

1Q21 Results Update

June 7, 2021

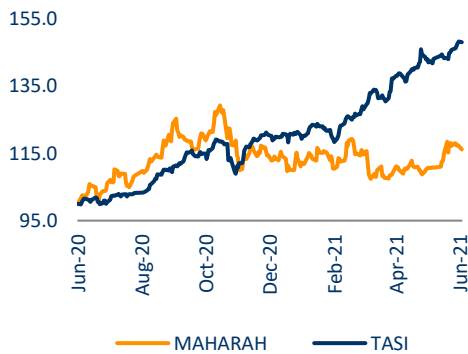
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	77.2
Target Price (SAR)	75.0
Upside/Downside (%)	(2.8%)

As of June 6, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.9
52-Wk High (SAR)	87.0
52-Wk Low (SAR)	66.5
Total Outstanding Shares (in mn)	37.5
Free Float (%)	87.7%

Maharah vs. TASI (Rebased)

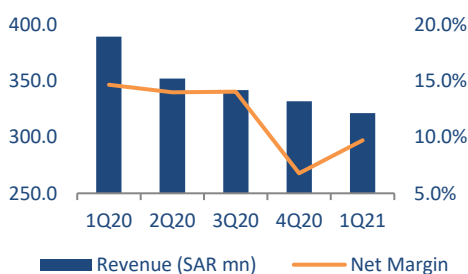


Price Performance (%)	Absolute	Relative
1m	5.0%	1.2%
6m	2.9%	(20.2%)
12m	16.1%	(31.9%)

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 June 6, 2021

Drop in revenues hurt bottom line in 1Q21; margins contract

Maharah's revenue plunged 17.5% YoY to SAR 321.6mn in 1Q21, as preventive measures relating to the COVID-19 pandemic weighed on the company's business performance. Gross profit declined 30.3% YoY to SAR 55.1mn, while gross margin shrank 316 bps YoY to 17.1%. Operating profit nosedived 44.2% YoY to SAR 33.3mn in 1Q21, resulting in 497 bps YoY tightening of operating margin to 10.4%. Lower top line and the subsequent drop in margins weighed on the bottom line, as net profit plummeted 45.3% YoY to SAR 31.3mn and net margin contracted 495 bps YoY to 9.7%.

Maharah logged a weak set of results in 1Q21, with a decline in the top line and bottom line during the quarter. The drop in top line was primarily attributed to lower revenues recorded under the Corporate (down 17.7% YoY to SAR 232.9mn) and Individual (down 17.0% YoY to SAR 88.7mn) segments during 1Q21. This was attributed to the resurgence of COVID-19 cases across several sourcing countries, which led the KSA government to temporarily suspend flights arriving from these countries. This resulted in a decline in arrivals of foreign resources and translated into lower resource utilization during the quarter. However, the suspension of international travel resulted in reduced costs of recruitment and issuing visas for the company. We anticipate a resurgence in manpower requirements on steady pick up in economic activity and the gradual roll-out of vaccines. The company is undertaking several initiatives to overcome these COVID-19-induced challenges, such as diversifying sourcing countries and increasing focus on the African continent and some new countries, as well as launching a portal for recruiting domestic and foreign resources. The company's robust balance sheet, negligible debt, and strong market position bode well for its growth plans. However, expectations of additional waves in several source countries and prolongation of restrictions on arrival from these nations may create headwinds for the company. Considering these factors, we maintain our "Neutral" rating on the stock.

- Maharah's revenue declined 17.5% YoY to SAR 321.6mn in 1Q21, owing to lower revenue contribution from the company's Corporate and Individual segments.
- Gross profit plummeted 30.3% YoY to SAR 55.1mn, as the fall in top line offset the 14.2% YoY drop in cost of sales to SAR 266.6mn. Consequently, gross margin narrowed to 17.1% in 1Q21 from 20.3% in 1Q20.
- Higher G&A and marketing expenses resulted in a 44.2% YoY plunge in operating profit to SAR 33.3mn in 1Q21. Consequently, operating profit margin contracted to 10.4% from 15.3% in 1Q20.
- Net income (attributable to equity holders) nosedived 45.3% YoY to SAR 31.3mn, as the drop in operating profit offset the increase in profit contribution from associates and the drop in zakat charges. Subsequently, net margin shrank to 9.7% from 14.7% in 1Q20.
- Maharah reported an EPS of SAR 0.84 in 1Q21 vis-à-vis SAR 1.53 in 1Q20.
- On April 11, Maharah inked a sale and purchase agreement to purchase 90% stake in Spectra Support Services Co. The closure of the deal is subject to the execution of certain pre-conditions, and the agreement will be effective till June 30.
- On April 13, Maharah appointed Sulaiman Abdulaziz Al Majed as Chairman, Abdullah Sulaiman Al Amro as Vice-Chairman, and Sulaiman Nasser Al Hatlan as Managing Director of its Board.
- On April 22, Maharah announced that the Board has accepted the resignation of Abdulkarim Hamad Alnujaidi from the position of CEO.

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

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenue (SAR mn)	321.6	389.8	(17.5%)	1,376.6	1,416.4	(2.8%)
Gross Profit (SAR mn)	55.1	79.0	(30.3%)	242.6	265.8	(8.7%)
Operating Profit (SAR mn)	33.3	59.8	(44.2%)	147.6	183.0	(19.4%)
Net Profit (SAR mn)	31.3	57.3	(45.3%)	139.4	177.3	(21.4%)
EPS (SAR)	0.84	1.53	(45.3%)	3.72	4.73	(21.4%)
Gross Margin (%)	17.1%	20.3%	(3.2%)	17.6%	18.8%	(1.1%)
Operating Margin (%)	10.4%	15.3%	(5.0%)	10.7%	12.9%	(2.2%)
Net Profit Margin (%)	9.7%	14.7%	(5.0%)	10.1%	12.5%	(2.4%)

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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