EFG Hermes

تداول السعودية
Saudi Exchange

EFG Hermes Saudi Forum in London

Looking for Sustainable Growth

Rosewood, London

11-12 September 2023

Table of Contents

INVESTMENT THESIS

Al Hammadi Holding operates two hospitals in Riyadh: Suwaidi (300 beds, 80 clinics, opened in 2015) and Nuzha (300, 120, 2018). The company acquired in Jan 2018 Medical Support Services (MSS) for SAR48mn (has a pharma distribution subsidiary; Pharma Serve) and 35% of Sudair Pharmaceuticals for cSAR118mn in Nov 2021 (has a plant that manufactures oncology drugs). Hospitals represent c78% of revenue (2022), pharmacies at c17% and MSS at c6%, with total pharma (including MSS) contributing c14% to bottom line. Hammadi is set to establish three new hospitals in Riyadh: Olaya (200 beds, 120 clinics, SAR450mn capex) by 2026e to replace its old facility (operations stopped from 1 Oct 2021), Narjes (200, 120, SAR450mn) and a third in Northwest Riyadh (not included in our numbers, pending further details). We are Buyers of Hammadi, as solid performance continues (2023-24e earnings CAGR of 25%).

VALUATION & RISKS

We value Al Hammadi using an eight-year discounted cash flow (DCF) methodology, yielding a target price of SAR73. Key upside risks include: i) faster-than-expected hospitals' ramp-up; ii) securing additional MoH business and/or direct contracts; iii) list price increases; iv) M&A activity (hospitals and new related segments); v) further hospital expansions; and vi) higher revenue contribution from Pharma Serve. Key downside risks include: i) slower ramp-up of new capacities, leading to prolonged earnings weakness; ii) delays in opening the new Olaya and Narjes hospitals; iii) receivables/provisioning risk, due to high exposure to government business; iv) tougher competition as private sector players expand in Riyadh; v) difficulty in hiring physicians; and vi) increased bargaining power by insurers.

QUESTIONS

1. What was the reason for the Y-o-Y decline in patient traffic during 2Q23? How has patient traffic fared recently? What is Hammadi's current and targeted blended utilisation?
2. What are your expansion plans and their associated investment costs? What is the expected impact on profitability?
3. What is your current government exposure, and do you have a target contribution to revenue from it? Has the MoH paid any significant part of its late dues? What is the target for receivable days on hand?
4. What is the outlook for the pharma distribution business? What is the expected impact from the 35% stake acquired in Sudair Pharmaceuticals?
5. What is your targeted profitability level, and when are you planning to achieve it?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	1,122	1,305	1,463	1,601
EBITDA	363	487	531	590
Net operating profit (EBIT)	263	383	422	476
Taxes or zakat	(17)	(21)	(22)	(24)
Minority interest	0	0	0	0
Net income	248	353	389	438
Balance Sheet				
Cash and cash equivalents	61	75	196	295
Total assets	2,482	2,669	3,029	3,384
Total liabilities	771	830	1,081	1,334
Total equity	1,711	1,839	1,948	2,050
Total net debt (cash)	425	436	530	645
Cash Flow Statement				
Cash operating profit after taxes	346	467	509	567
Change in working capital	(207)	(109)	(25)	(27)
CAPEX	(113)	(150)	(320)	(341)
Investments	0	0	0	0
Free cash flow	26	208	164	198
Net financing	(201)	(227)	(96)	(157)
Change in cash	(60)	15	121	99
Per Share Numbers				
EPS (SAR)	1.55	2.20	2.43	2.74
DPS (SAR)	1.25	1.40	1.75	2.10
BVPS (SAR)	10.7	11.5	12.2	12.8
Valuation Metrics				
Price to earnings	34.1x	24.1x	21.8x	19.4x
Price to book value	5.0x	4.6x	4.4x	4.1x
Price to cash flow	61.0x	23.7x	17.5x	15.7x
FCF yield	0.1%	2.1%	1.6%	1.9%
Dividend yield	2.4%	2.6%	3.3%	4.0%
EV / EBITDA	24.6x	18.3x	16.8x	15.1x
EV / Invested capital	4.2x	3.9x	3.6x	3.3x
ROAIC	12.1%	16.1%	16.1%	16.1%
ROAE	15.3%	20.2%	20.8%	22.1%
KPIs				
Revenue growth (Y-o-Y)	17.9%	16.3%	12.1%	9.4%
EBITDA growth (Y-o-Y)	54.8%	34.2%	8.9%	11.1%
Gross profit margin	37.1%	39.4%	40.3%	41.1%
EBITDA margin	32.4%	37.3%	36.3%	36.9%
Net operating profit (EBIT) margin	23.4%	29.3%	28.9%	29.7%
Effective tax rate	6.1%	5.5%	5.4%	5.1%
Net Debt (Cash) / Equity	0.2x	0.2x	0.3x	0.3x
Net Debt (Cash) / EBITDA	1.2x	0.9x	1.0x	1.1x

Source: Al Hammadi, EFG Hermes estimates

STOCK DATA

Closing Price	SAR53.0 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.350 / 03 Jul 2023
MKT. Cap / Shares (mn)	USD2,261 / 160.0
Av. Daily Liquidity (mn)	USD11.23
52-Week High / Low	SAR63.0 / SAR38.3
Bloomberg / Reuters	ALHAMMAD AB / 4007.SE
Est. Free Float	54.5%

Ahmed Moataz
amoataz@efg-hermes.com

Hatem Alaa, CFA
halaa@efg-hermes.com

BUSINESS DESCRIPTION

Al Moammar Information Systems (MIS) was established in 1979 as an IT system solution provider for local businesses. From old legacy systems to cloud computing, the company has evolved and widened its product offering over the years to remain at the forefront of the market. MIS splits its operations into seven major business units: data centre (53% of 1H23 revenue), O&M (19%), networking (13%), systems (8%), solutions (4%), IT security (3%) and business service management (1%). In 1H23, the systems unit had the highest income before zakat margin (35%). In Mar 2019, the company offered 4.8mn shares, or 30% of its share capital, in an IPO, becoming the first listed company in the IT sector on Tadawul. Al Moammar family still holds a c51% stake in MIS, while the rest is traded publicly.

INVESTMENT THESIS

MIS offers a solid investment opportunity in Saudi Arabia's digital transformation story, which is positioned at the centre of the government's Vision 2030. The company's revenues and earnings recorded 6% and 6% CAGRs, respectively, over the past two years (2020: SAR703mn, 2022: SAR790mn). Future growth prospects are supported by favourable demographics, stronger non-oil economic activity and launches of digitisation initiatives in different business sectors. We note that there is a revenue concentration risk from government and quasi-government entities (2020: 73%; 2021: 72%; 2022: 73%), which fell significantly to 40% in 1H23, due to a jump in data centre revenue. Although the dominance of governmental revenue accentuates the company's collections risk, it lowers its earnings volatility, provides assurance on business continuity and makes MIS a strong beneficiary of public investment.

QUESTIONS

1. Could you provide an overview of your business model and elaborate on each business unit, in terms of recent performance and outlook?
2. Who are MIS' main competitors? How do you differentiate your products/services? What is your take on the current market dynamics?
3. What is your approach for working capital management, particularly on the receivables front? Do you aim to maintain the same or a higher proportion of the private sector in your revenue base going forward? Is the increase in private sector contribution in 1H23 sustainable, or was it a one-off?
4. What is your investment plan for the coming three-five years, and what does it mean for your dividend policy? Do you plan to increase your DPS further any time soon?
5. You established several funds (including the SAR1bn fund with Al Rajhi Capital and SAR1.7bn fund with Saudi Fransi Capital, which was renewed at a value of SAR1.4bn in Jul); how do you see their impact on your operations? On which areas within the technology sector will you focus?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)a
Income Statement				
Revenue	675	639	790	1,322
EBITDA	100	81	107	190
Net operating profit (EBIT)	98	77	102	184
EBT	89	65	105	183
Net income	81	56	96	170
Balance Sheet				
Cash and cash equivalents	81	22	152	112
Current assets	1,079	1,026	1,507	1,861
Net fixed assets	37	42	41	39
Intangibles & others	32	83	62	76
Total assets	1,148	1,152	1,609	1,976
Current liabilities (Including debt)	769	771	1,205	1,504
Long-term liabilities (Including debt)	54	47	33	40
Total liabilities	823	818	1,238	1,545
Total net worth	324	334	371	431
Total equity & liabilities	1,148	1,152	1,609	1,976
Total net debt (cash)	291	350	219	434
Cash Flow Statement				
CF from operations	(28)	46	198	(124)
CF from investments	(18)	(38)	14	12
CF from finance & non operating CF	98	(67)	(81)	32
Per Share Numbers				
EPS (SAR)	2.17	1.88	3.20	5.68
DPS (SAR)	2.00	2.00	2.40	2.70
BVPS (SAR)	10.82	11.12	12.37	14.38
Valuation Metrics				
Price to earnings	75.3x	86.7x	51.0x	28.7x
Price to book value	15.1x	14.7x	13.2x	11.3x
FCF yield	-0.7%	0.8%	4.0%	-2.5%
Dividend yield	1.2%	1.2%	1.5%	1.7%
EV / EBITDA	53.4x	65.7x	50.0x	28.1x
ROAIC	16.3%	10.6%	13.4%	20.6%
ROAE	28.1%	17.2%	27.2%	42.5%
KPIs				
Revenue growth (Y-o-Y)	-32.4%	-5.3%	23.6%	111.6%
EBITDA margin	14.8%	12.7%	13.5%	14.4%
Net operating profit (EBIT) margin	14.6%	12.1%	12.9%	13.9%
Effective tax rate	18.3%	25.9%	18.2%	10%
Net debt (cash) / equity	0.9x	1.0x	0.6x	1.0x
Net debt (cash) / EBITDA	2.9x	4.3x	2.1x	2.3x

Source: Al Moammar Information Systems, Bloomberg

STOCK DATA

Closing Price	SAR163.20 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.5 / 30 Jul 2023
MKT. Cap / Shares (mn)	USD1,306 / 30
Av. Daily Liquidity (mn)	USD6.9
52-Week High / Low	SAR178.00 / SAR86.00
Bloomberg / Reuters	MIS AB / 7200.SE
Est. Free Float	50.9%

Omar Maher
omaher@efg-hermes.com

Laila Galal
lgalal@efg-hermes.com

BUSINESS DESCRIPTION

Established in 1983, Arabian Contracting Services Co. (Al Arabia) has led the outdoor advertising sector in Saudi Arabia for the past 40 years. The company sets up and operates roadside advertising billboards through tenders organised by government agencies (c93% of 2022 revenue). It also recently expanded into the indoor advertising market (5%) and printing (2%). The company's activities spread across 28 cities in KSA (c99% of 1H23 revenue). In Dec 2021, Al Arabia also expanded its regional reach to Egypt (c1% of 1H23 revenue), through the establishment of a 25-year partnership with United Media Services Co., an Egyptian advertising company, to install and operate a minimum of 120 digital screens in the country. Meanwhile, MBC Group Holdings recently increased its ownership in Al Arabia to 20%, through its option to purchase 15% of the company's shares owned by Engineer Holding Group, one of the major shareholders. Furthermore, Al Arabia signed a consortium agreement with Saudi Company for Artificial Intelligence (SCAI), a company owned by PIF that specialises in AI and modern technologies, to compete on winning the project of constructing and operating outdoor billboards in Riyadh, offered by Remat Riyadh Development Co.

