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الموارد للقوى البشرية

Al Mawarid
manpower

Al Mawarid Manpower Company Initiation Report

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Al Mawarid Manpower Company: Initiate with “Overweight” rating and a TP of SAR 88.0/share

Al Mawarid Manpower Company is among the top three manpower services providers in Saudi Arabia with market share of 12.0% in FY22. The company has successfully expanded its business in the past few years and established itself as a major player in Saudi manpower industry. The company’s revenue expanded at CAGR of 17.6% during FY18-22, while net income surged at CAGR of 52.7% during the same period. Al Mawarid witnessed significant growth in the average number of workers available across its segments, indicating the expansion of its business. Going forward, higher demand for workers for mega/giga projects, positive prospects of Saudi tourism sector and overall focus on non-oil sector growth would be key drivers for the rising demand for workers across several sectors. Thus, Al Mawarid, being one of the major manpower service providers in KSA is expected to benefit from the higher demand. We initiate our coverage on the company with an “Overweight” rating and a TP of SAR 88.0/share.

- Strong growth driven by market share gain, large project sign ups and expansion of manpower:** Al Mawarid showed very impressive performance in FY22. The company gained a market share reaching around 12% from around 10% a year earlier. The number of workers invoiced by the company are estimated to have increase by more than 50% during the year, as the company signed some large contracts in corporate segment. We expect this momentum to continue this year, as there will be demand for workers from ongoing giga projects. Moreover, recovery and growth in tourism and hospitality sector will also draw higher demand for workers. We believe Al Mawarid has potential to increase its market share further, given its proven ability to provide services across diverse clientele as well as sourcing right set of manpower to fit the client’s requirement. We forecast the company to register a revenue CAGR of 12.8% during FY22-25E on the back of a similar increase in the number of workers available (CAGR: 13.4%).
- Economies of scales to keep margins above pre-COVID levels, despite competitive pressure:** We expect high competition among large players in Saudi manpower sector and this is anticipated to exert some pressure on their margins. Al Mawarid is also expected to face margin pressure compared to FY22. However, the company may benefit from economies of scale (revenue almost doubled from FY18-22) that will help cope with competitive pressure and keep the margin higher than pre-COVID levels. Additionally, the company has a track record of maintaining a healthy utilization rate, which we forecast to be in the range of 95-96% and aid margins to be at healthy levels. We expect GP margins for the company to ease from 13.5% in FY22 but remain in the range of 12.7%-13.1% during FY23-25E (above 10.1% in FY19). Net margin is estimated to range between 7.2%-7.4% during FY23-25E (FY19: 5.4%)
- Returns to shareholders are expected to remain solid with a strong ROE and higher dividends:** Al Mawarid’s ROE is expected to remain high, in the range of 23-28% during FY23-27E (vs. 22-29% during FY19-22). A gradual moderation of ROE is anticipated mainly due to an increase in retained earnings amid rising net profits, and the debt-free nature of the company. However, we see a possibility of an increase in dividend payout in future, given the low capex requirement in the business and manageable working capital. We forecast a higher payout ratio in the range of 47-54% during FY23-25E vs. 26-44% during FY19-22. The higher payout will be supported by healthy FCF generation (average FY23-25E: SAR 5.08 per share with average conversion rate of 64.2%).
- AJC view and valuation:** We believe Al Mawarid’s future growth will be driven by its focus on market share expansion and supportive sector dynamics. The company scores better on most of the key metrics compared to its peers due to its robust performance in terms of growth and profitability. We value the company with 50% weightage to DCF (Rfr = 4.0%, terminal growth = 2.5%, average WACC = 10.0%) and 25% each to relative valuation based on FY23E EV/EBITDA (11.7x) and P/E (14.9x) multiples. This yields a TP of SAR 88.0/share, an upside of 37.5% from IPO price. Thus, we initiate our coverage on the stock with “Overweight” rating.

Recommendation	Overweight
Target Price (SAR)	88.0
Upside/(Downside)	37.5%

*Upside from IPO offer price

Key Financials (in SAR mn, unless specified)				
	FY21	FY22	FY23E	FY24E
Revenues	664	945	1,190	1,287
Growth %	-3.3%	42.3%	26.0%	8.1%
Gross Profit	97	128	156	166
Net Income	56	76	88	95
Growth %	21.4%	36.5%	15.4%	8.8%
EPS	5.57	5.07	5.85	6.36

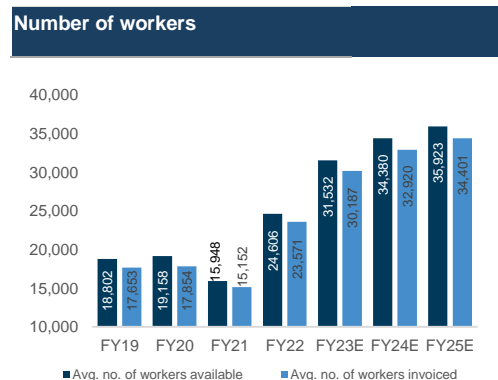
Source: Company reports, Aljazira Capital

Key Ratios				
	FY21	FY22	FY23E	FY24E
Gross Margin	14.6%	13.5%	13.1%	12.9%
Net Margin	8.4%	8.0%	7.4%	7.4%
ROE	25.7%	28.9%	27.7%	26.2%
ROA	14.4%	16.7%	16.5%	16.2%
P/E (x)	NM	NM	10.9	10.1
P/B (x)	NM	NM	2.8	2.5
EV/EBITDA (x)	NM	NM	8.8	8.0
Dividend Yield	NM	NM	4.30%	4.69%

Source: Company reports, Aljazira Capital

Key Market Data	
IPO price (SAR/share)	64.0
Share Outstanding (mn)	15.0
Market Cap at IPO price (SAR mn)	960.0

Source: Company reports, Aljazira Capital



Source: Company reports, Aljazira Capital

Company Overview

Al Mawarid Manpower Company provides labor recruitment and manpower services in Saudi Arabia, serving corporate clients as well as individuals. The company's corporate clients operate in sectors such as maintenance, restaurants, construction and contracting, transportation, hospitals, trade, manufacturing, services, and banking, while individuals are hired for professions such as nursing, hospitality, housekeeping, and cleaning. The company has two wholly owned subsidiaries: Musanid Al Marafiq and Sawaid Recruitment Company. Al Mawarid is headquartered in Riyadh, KSA, and has 13 branches in seven major cities.

Source: IPO Prospectus

Valuation Summary

We assigned 50% weightage to DCF based valuation and 25% each to relative valuation based on FY23E EV/EBITDA (11.7x) and P/E (14.9x) multiples. The combined valuation implies a fair market value for Al Mawarid at SAR 1.3bn, translating into a TP of **SAR 88.0/share**. As per our derived TP of SAR 88.0, the implied PE multiple based on FY23E earnings is 15.1x. This indicates an upside potential of **37.5%** from the IPO offer price of SAR 64/share.

Brief Overview of Al Mawarid's Business Segments

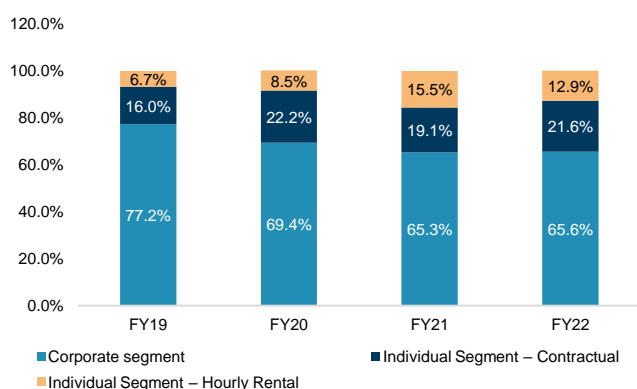
The company's three business segments are as follows:

Corporate: The company derives revenue from corporate clients from industries such as maintenance companies, restaurants, construction and contracting, transportation and hospitals. Billing for contracts signed under this segment is on a monthly basis and receivables from clients are due within 60 days of the date of invoice; the average length of the contract under this type of segment is two years. The prices of services depend on the salary of workers, which in turn is based on their profession, skills, and competencies.

Individual Segment – Contractual: Revenue from this segment mainly comes from individual customers such as housemaids, cleaners, and private drivers. Payment is made in advance by clients, except for automatically renewed contracts with existing customers. Based on competence and salary of the worker, the average secondment service price ranges from SAR 2,000 per month to SAR 3,500 per month in June 2022.

Individual Segment – Hourly rental: Revenue in this segment is generated from individual customers on an hourly basis under a business-to-customer relationship. Revenue mainly includes services provided by housemaids and cleaners. The average price paid in June 2022 ranged from SAR 90 per visit to SAR 140 per visit. The average price depends on the competence and salary of the worker and timing of the visit (morning/night)

Figure 1: Segmental revenue contribution trend

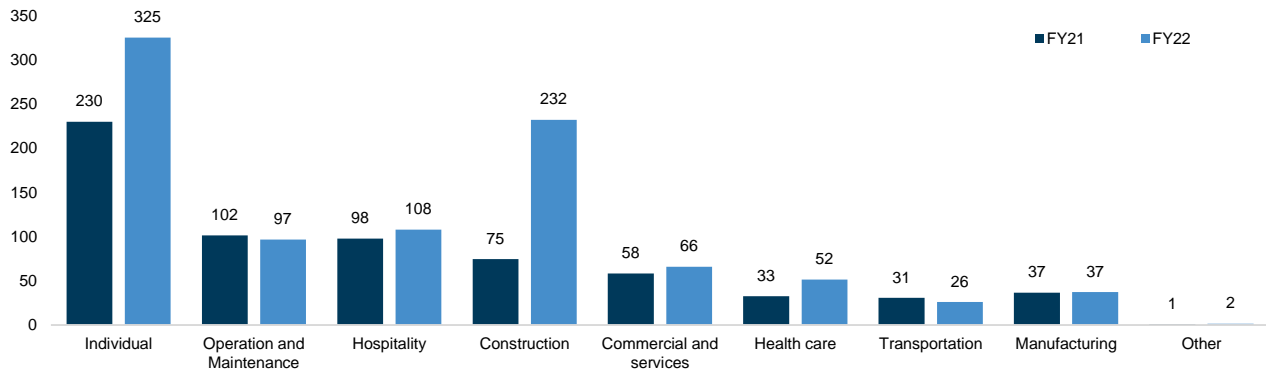


Source: Company Prospectus, Aljazira Capital Research

In FY22, the company reported total revenue of SAR 945mn, a growth of 42.3% Y/Y from SAR 664mn reported in FY21. Revenue contribution from the corporate segment has been above 65% for the past four years. This segment recorded 42.9% growth in FY22 after falling by 13.9% Y/Y and 8.9% Y/Y in FY20 and FY21, respectively, due to the impact of travel restrictions during the pandemic. During this period there was a decrease in the average number of workers. The individual contractual segment's share of revenue increased from 16.0% in FY19 to 21.6% in FY22. Contribution from the individual hourly rental segment rose from 6.7% in FY19 to 12.9% in FY22 due to higher utilization rates, number of hours invoiced, and average revenue per worker invoiced in the past three years.

