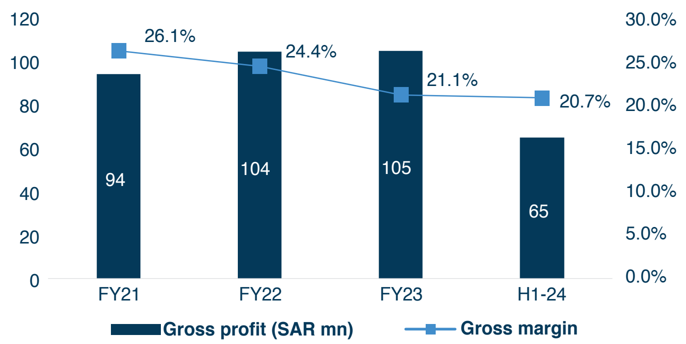
Gross margin impacted by pressure in Individual segment amid regulatory changes, increased competition and stable costs

Gross profit grew from SAR 93.7mn in FY21 to SAR 104.6mn in FY23, supported by revenue growth. However, the gross margin declined over the period, falling from 26.1% in FY21 to 24.4% in FY22, and further to 21.1% in FY23. This decline was largely due to the cost of sales increasing faster than revenue, particularly affecting the individuals' segment. The pressure on gross margin persisted in H1-24, declining further to 20.7%.

In the corporate segment, gross margin improved from 21.2% in FY21 to 24.9% in FY22 and reached 25.3% in FY23. This increase was driven by higher average monthly gross profit per deployed resource, especially in operations & maintenance and medical sectors. Key new clients in the operations & maintenance sector in FY23 also contributed, as resources were deployed at rates above existing ones. Conversely, the individuals' segment saw a steep decline in gross margin, dropping from 32.1% in FY21 to 23.7% in FY22, and further to 15.8% in FY23. This was due to aggressive pricing competition, which reduced average monthly revenue per resource, while costs remained stable. Additionally, price ceilings imposed by the Ministry of Human Resources and Social Development (MHRSD) in FY23 further pressured profitability within this segment.

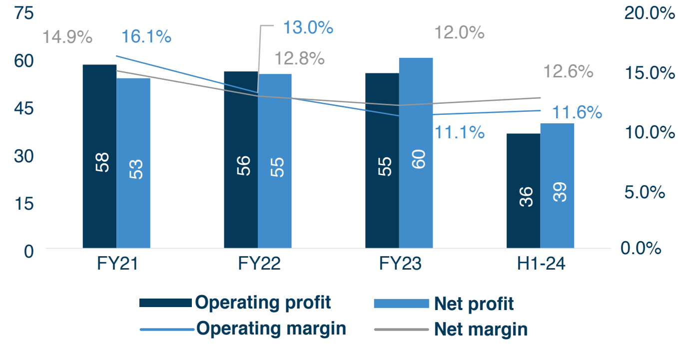
The gross margin was reflected in operating and net margins as well. Thus, the operating margin declined from 16.1% in FY21 to 11.1% in FY23 and 11.6% in H1-24, while net margin contracted from 14.9% in FY21 to 12.0% in FY23 and 12.6% in H1-24. Net profit was partially supported by income from term deposits.

Fig 19. Gross profit (SAR mn) and margin



Source: IPO Prospectus, AlJazira Capital research

Fig 20. Operating and net profit (SAR mn) and margins



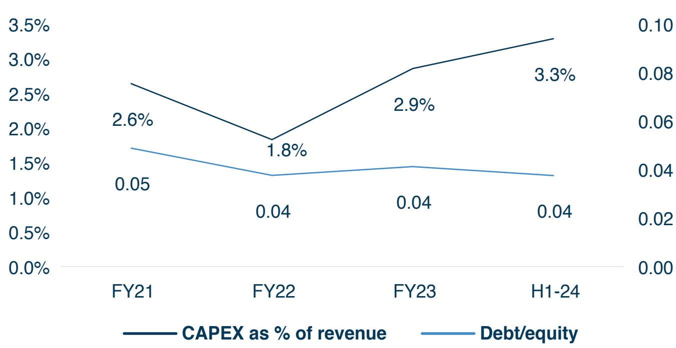
Source: IPO Prospectus, AlJazira Capital research

Minimal CAPEX requirement helps maintain low leverage; high working capital requirement puts pressure on FCF

Manpower resourcing business demand less CAPEX intensity. Tamkeen's CAPEX intensity average typically in the range of 2-3%. In H1-24, CAPEX as % of revenue was 3.3%, while CAPEX intensity averaged at 2.4% during FY21-23. Lower CAPEX intensity helps the company maintain low leverage in the balance sheet. The company does not bear any loans and has only lease liabilities on its balance sheet. As of H1-24, the debt/equity ratio stood steady at 0.04x.

