

1Q20 Results Update

May 23, 2020

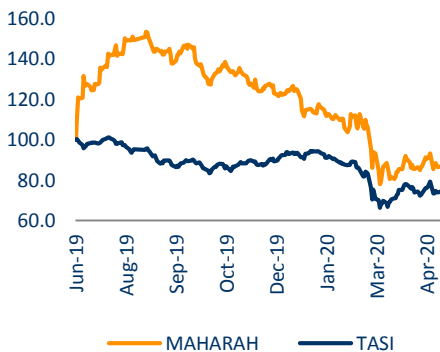
Recommendation	Overweight
Previous Recommendation	-
Current Price (SAR)	58.5
Target Price (SAR)	66.0
Upside/Downside (%)	12.8%

As of May 14th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR mn)	2,194
52 Wk High (SAR)	109.0
52 Wk Low (SAR)	53
Total Outstanding shares (in mn)	38.0
Free Float (%)	73.9%

Maharah vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(4.2%)	0.5%
6m	(35.0%)	(19.9%)
12m	(13.0%)	12.5%

Major Shareholders (%)

Al-Ahlia International Real Estate Investment Company	19.4%
Al Khibrah Al-Memariya Co.	16.0%
Abdullah Suleiman Mazyad Al-Amr	12.2%

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 14th May 2020

Corporate sector growth helps lift Maharah's bottom line

Maharah recorded 6.0% YoY growth in net profit to SAR 57.3mn in 1Q20 on higher overall revenue. The company's revenues advanced 4.5% to SAR 389.8mn as corporate and Individual sector revenue grew 5% and 2%, respectively. Lower SG&A expenses and a decline in provision for doubtful debts led to a 9.5% YoY increase in operating profit. The operating margin widened to 15.3% from 14.6% in 1Q19. The net profit margin remained almost in line with that in 1Q19 at 14.5%.

Maharah reported positive revenue growth for the quarter, but some contraction in gross profit due to temporary suspension of its hourly service program 'Khidmah' that impacted utilization of the deployed resources. For 2020, in the wake of lockdown measures and enforcement of social distancing norms, we expect some decline in the company's revenue given the expected economic contraction in KSA. This may raise unemployment rates in the country, and Maharah may find it difficult to secure or renew employment contracts. However, the company has a strong balance sheet with a sizeable asset of "available visas" (unused visas obtained from Ministry of Labor) that help expedite the manpower hiring process from foreign countries. With strong presence across multiple regions and a track record of servicing many clients, the company is well placed to leverage growing demand for foreign labor resources once normalcy returns. Thus, despite the short-term headwinds, the long-term growth potential remains intact for Maharah. We feel that the sharp drop in the company's share price in recent times offers scope for upside potential and therefore retain our "Overweight" rating on the stock.

- Maharah's revenue increased 4.5% YoY to SAR 389.8mn in 1Q20 aided by growth in the corporate and individual sectors. However, the gains were pared by temporary suspension of the Khidmah program following measures implemented to stem the spread of COVID-19.
- With suspension of the Khidmah program, the utilization of company resources dropped, leading to a rise in the cost of revenue and a decline in gross profit by 2.1% YoY to SAR 79.3mn. Consequently, the gross margin shrank to 20.3% in 1Q20 compared to 21.7% in 1Q19.
- Lower SGA expenses, coupled with reduced provision for doubtful debts, helped the company's EBIT to rise 9.5% YoY to SAR 598mn in 1Q20. As a result, the EBIT margin expanded to 15.3% in 1Q20 from 14.6% in 1Q19.
- Maharah's net profit were up 4.9% YoY to SAR 56.5mn compared to SAR 53.9mn in 1Q19 with a marginal rise in taxes. The net profit margin was in line at 14.5% in 1Q20 against 14.4% in 1Q19.
- Maharah's Board of Directors recommended a dividend of SAR 3.2 per share for its 37.5 million shareholders, amounting to SAR 120mn. The total dividend for the year amounted to SAR 220.1 mn at SAR 5.87 per share.

Valuation: We reiterate our "Overweight" rating on the stock with a target price of SAR 66.0.

	1Q'20`	1Q'19	% YoY	FY20E	FY19	% YoY
Revenue (SAR bn)	390	373	4.5%	1,441	1,512	(4.7%)
Gross Profit (SAR bn)	79	81	(2.1%)	359	380	(5.5%)
Operating Profit (SAR bn)	60	55	9.5%	266	283	(5.7%)
Net Profit (SAR bn)	57	54	6.0%	253	272	(7.2%)
EPS (SAR)	1.53	1.44	6.0%	6.74	7.26	(7.2%)
Gross Margin (%)	20.3%	21.7%	(1.4%)	24.9%	25.1%	(0.2%)
Operating Margin (%)	15.3%	14.6%	0.7%	18.5%	18.7%	(0.2%)
Net Profit Margin (%)	14.7%	14.5%	0.2%	17.5%	18.0%	(0.5%)

Source: Company Financials, FALCOM Research

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ALCOM 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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