INVESTMENT THESIS

Al Arabia is a leading advertising company in KSA, with a market share of 62.2% in outdoor advertising as of 2022. It went public on Tadawul in Oct 2021. The company recently secured several new contracts, including the: i) SAR48mn lease contract for billboard installation for 211 sites in Tabuk, Hail and Al-Kharj; ii) SAR1bn bid to install and operate 40 digital billboards on bridges and tunnels in Jeddah for a 10-year period; iii) cSAR9mn licencing contract with United Media Services Co. (UMS), through its arm, Arabiya United Co. (an associate company), to install 174 billboards in the northern coast of Egypt, with a coverage of 89%; iv) bid to construct and operate billboards at King Khalid International Airport in Riyadh City for 10 years (value undisclosed); and v) bid to install c1k billboards in Dammam Metropolitan (value undisclosed). The company also signed several exclusive agency agreements, including: i) a seven-year exclusive ad agency agreement with Elevision Media, which owns the full advertising rights of the Dubai International Financial Center (DIFC); and ii) a five-year (renewable) agreement with Al Bait Development and Constructions for media and advertising services in the Clock Towers Shopping Center in Mecca, where it will install the largest 3D indoor display screen in KSA. Furthermore, Al Arabia recently received GAC approval for the acquisition of Faden Media, which operates digital outdoor advertising billboards on buildings and retail stores, for cSAR1.05bn.

QUESTIONS

1. How has the partnership with United Media in Egypt fared through the recent economic headwinds? Does Al Arabia see any challenges arising because of the devaluation of the EGP and high inflation? Are you planning to expand to other geographies in the coming period?

2. What bids or contracts do you have in the pipeline? What are the values of the latest contracts to install billboards in King Khalid International Airport and Dammam Metropolitan? How many billboards do you have, and what is your medium-term target? What is the rationale for the Faden Media acquisition and its expected impact?

3. What is the competitive environment like? What is your market share in the different segments, and where do you see the most pressure from competition?

4. What are the main cost pressures you are facing? What is your outlook on margins?

5. What is your guidance for 2023 and 2024, in terms of revenue, profitability and dividend payout? Are you considering any M&A opportunities?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)a
Income Statement				
Revenue	498	721	1,126	1,182
EBITDA	418	577	836	921
Net operating profit (EBIT)	51	261	384	452
EBT	31	218	296	347
Net income	25	206	275	323
Balance Sheet				
Cash and cash equivalents	27	190	115	118
Current assets	466	1,020	997	1,091
Net fixed assets	849	2,220	1,646	1,702
Intangibles & others	(0)	-	-	-
Total assets	1,315	3,240	2,642	2,792
Current liabilities (Including debt)	460	907	788	782
Long-term liabilities (Including debt)	329	1,602	1,034	1,040
Total liabilities	788	2,508	1,821	1,822
Total net worth	526	731	820	972
Minority interest	-	-	1	(1)
Total equity & liabilities	1,315	3,240	2,642	2,792
Total net debt (cash)	637	2,159	1,450	1,332
Cash Flow Statement				
CF from operations	349	208	501	647
CF from investments	(57)	(78)	(49)	(52)
CF from finance & non operating CF	(301)	33	(526)	(587)
Per Share Numbers				
EPS (SAR)	0.50	4.12	5.49	6.67
DPS (SAR)	0.00	1.86	1.90	0.40
BVPS (SAR)	10.53	14.63	16.40	19.43
Valuation Metrics				
Price to earnings	N/M	50.0x	37.5x	30.9x
Price to book value	19.6x	14.1x	12.6x	10.6x
FCF yield	2.8%	1.3%	4.4%	5.8%
Dividend yield	0.0%	0.9%	0.9%	0.0%
EV / EBITDA	27.8x	20.2x	13.9x	12.6x
ROAIC	4.1%	12.1%	13.9%	18.2%
ROAE	4.8%	32.8%	35.4%	36.0%
KPIs				
Revenue growth (Y-o-Y)	-36.8%	44.8%	56.3%	22.4%
EBITDA margin	84.0%	80.0%	74.3%	77.9%
Net operating profit (EBIT) margin	10.3%	36.3%	34.1%	38.3%
Effective tax rate	34.8%	10.4%	7.7%	-4.4%
Net debt (cash) / equity	1.2x	3.0x	1.8x	1.4x
Net debt (cash) / EBITDA	1.5x	3.7x	1.7x	1.4x

Source: Arabian Contracting Services, Bloomberg

STOCK DATA

Closing Price	SAR206.00 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.4 / 22 Jun 2023
MKT. Cap / Shares (mn)	USD2,747 / 50
Av. Daily Liquidity (mn)	USD8.2
52-Week High / Low	SAR223.80 / SAR99.90
Bloomberg / Reuters	ALARABIA AB / 4071.SE
Est. Free Float	30.0%

Hatem Alaa, CFA
halaa@efg-hermes.com

Mirna Maher, CFA
mmaher@efg-hermes.com

INVESTMENT THESIS

Established in 1993, Aldawaa is the second largest operator of pharmacies in Saudi Arabia (869 in 2022) that sells pharma and non-pharmaceutical products. The company is a key participant in 'Wasfaty' (handles c70% of the programme's total volumes), which is an e-prescription platform run by NUPCO that enables Saudis with public insurance to obtain their medications from private pharmacies. Wasfaty is a key growth driver for Aldawaa (c13% of revenue in 2022). It has undertaken three key healthcare projects: i) 'OULACARE', a healthcare solutions provider; ii) 'Proceed', a distribution arm (c4% of 2022 revenue, targeted to reach 15%; we assume 9% by 2027e); and iii) PREMI, a manufacturing facility for medical devices (to start ops in 4Q23e). The company' strategy focuses on: i) strengthening core retail offering (aiming to open 60+ new pharmacies by 2025e); ii) expanding the e-commerce platform (targeted at 13% of revenue by end-2023, from 9.5% in 2022); iii) growing revenue from other ventures (distribution, healthcare and medical devices); iv) continuing to focus on Wasfaty and other strategic agreements. We are Buyers of Aldawaa, on superior earnings growth (+38% in 2023e; 2023-27e CAGR of 19%), driven by strong revenue trends and opex controls.

VALUATION & RISKS

We value Aldawaa using a five-year discounted cash flow (DCF) methodology, yielding a target price of SAR105. Upside risks include: i) further rollout of the Wasfaty programme (currently covers c25% of the addressable market); ii) greater-than-expected expansions (pharmacies and clinics); iii) better-than-expected margins, on improved product mix and stronger opex controls; iv) faster ramp-up of other ventures (mainly distribution and PREMI); and v) higher contribution from house brands (own + private labels; c9% of 2022 revenue with a target to reach c12-13% in 2023e) and e-commerce that are both higher-margin segments. Downside risks include: i) lower traffic and/or consumer spending; ii) rising competition; iii) lower gross margin, on inability to increase prices (in pharma), lower supplier rebates, etc.; iv) higher staff costs (c21% of cash costs; c6k+ headcount, with Saudisation at 32%) and difficulty in hiring staff; v) not successfully implementing its expansion strategy (pharmacies and other ventures); and vi) lower-than-expected improvement in working capital trends (we assume CCC of 90 days by 2027e, from 109 in 2022, mainly on better inventory management).

QUESTIONS

1. What is the current contribution from Wasfaty programme to Al-Dawaa's overall sales? How do margins differ, compared to your other business segments?

2. What are your pharmacy expansion plans and associated investment costs? How long does it take for new branches to ramp up?

3. Is there scope to improve your working capital (particularly receivables and inventory)? If so, what measures have you/will take to achieve this?

4. Could you update us on that status of PREMI (medical devices manufacturing facility)? What impact do you expect it will have on your numbers?