Construction revenue surged in FY22 driven by large contracts, demand from individual customers strong

Figure 2: Revenue by type of customer (SAR mn)

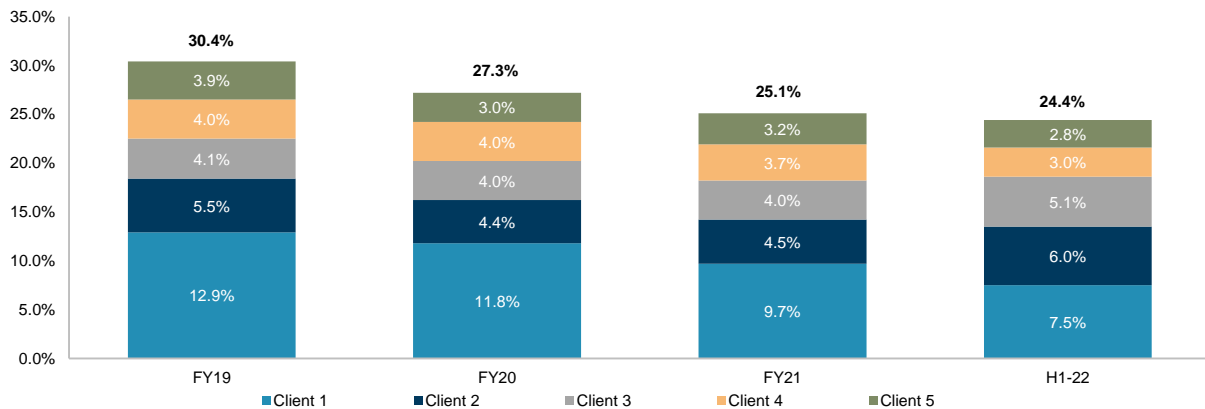


Source: Company Prospectus, Aljazira Capital Research

In FY22, individual customers contributed 34.4% (SAR 325.2mn), while the remaining 65.6% came from corporate customers. Individual customer revenue grew 41.4% amid strong demand. Among corporate customers, revenue from construction sector clients surged 3x to SAR 232.1mn in FY22, consisting of 24.6% (FY21: 11.2%) of total revenue. The construction sector revenue was boosted by the signing of big contracts for giga projects. We expect the construction sector to continue to generate healthy revenue for the company in upcoming years driven by the giga and mega project and other Vision 2030 initiatives.

Reducing dependence on top clients

Figure 3: Revenue contribution from top five clients



Source: Company Prospectus, Aljazira Capital Research

Revenue contributions from the top five clients decreased from 30.4% in FY19 to 24.4% in H1-22. This indicates revenue dependence on the top five clients reduced with the addition of more clients to the revenue pool. A higher revenue disaggregation from a greater number of industries and clients will ensure better revenue diversification. However, Client 1 represented the largest share of revenue, contributed 9.7% of total revenues in FY21 worth SAR 64.4mn, which increased to 11.6% in FY22.

Recruitment Process for Corporate and Individual Segment

Recruitment process of corporate manpower

Contracting

The client reaches out to the Company based on its staffing needs as per certain specifications. Accordingly, the Company decides the cost of services and provides a price quotation. Once the price quotation is approved, Almawarid enters into a service contract with the client

Selection and Recruitment

Parallel to the visa process, the Company selects and recruits manpower resources through its extensive network of foreign recruitment agencies by considering client specifications. After obtaining the client's authorization of the recommended manpower resources and allocating their visas, the Company or client issues flight tickets to the hired personnel. The Company takes 50 days to complete the selection and recruitment process

Deployment

Once post-arrival procedures are completed, arrangements are made to transfer the manpower resource to the client's premises. Almawarid arranges for monthly timesheet submission, vacations, and re-entry visa.



Visas

The Company keeps a visa inventory and requests visa quotas from MHRSD. Various factors and policies are considered while reviewing visa applications. Once the visa allocation request is through, details of manpower resources are reviewed against the visa inventory. The Company selects manpower resources based on client approvals. This process takes close to 30 days.

Arrival and Post Arrival

The manpower resources are met at the airport in KSA and driven to Almawarid's transit housing facility. Assistance is given for completing arrival procedures, medical examinations, obtaining residence permits, medical insurance, and opening bank accounts. Mandatory orientation is provided to the selected resources and they are introduced to the legal and cultural aspects.

Post Deployment

Post deployment, payroll payments are made at the end of each month. The client pays the invoice amount within 60 days on average. Almawarid in turn will pay the salaries of the manpower resources within five days of each month

Recruitment process of Individual manpower

Procurement & Management of Visas

An inventory of visas of housekeepers, cleaners, cooks, drivers, and personal care assistants is maintained, and additional visas are requested from MHRSD. Various factors and policies are considered while reviewing visa applications. Once the visa allocation request is through, details of manpower resources are reviewed against the visa inventory. On identifying the manpower resources, MHRD is requested for visa issuance, which usually takes three days on average

Arrival and post arrival

The manpower resources are met at the airport in KSA and driven to Almawarid’s transit housing facility. Assistance is given for completing arrival procedures, medical examinations, obtaining residence permits, medical insurance, and opening bank accounts. Mandatory orientation is provided to the selected resources and they are introduced to the legal and cultural aspects. In case of the individual segment (contractual), manpower resources are deployed to customers’ premises.

Deployment

In case of the contractual subsegment, the Company ensures the customer is a family household and not a single individual. Thereafter, a contract is entered into and the full amount is paid. Depending on availability, the onboarded manpower services are allocated to respective regions based on the waitlist on a first come, first served basis. Regarding the hourly rental segment, customers request “hemma” services through Almawarid’s mobile application, website, or branches, specifying the type of service required. The manpower resources are transported to customers’ premises as per the schedule.



Selection and Recruitment

Parallel to the visa process, the Company selects and recruits manpower resources through its extensive network of foreign recruitment agencies by considering client specifications. The foreign recruitment agencies select manpower resources and negotiate employment terms. In case of the individual (contractual) segment, Almawarid also interviews the manpower resources after being shortlisted by the foreign recruitment agency. The selection and recruitment process takes 45 days to complete on average.

Training

Training sessions are conducted for manpower resources to help them acquire the necessary skill sets for the job. Cooks are trained for local cuisine while housekeepers are trained for hygiene and safety matters. The training period lasts for five days.

Post Deployment

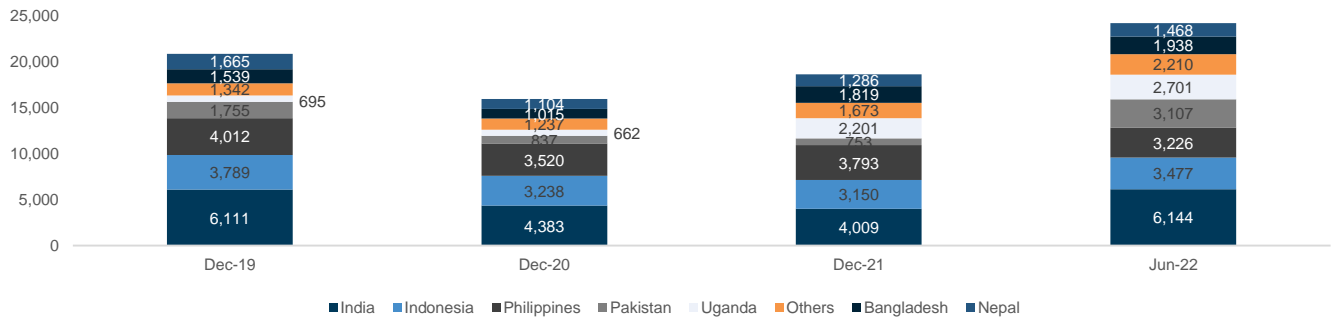
At the end of each month, Almawarid is required to make payroll payment directly to the bank account of full-time as well as part-time workers. Under MHRSD regulations, regular monthly working hours for manpower resources for “hemma” services is 208 hours. Working hours are recorded per each manpower resource’s schedule and overtime is compensated at 1.5x the average regular hourly rate.

Manpower Resources by Nationality and Profession

Manpower resources based on nationality

The company had a total of 24,271 manpower resources as of June 2022 from various countries. The chart below suggests that manpower resources from India reached pre-COVID levels, those from Pakistan nearly doubled from December 2019 to June 2022, and Uganda observed a 289% jump during this period. Al Mawarid’s manpower reached above 29,000 by the end of FY22.

Figure 4: Manpower resources by nationality

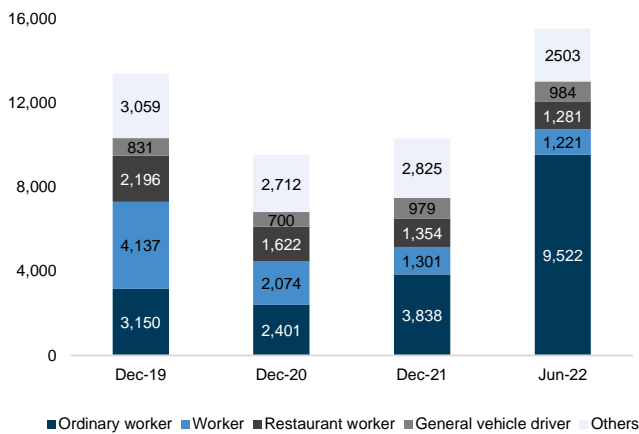


Source: Company Prospectus, Aljazira Capital Research

Manpower resources based on profession

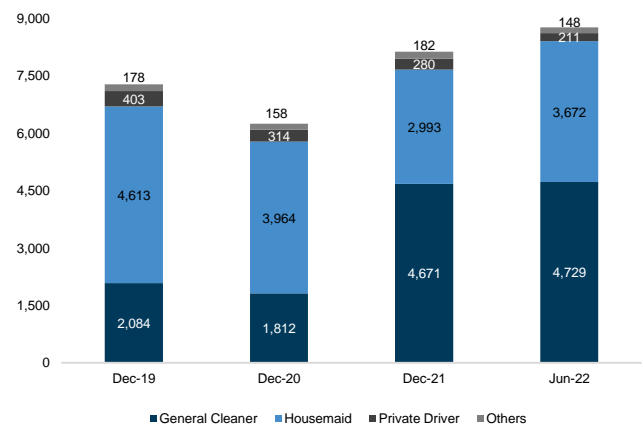
In the corporate segment, the number of ordinary workers surged 202% from December 2019 to June 2022 and constituted 61.4% of corporate manpower resources. In the individual segment, general cleaners and housemaids represented on average 94% of the total individual profession segment.

