

3Q20 Results Update

December 23~~20~~²¹, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	74.0
Target Price (SAR)	75.0
Upside/Downside (%)	1.4%

As of December 22, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	2.8
52-Wk High (SAR)	88.3
52-Wk Low (SAR)	53.0
Total Outstanding Shares (in mn)	37.5
Free Float (%)	87.7%

Maharah vs. TASI (Rebased)

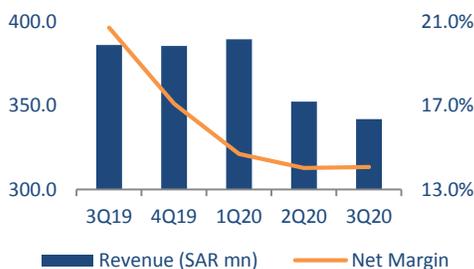


Price Performance (%)	Absolute	Relative
1m	(2.5%)	(3.6%)
6m	9.1%	(10.4%)
12m	(12.5%)	(17.1%)

Major Shareholders (%)

Al-Ahlia International Real Estate Investment Company	19.43%
Abdullah Bin Soliman Al Amr	12.20%
Al Khbrt Al-Mmaryt Co.	11.14%

Revenue (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 22, 2020

COVID-19 pandemic impacts Maharah's top line in 3Q20; margins contract

Maharah's net profit (attributable to equity holders) plunged 40.0% YoY to SAR 48.1mn in 3Q20 owing to a 11.5% YoY drop in revenue to SAR 342.1mn during the quarter. Revenues from the corporate and individual segments dipped in 3Q20 owing to the crisis caused by the COVID-19 pandemic. In addition to the lower top line, operating profit plummeted 41.6% YoY to SAR 47.5mn due to a rise in marketing expenses during the period. Consequently, the operating margin narrowed to 13.9% from 21.0% in 3Q19. These factors, coupled with lower other income, further weighed on the bottom line, and resulted in a contraction in the net profit margin to 14.1% in the quarter against 20.7% in 3Q19.

Maharah reported a drop in the top line during 9M20 due to 3.6% and 4.0% YoY declines in the revenues of the corporate and individual segments, respectively. This was attributable to the challenging economic situation created by the pandemic and the subsequent restrictions enforced to curb it. Lower resource utilization under the company's part-time service program "Khidmah" during the quarter also hurt the top line. Moreover, suspension of international travel made it difficult for the company to offer or renew employment contracts of foreign resources. For 2020, we expect a slight decline in the company's revenue and the bottom line. However, we anticipate a resurgence in manpower requirements in view of vaccine developments. The company may continue to face headwinds in the near term in the form of international travel restrictions and additional lockdowns due to a second wave of infections. Nevertheless, the company's robust balance sheet with negligible debt bodes well for its growth once things return to normal. Considering the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Maharah's revenue dipped 11.5% YoY to SAR 342.1mn in 3Q20 owing to lower revenue contribution from the company's corporate and individual segments. On a quarterly basis, revenue fell 3.0% YoY from SAR 352.5mn.
- Gross profit nosedived 40.1% YoY to SAR 63.7mn, as the 0.6% drop in cost of sales to SAR 278.4mn was offset by a fall in the top line. Consequently, the gross margin narrowed to 18.6% in 3Q20 vis-à-vis 27.5% in 3Q19.
- A lower top line coupled with an increase in marketing expenses offset the improvement in SG&A expenses and provision for doubtful debts, resulting in a 41.6% YoY fall in operating profit to SAR 47.5mn in 3Q20. Consequently, the EBIT margin worsened to 13.9% in 3Q20 from 21.0% in 3Q19.
- In addition, lower other income counterbalanced the improvement in zakat charges and profit share from associates, converging into a 40.0% YoY decline in net profit (attributable to equity holders) to SAR 48.1mn in 3Q20. Subsequently, the net profit margin shrank to 14.1% against 20.7% in 3Q19.
- On December 13, Maharah inked a memorandum of understanding (MoU) to purchase a majority stake in Spectra Support Services, a manpower and staffing solutions provider based in KSA.

Valuation: We retain our target price at a fair value of SAR 75.0 and maintain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenue (SAR mn)	342.1	386.4	(11.5%)	1,440.2	1,512.3	(4.8%)
Gross Profit (SAR mn)	63.7	106.3	(40.1%)	296.1	379.8	(22.0%)
Operating Profit (SAR mn)	47.5	81.3	(41.6%)	216.7	282.5	(23.3%)
Net Profit (SAR mn)	48.1	80.1	(40.0%)	209.2	272.1	(23.1%)
EPS (SAR)	1.28	2.14	(40.0%)	5.58	7.26	(23.1%)
Gross Margin (%)	18.6%	27.5%	(8.9%)	20.6%	25.1%	(4.6%)
Operating Margin (%)	13.9%	21.0%	(7.2%)	15.0%	18.7%	(3.6%)
Net Profit Margin (%)	14.1%	20.7%	(6.7%)	14.5%	18.0%	(3.5%)

Source: Company Financials, FALCOM Research

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 Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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