5. What is your revenue and profitability guidance for 2023-24?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	5,372	5,872	6,334	6,790
EBITDA	724	882	959	1,033
Net operating profit (EBIT)	369	506	561	612
Taxes or zakat	(12)	(14)	(16)	(18)
Minority interest	0	0	0	0
Net income	249	345	422	486
Balance Sheet				
Cash and cash equivalents	139	88	85	110
Total assets	4,497	4,704	4,805	4,927
Total liabilities	3,508	3,611	3,586	3,562
Total equity	989	1,092	1,219	1,365
Total net debt (cash)	916	1,094	1,078	1,033
Cash Flow Statement				
Cash operating profit after taxes	466	596	682	757
Change in working capital	146	(186)	(43)	(46)
CAPEX	(288)	(257)	(265)	(271)
Investments	0	0	0	0
Free cash flow	325	152	374	440
Net financing	(515)	(478)	(642)	(677)
Change in cash	93	(51)	(3)	25
Per Share Numbers				
EPS (SAR)	2.93	4.06	4.96	5.72
DPS (SAR)	2.50	2.84	3.47	4.00
BVPS (SAR)	11.6	12.9	14.3	16.1
Valuation Metrics				
Price to earnings	32.4x	23.4x	19.1x	16.6x
Price to book value	8.2x	7.4x	6.6x	5.9x
Price to cash flow	13.2x	19.7x	12.6x	11.3x
FCF yield	3.2%	0.9%	3.8%	4.7%
Dividend yield	2.6%	3.0%	3.7%	4.2%
EV / EBITDA	12.4x	10.1x	9.3x	8.7x
EV / Invested capital	4.7x	4.1x	3.9x	3.7x
ROAIC	17.0%	22.8%	23.4%	24.3%
ROAE	25.2%	33.1%	36.5%	37.6%
KPIs				
Revenue growth (Y-o-Y)	6.7%	9.3%	7.9%	7.2%
EBITDA growth (Y-o-Y)	20.2%	21.8%	8.8%	7.7%
Gross profit margin	37.6%	37.6%	37.5%	37.5%
EBITDA margin	13.5%	15.0%	15.1%	15.2%
Net operating profit (EBIT) margin	6.9%	8.6%	8.9%	9.0%
Effective tax rate	3.9%	3.9%	3.8%	3.6%
Net Debt (Cash) / Equity	0.9x	1.0x	0.9x	0.8x
Net Debt (Cash) / EBITDA	1.3x	1.2x	1.1x	1.0x

Source: Aldawaa Medical Services, EFG Hermes estimates

STOCK DATA

Closing Price	SAR94.9 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.25 / 06 Apr 2023
MKT. Cap / Shares (mn)	USD2,151 / 85.0
Av. Daily Liquidity (mn)	USD5.15
52-Week High / Low	SAR107.0 / SAR67.3
Bloomberg / Reuters	ALDAWAA AB / 4163.SE
Est. Free Float	37%

Ahmed Moataz
amoataz@efg-hermes.com

Hatem Alaa, CFA
halaa@efg-hermes.com

INVESTMENT THESIS

Alkhorayef Water and Power Technologies (AWPT) is the leading O&M provider for water, wastewater and integrated water services in KSA, with its projects spread across all of the Kingdom's provinces. AWPT was established in 1991, and the company's market leading cost efficiency and pricing competitiveness allowed it to build strong presence in the market, boasting market shares of: i) c36% in water treatment O&M - the largest, by far, amongst its peers; ii) 9.6% in O&M services for sewage treatment plants; and iii) 21.1% in city water management services. AWPT offers its essential services largely to government entities (mainly MEWA and NWC), which represent the majority of its backlog and revenue. Over the past 18 months, AWPT's backlog has almost tripled, highlighting its impressive backlog build-up ability. That said, we remain cautious regarding the sustainability of historical margins, given the change in projects' nature and the potential competition risks. We remain Neutral on AWPT.

VALUATION & RISKS

We value AWPT using the discounted cash flow (DCF) methodology, arriving at our TP of SAR155. We utilise a WACC of 8.8% and terminal growth rate of 3% for AWPT. The main assumptions in our valuation include: i) terminal annual execution of SAR2.4bn and ii) terminal operating margins of c14.5%. Key upside risks include: i) larger-than-expected market growth, driven by the underserved nature of the KSA water market; ii) higher-than expected margin performance; and iii) market share gains across key divisions. Key downside risks include: i) faster-than-expected margin erosion, owing to intensifying competition and client concentration risks; and ii) loss of contract/non-renewal, which seems unlikely, given AWPT's track record of remaining on projects for decades, in some cases.

QUESTIONS

1. What is the funding mix for AWPT's recently-awarded IWTP contract? Will there be an equity bridge loan structure to facilitate the initial capital call on equity for the consortium partners?
2. What is your success rate from packages awarded YTD? What is your medium-term backlog target?
3. Have you been bidding for other IWTP contracts? What is your IRR for similar projects?
4. How will your expansion plans impact your dividend policy?
5. What is your envisaged gearing ratio target, considering your recent growth trajectory?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	822	1,830	2,614	2,278
EBITDA	180	280	379	372
Net operating profit (EBIT)	143	236	331	319
Taxes or zakat	(10)	(21)	(27)	(27)
Minority interest	0	0	0	0
Net income	103	173	247	241
Balance Sheet				
Cash and cash equivalents	85	128	211	299
Total assets	1,187	1,668	2,283	2,262
Total liabilities	789	1,095	1,464	1,326
Total equity	398	572	819	935
Total net debt (cash)	451	529	592	478
Cash Flow Statement				
Cash operating profit after taxes	168	257	350	344
Change in working capital	(145)	(212)	(210)	99
CAPEX	(186)	(84)	(72)	(74)
Investments	0	(75)	(79)	(44)
Free cash flow	(164)	(114)	(11)	325
Net financing	232	81	89	(202)
Change in cash	48	(31)	78	123
Per Share Numbers				
EPS (SAR)	4.27	6.99	9.87	9.66
DPS (SAR)	1.50	0	2.00	6.00
BVPS (SAR)	15.9	22.9	32.8	37.4
Valuation Metrics				
Price to earnings	34.9x	21.4x	15.1x	15.4x
Price to book value	9.4x	6.5x	4.6x	4.0x
Price to cash flow	22.2x	14.5x	10.7x	10.8x
FCF yield	-4.9%	-2.2%	0.3%	8.5%
Dividend yield	1.0%	0.0%	1.3%	4.0%
EV / EBITDA	23.3x	15.0x	11.1x	11.3x
EV / Invested capital	4.9x	3.8x	3.0x	3.0x
ROAIC	17.7%	19.9%	21.3%	17.5%
ROAE	28.3%	36.0%	35.5%	27.5%
KPIs				
Revenue growth (Y-o-Y)	44.5%	122.6%	42.8%	-12.9%
EBITDA growth (Y-o-Y)	32.5%	55.8%	35.3%	-1.7%
Gross profit margin	22.8%	16.0%	15.9%	17.5%
EBITDA margin	21.8%	15.3%	14.5%	16.3%
Net operating profit (EBIT) margin	17.4%	12.9%	12.7%	14.0%
Effective tax rate	8.5%	10.7%	10.0%	10.0%
Net Debt (Cash) / Equity	1.1x	0.9x	0.7x	0.5x
Net Debt (Cash) / EBITDA	2.5x	1.9x	1.6x	1.3x

Source: Alkhorayef Water & Power, EFG Hermes estimates

STOCK DATA

Closing Price	SAR149 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.50 / 09 Nov 2022
MKT. Cap / Shares (mn)	USD994.4 / 25.0
Av. Daily Liquidity (mn)	USD2.47
52-Week High / Low	SAR167 / SAR117
Bloomberg / Reuters	AWPT AB / 2081.SE
Est. Free Float	30.0%

Ahmed Hazem Maher
ahmaher@efg-hermes.com

INVESTMENT THESIS

Almarai is a premier regional food and beverage player, with an unparalleled position in the GCC dairy market (c35% market share as of 2021). In 2022, fresh dairy was c34% of sales, poultry c16%, cheese and butter c14%, baked goods c13%, long-life dairy c10% and juice c9%. Almarai aims to: i) solidify its market leadership position in the GCC for dairy, juice and bakery; ii) ramp up volumes and improve profitability at its poultry business; iii) grow its food services segment; iv) expand dairy and juice activities outside the GCC through IDJ (operations in Egypt and Jordan since 2009; c12% of 2022 revenue; acquired PepsiCo's 49% stake for SAR255mn in Feb 2023); and v) work on securing diversified feed sources from outside KSA. Almarai currently receives subsidies only on imported alfalfa and on poultry feed (total of SAR335mn in 2022). The company's FCF generation is likely to continue improving as it winds down its capex programme (targeting cSAR7.1bn over 2020-24e). It is planning SAR6.6bn five-year investments in poultry, which should double its market share and annual production to 450mn birds from c200mn currently. In June 2020, Almarai announced that it is looking to invest SAR252mn to set up a seafood processing facility (not in our numbers). We are Neutral on Almarai, as valuation is full.

VALUATION & RISKS

We value Almarai using the DCF methodology, yielding a target price (TP) of SAR65. Upside risks include: i) market share gains, esp. in UHT milk, where it has #2 position; ii) further price hikes (prices up c10% in 2022); iii) faster ramp-up in poultry profitability (higher volumes, B2C sales, etc.); iv) raw material cost declines; v) better-than-expected performance from IDJ (52% owned) and IPNC (100%); vi) value-accretive new ventures/acquisitions (water, etc.); vii) resumption of sales to Qatar, now that embargo got lifted (cSAR750mn in 2017); and viii) better mitigation of cost pressures via industrial and logistical efficiencies. Downside risks include: i) challenges in the poultry business; ii) market share weakness (especially if other players do not follow suit when it comes to price hikes); iii) difficulty in raising key product prices; iv) increased cost pressures from Saudisation (staff c25% of cash costs), feed importation and subsidy changes; v) higher petrol and utility prices; and vi) SG&A cost pressures, on distribution investments and competition.