Figure 5: Corporate segment



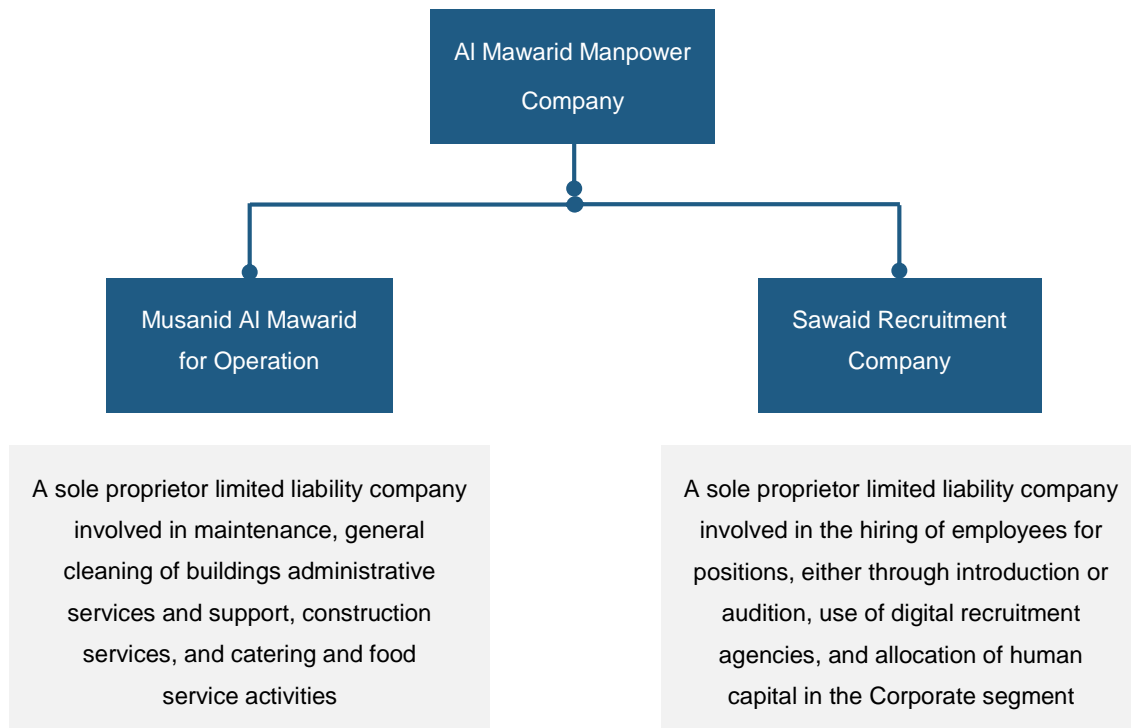
Source: Company Prospectus, Aljazira Capital Research

Figure 6: Individual segment (contractual and hourly)



Group Structure

Al Mawarid has a decade of expertise in the staffing industry, providing cost-effective manpower supply solutions for customers by employing an experienced workforce.



Ownership (Pre- and Post-IPO)

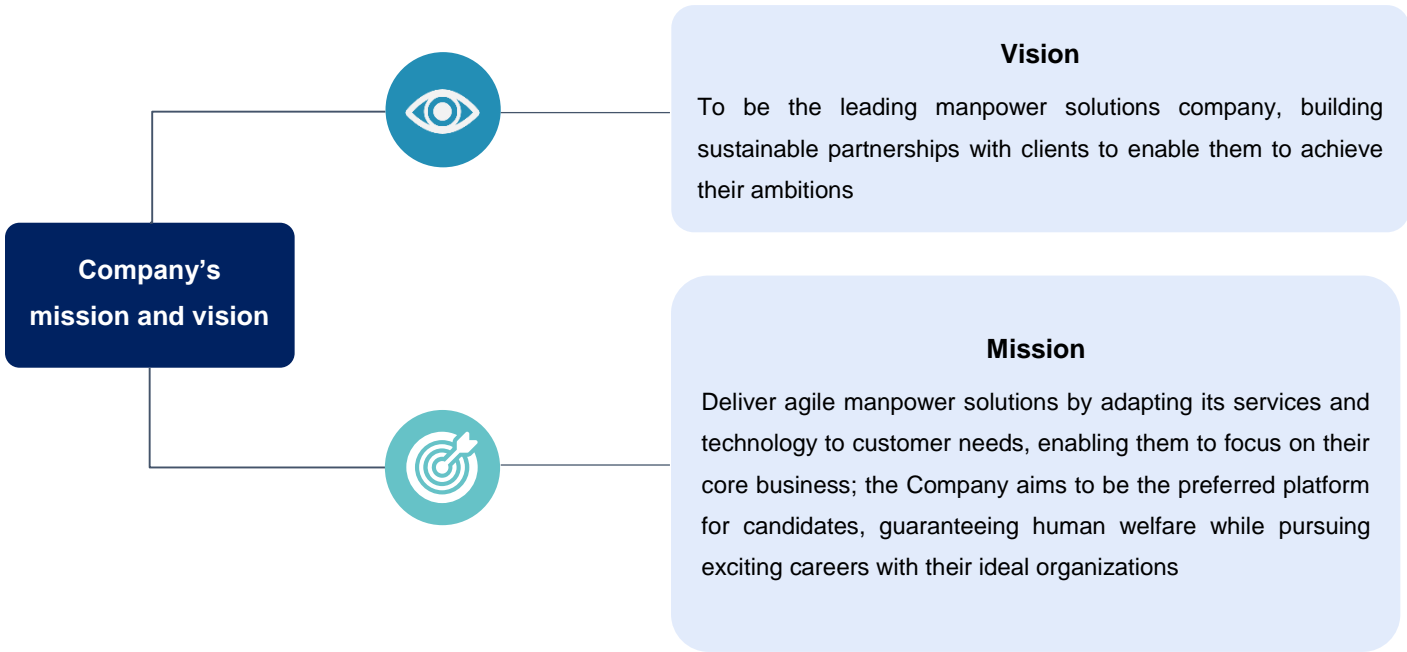
Shareholders	Shareholding (Pre-Offering)			Shareholding (Post-Offering)		
	Number of Shares	Ownership Percentage (%)	Nominal Value (SAR)	Number of Shares	Ownership Percentage (%)	Nominal Value (SAR)
Alomaier Trading and Contracting Company	5,129,481	34.2%	51,294,810	3,590,637	23.9%	35,906,370
Al-Ayuni Investment and Contracting Company	5,129,481	34.2%	51,294,810	3,590,637	23.9%	35,906,370
Saudi Edarah Company	1,418,625	9.5%	14,186,250	993,037	6.6%	9,930,370
Khalda Trading Group	1,082,250	7.2%	10,822,500	757,575	5.1%	7,575,750
Al Mawarid kom Trading Group	999,627	6.7%	9,996,270	699,739	4.7%	6,997,390
Alsaraya Investment Company	780,244	5.2%	7,802,440	546,171	3.6%	5,461,710
Riyadh Ibrahim Romaizan Alromaizan	235,292	1.6%	2,352,920	164,704	1.1%	1,647,044
Wathbah Investment Company	150,000	1.0%	1,500,000	105,000	0.7%	1,050,000
Ali Mohammed Ali Aljumaah	30,000	0.2%	300,000	21,000	0.1%	210,000
Abdullah Muhammad Ali Aljumaah	15,000	0.1%	150,000	10,500	0.1%	105,000
Abdulaziz Saleh Mohammed Alsowail	15,000	0.1%	150,000	10,500	0.1%	105,000
Sulaiman Abdullah Sulaiman Alomaier	7,500	0.1%	75,000	5,250	0.0%	52,500
Khalid Abdullah Rashid Alothman	7,500	0.1%	75,000	5,250	0.0%	52,500
Public	-	-	-	4,500,000	30.0%	45,000,000
Total	15,000,000	100%	150,000,000	15,000,000	100%	150,000,000

IPO Offering Summary

Al Mawarid is floating 4.5mn shares, representing 30.0% of the company's 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. The institutional investors will be allocated 100% offered shares. If retail investors fully subscribe to their allocated shares, the financial advisor will have the right to reduce the number of their allocated shares to 90% of the total offered shares, at 4.05mn minimum, and therefore, retail investors are allocated 10% or 0.45mn shares. The subscription period for institutional investors and the book building process was open from May 09, 2023 to May 15, 2023 and was oversubscribed 54x. **The final offer price is set at SAR 64 per share.**

Source: IPO Prospectus

Company’s Vision, Mission, and Strategy



To achieve its mission and vision, the company targets to achieve the following goals defined in the form of five pillars:



Competitive Advantages



Growing business: The company's corporate client base represented 65.6% of the total revenue as of FY22. AI Mawarid's clientele is fragmented in terms of number, exceeding 500 clients and those working in different industries.



Strong market position: The company is among the top three manpower companies in KSA with market share of around 12.0% as of FY22. AI Mawarid is present in seven major cities, with 13 branches across the Kingdom as of June 2022.



Strong and reliable network of overseas agencies: The company has a considerable network and collaborations with more than 35 assisting agencies for foreign recruitment based in more than 24 countries such as Indonesia, the Philippines, Bangladesh, Uganda, Pakistan, and India. This allows the company to partner with such agencies to ensure a certain minimum level of highly qualified workers.



