

Alkhorayef Water and Power Technologies Co. (AWPT)

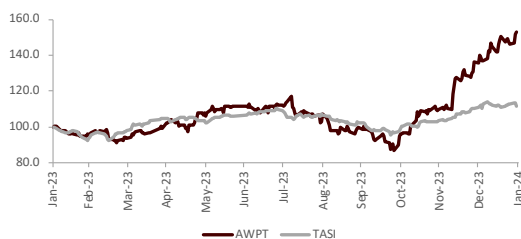
Target Price: SAR 203.0/share

Downside: 7.1%

Recommendation	Hold
Current Market Price (SAR)	218.6
52wk High / Low (SAR)	225.40/124.00
Mkt. Cap. (USD/SAR Mn)	1,456/5,465
Shares Outstanding (mn)	25.0
Free Float (%)	48.5%
3m Average Vol. (000)	123.5
3m Avg Daily Turnover (SAR'000)	21,649
Dividend Yield '24e (%)	0.9%
P/E'24e (x)	18.0
EV/EBITDA'24e (x)	14.5

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Revenue	569	822	1,717	2,423
Gross profit	151	187	267	401
GPM (%)	27%	23%	16%	17%
EBIT	113	134	211	324
EBIT margin (%)	20%	16%	12%	13%
EBITDA	135	170	259	385
EBITDA margin (%)	24%	21%	15%	16%
Net Income	103	107	156	255
Net margin (%)	18%	13%	9%	11%
EPS (SAR)	4.13	4.30	6.23	10.19
RoE (%)	32%	28%	35%	42%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Alkhorayef Group Company	51.00%
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Source: Bloomberg, Yaqeen Capital

Margins decline limited higher revenue impact on earnings

- AWPT's net income jumped by 49.4% YoY (+18.1% QoQ) to SAR 42mn, driven by robust revenue growth in 3Q2023. However, the net profit margin contracted by 38.3ppts YoY to 9.0% (+4.9ppts QoQ) due to increased revenue from the lower-margin segment during the quarter.
- Total revenue surged by 142.3% YoY (+12.6% QoQ) to SAR 469mn on the back of strong increases in revenue in the water sector (+291.7% YoY), the wastewater sector (+52.0% YoY), and the Integrated Water Solutions sector (+20.7% YoY), driven by the start of new projects in 3Q2023.
- Gross profit increased 60.9% YoY (+15.4% QoQ) to SAR 71mn in 3Q2023, however, gross margin declined by 7.7ppts YoY (+0.4ppts QoQ) to 15.2%.
- Operating income came at SAR 55mn, registering growth of 66.4% YoY and 11.2% QoQ in 3Q2023. Operating profit growth was on the back of strong revenue growth, despite the increase in the prices of asphalt and diesel products. However, operating profit margin declined by 5.4ppts YoY (-0.1ppts QoQ) to 11.8% in 3Q2023.
- EBITDA increased by over 48.0% YoY from SAR 53mn to SAR 79mn in 3Q2023 while EBITDA margin declined by 10.7ppts YoY to 16.9%.
- Finance charges were up by 96.4% YoY (-7.9% QoQ) to SAR 10mn in 3Q2023 due to an increase in total debt as well as interest rates.
- AWPT's revenue backlog increased by SAR 4.0bn YTD to SAR 7.6bn from year ending 2022, with record recognition of revenues achieved during the same period.
- For 9M2023, net income increased by 38.3% YoY to SAR 110mn, but net margin decreased by 5.3ppts YoY to 9.1%.

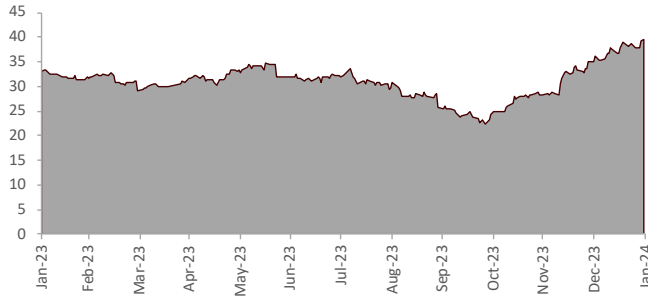
Outlook & Valuation: The utility sector in the Kingdom has experienced significant growth and transformation in recent years, driven by the government's commitment to diversify the economy and increase investment in infrastructure. As a leading player in the industry, AWPT stands to benefit from these developments and capitalize on the opportunities they present. The company's expertise in providing advanced water treatment solutions aligns perfectly with the increasing demand for sustainable and efficient water management solutions in the utility sector. AWPT's recent project additions have grown by 2.1x to SAR 7.6bn with record revenue recognition; however, a decline in margins has limited the gains. Overall, we are positive about the company's growth visibility; nevertheless, we believe the stock price (which has increased by 102% in the last 2 years) has exceeded the underlying fundamentals. Based on DCF valuation, we arrive at a fair value of SAR 203.0/share, offering a downside of 7.1% from the current level. Hence, we recommend a Hold rating on the stock.

Financial Summary

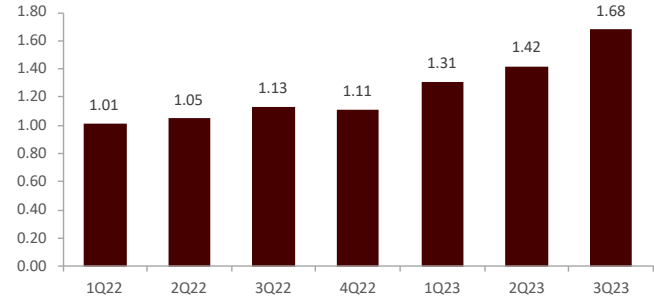
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	469	194	142%	416	13%
Gross profit	71	44	61%	62	15%
GPM (%)	15%	23%		15%	
EBIT	55	33	66%	50	11%
EBIT margin (%)	12%	17%		12%	
Net Income	42	28	49%	36	18%
Net margin (%)	9%	15%		9%	
EPS (SAR)	1.68	1.13	49%	1.42	18%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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