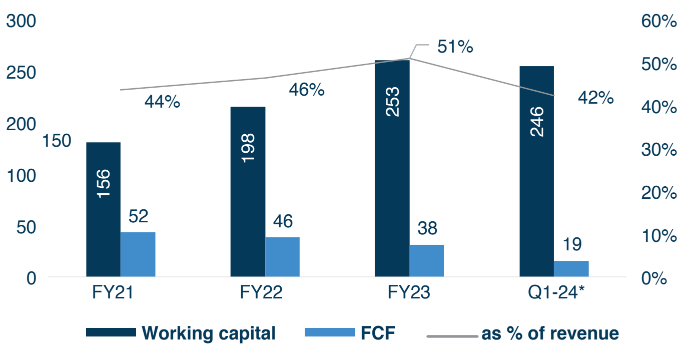
On the other hand, Tamkeen's business requires high working capital, and the expanding business is expected to demand higher working capital in future. The working capital of the company amounted to SAR 156.4mn, SAR 198.0mn and SAR 252.5mn in FY21, FY22 and FY23, respectively. Increasing working capital requirement is putting pressure on the company's free cash flows (FCF) which declined from SAR 52mn in FY21 to SAR 38mn in FY23, despite relatively stable operating profits.

Fig 21. CAPEX intensity and leverage



Source: IPO Prospectus, AlJazira Capital research

Fig 22. Working Capital and FCF (SAR mn)

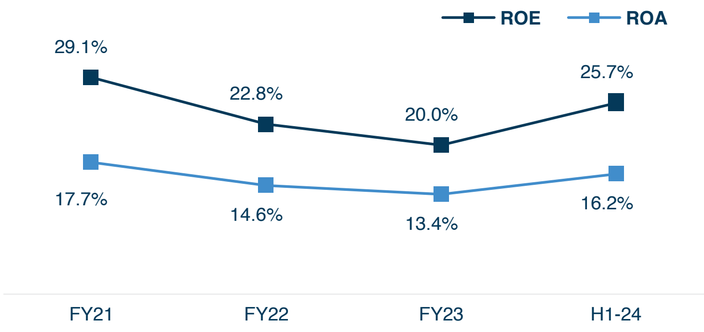


Source: IPO Prospectus, AlJazira Capital research, *Q1-24 annualized revenue

Return profile is still impressive despite pressure on profitability and increase in capital

Tamkeen return on equity and return on assets have been healthy historically with ROE ranging between 20-30% and ROA between 13-18%. With recent pressure on net margins and increase in capital ROE and ROA have declined but still are healthy. ROE declined to 20.0% in FY23 from 29.1% in FY21 and annualized ROE for H1-24 stood at 25.7%. Similarly, ROA also fell from 17.7% in FY21 to 13.4% in FY23, while annualized number for H1-24 stood at 16.2%.

Fig 23. ROE and ROA



Source: IPO Prospectus, AlJazira Capital research, *H1-24 is annualized

DCF Valuation

Our valuation of Tamkeen based on DCF (WACC of 10.4% and terminal growth rate of 2.5%) yielded a value of SAR 1.46bn, implying fair value per **share of SAR 54.9**.

Relative Valuation

Our relative valuation of Tamkeen using the methodology based on the FY25E P/E and EV/EBITDA multiples yielded values of SAR 1.48bn **(SAR 56.0 per share)** and SAR 1.53bn **(SAR 57.6 per share)**, respectively. We applied FY25E P/E multiple of 19.0x and EV/EBITDA multiple of 13.0x based on forward trading multiples of peers.