Diversified portfolio: The company provides clients with employees in more than 20 temporary staffing professions such as nursing, hospitality, housekeeping, and cleaning. The company had 15,948 average number of available workers in FY21, which rose to 24,606 in FY22.



Experienced management: The executive management team has considerable experience in human resources solutions gained through extensive interaction with clients.

Risks

- Licensing and **regulatory aspects** of manpower solutions companies were issued by MHRSD in FY11. The inability of the company to adapt to the changing regulations of the manpower industry may impose operational or financial burden on the company.
- AI Mawarid's business relies heavily on **work visas** issued by MHRSD. The Group's failure to obtain the necessary number of work visas from the MHRSD would reduce the size of its available workforce, which would have a negative impact on its business and financial condition.
- The Saudi regulations now provide **flexibility to expatriates to change their jobs** in private sector after one year of employment. This may pose risk to AI Mawarid, as workers can switch to another manpower service provider after one year.
- The success of AI Mawarid depends on being able to **recruit and retain** large numbers of skilled and experienced employees. Additionally, the company has partnerships with overseas agencies from different countries to source manpower resources. The failure of the Group to recruit resources from these countries due to any deterioration in diplomatic relationships may cause a risk to the business.
- The company recruits manpower resources from 24 different countries through contractual relationships with **45 recruitment agencies**. If any party fails to meet contractual obligation, the company may not be able to fulfill the client's demand.
- The availability of **qualified manpower** suitable for the required job may not be available at a given time. The requirement could be based on a varied set such as staff from different age groups, geographical regions, or skillsets. The availability and ability of the company to recruit the right personnel at the right time will be imperative for its success.
- For conducting business activities, the company is required to maintain a database of all **client and employee information**. Maintaining confidentiality and integrity of data will be important in order to avoid any breach of data, as it will be important for the company to attract and retain clients as well as employees.

SWOT Analysis

Strengths

- Secure corporate clientele base diversified across 13 sectors
- **Market share of around 12%**; among top three in KSA
- Large network and partnership with 35 global agencies
- Provides with workers in 20 different professions (Above 29,000 workers as of December 2022)
- Robust utilization rates in corporate segment (3Y Avg.: 95.7%) and Individual Contractual segment (3Y Avg.: at 92.3%). Utilization rate for Individual hourly segment improved from 50.2% in FY19 to 92.0% in FY22

Weakness

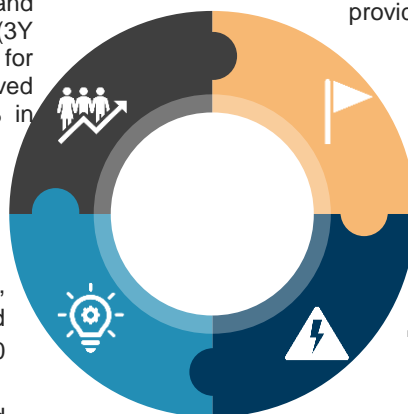
- Over 20% of revenues comes from top five clients, indicating dependence on them to generate revenue
- As of June 2022, 93.8% of foreign manpower sourced from six countries through 35 agencies; any adverse geopolitical environment with these countries or deterioration in relations with agencies can hamper business
- Heavy reliance on manpower resources to provide service and generate revenues

Opportunities

- Boost to construction, manufacturing, retailing, and tourism sectors from Vision 2030 initiatives
- Ecommerce, tourism, and entertainment sectors to fuel demand
- Due to considerable labor force requirement in hospitality and IT industries, tap growth in these sectors

Threats

- Recessionary period where companies tend to freeze hiring
- Stringent government regulations not in favor of the Company's business
- Slowing economy wherein employers are discouraged to renew contracts
- Breach of employee and client data confidentiality in events such as cyber-attack
- Workers switching to another competitor after one year, as allowed by new regulations
- Inability of clients to pay on time

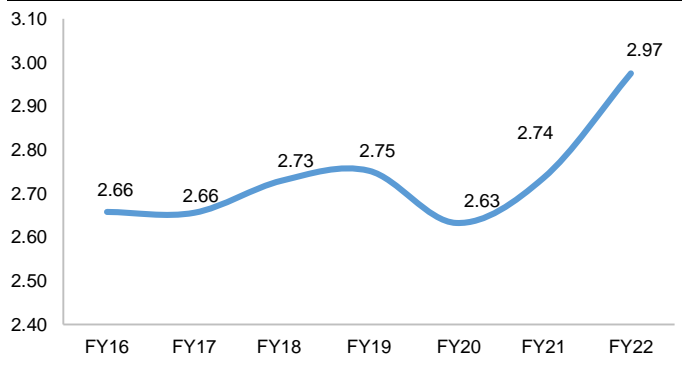


Saudi Macro Analysis Overview

Saudi Arabia's growth trajectory shows signs of faster recovery

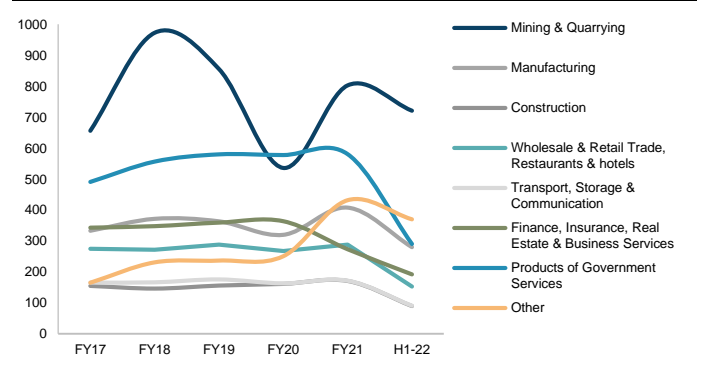
Saudi Arabia's GDP declined 4.3% Y/Y in FY20 due to low oil prices and COVID-19. However, the economic recovery sped up owing to vaccinations and as travel and business restrictions were relaxed. The Saudi government is working on diversifying the economy and reducing its dependence on oil. The Kingdom's GDP increased by 3.9% Y/Y and 8.7% Y/Y in FY22. Non-oil real GDP grew 7.2%Y/Y and 5.4% Y/Y in FY21 and FY22, respectively.

Figure 7: Saudi real GDP (SAR tn)



Source: Gastat

Figure 8: Saudi real GDP per sector (SAR tn)



Sector-wise growth prospects and manpower requirement

The government is attracting foreign direct investment as well as local investments to set up manufacturing companies, hotels, food processing organizations, healthcare centers, and educational institutes. The government's efforts to boost commercialization will create job opportunities for both Saudi nationals and expatriates, which will boost the business of manpower outsourcing firms.

The construction sector was highly affected by the pandemic as work on most large projects came to a halt. However, resumption of activity picked up and megaprojects such as NEOM, Al Widyah, and Al-qiddiya, AIUla, Riyadh Metro, and Amaala are expected to contribute to the growth of the construction sector and generate job opportunities. The mining and quarrying sector advanced at a rate of 21.0% Y/Y in H1-22, while transport, storage, and communication grew at 15.0% Y/Y.

Corporate manpower services depict high growth trajectory in the coming years, given the pace of development in various sectors. Construction and retail are the largest sectors of blue-collar employees. The pace of growth in the retail industry is facilitating manpower outsourcing companies to generate substantial revenue. In FY21, the non-Saudi corporate blue-collar manpower realizable market size increased to SAR 6.8bn from SAR 5.1bn in FY19.

On the other hand, industries such as agriculture, healthcare, and information and communications technology offer numerous opportunities to tap demand for white-collar jobs to meet the increasing requirements of these sectors. KSA provides considerable support to IT and ITES companies primarily due to the growing consumer data traffic. In FY21, the non-Saudi corporate white-collar manpower realizable market size went up to SAR 2.7bn from SAR 2.1bn in FY19.

Labor force participation seen to be improving

The growth of the Saudi workforce has been identified as a key objective of Vision 2030, which is expected to give manpower service providers a boost. The main priority is ensuring diversity of labor resources. The goal of Vision 2030 is to raise the proportion of women in the labor force to 30.0% in FY25. As of Q4-22, the female labor force participation rate was at 34.5%, exceeding Vision 2030's target, which portrays the rising contribution of women to the national economy. A target is set to increase the number of employed graduates who find jobs in less than 12 months to 70.0% in FY25. Improving workplace inclusivity in Saudi Arabia would aid in attracting manpower resources, which in turn would ensure success on manpower outsourcing industry.

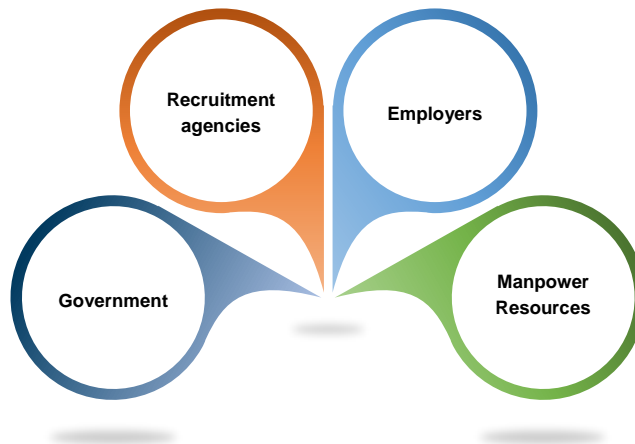
Saudi Manpower Services Industry

Manpower services industry landscape includes government, recruitment agencies, companies or employers and employees

Recruitment agencies are authorized by the Ministry of Labor to provide deployment and brokerage service. In case of deployment, the firm uses its own visas and provides staff to corporate and household clients, while in the case of a brokerage firm, the client seeks approval from the ministry and hires manpower through an agency. In KSA, large human resources companies offer deployment services to corporations and households for a predetermined price and time. As of FY17, there were 31 licensed companies with paid-up capital of SAR 100.0mn. On the other hand, local recruitment agencies offer brokerage services for households and may offer some deployment services.

The main clients of a human resource company are corporates and household, which generate demand for manpower services. Under the corporate segment, foreign manpower is supplied in various industries.

The segment is instrumental in driving the GDP growth of KSA; hence, its human capital plays an important role. Corporate companies mainly request for deployment via manpower outsourcing firms as these fulfill all the required specifications of their corporate clients. Furthermore, the household segment is driven by disposable income and female employment, and it must adhere to stricter employment terms.