QUESTIONS

1. What drove revenue growth in KSA in 1H23, and what do you see as sustainable growth going forward? What measures are you taking to mitigate the impact of the currency devaluation in Egypt? Do you have any plans to re-enter Qatar?
2. What are your targets, in terms of volumes, revenue and profitability for the poultry segment? How much capacity do you expect to add from the SAR6.6bn announced investments for poultry over the coming five years? How has the segment's profitability been affected by subsidy changes on poultry feed?
3. In which categories do you see room to gain market share, especially in KSA? Could you update us on your planned expansion into the seafood and branded beef categories? How much capex is required for this expansion, and what is the expected contribution to the overall business?
4. What is your margin outlook, in light of the decline in commodity prices? How much is your current inventory cover? What price increases have you implemented in 2023 and what is your pricing strategy going forward? Do you expect a positive impact on earnings in 2023/24e from price increases as commodity prices ease? Is there room for further cost cutting?
5. What targets does Almarai have for FCF and leverage in the medium term? Are any acquisition plans still on the table?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	18,722	20,615	22,461	24,538
EBITDA	4,125	4,983	5,578	6,275
Net operating profit (EBIT)	2,430	3,036	3,410	3,863
Taxes or zakat	(71)	(131)	(152)	(183)
Minority interest	(18)	(5)	(6)	(7)
Net income	1,835	2,165	2,556	3,013
Balance Sheet				
Cash and cash equivalents	547	525	650	871
Total assets	32,074	34,116	36,403	38,653
Total liabilities	16,091	17,291	18,317	19,097
Total equity	15,983	16,824	18,086	19,556
Total net debt (cash)	9,521	10,153	10,422	10,206
Cash Flow Statement				
Cash operating profit after taxes	4,054	4,852	5,426	6,092
Change in working capital	(919)	(699)	(498)	(544)
CAPEX	(1,462)	(2,719)	(3,449)	(3,479)
Investments	0	0	0	0
Free cash flow	1,674	1,433	1,479	2,069
Net financing	(1,611)	(1,216)	(1,353)	(1,849)
Change in cash	(19)	(22)	126	220
Per Share Numbers				
EPS (SAR)	1.83	2.16	2.56	3.01
DPS (SAR)	1.00	1.15	1.30	1.55
BVPS (SAR)	15.7	16.8	18.0	19.5
Valuation Metrics				
Price to earnings	35.3x	29.9x	25.4x	21.5x
Price to book value	4.1x	3.9x	3.6x	3.3x
Price to cash flow	20.7x	15.6x	13.1x	11.7x
FCF yield	1.9%	1.3%	1.4%	2.3%
Dividend yield	1.5%	1.8%	2.0%	2.4%
EV / EBITDA	18.0x	14.9x	13.3x	11.9x
EV / Invested capital	2.9x	2.8x	2.6x	2.5x
ROAIC	9.5%	11.3%	12.0%	12.8%
ROAE	12.5%	14.2%	15.6%	17.0%
KPIs				
Revenue growth (Y-o-Y)	18.1%	10.1%	9.0%	9.2%
EBITDA growth (Y-o-Y)	15.3%	20.8%	11.9%	12.5%
Gross profit margin	30.0%	31.5%	32.0%	32.7%
EBITDA margin	22.0%	24.2%	24.8%	25.6%
Net operating profit (EBIT) margin	13.0%	14.7%	15.2%	15.7%
Effective tax rate	3.8%	5.5%	5.6%	5.7%
Net Debt (Cash) / Equity	0.6x	0.6x	0.6x	0.5x
Net Debt (Cash) / EBITDA	2.3x	2.0x	1.9x	1.6x

Source: Almarai, EFG Hermes estimates

STOCK DATA

Closing Price	SAR64.8 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.00 / 12 Apr 2023
MKT. Cap / Shares (mn)	USD17,276 / 1,000
Av. Daily Liquidity (mn)	USD11.98
52-Week High / Low	SAR70.3 / SAR51.1
Bloomberg / Reuters	ALMARAI AB / 2280.SE
Est. Free Float	24.6%

Hatem Alaa, CFA

halaa@efg-hermes.com

Mirna Maher, CFA

mmaher@efg-hermes.com

BUSINESS DESCRIPTION

Founded in 1993, AlSaif Stores for Development and Investment Co. operates in the home appliances and kitchenware retail sector, where it operates 66 AlSaif Gallery-branded stores (as of 24 Aug 2023; 83% of 1H23 revenue) in 29 cities in KSA. It also has an online store targeting customers inside KSA and in GCC countries. Through its stores, the company aims to fulfill customer needs for home appliances, such as small home appliances, kitchenware, serve ware and other home appliances. To support its stores and supply them with products and merchandise, the company has two warehouses in Riyadh, with a total area of more than 35,000 sqm. AlSaif BoD recently approved a decision to expand the company's business in the UAE, Oman, Qatar, Kuwait, Bahrain and Egypt in Feb 2022, with two subsidiaries already established in the UAE and Kuwait.

INVESTMENT THESIS

The company is working on expanding its network of stores in KSA and abroad, as part of its continuous endeavour to serve the largest number of new and existing customers. Amongst the company's objectives is to expand by opening small branches in small cities and governorates that fit the size and needs of the target city. Also, the company's BoD approved a resolution to expand its business in the UAE, Oman, Qatar, Kuwait, Bahrain and Egypt. AlSaif started its regional expansion journey by opening two branches in Abu Dhabi in 1Q23, followed by another one in Kuwait in 2Q23. Meanwhile, the BoD initiated the process of applying for a micro-finance licence and establishing a consumer finance company. This comes as the company enters the large home appliances sector, for which consumer financing will be a growth driver for sales. The company's 1H23 earnings were down 11% Y-o-Y, on lower revenue and margins. The results were impacted positively by higher below-EBIT income, mainly on: i) higher other income (+73% Y-o-Y); ii) a gain on revaluation of financial assets of SAR0.5mn (vs loss of SAR1mn in 1H22); and iii) a 9% Y-o-Y decline in taxes (effective zakat rate of 4.6% vs 4.5% in 1H22). Revenue was down 2% Y-o-Y, mainly on lower retail revenue (-10% Y-o-Y, 83% of total), while e-commerce was up 12% Y-o-Y (12% of total) and wholesale +6.4x Y-o-Y (7%). Meanwhile, KSA revenue (94% of total) was down 7% Y-o-Y, while the company recorded revenues from its newly opened branches in the UAE (SAR19mn, 5% of total) and Kuwait (SAR3mn, 1%).

QUESTIONS

1. What was the reason for the decline in retail revenue in 1H23? Do you expect this trend to continue? What is your outlook for 2023 onwards, in terms of revenue and margins?
2. What are your planned store openings in 2023 and beyond? And what is the associated capex? How long does it take for stores to breakeven?
3. How have AlSaif's stores in Kuwait and the UAE been performing? Do you have plans to add more stores outside of KSA?
4. How is your e-commerce platform performing? What is the contribution to revenue? Are you seeing any changes in consumer behaviour?
5. Could you shed more light on plans to venture into micro-finance?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)a
Income Statement				
Revenue	797	825	739	732
EBITDA	245	206	146	128
Net operating profit (EBIT)	219	175	113	97
EBT	220	191	138	129
Net income	214	185	130	121
Balance Sheet				
Cash and cash equivalents	66	47	47	26
Current assets	319	347	362	364
Net fixed assets	223	264	289	334
Intangibles & others	-	-	2	1
Total assets	542	611	653	700
Current liabilities (Including debt)	103	115	121	121
Long-term liabilities (Including debt)	91	115	121	136
Total liabilities	194	230	241	258
Total net worth	348	381	411	442
Minority interest	-	-	-	-
Total equity & liabilities	542	611	653	700
Total net debt (cash)	65	128	84	94
Cash Flow Statement				
CF from operations	178	161	161	188
CF from investments	(22)	(12)	(21)	54
CF from finance & non operating CF	(235)	(168)	(140)	(221)
Per Share Numbers				
EPS (SAR)	0.61	0.53	0.37	0.35
DPS (SAR)	0.00	0.00	0.00	0.40
BVPS (SAR)	0.99	1.09	1.17	1.26
Valuation Metrics				
Price to earnings	13.8x	16.0x	17.1x	24.4x
Price to book value	8.5x	7.8x	7.2x	67.1x
FCF yield	5.3%	5.0%	4.9%	8.2%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EV / EBITDA	12.5x	14.8x	20.9x	23.9x
ROAIC	43.6%	32.2%	19.9%	16.0%
ROAE	63.2%	50.7%	32.8%	28.5%
KPIs				
Revenue growth (Y-o-Y)	21.7%	3.5%	-10.4%	-1.0%
EBITDA margin	30.7%	25.0%	19.8%	17.5%
Net operating profit (EBIT) margin	27.5%	21.1%	15.2%	13.3%
Effective tax rate	5.1%	6.8%	11.3%	0.0%
Net debt (cash) / equity	0.2x	0.3x	0.2x	0.2x
Net debt (cash) / EBITDA	0.3x	0.6x	0.6x	0.7x

Source: Alsaif Stores, Bloomberg

STOCK DATA

Closing Price	SAR8.47 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.1 / 03 Jul 2023
MKT. Cap / Shares (mn)	USD791 / 350
Av. Daily Liquidity (mn)	USD6.5
52-Week High / Low	SAR11.30 / SAR8.03
Bloomberg / Reuters	ALSAIF AB / 4192.SE
Est. Free Float	33.4%

Hatem Alaa, CFA
halaa@efg-hermes.com

Mirna Maher, CFA
mmaher@efg-hermes.com

INVESTMENT THESIS

Aramco is the largest oil producer in the world, contributing 13%+ of the world's oil supply, with c13mbbl+ of hydrocarbons being sold daily. It operates the largest onshore and offshore oil fields in the world and enjoys an unmatched reserve life of over 50 years, owing to its massive 257bn boe of hydrocarbon reserves (operated via a 60-year concession). The size, economies of scale and unique geology of the company's fields allow it to: i) extract oil at only USD3/bbl lifting cost and USD5/bbl capex costs, which is, by far, the lowest in the world; and ii) successfully and cheaply replace its reserves. We believe Aramco also has significant untapped potential, as the majority of its land bank remains unexplored. The ultra-low extraction cost allows Aramco to generate remarkably high returns and free cash flows, which are utilised in growth initiatives and paying sizable dividends to shareholders. The company's robust balance sheet, being in a net cash position, allows for flexibility to source funding without compromising its dividend plans. Aramco has committed to a minimum of USD78bn in dividends, along with performance-linked dividends for excess cash flow generated. We have a Neutral rating on Aramco.

VALUATION & RISKS

We value Aramco by estimating its net asset value (NAV) through to 2030 and then applying a growth annuity (e.g. fixed maturity not perpetual) to assess the remaining years, given that Aramco's concession/reserves stretch so far (2077-78e), which yields a TP of SAR30.5 (cUSD2trn). We utilise: i) a risk-free rate of 4%, based on Aramco's 10-year bond; ii) an equity risk premium of 5%, based on the equity implied risk premium for comparable peers; iii) post tax cost of debt of c1.5%; iv) normalised annuity growth of 2.5%; v) normalised sustaining capex of cUSD25bn/annum in the long term vs current sustaining capex of USD15bn (ex-SABIC). We think the key upside/downside risks lie in oil price movements, which we assume to be cUSD75-80/bbl across our forecasts. We assume crude production of c10mnbbl/d to increase to c12mnbbl/d towards end of decade, and any variation in production levels poses upside/downside risks to our estimates. Given past attacks on Aramco's facilities, there are potential security risks for the company.

