

3Q21 Results Update

December 29, 2021

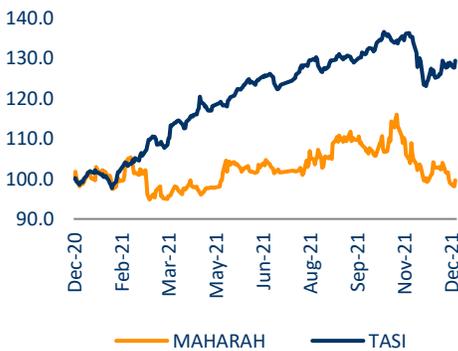
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	74.9
Target Price (SAR)	74.2
Upside/Downside (%)	(1.1%)

As of December 28, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.8
52-Wk High (SAR)	87.7
52-Wk Low (SAR)	70.4
Total Outstanding Shares (in mn)	37.5
Free Float (%)	79.2%

Maharah vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	0.0%	(4.9%)
6m	(4.1%)	(7.4%)
12m	(0.4%)	(29.8%)

Major Shareholders (%)

Abdullah Bin Soliman Al Amr	12.19%
Al Khbrt Al-Mmaryt Co.	11.14%
Saud Nasser Abdulaziz Al-Shathri	8.55%

Revenue (SAR Mn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 28, 2021

Weak contribution from corporate segment hurt top line in 3Q21

Maharah's revenue dropped by 5.0% YoY to SAR 324.8mn in 3Q21, mainly due to a fall in the average number of resources caused by the continuing suspension of the international flights from the workforce's sourcing main countries. Gross profit slipped by 14.0% YoY to SAR 54.0mn, while gross margin contracted 172 bps YoY to 16.6%. Consequently, operating profit dipped 24.2% YoY to SAR 36.0mn in 3Q21, with operating margins narrowing by 280 bps YoY to 11.1% in the quarter. Owing to the lower top line, Maharah's net profit dropped by 26.0% YoY to SAR 35.6mn in 3Q21, while its net margin contracted by 310 bps YoY to 11.0%.

Maharah reported weak earnings in 3Q21 due to a decline in the top line. The decline in the top line was attributed to fall in revenues from the corporate segment (down 6.7% YoY to SAR 234.9mn) and individual segment (down 0.3% YoY to SAR 89.9mn). The fall in revenues was ascribed to a decrease in the average number of resources caused by the continuing suspension of the international flights from the workforce's sourcing main countries. Gross profit fell due to lower revenue coupled with an increase in recruitment costs caused by COVID-19. We anticipate a resurgence in manpower requirements, driven by a steady pickup in economic activity resulting from the ongoing vaccination drive. Saudi Arabia's Ministry of Interior recently allowed direct entry for passengers coming from all countries provided they have received minimum one dose of COVID-19 vaccine in the Kingdom; this is expected to have a positive impact on business and growth, starting 1Q22. However, emergence of the Omicron variant in several source countries could lead to additional restrictions on arrival from these nations which may create headwinds for the company. Considering these factors, we maintain our "Neutral" rating on the stock.

- Maharah's revenue dipped 5.0% YoY to SAR 324.8mn in 3Q21, due to lower revenue contribution from corporate and individual segments.
- Gross profit decreased 14.0% YoY to SAR 54.0mn in 3Q21. As a result, gross margin narrowed by 172 bps to 16.6% in 3Q21.
- Consequently, operating profit dropped by 24.2% YoY to SAR 36.0mn in 3Q21; EBIT margin contracted to 11.1% from 13.9% in 3Q20.
- Lower topline and higher zakat charges dented Maharah's net profit by 26.0% YoY to SAR 35.6mn in 3Q21. Subsequently, net margin shrank by 310 bps to 11.0% in 3Q21.
- Maharah reported an EPS of SAR 0.95 in 3Q21 vis-à-vis SAR 1.28 in 3Q20.
- On November 9, 2021, Growth Avenue Investment Company, Maharah's wholly owned subsidiary, signed a memorandum of understanding (MoU) to acquire 40% stake in Salis For Trading and Marketing Company.
- On December 6, 2021, the company's wholly owned subsidiary signed a sale-purchase agreement to acquire 85% stake in Arabian Shifa Medical Company, which specializes in home healthcare services and operation of medical centers.

Valuation: We revise our target price to a fair value of SAR 74.2 and maintain a "Neutral" rating on the stock.

	3Q'21	3Q'20	% YoY	FY21E	FY20	% YoY
Revenue (SAR mn)	324.8	342.1	(5.0%)	1,306.8	1,416.4	(7.7%)
Gross Profit (SAR mn)	54.0	62.8	(14.0%)	234.6	265.8	(11.8%)
Operating Profit (SAR mn)	36.0	47.5	(24.2%)	160.9	183.0	(12.1%)
Net Profit (SAR mn)	35.6	48.1	(26.0%)	151.9	177.3	(14.3%)
EPS (SAR)	0.95	1.28	(26.0%)	4.05	4.73	(14.3%)
Gross Margin (%)	16.6%	18.4%	(1.7%)	17.9%	18.8%	(0.8%)
Operating Margin (%)	11.1%	13.9%	(2.8%)	12.3%	12.9%	(0.6%)
Net Profit Margin (%)	11.0%	14.1%	(3.1%)	11.6%	12.5%	(0.9%)

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, FALCOM Research.

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