

2Q20 Results Update

October 19, 2020

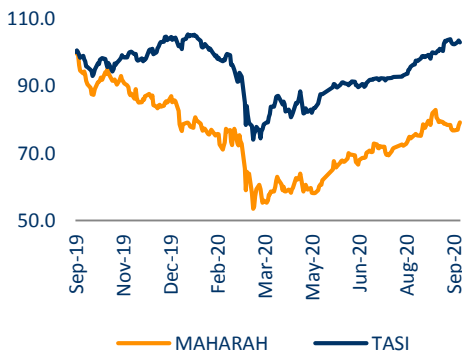
Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	79.6
Target Price (SAR)	75.0
Upside/Downside (%)	(5.8%)

As of September 29, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	3.0
52-Wk High (SAR)	102.0
52-Wk Low (SAR)	53.0
Total Outstanding Shares (in mn)	37.5
Free Float (%)	87.7%

Maharah vs. TASI (Rebased)

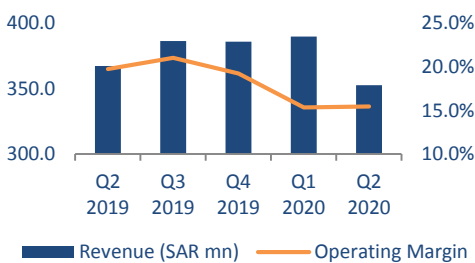


Price Performance (%)	Absolute	Relative
1m	2.1%	(2.4%)
6m	43.2%	13.2%
12m	(20.9%)	(23.7%)

Major Shareholders (%)

Al-Ahlia International Real Estate Investment Company	19.43%
Al Khibra Al-Memariya Co.	15.96%
Abdullah Bin Soliman Al Amr	12.20%

Revenue (SAR bn) and Operating Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 29, 2020

Lower top line due to the COVID-19 pandemic weighs on margins in 2Q20

Maharah's net profit (attributable to equity holders) plunged 31.3% YoY to SAR 49.4mn in 2Q20 owing to a 4.0% YoY drop in revenue to SAR 352.5mn during the quarter. Revenues from corporate and individual segments contracted in 2Q20 owing to the challenging economic situation caused by the COVID-19 pandemic. In addition to the lower top line, an increase in SG&A expenses during the period led to a 24.9% YoY fall in operating profit to SAR 54.4mn in 2Q20. As a result, the operating margin narrowed to 15.4% from 19.7% in 2Q19. The net profit margin also contracted to 14.0% in the quarter against 19.6% in 2Q19.

Maharah recorded a drop in the top line in the quarter as revenues in corporate and individual segments decreased 4.7% YoY and 2.0% YoY, respectively, in 2Q20. This was the result of the precautionary lockdown measures announced by the government to restrict the spread of the pandemic. Suspension of the company's part-time service program "Khidmah" during the quarter also hurt revenues. For 2020, we expect some decline in the company's revenue given the expected economic contraction owing to the challenges posed by the COVID-19 pandemic. Manpower requirements would be affected due to the declining corporate investments and business sentiment. The company may also face challenges in the form of travel restrictions as it may become difficult to offer or renew employment contracts of foreign resources. Despite these short-term headwinds, the company, with a strong presence across the kingdom and robust balance sheet with negligible debt, remains in a sturdy position to capitalize on opportunities of manpower requirement once the situation returns to normal. Considering the factors mentioned above, we revise our rating to "Neutral" on the stock.

- Maharah's revenue dipped 4.0% YoY to SAR 352.5mn in 2Q20 owing to a decline in revenue contribution from the corporate and individual segments due to the pandemic. On a quarterly basis, revenue fell 9.6% YoY from SAR 389.8mn.
- Gross profit declined 14.4% YoY to SAR 74.4mn as the 0.8% drop in cost of sales to SAR 278.1mn was offset by a fall in the top line. Consequently, the gross margin narrowed to 21.1% in 2Q20 compared to 23.7% in 2Q19.
- Higher SG&A expenses coupled with the negative impact of provision for doubtful debts dragged down operating profit by 24.9% YoY to SAR 54.4mn in 2Q20. As a result, the EBIT margin worsened to 15.4% in 2Q20 from 19.7% in 2Q19.
- Lower other income and decline in gain from equity investments offset the improvement in zakat charges and resulted in a 31.3% YoY decline in net profit (attributable to equity holders) to SAR 49.4mn in 2Q20. Subsequently, the net profit margin shrank to 14.0% against 19.6% in 2Q19.
- On September 1, Maharah's Board of Directors recommended a cash dividend of SAR 2.25 per share for 1H20, amounting to SAR 84.4mn (representing 22.5% of the total share capital).

Valuation: We revise our target price upward to a fair value of SAR 75.0 and alter our rating to "Neutral" on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenue (SAR mn)	352.5	367.2	(4.0%)	1,479.4	1,512.3	(2.2%)
Gross Profit (SAR mn)	74.4	86.9	(14.4%)	350.6	379.8	(7.7%)
Operating Profit (SAR mn)	54.4	72.5	(24.9%)	260.6	282.5	(7.8%)
Net Profit (SAR mn)	49.4	72.0	(31.3%)	249.6	272.1	(8.3%)
EPS (SAR)	1.32	1.92	(31.3%)	6.65	7.26	(8.3%)
Gross Margin (%)	21.1%	23.7%	(2.6%)	23.7%	25.1%	(1.4%)
Operating Margin (%)	15.4%	19.7%	(4.3%)	17.6%	18.7%	(1.1%)
Net Profit Margin (%)	14.0%	19.6%	(5.6%)	16.9%	18.0%	(1.1%)

Source: Company Financials, FALCOM Research

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FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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