QUESTIONS

1. What are ARAMCO's capex plans in relation to blue ammonia? Do they involve SABIC/SAFCO (SABIC Agri-Nutrients?) assets?
2. Could you update us on achieving the MSC 13 mbpd goal? Have you already identified all rigs and drillers needed for the MSC 13 mpbd target?
3. In light of the policies to relieve upstream excess cash via performance-linked dividends (PLD), are you planning to maintain a gearing of 5-15% through a cycle?
4. Which areas in downstream assets are you considering investing in to amplify returns and ensure placement of upstream volumes (refineries, oil-to-chemical, blue ammonia)?
5. Given the asset divestment in the past few years, are you considering further divestment of your portfolio? What other divestments are available in KSA?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	604	451	448	468
EBITDA	330	243	249	260
Net operating profit (EBIT)	305	219	223	233
Taxes or zakat	(146)	(106)	(102)	(107)
Minority interest	(2)	(3)	(6)	(6)
Net income	159	115	120	125
Balance Sheet				
Cash and cash equivalents	60	87	65	72
Total assets	665	656	654	682
Total liabilities	220	191	180	178
Total equity	444	465	473	504
Total net debt (cash)	(30)	(43)	(32)	(43)
Cash Flow Statement				
Cash operating profit after taxes	183	137	146	153
Change in working capital	(14)	14	0	(2)
CAPEX	(40)	(46)	(45)	(45)
Investments	(69)	33	0	0
Free cash flow	61	138	101	107
Net financing	(76)	(113)	(125)	(102)
Change in cash	(20)	26	(22)	7
Per Share Numbers				
EPS (USD)	0.66	0.47	0.50	0.52
DPS (USD)	0.31	0.44	0.49	0.39
BVPS (USD)	1.60	1.67	1.68	1.78
Valuation Metrics				
Price to earnings	14.0x	19.4x	18.5x	17.8x
Price to book value	5.8x	5.5x	5.5x	5.2x
Price to cash flow	12.1x	16.2x	15.2x	14.5x
FCF yield	5.9%	4.9%	4.7%	4.9%
Dividend yield	3.4%	4.8%	5.3%	4.2%
EV / EBITDA	6.7x	9.2x	8.9x	8.5x
EV / Invested capital	5.4x	5.3x	5.0x	4.8x
ROAIC	39.5%	27.0%	27.9%	28.0%
ROAE	37.4%	32.9%	33.1%	34.0%
KPIs				
Revenue growth (Y-o-Y)	50.9%	-25.5%	-0.6%	4.6%
EBITDA growth (Y-o-Y)	44.1%	-26.3%	2.3%	4.8%
Gross profit margin	54.2%	52.2%	53.5%	53.4%
EBITDA margin	54.5%	53.9%	55.5%	55.6%
Net operating profit (EBIT) margin	50.5%	48.6%	49.8%	49.8%
Effective tax rate	47.6%	47.3%	44.9%	45.1%
Net Debt (Cash) / Equity	(0.1)x	(0.1)x	(0.1)x	(0.1)x
Net Debt (Cash) / EBITDA	(0.1)x	(0.2)x	(0.1)x	(0.2)x

Source: Saudi Aramco, EFG Hermes estimates

STOCK DATA

Closing Price	SAR34.5 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.302 / 17 May 2023
MKT. Cap / Shares (mn)	USD2,222,617 / 242,000
Av. Daily Liquidity (mn)	USD93.18
52-Week High / Low	SAR35.0 / SAR27.5
Bloomberg / Reuters	ARAMCO AB / 2222.SE
Est. Free Float	1.7%

Ahmed Hazem Maher

ahmaher@efg-hermes.com

Yousef Husseini

yhusseini@efg-hermes.com

BUSINESS DESCRIPTION

Established in 1992, Ataa Educational is the largest K-12 education provider in Riyadh, with c45.2k students enrolled as of 9M22/23. Through several M&As, the company runs 21 schools, with a total capacity of 65k students, nine under the national curriculum (c51% of 9M22/23 revenue), six under the American and British curriculum (30%), one under the French curriculum (c2%) and three under the Indian curriculum (10%). Ataa also owns Al Faisal Training Co. (c6%) and Creative Recruitment Co. (c1.2%), following the acquisition of Arabian Education and Training Group, which also added six schools to the company's portfolio. Some of the company's schools are under Tadarruj (gov't programme introduced in 2017 requiring schools to transfer their premises from rented ones not designed for educational purposes to locations that meet specific education buildings' criteria). Middle East International School is the largest one under Tadarruj and was moved to a new building (capacity 3.6k vs old campus c2k). Another school is Riyadh-based Al-Elm International School, which was moved from Al Sulaymaniyah district to a new educational complex in Al Wurud district as of 2022/23. Meanwhile, the company plans for the Al-Fikr and Al Wasat schools to be relocated by AY24/25.

INVESTMENT THESIS

Over the past 10 years, Ataa has outperformed the market, in terms of the number of students enrolled in private schools, supported by a strong track record of acquisitions. It has strategically focused its operations in Riyadh, as it represents the largest education market in Saudi Arabia. Ataa is planning to continue expanding, with a target to reach 66k enrolled students through organic and inorganic growth. In 2021, Ataa purchased 52% of Al Wasat National Schools in exchange for a land plot and completed the full acquisition of Al Elm International Schools for SAR40mn, and Arabian Education and Training Group for SAR138mn. In 2022, it also acquired 100% of Naba'a Educational Company, through its fully owned subsidiary, Arabian Education and Training. New shares were issued in the company to the selling shareholders of Naba'a, as Ataa increased its capital from SAR400mn to SAR420.9mn. Key risks include margin pressure from staff cost inflation and/or impact of the Saudisation requirements and potential closure of schools undergoing Tadarruj, if they do not meet the required standards.

QUESTIONS

1. Have you implemented any tuition fee increases this year? Could a potential price increase be rolled out across your schools next year?

2. How many students have enrolled for AY23/24? What is your guidance on student enrolment numbers for the coming academic years? What is your capacity utilisation across your existing campuses, and what is your ideal utilisation rate?

3. What is your outlook on margins going forward? Have you implemented any salary increases for teachers this year? What is the current Saudisation rate? Could you explain the current Hadaf programme for teachers?

4. How are the recently acquired schools performing (Arabian Education, Al Wasat National Schools, Al Elm International Schools, and Naba'a Educational Co)? How much capacity have they added? Do you have any other acquisition plans? Are you planning to expand organically? What is your strategy for the training and recruitment business?

5. How many schools are currently under Tadarruj? What is the transition plan and timeline for them? What is the estimated capex for these projects? Is Ataa planning to take on additional debt?

DATA MINER

(Jul Year End) In SARmn, unless otherwise stated	2021a	2022a	2023a	9M2024a (TTM)a
Income Statement				
Revenue	336	280	577	655
EBITDA	142	99	188	173
Net operating profit (EBIT)	99	50	103	82
EBT	78	37	76	50
Net income	76	36	71	41
Balance Sheet				
Cash and cash equivalents	2	7	49	18
Current assets	95	92	204	186
Net fixed assets	759	790	1,302	1,319
Intangibles & others	415	461	622	639
Total assets	1,269	1,344	2,128	2,143
Current liabilities (Including debt)	185	82	256	321
Long-term liabilities (Including debt)	335	508	933	878
Total liabilities	520	590	1,189	1,200
Total net worth	749	743	860	859
Minority interest	-	11	79	85
Total equity & liabilities	1,269	1,344	2,128	2,143
Total net debt (cash)	436	519	1,000	1,008
Cash Flow Statement				
CF from operations	105	90	154	207
CF from investments	(15)	(48)	(241)	(151)
CF from finance & non operating CF	(95)	(37)	128	(70)
Per Share Numbers				
EPS (SAR)	1.89	0.88	1.76	0.96
DPS (SAR)	1.00	1.00	1.00	N/A
BVPS (SAR)	18.73	18.58	20.43	20.41
Valuation Metrics				
Price to earnings	39.9x	85.8x	42.9x	78.5x
Price to book value	4.0x	4.1x	3.7x	3.7x
FCF yield	3.0%	2.7%	3.6%	5.3%
Dividend yield	1.3%	1.3%	1.3%	0.0%
EV / EBITDA	30.0x	43.3x	22.8x	24.7x
ROAIC	9.4%	4.0%	6.3%	4.2%
ROAE	10.1%	4.8%	8.8%	4.7%
KPIs				
Revenue growth (Y-o-Y)	0.0%	-16.7%	106.0%	30.2%
EBITDA margin	42.3%	35.2%	32.5%	26.4%
Net operating profit (EBIT) margin	29.6%	17.9%	17.9%	12.6%
Effective tax rate	4.7%	5.9%	4.0%	0.0%
Net debt (cash) / equity	0.6x	0.7x	1.1x	1.1x
Net debt (cash) / EBITDA	3.1x	5.3x	5.3x	5.8x

Source: Ataa Educational Co, Bloomberg

STOCK DATA

Closing Price	SAR75.50 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.00 / 19 Jan 2023
MKT. Cap / Shares (mn)	USD847 / 42
Av. Daily Liquidity (mn)	USD1.8
52-Week High / Low	SAR80.40 / SAR51.00
Bloomberg / Reuters	ATAA AB / 4292.SE
Est. Free Float	48.6%

Hatem Alaa, CFA
halaa@efg-hermes.com

Mirna Maher, CFA
mmaher@efg-hermes.com

INVESTMENT THESIS

Riyadh-based Bank Albilad (Bilad) is an Islamic bank, with 109 branches and a loan market share of 4%. For its size, one of the smaller banks in the Kingdom, it has a very strong position in remittances as it has the second largest network of remittance centres, with 152 outlets. Bilad is making an effort to diversify its revenue mix and, over the past five years, it has successfully reduced its dependence on income from remittances. Its business is organised around four main segments – retail (61% of revenue), corporate (28%), treasury, and investment bank (11%). Bilad's loan book is balanced between corporate and retail. In corporate its key sector concentration is in real estate and rental (18% of loans) and industrial (7% of loans). Following five years of above average loan growth, mgmt.'s focus is shifting towards generating non-interest income.

