

2Q21 Results Update

September 28, 2021

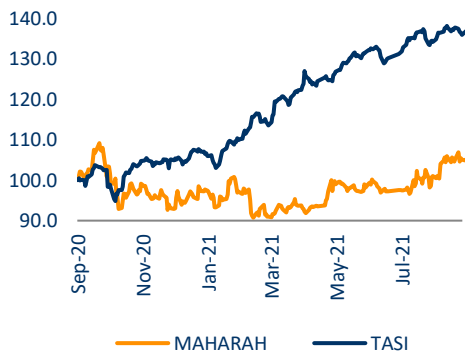
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	83.2
Target Price (SAR)	80.0
Upside/Downside (%)	(3.8%)

As of September 27, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	3.1
52-Wk High (SAR)	87.0
52-Wk Low (SAR)	70.1
Total Outstanding Shares (in mn)	37.5
Free Float (%)	68.3%

Maharah vs. TASI (Rebased)

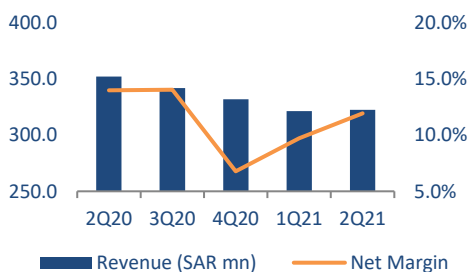


Price Performance (%)	Absolute	Relative
1m	4.7%	2.5%
6m	16.4%	(3.5%)
12m	5.7%	(31.4%)

Major Shareholders (%)

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

Revenue (SAR Mn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 27, 2021

Decline in revenue from corporate segment dents top line in 2Q21; margins contract

Maharah's revenue slipped by 8.5% YoY to SAR 322.6mn in 2Q21, mainly due to a fall in the average number of resources impacting the company's business performance. Its gross profit declined by 27.5% YoY to SAR 53.5mn, while gross margin shrank by 437 bps YoY to 16.6%. Consequently, its operating profit dropped by 20.2% YoY to SAR 43.5mn in 2Q21, with operating margins narrowing by 197 bps YoY to 13.5% in 2Q21. Lower top line and the drop in margins dented its net profit by 21.7% YoY to SAR 38.7mn in 2Q21, while net margin contracted by 202 bps YoY to 12.0%.

Maharah saw weak performance in 2Q21, with a decline in top line and bottom line. A fall in revenues from the corporate segment (down 10.3% YoY to SAR 230.3mn) and individual segment (down 3.5% YoY to SAR 92.3mn) lowered its total revenue by 8.5% YoY in 2Q21. The fall was ascribed to a decrease in the average number of resources due to continued suspension of international flights from the sourcing countries amid the resurgence of COVID-19 cases. Even though its labor variable costs declined, the gross profit fell due to an increase in the recruitment costs, in addition to the costs related to implementation of the social distancing standards imposed by the government to contain the pandemic. Driven by the ongoing vaccination drive, we anticipate a resurgence in manpower requirements, driven by a steady pick-up in the economic activity. The company is taking several initiatives to overcome COVID-19-induced challenges, such as diversifying sourcing countries and launching a portal for recruiting domestic and foreign resources. However, the emergence of Delta variant of coronavirus in several source countries could lead to prolonged restrictions on arrivals from these nations and may create headwinds for the company. Considering these factors, we maintain our "Neutral" rating on its stock.

- Maharah's revenue dropped by 8.5% YoY to SAR 322.6mn in 2Q21, due to lower revenue contribution from its corporate and individual segments.
- Gross profit fell by 27.5% YoY to SAR 53.5mn due to the fall in top line offsetting the 3.4% YoY drop in cost of sales. As a result, gross margin narrowed by 437 bps to 16.6% in 2Q21.
- A lower top line offset the improvement in SG&A expenses and provisions for doubtful debts, resulting in a 20.2% YoY fall in operating profit to SAR 43.5mn in 2Q21. Consequently, EBIT margin contracted to 13.5% from 15.4% in 2Q20.
- Higher zakat charges and finance cost dented its net profit by 21.7% YoY to SAR 38.7mn in 2Q21. Subsequently, net margin shrank by 202 bps to 12.0% in 2Q21.
- Maharah reported an EPS of SAR 1.03 in 2Q21 vis-à-vis SAR 1.32 in 2Q20.
- On August 5, 2021, the company completed the acquisition of a 90% stake in Spectra Support Services Company, a provider of comprehensive workforce-related solutions to organizations across the KSA.
- The company's Board of Directors declared a cash dividend of SAR 1.75 per share for 1H21, equivalent to SAR 65.6mn, or 17.5%, of the company's share capital.

Valuation: We revise our target price at a fair value of SAR 80.0 and maintain a "Neutral" rating on the stock.

	2Q'21	2Q'20	% YoY	FY21E	FY20	% YoY
Revenue (SAR mn)	322.6	352.5	(8.5%)	1,376.6	1,416.4	(2.8%)
Gross Profit (SAR mn)	53.5	73.9	(27.5%)	241.3	265.8	(9.2%)
Operating Profit (SAR mn)	43.5	54.4	(20.2%)	158.9	183.0	(13.2%)
Net Profit (SAR mn)	38.7	49.4	(21.7%)	150.1	177.3	(15.4%)
EPS (SAR)	1.03	1.32	(21.7%)	4.00	4.73	(15.4%)
Gross Margin (%)	16.6%	21.0%	(4.4%)	17.5%	18.8%	(1.2%)
Operating Margin (%)	13.5%	15.4%	(2.0%)	11.5%	12.9%	(1.4%)
Net Profit Margin (%)	12.0%	14.0%	(2.0%)	10.9%	12.5%	(1.6%)

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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