In order to protect the rights of human resources and improve transparency in the labor market, the Ministry of Labor has introduced certain regulations. To operate as a manpower outsourcing agency, the Company needs to obtain relevant licenses. In FY15, the MHRSD enforced its older regulations, requiring all licensed companies to devote no less than 20% of their manpower resources to household labor, 50% of whom must be females. By complying with the rule, the government, clients, and foreign employees benefit from transparency, and it helps build a trustworthy brand image of the Company in the industry.

Manpower resources are sourced from key sourcing countries such as India, the Philippines, Indonesia, Nepal, and Pakistan. Manpower resources are attracted to the Kingdom in search of lucrative job opportunities. The total realizable market for outsourced corporate workforce was estimated to be around SAR 10.6bn as of FY21. Improvement in economic development will create more demand for manpower resources and adequate supply will be met through better workplace conditions, good accommodation amenities, and better standard of living and strong labor laws.

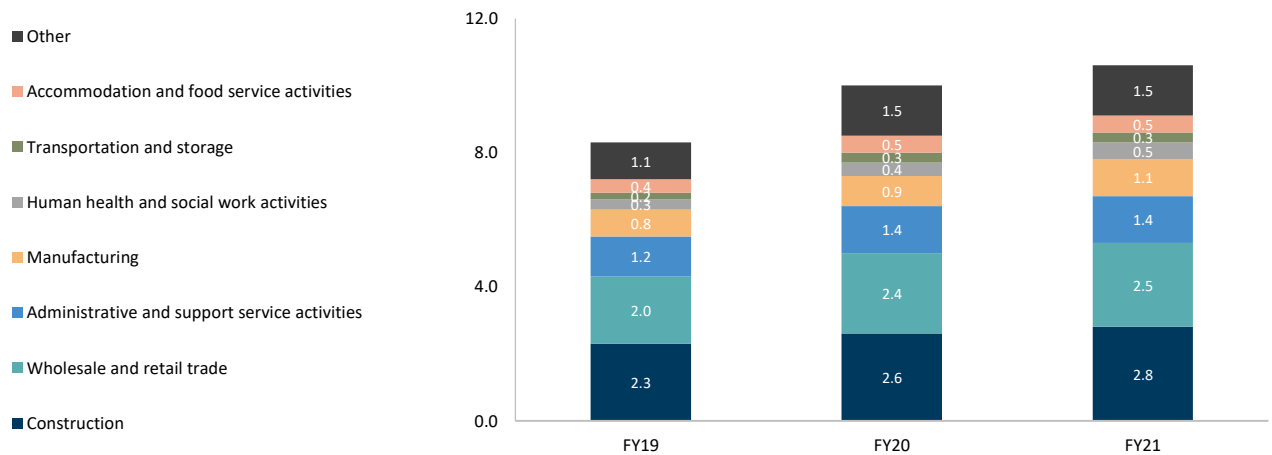
Market segmentation by end user – Institutions and households

End users are segmented into institutions and households. Institutions are corporate companies that may seek manpower resources for professional, skilled, and unskilled job requirement. This segment represents corporate clients from various industries such as maintenance, restaurants, construction and contracting, transportation, and hospitals. Corporate manpower services consist of supporting blue- and white-collar workers. The total realizable corporate workforce was estimated to be around SAR 10.6bn in FY21. However, the corporate manpower services market captured by all staffing companies stood at around SAR 4.8bn in FY21. On the other hand, individual manpower services provide domestic workforce (on a permanent or hourly basis) for households. Corporate manpower accounts for 70.0% of the market, and individual manpower makes up for the remaining 30.0%. The company's ability to capture higher market size in corporate segment given the scope for bulk hiring and higher average revenue per worker will enable higher revenue growth.

Market segmentation by contracting type – Full-time individual and hourly rental

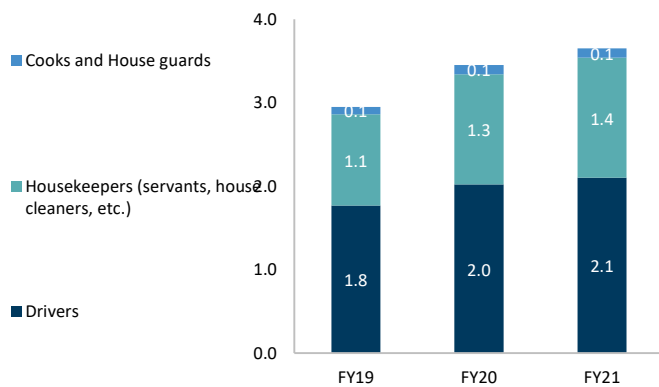
The full-time individual segment represents revenue generated from contracts signed with individual customers, mainly in connection with housemaids, cleaners, and private drivers. The total realizable full-time individual manpower market is SAR 3.7bn, of which SAR 1.1bn is captured by existing players which represent only 30.0% of the market, indicating further scope for penetration. While this segment represents hiring individuals on an hourly basis, mainly in connection with housemaids and cleaners. The value of the hourly individual market size was around SAR 1bn, only 50.0% of this portion is captured by the existing players.

Figure 9: Saudi realizable corporate manpower services market per industry (SAR bn)



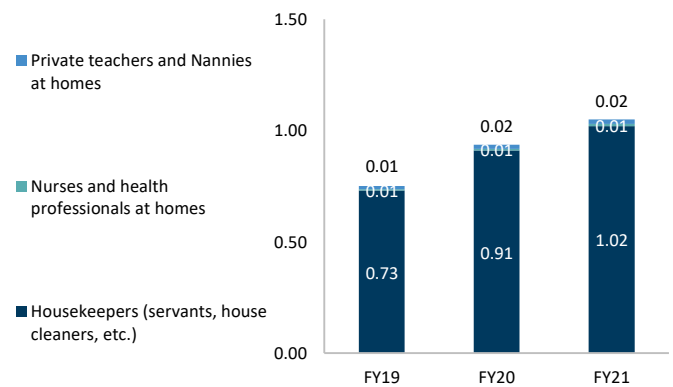
Source: Company Prospectus, Aljazira Capital Research

Figure 10: Saudi realizable full-time individual manpower services market per occupation (SAR bn)



Source: Company Prospectus, Aljazira Capital Research

Figure 11: Saudi realizable individual hourly manpower services market per occupation (SAR bn)



Regulatory environment for recruitment industry

The regulatory regime in the Kingdom, especially labor force policies and regulations, has a significant impact on the Saudi manpower services industry. Policy initiatives influencing the human resources market include the following:

Ajeer was introduced as part of employment and immigration reforms aimed at regulating and documenting the temporary work of expatriates in the Kingdom.

Nitaqat was introduced to reduce the Saudi unemployment rate by requiring Saudi companies to hire Saudi nationals on a quota basis and supporting the employment of educated and skilled Saudi nationals in relevant sectors.

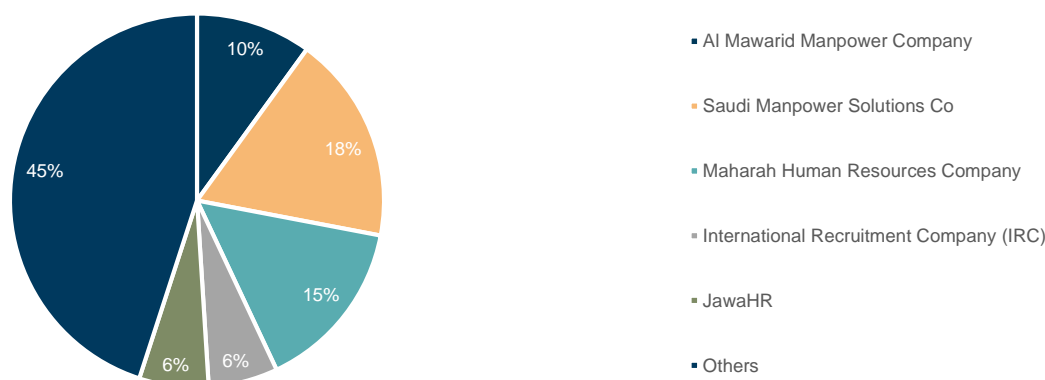
The Contractual Relationship Improvement initiative allows expatriates to flexibly transfer jobs between private sector companies after one year, creating an attractive labor market, promoting talent development, and improving the working environment for expatriates.

Competitive landscape

The top five players together hold about 55% share in the outsourceable manpower market. Given the other regulatory requirements and rule, which requires minimum 20.0% of the manpower resource company's workforce to be in the form of full-time individual services. Individual manpower services entail a substantially higher number of clients than corporate manpower services, where huge volumes of employees are acquired by a small number of clients. This can lead to operational intricacy that is more difficult to handle for smaller service providers. This creates a barrier to entry and helps top players sustain their advantage.

The countries from which foreign employees are sourced have the power to demand higher wages or impose regulations to protect the interests of their nation's employees. Companies that source manpower on a bulk hiring basis use their higher bargaining power to negotiate lower prices.