VALUATION & RISKS

Our TP is based on a residual income model. In this approach, we value the bank using a combination of the book and present values of the residual income: the amount by which 2023-27e profit is expected to exceed the required cost of equity. We use a discount rate of 9.5% (RFR: 4.5 and ERP: 5%) and a terminal growth rate of 3.0% for the terminal value. The key upside risk to our rating is stronger-than-expected non-interest income as mgmt. is prioritising this over loan growth. Earnings could also surprise on higher-than-expected NIMs if liquidity in the system improves materially.

QUESTIONS

1. Rising interest rates are negative for Bilad's NIM in the ST. What are you doing to offset the negative ST effect from rising rates?
2. Your loan growth outlook for 2023 is strong at 15-16%. What segments do you expect will drive this growth?
3. How comfortable are you with your liquidity and capital positions and your ability to continue delivering strong loan growth?
4. How is your remittances business (Enjaz) faring against competition? What initiatives have you introduced to transform Enjaz?
5. Your cost-to-income ratio has improved to 43% in 1H23, from 45% last year. Should we expect any further improvement in your cost-to-income ratio? If so, do you expect it to be driven by lower opex?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Net interest income	3,887	4,648	5,130	5,653
Non interest income	1,305	1,263	1,328	1,398
Total banking income	5,191	5,911	6,458	7,051
Operating expenses	(2,320)	(2,442)	(2,589)	(2,744)
Operating income	2,871	3,468	3,869	4,307
Total provisions	(551)	(720)	(785)	(855)
Other income / (expense)	0	0	0	0
Income before taxes or zakat	2,321	2,748	3,084	3,452
Taxes or zakat	(239)	(283)	(318)	(355)
Minorities & other items	0	0	0	0
Net income	2,082	2,465	2,767	3,096
Balance Sheet				
Customer loans	91,179	104,490	114,061	124,494
Total interest earning assets	126,557	141,465	155,753	171,499
Risk-weighted assets	99,117	111,268	122,367	134,597
Total assets	129,543	144,290	158,683	174,543
Customer deposits	94,843	106,174	116,791	128,470
Total interest bearing liabilities	108,505	120,248	131,878	144,661
Common shareholders' equity	12,899	15,857	17,793	19,961
Per Share Numbers				
EPS (SAR)	2.08	2.47	2.77	3.10
DPS (SAR)	0.50	0.740	0.830	0.929
BVPS (SAR)	12.9	15.86	17.79	19.96
Valuation Metrics				
Price to earnings	20.6x	17.4x	15.5x	13.8x
Price to pre-provision earnings	14.9x	12.3x	11.1x	9.9x
Price to book value	3.3x	2.7x	2.4x	2.1x
Price to book value (tangible)	3.3x	2.7x	2.4x	2.1x
Dividend yield	1.2%	1.7%	1.9%	2.2%
ROAA	1.7%	1.8%	1.8%	1.9%
ROAE	18.6%	16.4%	16.4%	16.4%
ROAE (tangible)	18.6%	16.4%	16.4%	16.4%
Leverage (Assets / Equity)	10.7x	9.2x	9.0x	8.8x
KPIs				
Loan growth (Y-o-Y)	9.9%	9.2%	9.2%	9.1%
Loans / Deposits	96.1%	98.4%	97.7%	96.9%
Banking income growth (Y-o-Y)	13.2%	12.0%	9.3%	9.2%
Operating income growth (Y-o-Y)	17.2%	17.6%	11.6%	11.3%
Earnings growth (Y-o-Y)	23.4%	14.6%	12.2%	11.9%
Net interest spread	3.16%	3.30%	3.30%	3.30%
Non-interest income / Banking inc.	25.1%	21.4%	20.6%	19.8%
Cost-to-income	44.7%	41.3%	40.1%	38.9%
NPL ratio	1.3%	1.3%	1.3%	1.3%
NPL coverage	228.3%	207.2%	195.7%	185.3%
Cost of risk (bps)	61.3	70.0	70.0	70.0
Tier 1 ratio	13.6%	14.3%	14.6%	14.9%
Capital adequacy ratio	17.7%	18.1%	18.1%	18.2%

Source: Bank Albilad, EFG Hermes estimates

STOCK DATA

Closing Price	SAR42.8 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.500 / 26 Apr 2020
MKT. Cap / Shares (mn)	USD11,410 / 1,000.0
Av. Daily Liquidity (mn)	USD7.79
52-Week High / Low	SAR53.5 / SAR35.6
Bloomberg / Reuters	ALBI AB / 1140.SE
Est. Free Float	53.9%

Shabbir Malik
smalik@efg-hermes.com

Omnia Kadry
okadry@efg-hermes.com

INVESTMENT THESIS

Jeddah based Bank Al Jazira (BJAZ) is one of the smallest banks in the Kingdom, with a market share of c3% across key balance sheet metrics. It operates in the Kingdom through its 79 branches. BJAZ's subsidiary - Al Jazira Capital – is one of the largest brokers in Saudi Arabia. The bank's loan book is balanced evenly between retail and corporate. Its CASA composition is, however, relatively low, which contributes to the bank's relatively high cost of funds. BJAZ recapitalised in 2Q18 by completing a SAR3bn rights issue. It further reinforced it by issuing a tier 1 sukuk. It is now one of the most well-capitalised banks in the sector. The mgmt.'s strategic priorities are to focus on affluent and above sub-segment in retail, mid-market corporates, and sharpen its focus on private banking. Its cost-to-income ratio is high and we see scope for improvement as the bank is investing in digital.

VALUATION & RISKS

Our target price is based on a residual income model. In this approach, we value the bank using a combination of the book and present values of the residual income: the amount by which 2023-27e profit is expected to exceed the required cost of equity. We use a discount rate of 9.5% for Aljazira and a terminal growth rate of 3.0% for the terminal value. The key upside is improved credit quality metrics while the key downside is relatively weak loan growth

QUESTIONS

1. BJAZ is eyeing a double-digit ROE over the MT. In 1H23, it was 7%, so what will drive it upwards going forward?

2. What is your outlook on NIMs for 2023? What was the reported NIM in 1H23? Why have you been negatively impacted by rising rates? Would lower rates be beneficial for your NIM?

3. Your loan growth outlook is strong at 15-18% for 2023, especially considering YTD loan growth of just 6%. What segments do you expect will drive this growth?

4. You expect a cost of risk of 30bps in 2023 (1H23: 30bps). What is driving your expectation? What should we assume is a normalised cost of risk?

5. What are your main sources of non-interest income? What are you doing to improve non-interest income contribution to revenue?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Net interest income	2,607	2,864	3,116	3,393
Non interest income	888	1,078	1,138	1,201
Total banking income	3,495	3,943	4,254	4,594
Operating expenses	(1,919)	(2,082)	(2,166)	(2,252)
Operating income	1,576	1,860	2,088	2,342
Total provisions	(286)	(531)	(584)	(642)
Other income / (expense)	7	19	20	21
Income before taxes or zakat	1,297	1,348	1,524	1,720
Taxes or zakat	(188)	(171)	(195)	(221)
Minorities & other items	(77)	(74)	(74)	(74)
Net income	1,032	1,103	1,255	1,425
Balance Sheet				
Customer loans	70,599	76,292	83,867	92,200
Total interest earning assets	113,493	117,316	128,014	139,803
Risk-weighted assets	83,739	81,885	89,329	97,533
Total assets	116,177	120,730	131,707	143,803
Customer deposits	86,023	93,098	102,408	112,648
Total interest bearing liabilities	100,142	102,708	112,779	123,857
Common shareholders' equity	11,734	12,972	13,537	14,178
Per Share Numbers				
EPS (SAR)	1.26	1.35	1.53	1.74
DPS (SAR)	0.40	0.74	0.84	0.96
BVPS (SAR)	16.6	18.1	18.8	19.6
Valuation Metrics				
Price to earnings	14.2x	13.2x	11.6x	10.3x
Price to pre-provision earnings	9.3x	7.9x	7.0x	6.2x
Price to book value	1.1x	1.0x	0.9x	0.9x
Price to book value (tangible)	1.1x	1.0x	0.9x	0.9x
Dividend yield	2.2%	4.2%	4.7%	5.4%
ROAA	0.9%	1.0%	1.0%	1.0%
ROAE	8.7%	8.7%	9.5%	10.3%
ROAE (tangible)	8.7%	8.7%	9.5%	10.3%
Leverage (Assets / Equity)	9.2x	9.1x	9.5x	9.9x
KPIs				
Loan growth (Y-o-Y)	13.1%	9.9%	9.9%	9.9%
Loans / Deposits	82.1%	81.9%	81.9%	81.8%
Banking income growth (Y-o-Y)	-1.5%	10.9%	7.9%	8.0%
Operating income growth (Y-o-Y)	-11.3%	17.1%	12.2%	12.2%
Earnings growth (Y-o-Y)	2.6%	9.0%	13.8%	13.5%
Net interest spread	2.27%	2.40%	2.40%	2.40%
Non-interest income / Banking inc.	25.4%	27.3%	26.8%	26.1%
Cost-to-income	54.9%	52.8%	50.9%	49.0%
NPL ratio	1.7%	2.1%	2.1%	2.1%
NPL coverage	219.1%	187.8%	190.7%	193.3%
Cost of risk (bps)	41.4	70.0	70.0	70.0
Tier 1 ratio	14.4%	18.1%	17.3%	16.5%
Capital adequacy ratio	17.5%	21.2%	20.1%	19.1%

Source: Bank Aljazira, EFG Hermes estimates

STOCK DATA

Closing Price	SAR17.8 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.350 / 13 Feb 2022
MKT. Cap / Shares (mn)	USD3,896 / 820.0
Av. Daily Liquidity (mn)	USD22.06
52-Week High / Low	SAR24.9 / SAR17.0
Bloomberg / Reuters	BJAZ AB / 1020.SE
Est. Free Float	89.4%

Shabbir Malik

smalik@efg-hermes.com

Omnia Kadry

okadry@efg-hermes.com

INVESTMENT THESIS

BSF is a corporate-focused bank that operates in Saudi Arabia through its 82 branches and 460 ATMs. Its key shareholders include Kingdom Holdings, an investment conglomerate chaired by Prince Al Waleed bin Talal. It has a market share of c7% across key balance sheet items. It is a corporate-focused bank, with corporate making up 80% of loans, and one of the strongest banks in project financing in the Kingdom, which we believe positions it well to capture the corporate lending opportunity in Saudi Arabia. The bank has historically used cash flow hedges to manage interest rate risk, a policy that was put in place by erstwhile shareholder Credit Agricole. BSF's approach towards hedging has become more dynamic, and we view it better placed vs. other corporate banks in a lower rates environment.