P/E (FY25E)

All Figures in SAR mn, unless specified	
P/E multiple	**19.0**
Net Worth	1,483
Shares (mn)	26.5
Relative Value (SAR/share)	**56.0**

EV/EBITDA (FY25E)

All Figures in SAR mn, unless specified	
EV/EBITDA multiple	**13.0**
Implicit enterprise value	1,347
Net Worth	**1,525**
Shares (mn)	26.5
Relative Value (SAR/share)	**57.6**

Blended Valuation

Valuation Summary	Fair Value	Weight	Weighted Avg
DCF	54.9	50%	27.5
EV/EBITDA	57.6	25%	14.4
P/E	56.0	25%	14.0
Weighted Avg 12-month TP			**55.9**
IPO Offer Price (SAR /share)			50.0
Expected Capital Gain			**11.8%**

Source: Bloomberg, Tadawul, Company Prospectus, Aljazira Capital Research

We assigned 50.0% weight to DCF, 25.0% weight each to FY25E EV/EBITDA, and P/E multiples. Based on the combined valuation, we arrived at a TP of **SAR 55.9 per share**, implying an upside of **11.8%** from the IPO offer price of SAR 50.0 per share. As per our derived TP of SAR 55.9, the implied PE multiple based on FY25E earnings is 19.0x, compared with a PE of 17.0x based on the IPO offer price.

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E
Income statement					
Revenues	359	426	496	669	770
Y/Y		**19.0%**	**16.3%**	**35.0%**	**15.0%**
Cost	-265	-323	-391	-533	-621
Gross profit	**94**	**104**	**105**	**136**	**149**
Operating expenses	-36	-48	-49	-66	-76
Operating Income	**58**	**56**	**55**	**70**	**73**
Y/Y		**-3.9%**	**-0.9%**	**27.1%**	**4.0%**
Other non-operating income	1	6	14	13	13
Income before zakat	**58**	**61**	**68**	**82**	**85**
Zakat	-5	-6	-8	-8	-8
Net income attributed to equity shareholders	**53**	**55**	**60**	**76**	**78**
Y/Y		**2.5%**	**9.2%**	**26.8%**	**2.9%**
EPS (SAR)*	**2.02**	**2.07**	**2.26**	**2.86**	**2.95**
Balance sheet					
Assets					
Cash & equivalent	90	184	217	327	335
Trade receivables	28	36	76	59	68
Prepayments and other debit balances	52	59	58	89	102
Visas in use - Current	5	7	8	15	20
Available visas	14	18	17	24	30
Total current assets	**240**	**305**	**376**	**513**	**555**
Property plant & equipment	34	36	44	45	45
Right-of-use assets	9	9	13	14	15
Cash margin on letter of guarantee	10	10	10	10	10
Total non-current assets	**65**	**70**	**74**	**77**	**80**
Total assets	**304**	**375**	**451**	**590**	**635**
Liabilities & owners' equity					
Trade payables	8	8	9	12	14
Contract liabilities	21	17	13	37	42
Accrued expenses and other credit balances	41	50	54	73	84
Retained deposits	6	20	33	33	33
Other current liabilities	7	11	15	14	16
Total current liabilities	**83**	**107**	**124**	**170**	**190**
Lease liabilities	7	12	8	9	10
Employees' defined benefit obligation	9	6	15	15	15
Total non-current liabilities	**36**	**28**	**25**	**26**	**27**
Share capital	100	100	200	265	265
Statutory Reserve	8	14	14	14	14
Retained Earnings	77	126	86	114	138
Total owners' equity	**185**	**240**	**302**	**394**	**418**
Total equity & liabilities	**304**	**375**	**451**	**590**	**635**
Cashflow statement					
Operating activities	61	54	52	103	73
Investing activities	-10	43	-14	-12	-13
Financing activities	-5	-4	-4	18	-52
Change in cash	46	94	33	110	8
Ending cash balance	**90**	**184**	**217**	**327**	**335**
Key fundamental ratios					
Liquidity ratios					
Current ratio (x)	2.9	2.9	3.0	3.0	2.9
Profitability ratios					
Gross profit margin	26.1%	24.4%	21.1%	20.3%	19.3%
Operating margin	16.1%	13.0%	11.1%	10.5%	9.5%
EBITDA margin	21.3%	17.4%	15.6%	14.4%	13.5%
Net profit margin	14.9%	12.8%	12.1%	11.3%	10.1%
Return on assets	17.6%	14.6%	13.3%	12.9%	12.3%
Return on equity	28.9%	22.8%	19.8%	19.2%	18.7%
Leverage ratio					
Debt / equity (x)	0.05	0.06	0.04	0.03	0.03

Source: Company Prospectus, Aljazira Capital Research, Note- The earnings per share for historical period are calculated considering current no. of shares.

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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