Figure 12: Top five players by market share



Source: Company Prospectus, Aljazira Capital Research

Al Mawarid fares well on most of the key metrics as against competitors

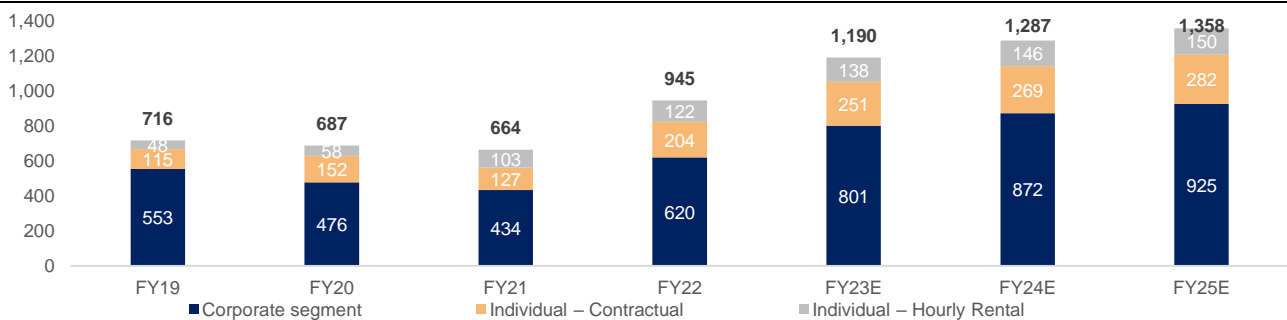
Marah is the only regional peer to **Al Mawarid** which is listed. The company is the second largest manpower service provider in the Kingdom with a market share of ~15%. Marah recorded revenue CAGR of 5.6% during FY18-22, as against CAGR of 17.6% for Al Mawarid. In FY22, Marah recorded topline growth of 27.7% vs. Al Mawarid's growth of 42.3%. Marah generated ROE and ROA of 26.3% and 11.1% in FY22, respectively, while Al Mawarid's ROE and ROA stood higher at 28.9% and 16.7%, respectively in the same period. Marah's margins have been better than those of Al Mawarid in the past. However, the GP margin of Marah declined from 25.1% in FY19 to 13.6% in FY22 and net profit margin contracted from 18.0% in FY19 to 9.2% in FY22. Al Mawarid's profitability improved as its GP margin expanded from 10.1% in FY19 to 13.5% in FY22 and net profit margin expanded from 5.4% in FY19 to 8.0%. Marah's OPEX to sales ratio in FY22 was higher at 7.2% vis-à-vis 4.9% for Al Mawarid. On balance sheet side Al Mawarid is debt free, while Marah had debt of SAR 562.6mn (excluding lease liabilities) by the end of FY22, implying debt-to-equity ratio of 0.9x. In FY22, Marah's days sales outstanding (based gross receivables) was at 59 vs. 53 for Al Mawarid. Marah held cash of SAR 83.6mn compared to SAR 55.4mn cash for Al Mawarid. Marah trades at a one year forward PE multiple of 13.0x and TTM PE of 15.8x, Al Mawarid IPO at upper end of offering range is priced at TTM PE of 12.6x.

Investment Thesis

Corporate segment has been a major contributor to the revenue, upcoming large projects could potentially drive this segment in short to medium term

In FY19, FY20 and FY21, and FY22, the revenue from the corporate segment represented 77.2%, 69.4%, 65.3%, and 65.6%, respectively, of Al Mawarid’s total revenue for the same period. Going forward, the corporate segment is expected to continue to be a key contributor (average of 67.7% during FY23-25E) to total revenue, followed by the individual contractual segment (average of 21.8%) and the individual hourly rental segment (average of 10.6%). We expect lifting of pandemic related restriction and recovery in the sectors such as restaurants and constructions to boost revenue for corporate segment over the short-medium term, while in the long term expected higher demand for workers for mega/giga projects, positive prospects of Saudi tourism and overall focus on non-oil sector growth would be key drivers for the rising demand for workers across several sectors. The company has already won a few contracts for giga projects and more demand for workers is expected from these projects. Thus, we expect the corporate segment to continue to register healthy growth of 29.3% and 8.9% in FY23E and FY24E, respectively, before moderating to mid-single-digit in FY25E.

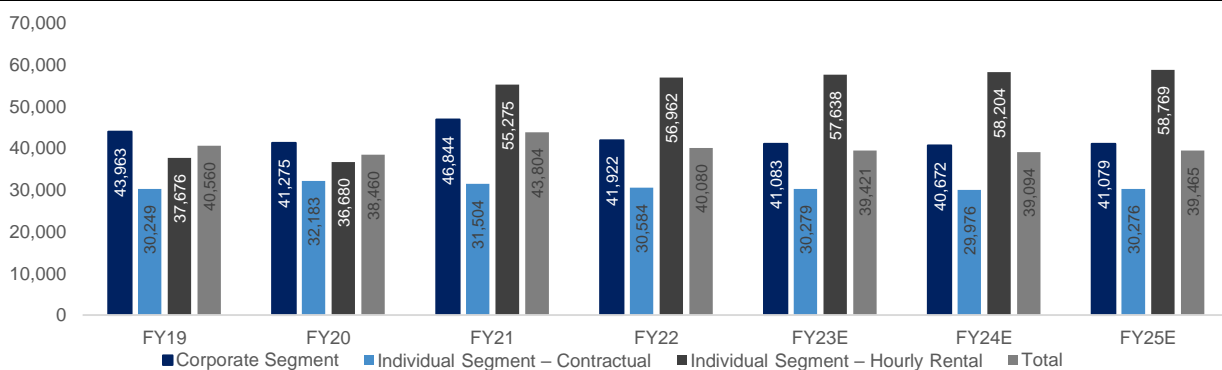
Figure 13: Revenue trend and segment-wise breakdown (SAR mn)



Source: Company Prospectus, Aljazira Capital Research

In terms of average revenue per worker invoiced, a worker employed in corporate segment earns more revenue compared to a worker in individual contractual segment. We expect this trend to continue in future given the nature of work and skills required in corporate segment. However, average revenue for hourly rentals has increase significantly in last two years due to increased demand, surpassing even the corporate segment. In FY22, average revenue per worker invoiced declined 8.5% to SAR 40,080; driven by decline in corporate (SAR -10.5%) and individual contractual (-2.9%) segments. This was partially offset by increase in individual hourly rental (+3.1%). The decline in corporate may be due to the company’s efforts to increase utilization rates amid increase in competition. We expect competitive pressure to continue in corporate segment, as the company is likely to focus more on gaining market share. Hence, we estimate average revenue per worker invoiced to fall further for next few years.

Figure 14: Average revenue per worker invoiced (SAR)



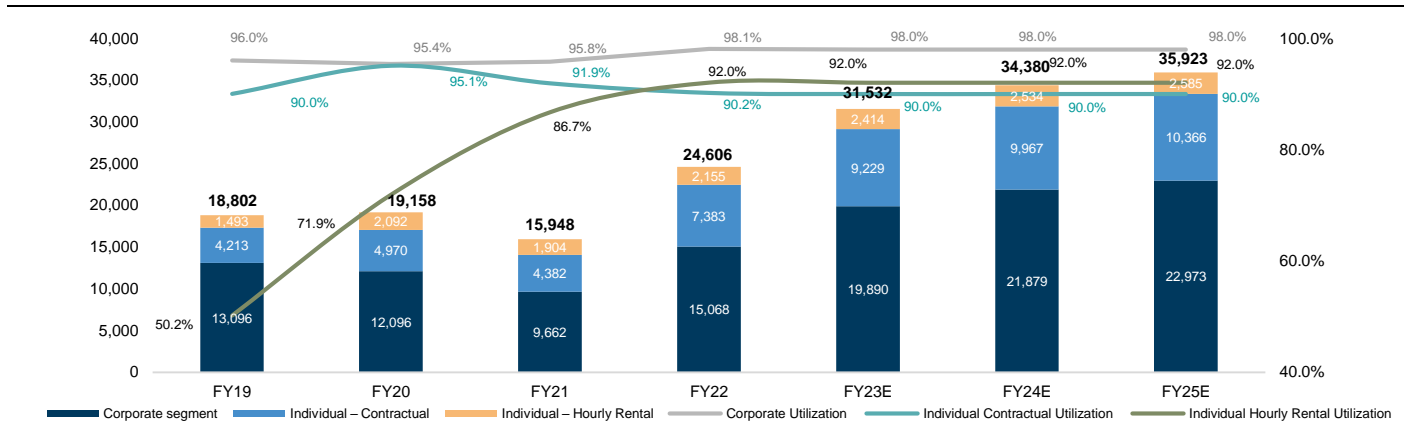
Source: Company Prospectus, Aljazira Capital Research

Al Mawarid managed to keep utilization rates high historically, the trend expected to continue in future

The average number of workers are the workers available for utilization as per customer request. In FY19, the workers available were 18,802, however, the availability reduced to due to COVID-19 pandemic and travel restrictions to 15,948 in FY21 but increased again to 24,606 owing to recovery from the pandemic and sharp increase in corporate segment workers due to signing of large contracts. We forecast the average number of workers available to increase to 35,923 by FY25E at CAGR of 13.4%.

In the corporate segment, utilization improved to 98.1% in FY22 from 95.8% in FY21. The company maintained healthy utilization rates throughout its segments. The utilization rate in the individual hourly rental segment increased from 86.7% in FY21 to 92.0% in FY22, due to higher market demand amid shift in customer preference to hourly workers from contractual workers. The contractual workers' utilization declined 90.2% in FY22 from 91.9% in FY21. Given the company's ability to manage the balance between supply and demand, we expect overall utilization rate to remain healthy at an average of 95.8% for the forecasted period.

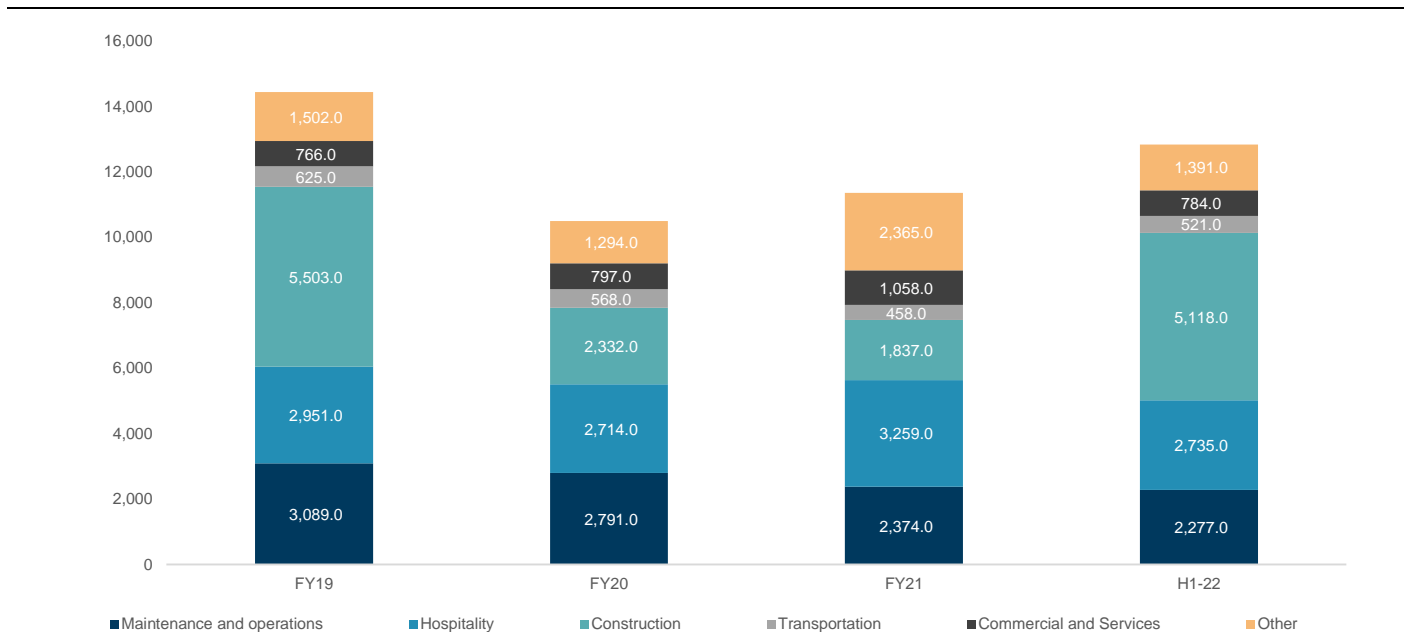
Figure 15: Average number of workers available and utilization



Source: Company Prospectus, Aljazira Capital Research; *utilization for hourly rental is calculated based on no. of hours

In FY22, a total of 15,068 workers were available on average for the corporate segment and the segment's utilization stood at 98.1%. In H1-22, Al Mawarid provided 5,118 workers to construction sector followed by 2,735 workers to hospitality sector. Vision 2030 projects are expected to create a higher demand for construction and tourism business which in turn will create demand for the workforce. Thus, we expect utilization rate remain strong at 98.0% for corporate segment along with increase in number of workers.