VALUATION & RISKS

Our target price is based on a residual income model. In this approach, we value the bank using a combination of the book and present values of the residual income: the amount by which 2023-27e profit is expected to exceed the required cost of equity. We use a discount rate of 9.75% for BSF and a terminal growth rate of 4.0% for the terminal value. The key downside risk is lower-than-expected NIM due to higher-than-expected cost of funds. Our expectation of lower provisioning may also not materialise.

QUESTIONS

1. BSF has undergone changes at the senior mgmt. and board levels. Can we now expect a period of stability?
2. You kept your 2023 loan growth guidance unchanged in 2Q23 at high-single digits. This is slightly low relative to other corporate banks. What are your concerns?
3. You upgraded your NIM guidance to 3.30-3.50% from 3.45-3.55% for 2023. This is still below your 1H23 NIM of 3.6%. Why do you expect your NIM to be lower for the full year?
4. How comfortable are you with your capacity to lend, given your liquidity (LDR: 105%) and capitalisation (T1: 19%)?
5. You raised your 2023 cost of risk guidance to 85-95bps, from 70-80bps. This is after your 1H23 cost of risk at 107bps was high, relative to the sector's. Why has provisioning remained elevated? What do you think should be a normalised provisioning level?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Net interest income	6,427	7,696	8,141	8,554
Non interest income	1,591	1,600	1,742	1,867
Total banking income	8,017	9,296	9,884	10,421
Operating expenses	(2,654)	(2,972)	(3,121)	(3,277)
Operating income	5,364	6,324	6,763	7,144
Total provisions	(1,360)	(1,357)	(1,332)	(1,452)
Other income / (expense)	0	0	0	0
Income before taxes or zakat	4,004	4,967	5,431	5,693
Taxes or zakat	(429)	(571)	(625)	(655)
Minorities & other items	(225)	(225)	(225)	(225)
Net income	3,350	4,171	4,582	4,813
Balance Sheet				
Customer loans	159,012	176,327	192,154	209,405
Total interest earning assets	219,650	242,845	264,678	288,535
Risk-weighted assets	214,672	237,453	258,869	282,276
Total assets	232,078	256,706	279,858	305,162
Customer deposits	157,592	176,503	194,154	213,569
Total interest bearing liabilities	178,878	199,802	219,330	240,812
Common shareholders' equity	32,666	34,370	36,243	38,210
Per Share Numbers				
EPS (SAR)	2.78	3.46	3.80	3.99
DPS (SAR)	1.64	2.05	2.25	2.36
BVPS (SAR)	27.3	28.8	30.3	32.0
BVPS (tangible) (SAR)	27.3	28.8	30.3	32.0
Valuation Metrics				
Price to earnings	13.9x	11.2x	10.2x	9.7x
Price to pre-provision earnings	8.7x	7.4x	6.9x	6.5x
Price to book value	1.4x	1.3x	1.3x	1.2x
Price to book value (tangible)	1.4x	1.3x	1.3x	1.2x
Dividend yield	4.3%	5.3%	5.8%	6.1%
ROAA	1.5%	1.7%	1.7%	1.6%
ROAE	10.1%	12.4%	13.0%	12.9%
ROAE (tangible)	10.1%	12.4%	13.0%	12.9%
Leverage (Assets / Equity)	6.8x	7.3x	7.6x	7.9x
KPIs				
Loan growth (Y-o-Y)	7.6%	10.9%	9.0%	9.0%
Loans / Deposits	100.9%	99.9%	99.0%	98.1%
Banking income growth (Y-o-Y)	12.5%	16.0%	6.3%	5.4%
Operating income growth (Y-o-Y)	14.6%	17.9%	6.9%	5.6%
Earnings growth (Y-o-Y)	3.2%	24.5%	9.8%	5.0%
Net interest spread	2.80%	2.88%	2.86%	2.84%
Non-interest income / Banking inc.	19.8%	17.2%	17.6%	17.9%
Cost-to-income	33.1%	32.0%	31.6%	31.4%
NPL ratio	2.5%	2.6%	2.6%	2.6%
NPL coverage	119.9%	121.0%	121.8%	122.6%
Cost of risk (bps)	86.2	83.0	70.0	70.0
Tier 1 ratio	18.9%	17.8%	17.1%	16.3%
Capital adequacy ratio	19.9%	18.8%	18.1%	17.4%

Source: Banque Saudi Fransi, EFG Hermes estimates

STOCK DATA

Closing Price	SAR38.6 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.900 / 25 May 2023
MKT. Cap / Shares (mn)	USD12,404 / 1,205
Av. Daily Liquidity (mn)	USD5.52
52-Week High / Low	SAR50.4 / SAR32.7
Bloomberg / Reuters	BSFR AB / 1050.SE
Est. Free Float	52.4%

Shabbir Malik
smalik@efg-hermes.com

Omnia Kadry
okadry@efg-hermes.com

BUSINESS DESCRIPTION

Bawan is an industrial group that manufactures building materials, including metal (steel rebar, steel reinforcement, steel doors), wood (packaging materials and decorative wood), electrical components (transformers, substations and switchgears), concrete (pre-cast and ready-mix) and plastic (packaging). The company has a diverse and strong customer base, with SABIC, Aramco, Saudi Electrical Company (SEC) and Almarai as its main clients. Bawan operates 16 plants across Saudi Arabia, the UAE and Kuwait. As of 1H23, metal and wood accounted for 65% of the company's total sales, electricity 22%, plastic 10% and concrete 3%. Demand for Bawan's products is driven primarily by construction activities and government spending on infrastructure, which are segments that have been under pressure over the past couple of years. However, with opportunistic capacity utilisation and cost rationalisation efforts, the company has been able to maintain its market share and mitigate the weak market conditions.

INVESTMENT THESIS

Bawan's earnings have improved over the past two years, despite the recent challenges facing the construction sector in KSA, thanks to its diverse product portfolio and cost rationalisation strategies. However, in 1H23, the high interest rate and seasonality dragged the company's earnings after minority down by c37% Y-o-Y to SAR59.5mn on the back of a: i) 6% Y-o-Y drop in metal and wood revenue; ii) 6% Y-o-Y decline in plastic sales; and iii) 9% Y-o-Y decline in concrete segment revenue. The electrical segment stands out with 17% Y-o-Y growth in 1H23. Bawan continues to seek investment opportunities in Saudi Arabia and internationally to expand its presence and customer base.

QUESTIONS

1. What is Bawan's overall demand outlook across its main business segments for 2H23 and FY24? Which construction segment (housing or infrastructure / megaprojects), in your view, could potentially recover the fastest?
2. Are you expecting any feedstock (natural gas/HFO/electricity) price increases? Which segment would be impacted the most by feedstock price changes, if any?
3. We have seen growth in your electrical segment over the past quarters. Was this due to better product pricing, and how sustainable is this? What are your future plans to optimise this segment's earnings?
4. What are your capex plans (growth/maintenance) for 2023 and beyond? How comfortable are you with your current cash conversion cycle and any deleveraging plans?
5. Could you shed some light on your concrete division, especially as the segment is still loss-making? Do you expect any meaningful turnaround over the medium term? Could you update us on prices and competition in the market?

DATA MINER

(Dec Year End) In SAR mn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)
Income Statement				
Revenue	2,418	2,423	3,632	3,545
EBITDA	134	238	308	285
Net operating profit (EBIT)	62	160	231	204
EBT	109	191	199	163
Net income	20	170	163	128
Balance Sheet				
Cash and cash equivalents	47	40	38	58
Current assets	1,461	1,461	1,528	1,625
Net fixed assets	751	728	744	666
Intangibles & others	16	13	10	8
Total assets	2,228	2,203	2,283	2,299
Current liabilities (Including debt)	1,230	1,229	1,168	1,184
Long-term liabilities (Including debt)	243	183	186	164
Total liabilities	1,473	1,413	1,353	1,348
Total net worth	693	740	863	884
Minority interest	63	50	66	67
Total equity & liabilities	2,228	2,203	2,283	2,299
Total net debt (cash)	725	678	582	392
Cash Flow Statement				
CF from operations	208	143	300	384
CF from investments	(22)	7	(92)	(82)
CF from finance & non operating CF	(180)	(160)	(210)	(290)
Per Share Numbers				
EPS (SAR)	1.50	2.84	2.71	2.13
DPS (SAR)	1.00	1.35	1.50	1.50
BVPS (SAR)	11.54	12.33	14.39	14.73
Valuation Metrics				
Price to earnings	23.4x	12.4x	13.0x	15.9x
Price to book value	3.0x	2.8x	2.4x	2.4x
FCF yield	7.4%	4.5%	10.3%	14.0%
Dividend yield	2.8%	3.8%	4.3%	4.3%
EV / EBITDA	19.1x	10.8x	8.3x	9.0x
ROAIC	8.1%	12.8%	14.0%	13.5%
ROAE	12.4%	22.0%	18.9%	13.6%
KPIs				
Revenue growth (Y-o-Y)	8.2%	33.5%	12.5%	6.6%
EBITDA growth (Y-o-Y)	5.5%	9.8%	8.5%	8.0%
Net operating profit (EBIT) margin	2.6%	6.6%	6.3%	5.7%
Effective tax rate	-29.4%	-20.0%	-21.1%	-8.3%
Net debt (cash) / equity	1.0x	0.9x	0.6x	0.4x
Net debt (cash) / EBITDA	5.4x	2.8x	1.9x	1.4x

