

## Arabian Contracting Services Co. (ALARABIA)

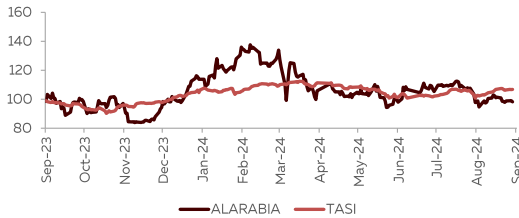
Target Price: SAR 241.1/share

Upside: 16.5%

<b>Recommendation</b>	<b>Buy</b>
Current Market Price (SAR)	207.0
52wk High / Low (SAR)	298.4/171.6
Mkt. Cap. (USD/SAR Mn)	2,756/10,340
Shares Outstanding (mn)	50.0
Free Float (%)	50.0%
3m Average Vol. (000)	75.1
3m Avg Daily Turnover (SAR'000)	16,472.2
Dividend Yield '24e (%)	2.8%
P/E'24e (x)	16.1
EV/EBITDA'24e (x)	26.2

Source: Bloomberg

### Relative Price Performance



### Key Indicators

SAR (mn)	2022	2023	2024e	2025e
Revenue	1,126	1,280	1,568	1,839
Gross profit	487	598	706	827
Gross margin (%)	43%	47%	45%	45%
EBIT	391	463	538	637
EBIT margin (%)	35%	36%	34%	35%
EBITDA	423	500	585	700
EBITDA margin (%)	38%	39%	37%	38%
Net Income	275	318	310	395
Net margin (%)	24%	25%	20%	21%
EPS (SAR)	5.49	6.36	6.19	7.90
RoE (%)	35%	33%	26%	28%

Source: Company Reports, Yaqeen Capital

### Major Shareholders (%)

Engineer Holding Group Company	50.00%
MBC Group Ltd	20.00%

Source: Bloomberg, Yaqeen Capital

### Profit declines due to seasonality and rising costs

- ALARABIA's net income dropped 44.4% YoY to SAR 47mn in 2Q2024, primarily due to entering the quarterly seasonality changes in its core activities and shifting the Ramadan season from the second to the first quarter. Additionally, higher operating expenses (stemming from the commencement of advertising operations at King Khalid International Airport and the financial impact of fully acquiring Faden Media Company), along with a 117% increase in financing costs compared to the same quarter last year, further contributed to the decline. On a QoQ basis, net income decreased by 53.1% due to similar seasonal factors and the Ramadan shift. The net profit margin shrank by 16.2ppts YoY (-10.3ppts QoQ) to 13.1%.
- Revenue increased 27.1% YoY to SAR 374mn in 2Q2024, driven by a 25% rise in outdoor and 109% in indoor advertisement revenues. This growth is attributed to the start of advertising operations at King Khalid International Airport and the full acquisition of Faden Media. However, QoQ, revenue fell by 14.8%, again influenced by seasonal changes and the Ramadan shift.
- Gross profit in 2Q2024 was SAR 142mn, remaining flat YoY but dropping 30.2% QoQ due to reduced revenue. The gross margin declined by 10.3ppts YoY (-8.3ppts QoQ), settling at 38.0%.
- Operating income decreased 12.2% YoY to SAR 98mn due to higher general and administrative expenses, with a 38.2% QoQ decline due to lower gross profit and increased expenses. The operating margin fell by 11.8ppts YoY and 9.9ppts QoQ to 26.3%.
- For 1H2024, net income declined 15.8% YoY to SAR 148mn, mainly due to rising operating expenses (linked to new operations at King Khalid International Airport and the full acquisition of Faden Media), along with a 155% increase in financing costs. The net income margin dropped 10.8ppts YoY to 18.2%.
- Revenue for 1H2024 grew 34.0% to SAR 813mn, fueled by a 32% increase in outdoor and a 93% rise in indoor ad revenues. This growth was supported by new operations at King Khalid International Airport, Faden Media's acquisition, and ongoing digital transformation initiatives, which expanded advertising space and capacity.

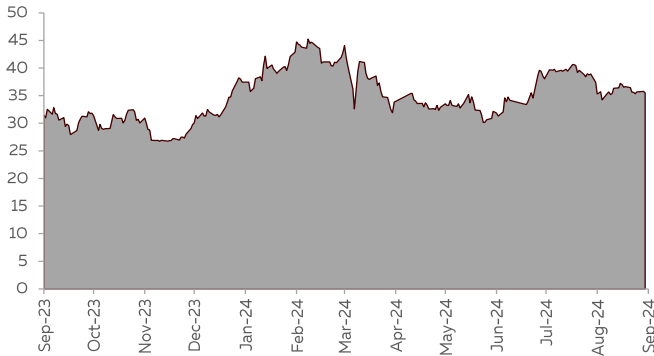
**Outlook & Valuation:** Saudi Arabia's advertising industry is primed for growth, driven by rising online spending and expanding cinema, outdoor, and radio sectors. ALARABIA, with its strong traditional and digital media presence, is well-positioned to benefit. Its financial strength supports infrastructure investment and strategic expansions, like the Faden Media acquisition, bolstering its leading market position. We remain optimistic about ALARABIA's future. Based on the DCF valuation, we determine a fair value of SAR 241.1 per share, indicating an upside of 16.5% from the present value. Consequently, we suggest a Buy rating for the stock.

### Financial Summary

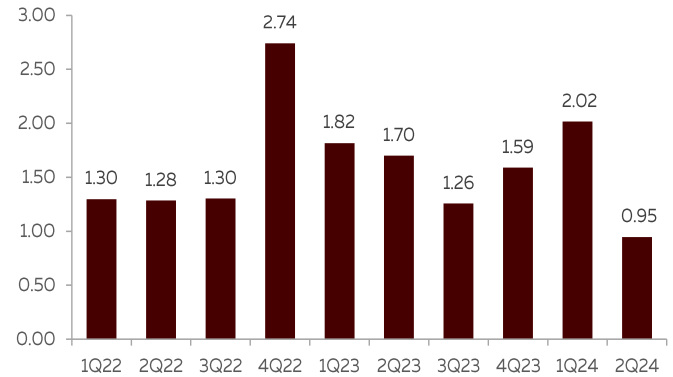
SAR (mn)	2Q2024	2Q2023	YoY	1Q2024	QoQ
Revenue	374	294	27%	439	-15%
Gross profit	142	142	0%	204	-30%
Gross margin (%)	38%	48%		46%	
EBIT	98	112	-12%	159	-38%
EBIT margin (%)	26%	38%		36%	
Net Income	47	85	-44%	101	-53%
Net margin (%)	13%	29%		23%	
EPS (SAR)	0.95	1.70	-44%	2.02	-53%

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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