Figure 16: Monthly average number of utilized workers



Source: Company Prospectus, Aljazira Capital Research

Margins likely to ease but remain above pre-covid levels due to economies of scale

In FY22, GP margin contracted to 13.5% from 14.6% in FY21. Earlier, GP margin expanded to 14.6% in FY21 from 11.9% in FY20 and 10.1% in FY19 given the improvement in utilization rate. It should be noted that expansion of GP margins during the pandemic was also supported by measures taken by government such as the exemption from paying basic salaries to unutilized workers between April 2020 and September 2020.

The reduction in GP margin in FY22, despite a significant growth in revenue better utilization, was led by decline in margins for individual contracting (from 17.3% in FY21 to 10.1% in FY22) and individual hourly rental (from 28.1% to 25.4%) segments due to higher competition. However, GP margin for corporate segment improved from 10.6% to 12.3% in FY22 on account of economies of scale with a sharp increase in number of workers. We expect GP margins to decrease further to 13.1% in FY23E, 12.9% in FY24E and 12.7% in FY25E; as the company is likely to focus on expanding its market share and competing with larger players. Nevertheless, GP margin is estimated to stay above pre-COVID level with increased scale of operation in recent years. Net margin was down to 8.0% in FY22 mainly due to lower GP margin. We expect that the impact of pressure on GP margin to trickle down to net margin as well and hence forecast net margin to decrease from 8.0% in FY22 to 7.2% in FY25E.

Figure 17: Gross Profit and Gross margin trend

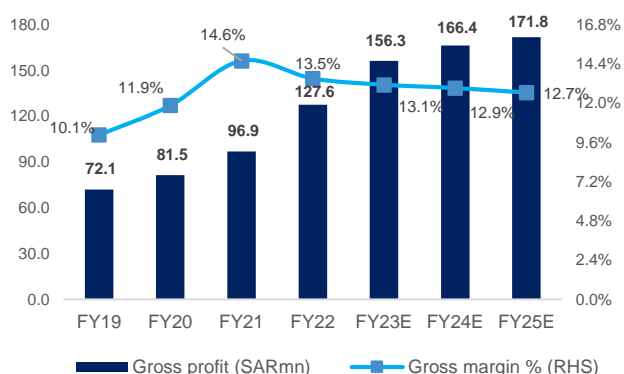
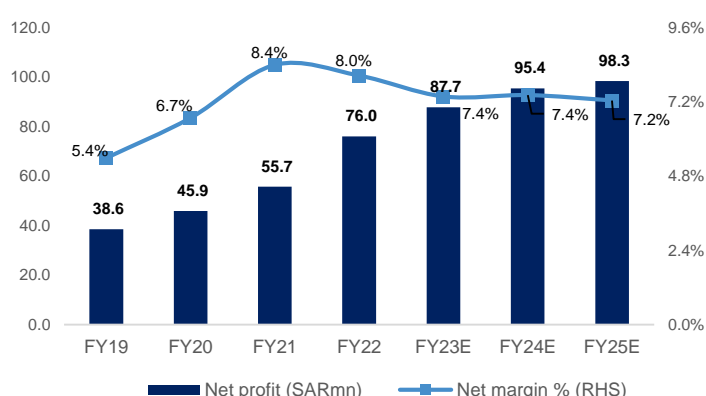


Figure 18: Net Profit and Net margin trend

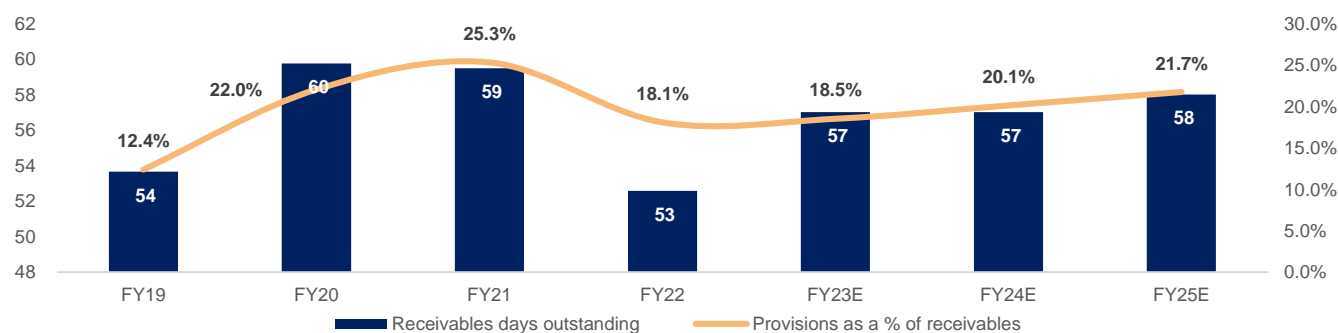


Source: Prospectus, AlJazira Capital Research

Trade receivables may grow due to expected growth in the topline

Gross trade receivables decreased from SAR 121.2mn as of FY19 to SAR 103.6mn in FY20 but increased to SAR 112.7mn in FY21 and SAR 159.5mn in FY22. Amidst the same, provisions on receivables increased from 12.4% of trade receivables in FY19 to 25.3% in FY21 but fell to 18.1% in FY22. In the next three years, gross trade receivables are expected to increase to SAR 215.7mn with higher receivable days compared to FY22 on expectation of increase in number of contracts. Subsequently, provisions are expected to be in the range of 18%-22%.

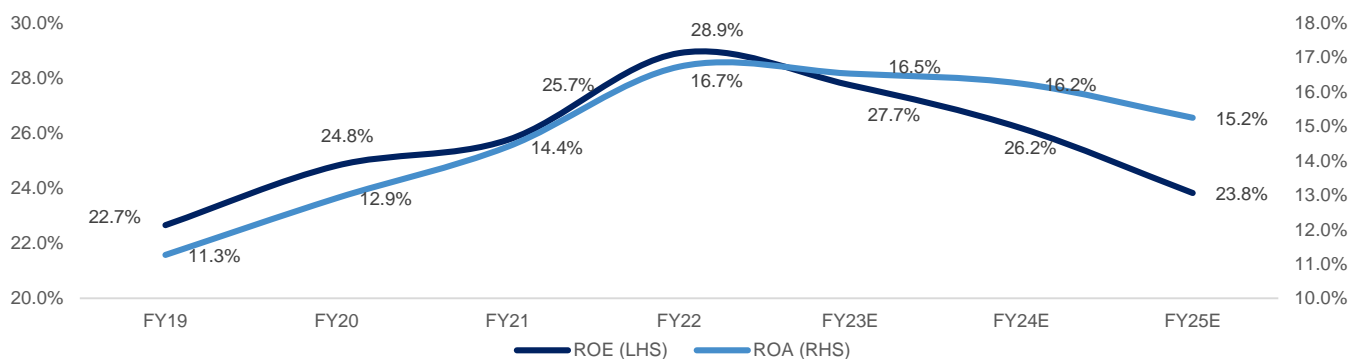
Figure 19: Trade Receivables Days and Provisions (%)



Source: Company Prospectus, AlJazira Capital Research

A strong return profile, expected to continue to generate healthy return on equity and return on assets

Figure 20: ROE and ROA



Source: Company Prospectus, Aljazira Capital Research

Al Mawarid has shown the ability to generate good returns. The company's return on average equity (ROE) increased from 22.7% in FY19 to 28.9% in FY22. During the same period, the return on assets (ROA) also rose from 11.3% in FY19 to 16.7% in FY22. We expect the company's ROE and ROA to remain healthy but to be lower than FY22 levels, as margins are expected to ease. We expect ROE and ROA to average 25.9% and 16.0%, respectively, over the three years. To further analyze ROE, we performed Du Pont analysis. The analysis indicated that a decrease in ROE in future will also be driven by a decline in asset turnover and financial leverage. This can be seen as a combined effect of the increase in retained earnings due to rising net profits and debt free nature of the company. Additionally, the company's margins are likely to moderate from high levels in FY21 and FY22. However, we expect the shareholders may benefit from the higher dividend payouts by the company in future.

