

### FY20 Results Update

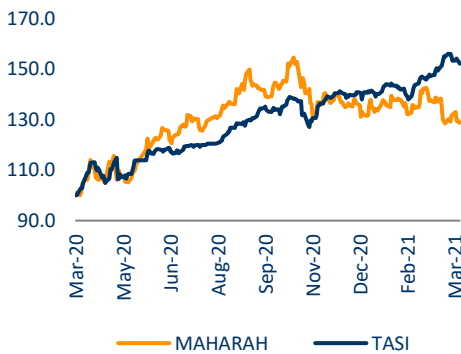
March 24, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	71.6
Target Price (SAR)	75.0
Upside/Downside (%)	4.7%
<i>As of March 24, 2021</i>	

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.7
52-Wk High (SAR)	87.0
52-Wk Low (SAR)	54.5
Total Outstanding Shares (in mn)	37.5
Free Float (%)	87.7%

#### Maharah vs. TASI (Rebased)

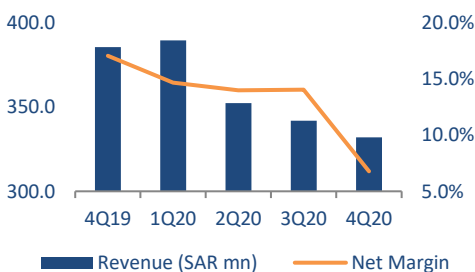


Price Performance (%)	Absolute	Relative
1m	(6.4%)	(9.7%)
6m	(7.3%)	(21.5%)
12m	28.8%	(23.3%)

#### Major Shareholders (%)

Al-Ahlia International Real Estate Investment Company	19.43%
Abdullah Bin Soliman Al Amr	12.19%
Al Khbrt Al-Mmaryt Co.	11.14%

#### Revenue (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 24, 2021

#### Lower top line weighs on Maharah's margins in FY20

Maharah's net profit (attributable to equity holders) plunged 34.8% YoY to SAR 177.3mn in FY20 owing to a 6.3% YoY drop in revenue to SAR 1.4bn during the quarter. Revenues from the Corporate and Individual segments dipped 5.3% YoY to SAR 1.0bn and 9.1% YoY to SAR 0.4bn, respectively, in FY20. In addition to the lower top line, higher cost of sales led to a 30.0% YoY decline in gross profit to SAR 265.8mn and 634.6 bps contraction in gross margin to 18.8%. Operating profit fell 35.2% YoY to SAR 183.0mn, while operating margin shrank 576.0 bps to 12.9%. Lower other income and profit share from associates weighed on net margin, resulting in a 547.2 bps contraction to 12.5% in FY20.

Maharah reported a drop in top line during the year as revenues in the Corporate and Individual segments fell 5.3% YoY to SAR 1.0bn and 9.1% YoY to SAR 0.4bn, respectively. This was attributed to the challenging economic scenario created by the COVID-19 pandemic and the resultant restrictions to curb its spread. Top line was also affected by lower resource utilization and temporary suspension of the company's part-time service program Khidmah during 2Q20. Although suspension of international travel during FY20 made it difficult for Maharah to offer or renew employment contracts of foreign resources, it reduced costs of recruitment and visas for the company. However, we anticipate a resurgence in manpower requirements on the gradual roll-out of vaccines and a steady increase in economic activity. The company took several initiatives such as raising the rates of renewing labor contracts to 65% in FY20 and launching a platform for recruitment of domestic and foreign resources. The company's robust balance sheet, negligible debt and strong market position bode well for its growth plans. However, new mutations of the virus and restrictions on travel for citizens from certain nations may affect bottom line and remain headwinds to the company. Considering the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Maharah's revenue dipped 6.3% YoY to SAR 1.4bn in FY20 owing to lower revenue contribution from the company's Corporate and Individual segments.
- Gross profit nosedived 30.0% YoY to SAR 265.8mn due to a 1.6% YoY rise in cost of sales to SAR 1.2bn and fall in the top line. Consequently, gross margin narrowed to 18.8% in FY20 from 25.1% in FY19.
- Higher marketing expense offset the decline in SG&A expense and provision for doubtful debts, resulting in a 35.2% YoY fall in operating profit to SAR 183.0mn in FY20. Consequently, EBIT margin contracted to 12.9% from 18.7% in FY19.
- Lower other income and profit contribution from associates offset the drop in zakat charges, resulting in a 34.8% YoY fall in net profit to SAR 177.3mn in FY20. Subsequently, net margin shrank to 12.5% from 18.0% in FY19.
- Maharah reported an EPS of SAR 4.73 in FY20 vis-à-vis SAR 7.26 in FY19.
- On March 17, Maharah's Board recommended a cash dividend of SAR 2 per share for 2H20, equivalent to SAR 75mn or 20% of the company's share capital.

**Valuation:** We retain our target price at a fair value of SAR 75.0 and maintain "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenue (SAR mn)	332.0	385.8	(13.9%)	1,376.6	1,416.4	(2.8%)
Gross Profit (SAR mn)	48.5	106.8	(54.6%)	242.6	265.8	(8.7%)
Operating Profit (SAR mn)	21.3	74.2	(71.2%)	147.6	183.0	(19.4%)
Net Profit (SAR mn)	22.5	66.0	(65.8%)	144.0	177.3	(18.8%)
EPS (SAR)	0.60	1.76	(65.8%)	3.84	4.73	(18.8%)
Gross Margin (%)	14.6%	27.7%	(13.1%)	17.6%	18.8%	(1.1%)
Operating Margin (%)	6.4%	19.2%	(12.8%)	10.7%	12.9%	(2.2%)
Net Profit Margin (%)	6.8%	17.1%	(10.3%)	10.5%	12.5%	(2.1%)

Source: Company Financials, FALCOM Research

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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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