

1Q22 Results Update

Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	60.6
Target Price (SAR)	75.0
Upside/Downside (%)	23.8%

As of July 6, 2022

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.3
52-wk High (SAR)	87.7
52-wk Low (SAR)	58.7
Total Outstanding shares (in mn)	37.5
Free Float (%)	79.2%

Maharah vs. TASI (Rebased)

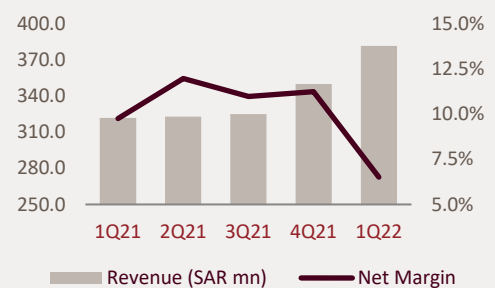


Price Performance (%)	Absolute	Relative
1m	(9.3%)	1.7%
6m	(20.3%)	(20.1%)
12m	(21.6%)	(25.7%)

Major Shareholders (%)

Abdullah Bin Soliman Al Amr	12.19%
Al Khbrt Al-Mmaryt Co.	8.55%

Revenue (SAR Mn) and Net Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of July 6, 2022

Increase in average number of resources boosts top line

Maharah's revenue advanced 18.6% YoY to SAR 381.3mn in 1Q22, supported by higher revenue contribution from the corporate and household segments. However, cost of sales grew at a faster pace compared to the top line, resulting in 11.1% YoY decline in gross profit to SAR 48.9mn. As a result, gross margin contracted 429 bps YoY to 12.8% during the quarter. Rise in general and administrative and marketing expenses led to 31.6% YoY drop in operating profit to SAR 22.8mn in 1Q22, while operating margin narrowed 438 bps YoY to 6.0% during the quarter. Moreover, lower other income offset the rise in zakat expenses and led to 20.7% YoY drop in Maharah's net profit to SAR 24.8mn in 1Q22; the net margin contracted 323 bps YoY to 6.5%.

Maharah reported weak earnings in 1Q22 as the company's bottom line slipped 20.7% YoY during the quarter. However, the top line rose during the quarter following an increase in the average number of resources, which led to improved revenue contribution from the corporate segment (up 11.4% YoY to SAR 259.5mn) and individual segment (up 37.3% YoY to SAR 121.7mn). Nevertheless, the company highlighted that the results have been negatively affected by the newly established and acquired companies, which are in the inception and restructuring phase. Additionally, consolidation of newly acquired companies led to a rise in general and administrative expenses. This led to contraction in the company's margins during the quarter. The management expects improved results in the coming quarters. Recently, Growth Avenue Company, Maharah's wholly owned subsidiary signed a sale and purchase agreement with Salis for Trading and Marketing Company to acquire 40% stake. Manpower requirements are anticipated to resurge, with the economy reaching pre-pandemic levels; this would positively impact business and growth. Maharah also plans to establish the outsourcing sector in 2022, which would boost the top line. In 1Q22, the unemployment rate hit the lowest level in more than a decade, primarily due to improved economy led by a surge in oil prices. Oil prices are expected to remain high in the near term, further boosting the business environment. Considering these factors, we revise our rating on the stock to "Overweight."

- Improved revenue contribution from the corporate and individual segments led to 18.6% YoY rise in Maharah's revenue to SAR 381.3mn in 1Q22.
- Gross profit declined 11.1% YoY to SAR 48.9mn in 1Q22, as cost of sales grew at a faster pace compared to the top line. As a result, gross margin narrowed to 12.8% in 1Q22 from 17.1% in 1Q21.
- Operating profit dropped 31.6% YoY to SAR 22.8mn in 1Q22 owing to higher general and administrative and marketing expenses. Subsequently, EBIT margin contracted to 6.0% from 10.4% in 1Q21.
- Maharah's net profit nosedived 20.7% YoY to SAR 24.8mn in 1Q22 owing to lower other income; the net margin narrowed to 6.5% in 1Q22 from 9.7% in 1Q21.
- Maharah reported an EPS of SAR 0.66 in 1Q22 vis-à-vis SAR 0.84 in 1Q21.
- On June 9, 2022, Maharah renewed its business license from the Ministry of Human Resources and Social Development; the renewed license is valid for 10 years.

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

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	381.3	321.6	18.6%	1,558.9	1,318.7	18.2%
Gross Profit (SAR mn)	48.9	55.1	(11.1%)	235.6	218.7	7.7%
Operating Profit (SAR mn)	22.8	33.3	(31.6%)	143.3	146.7	(2.4%)
Net Profit (SAR mn)	24.8	31.3	(20.7%)	146.3	144.9	1.0%
EPS basic (SAR)	0.66	0.84	(20.7%)	3.90	3.86	1.0%
Gross Margin (%)	12.8%	17.1%	(4.3%)	15.1%	16.6%	(1.5%)
Operating Margin (%)	6.0%	10.4%	(4.4%)	9.2%	11.1%	(1.9%)
Net Profit Margin (%)	6.5%	9.7%	(3.2%)	9.4%	11.0%	(1.6%)

Source: Company Financials, Yaqeen Capital

Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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