Figure 21: Du Pont Analysis

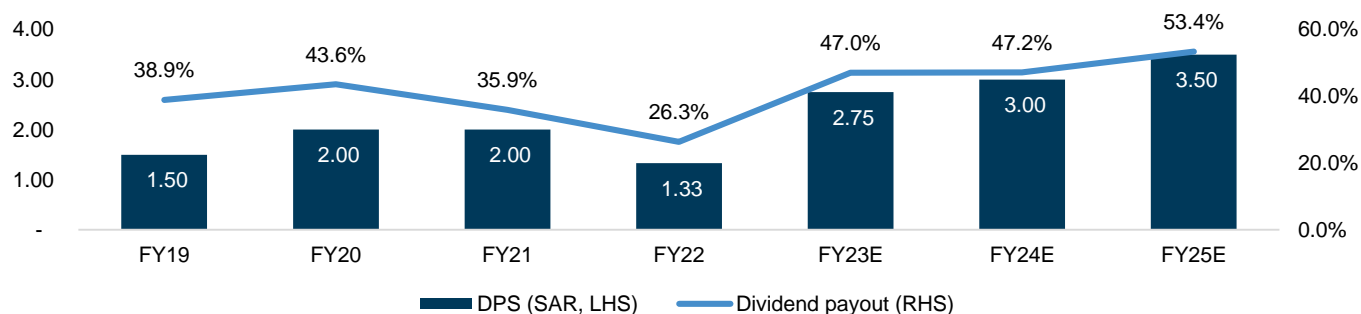
	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F	FY26F	FY27F
ROE	22.7%	24.8%	25.7%	28.9%	27.7%	26.2%	23.8%	21.9%	20.3%
Net Margin	5.4%	6.7%	8.4%	8.0%	7.4%	7.4%	7.2%	7.2%	7.1%
Asset Turnover	2.09	1.93	1.72	2.08	2.24	2.19	2.10	2.01	1.92
Financial Leverage	2.01	1.92	1.79	1.73	1.68	1.61	1.56	1.52	1.49

Source: Aljazira Capital Research

Healthy dividend payout can be expected in future

Al Mawarid's capital expenditure requirements have been low and are likely to remain low. The company's working capital requirements are also at a manageable level. Moreover, there are no debt repayment obligations. Hence, we expect a healthy dividend payout from the company in future. Historically, the payout ranged between 26-44% but we expect a higher payout ratio in the range of 47-54% during FY23-25E, as we expect healthy FCF generation (Average FY23-25E: SAR 5.08 per share with average conversion rate of 64.2%).

Figure 22: Dividend per share and dividend payout ratio



Source: Company Prospectus, Aljazira Capital Research

Valuation Methodologies

DCF Valuation

We performed DCF valuation based on our forecasts for the next five years. We assumed risk free rate of 3.5%, market risk premium of 6.0% and beta of 1.0 to arrive at WACC of 10.0%. Terminal growth rate is assumed at 2.5%. Our valuation of Al Mawarid based on DCF yielded an enterprise value of SAR 1.3bn and fair value to equity shareholders of SAR 1.3bn, which translated into a TP of **SAR 88.5 per share**.

	FY23E	FY24E	FY25E	FY26E	FY27E
EBIT	97	106	109	112	114
Depreciation & Amortization	13	12	14	16	15
Change in working capital	-69	-21	-24	-17	-16
CFO	41	97	99	111	114
Capex	-2	-3	-3	-3	-3
FCFF	39	94	96	108	110
Discounting factor	1.0	0.9	0.8	0.7	0.6
Present value of FCFF	37	82	75	77	72
Sum of the PV					342
Terminal Value					1,506
PV of terminal value					977
Enterprise Value					1,319
Cash and cash equivalents					55
Debt					21
Employee end of service benefits					26
FV to common shareholders					1,328
No outstanding shares (mn)					15
Fair value per share					SAR 88.5

		Risk premium				
		5.0%	5.5%	6.0%	6.5%	7.0%
Terminal growth rate	1.9%	95.3	88.9	83.4	78.4	74.1
	2.2%	98.6	91.8	85.9	80.6	76.0
	2.5%	102.3	94.9	88.5	82.9	78.0
	2.8%	106.4	98.3	91.5	85.5	80.2
	3.1%	110.8	102.1	94.6	88.2	82.5

Above is an illustration of sensitivity of our DCF valuation to the change assumptions of terminal growth rate (range: 1.9%-3.1%) and risk premium (5.0%-7.0%). The sensitivity analysis indicates valuation in the range between a minimum of SAR 74.1 (at terminal growth rate of 1.9% and risk premium of 7.0%) and a maximum of SAR 110.8 per share (at terminal growth rate of 3.1% and risk premium of 5.0%).

Relative Valuation

We valued Al Mawarid using the relative valuation methodologies based on P/E and EV/EBITDA multiples for global and domestic peers applied to our FY23 estimates.

Peer Comparison Table:

Company	FY23E P/E	FY23E EV/EBITDA
Maharah	13.0	12.8
Benefit systems	16.5	10.8
Groupe crit	12.8	4.0
Insperity	19.8	11.5
Randstad	12.5	7.0
Average*	14.9	11.7

* Excluding outliers

P/E Valuation:

All figures in SAR mn, unless specified	
Sector P/E	14.9x
Premium/discount over peers	0%
Market value	1,308
Shares (mn)	15
Relative value (SAR/share)	87.2

EV/EBITDA Valuation:

All figures in SAR mn, unless specified	
Sector EV/EBITDA	11.7x
Premium over Peers	0%
Enterprise value	1,287
Net debt	-35
Employee end of service benefits	26
Market value	1,296
Shares (mn)	15
Relative value (SAR/share)	86.4

Blended Valuation

Valuation Summary	Fair Value	Weight	Weighted Average
DCF	88.5	50%	44.3
EV/EBITDA	86.4	25%	21.6
P/E	87.2	25%	21.8
Weighted average 12-month TP			88.0
IPO Offering Price (SAR /share)			64.0
Expected Capital Gain			37.5%

We assigned 50% weightage to DCF, and 25% to EV/EBITDA and P/E multiples each. Based on the combined valuation, we arrived at a TP of **SAR 88.0/share**. As per our derived TP, the implied P/E multiple based on FY23E earnings is 15.1x vis-à-vis a P/E of 10.9x based on the final IPO price of SAR 64 and FY23E EPS.

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F	FY26F	FY27F
Income statement									
Revenues	716	687	664	945	1,190	1,287	1,358	1,409	1,455
Y/Y		-4.1%	-3.3%	42.3%	26.0%	8.1%	5.5%	3.8%	3.2%
Cost	(644)	(605)	(567)	(817)	(1,034)	(1,121)	(1,186)	(1,234)	(1,276)
Gross profit	72	81	97	128	156	166	172	176	180
Sales and distribution expenses	(8)	(7)	(7)	(13)	(18)	(19)	(20)	(20)	(21)
General and administrative expenses	(20)	(19)	(23)	(30)	(37)	(38)	(38)	(39)	(41)
Operating profit	43	53	62	84	97	106	109	112	114
Y/Y		22.3%	18.9%	34.9%	15.4%	8.8%	3.0%	2.6%	2.0%
Finance expense	-	-	-	-	-	-	-	-	-
Income before zakat	43	53	62	84	97	106	109	112	114
Zakat	(4)	(7)	(7)	(8)	(10)	(10)	(11)	(11)	(11)
Net income	39	46	56	76	88	95	98	101	103
Y/Y		18.9%	21.4%	36.5%	15.4%	8.8%	3.0%	2.6%	2.0%
Balance sheet									
Assets									
Cash & equivalent	27	64	27	55	36	69	98	138	178
Other current assets	257	244	303	361	430	456	480	497	514
Total current assets	284	308	330	416	466	525	578	635	692
Property plant & equipment	13	13	12	13	14	15	16	17	19
Other non-current assets	45	47	64	75	77	78	78	77	76
Total assets	342	368	405	504	558	618	672	730	787
Liabilities & owners' equity									
Total current liabilities	138	131	136	174	179	185	188	192	195
Total non-current liabilities	35	37	36	37	39	43	48	54	61
Paid-up capital	100	100	100	150	150	150	150	150	150
Statutory reserves	18	22	28	35	44	54	63	74	84
Retained earnings	53	70	85	108	145	186	222	261	297
Total owners' equity	170	199	233	293	340	390	436	484	531
Total equity & liabilities	342	368	405	504	558	618	672	730	787
Cashflow statement									
Operating activities	15	97	(19)	40	37	92	94	106	110
Investing activities	(2)	(31)	13	23	(3)	(4)	(4)	(4)	(5)
Financing activities	(23)	(30)	(31)	(34)	(53)	(55)	(62)	(61)	(65)
Change in cash	(10)	37	(37)	29	(19)	33	28	40	40
Ending cash balance	27	64	27	55	36	69	98	138	178
Key fundamental ratios									
Liquidity ratios									
Current ratio (x)	2.1	2.3	2.4	2.4	2.6	2.8	3.1	3.3	3.5
Quick ratio (x)	1.8	2.1	2.0	1.9	2.0	2.2	2.5	2.7	2.9
Profitability ratios									
Gross profit margin	10.1%	11.9%	14.6%	13.5%	13.1%	12.9%	12.7%	12.5%	12.3%
Operating margin	6.0%	7.6%	9.4%	8.9%	8.2%	8.2%	8.0%	7.9%	7.8%
EBITDA margin	7.1%	9.5%	11.4%	10.5%	9.2%	9.2%	9.1%	9.0%	8.9%
Net profit margin	5.4%	6.7%	8.4%	8.0%	7.4%	7.4%	7.2%	7.2%	7.1%
Return on assets	11.3%	12.9%	14.4%	16.7%	16.5%	16.2%	15.2%	14.4%	13.6%
Return on equity	22.7%	24.8%	25.7%	28.9%	27.7%	26.2%	23.8%	21.9%	20.3%
Market/valuation ratios									
EV/sales (x)	NM	NM	NM	NM	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	NM	NM	NM	NM	8.8	8.0	7.5	6.9	6.6
EPS (SAR)	3.86	4.59	5.57	5.07	5.85	6.36	6.56	6.73	6.86
BVPS (SAR)	17.0	19.9	23.3	19.5	22.6	26.0	29.1	32.3	35.4
DPS (SAR)	1.50	2.00	2.00	1.33	2.75	3.00	3.50	3.50	3.75
Market price (SAR)*	NM	NM	NM	NM	64	64	64	64	64
Market-Cap (SAR mn)	NM	NM	NM	NM	960	960	960	960	960
P/E ratio (x)	NM	NM	NM	NM	10.9	10.1	9.8	9.5	9.3
P/BV ratio (x)	NM	NM	NM	NM	2.8	2.5	2.2	2.0	1.8
Dividend yield	NM	NM	NM	NM	4.3%	4.7%	5.5%	5.5%	5.9%

Source: Company Prospectus, Aljazira Capital Research, *market price and market cap at upper end of IPO offer price rang

RESEARCH DIVISION

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RESEARCH DIVISION

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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

- 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.
- 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.
- 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.
- 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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