Source: Bawan Company, Bloomberg

STOCK DATA

Closing Price	SAR35.1 as of 03 Sep 2023
Last Div. / Ex. Date	N/A / N/A
MKT. Cap / Shares (mn)	SAR2,106 / 60
Av. Daily Liquidity (mn)	USD4.5
52-Week High / Low	SAR39.85 / SAR26.40
Bloomberg / Reuters	BAWAN AB / 1302.SE
Est. Free Float	76.1%

Sameer Kattiparambil
skattiparambil@efg-hermes.com

Dina Hicham
dhicham@efg-hermes.com

INVESTMENT THESIS

Budget Saudi is the largest car rental and leasing company in KSA's fragmented market, operating under franchise from global brand 'Budget'. Founded in 1978, it operates 91 rental offices and a fleet of c32.8k cars (2022). It offers: i) ST car rentals for up to one month (c25% of 2022 revenue, c32% of fleet); ii) LT car rentals (c20%, c33%) usually for 24-48 months, geared to corporate clients; iii) truck LT rentals via subsidiary Rahal (launched in 2012, c29%, c35%); and iv) used-car sales (c5.9k cars, c26% of 2022 revenue, gains on used vehicles c30% of earnings). It also added the 'Payless' brand by Avis to its portfolio to tap into the fragmented value segment and has been ramping up its lower-price-point fleet from early 2017. LT rentals (including trucking) have benefitted from corporate clients opting to outsource their fleets, and the used-car segment has been doing well since 2020, on supply shortages and the VAT increase. The company also has a solid profitability profile and balance sheet (net debt/equity: 0.3x) for a car-rental business, and has been able to maintain a DPO of c50%+ on avg. We have a Buy rating on Budget Saudi, on valuation grounds, and as we expect a 2023-27e earnings CAGR of 10%, with +20% in 2023e alone, driven by continued ST rentals recovery and reaping benefits of the aggressive fleet expansion in 2022 (+26%).

VALUATION & RISKS

We value Budget Saudi using a discounted cash flow (DCF) methodology, yielding a target price of SAR88.0. Upside risks include: i) stronger-than-expected consolidation benefits in ST rental market; ii) higher fleet additions; iii) expansion in vehicle yields, on improved pricing and consumer preferences; iv) accelerated ramp-up of the trucking business; v) better cash margins, on growing scale, mix, etc.; vi) lower vehicle depreciation (largest cost item); vii) higher gain on sale of used cars (with launch of more owned showrooms, and if new car supply shortages persist); viii) value-accretive acquisitions and/or geographic expansions (to buy 70% of Overseas Development Holding that offers logistics and freight services in KSA, UAE and Kuwait); ix) strong take-off of the 'Payless' brand; and x) favourable regulatory changes (such as allowing ride hailing companies to lease vehicles). Downside risks include: i) rental yield dilution, on increased competition and shift in mix to cheaper cars; ii) lower tourism and demand by corporates and government entities; iii) weaker margins, on declining short-term rentals business (high margin), etc.; iv) adverse FX movements and vehicle shortages, leading to higher-than-expected vehicle capex and depreciation; v) slowdown in the used car market; and vi) labour cost pressures.

QUESTIONS

1. What drove the strong growth in Budget's ST rental revenue in 1H23, and what do you see as a sustainable growth level going forward? What is your utilisation rate? What is your outlook for fleet growth and yields by segment? Have you passed on higher vehicle purchase prices to customers in the ST car rental and LT leasing segments?
2. How is the competitive environment faring? What segments are you targeting in your leasing business?
3. How sustainable is the current strong demand and pricing for used cars? What do you see as a normalised growth level going forward? Do you expect used car sales to continue to grow as consumers shift to cheaper options?
4. How do you expect margins to perform over the coming 12-18 months? How will the revenue mix (contribution from short-term, long-term and used-car sales segments) affect margins? What is your expected gross margin on used cars following the change in your depreciation policy?
5. What is your capex guidance? Given the improvement in balance sheet liquidity, what is your outlook on dividends?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	1,025	1,213	1,299	1,375
EBITDA	500	617	665	705
Net operating profit (EBIT)	237	307	336	359
Taxes or zakat	(7)	(8)	(8)	(9)
Minority interest	0	0	0	0
Net income	252	301	329	354
Balance Sheet				
Cash and cash equivalents	21	31	34	40
Total assets	2,520	2,817	2,993	3,166
Total liabilities	902	1,051	1,062	1,054
Total equity	1,618	1,766	1,932	2,112
Total net debt (cash)	423	573	557	517
Cash Flow Statement				
Cash operating profit after taxes	253	326	354	375
Change in working capital	11	(7)	(5)	(5)
CAPEX	(11)	(32)	(13)	(13)
Investments	(2)	0	0	0
Free cash flow	251	287	336	357
Net financing	212	(51)	(202)	(231)
Change in cash	(83)	10	2	6
Per Share Numbers				
EPS (SAR)	3.54	4.23	4.62	4.98
DPS (SAR)	2.00	2.15	2.30	2.45
BVPS (SAR)	22.7	24.8	27.1	29.7
Valuation Metrics				
Price to earnings	20.2x	16.9x	15.5x	14.4x
Price to book value	3.1x	2.9x	2.6x	2.4x
Price to cash flow	20.1x	15.6x	14.4x	13.6x
FCF yield	4.8%	5.1%	6.0%	6.5%
Dividend yield	2.8%	3.0%	3.2%	3.4%
EV / EBITDA	11.2x	9.1x	8.4x	7.9x
EV / Invested capital	2.7x	2.4x	2.2x	2.1x
ROAIC	12.8%	13.5%	13.4%	13.5%
ROAE	16.2%	17.9%	17.8%	17.6%
KPIs				
Revenue growth (Y-o-Y)	3.7%	18.3%	7.1%	5.8%
EBITDA growth (Y-o-Y)	15.3%	23.4%	7.7%	6.0%
Gross profit margin	36.6%	38.0%	38.4%	38.5%
EBITDA margin	48.8%	50.9%	51.2%	51.3%
Net operating profit (EBIT) margin	23.1%	25.3%	25.9%	26.1%
Effective tax rate	2.7%	2.5%	2.5%	2.5%
Net Debt (Cash) / Equity	0.3x	0.3x	0.3x	0.2x
Net Debt (Cash) / EBITDA	0.8x	0.9x	0.8x	0.7x

Source: Budget Saudi, EFG Hermes estimates

STOCK DATA

Closing Price	SAR71.5 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.50 / 16 Apr 2023
MKT. Cap / Shares (mn)	USD1,357 / 71.2
Av. Daily Liquidity (mn)	USD6.38
52-Week High / Low	SAR79.5 / SAR43.5
Bloomberg / Reuters	BUDGET AB / 4260.SE
Est. Free Float	100.0%

Hatem Alaa, CFA
halaa@efg-hermes.com

Mirna Maher, CFA
mmaher@efg-hermes.com

INVESTMENT THESIS

Bupa Arabia (Bupa) is a mono-line insurer and is the largest health insurance company in Saudi Arabia with a 45% medical market share and a 30% overall market share. The insurer's unmatched scale and consistent focus on resilient profitability are its key strengths. Bupa's size allows it to enjoy economies of scale and its expense ratio is one of the lowest in the sector. Looking ahead, we expect strong GWP growth to sustain driven by pricing increases to factor in regulatory-induced inflation (new table of benefits, Article 11, and nphies) and elevated utilisation post COVID. However, unceasing claim escalation since 2021, with double-digit growth in claims, dims loss ratio outlook.

VALUATION & RISKS

We have a TP of SAR130 for Bupa. We value Bupa using a residual income model, using a discount rate of 10.4% and a terminal growth rate of 5.0%. We use a risk free rate of 4.4% and an equity risk premium of 6.0%. Bupa's stock price has strong re-rated since 2022 on the back of speculation on vertical integration and a potential TPA role with MOH. We see its current valuation unjustified in light of its earnings outlook and have a Sell rating on Bupa. The key upside risks to our call are i) earlier-than-expected entry into the provision business, ii) lower-than-expected loss ratio on weaker-than-expected claim escalation, and iii) stronger investment returns.

QUESTIONS

1. Could you update us on the potential entry of Bupa into the provision business post removal of Article 117?
2. Medical inflation has decelerated since June. What is your view on claim escalation over the next 12 months? Will you continue to increase medical rates?
3. Insured lives growth has been a major driver of medical GWP for the sector, fueled by employment. Do you expect insured population growth to continue at the same rate? When do you expect to see some stabilisation in employment trends?
4. Investment income has strengthened, fueled by higher SAIBOR rates. What is your view on investment yields in 2H23 and 2024? Are you planning any changes to your asset allocation?
5. Do you expect to see consolidation within the KSA insurance sector in the near term, given the pressure on smaller peers' profitability and rising regulatory requirements?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Gross written premium	13,897	16,954	19,497	22,032
Net written premium	13,803	16,839	19,365	21,883
Net earned premium	12,837	15,759	18,356	20,877
Net claims incurred	(10,925)	(13,380)	(15,492)	(17,536)
Underwriting expenses	(1,381)	(1,702)	(1,964)	(2,213)
Underwriting result	531	678	899	1,127
Investment income	553	427	523	623
Reinsurance & other ins. income	0	0	0	0
Insurance profit	1,084	1,104	1,422	1,750
Income before tax and minorities	1,027	1,008	1,290	1,581
Net income	863	845	1,093	1,345
Balance Sheet				
Cash and investments	11,071	13,965	16,712	19,812
Insurance and other receivables	2,159	2,391	2,750	3,108
Total assets	14,310	17,546	20,765	24,333
Technical reserves	8,211	10,810	13,020	15,391
Total liabilities	10,017	12,722	15,136	17,746
Minority interest	0	0	0	0
Shareholders' equity	4,294	4,824	5,629	6,586
Per Share Numbers				
EPS (SAR)	5.75	5.63	7.29	8.96
DPS (SAR)	3.60	3.38	4.37	5.38
BVPS (SAR)	28.6	32.2	37.5	43.9
BVPS (tangible) (SAR)	27.5	31.1	36.4	42.8
Valuation Metrics				
P/E	36.5x	37.3x	28.8x	23.4x
P/ BV	7.3x	6.5x	5.6x	4.8x
P/BV (ex-goodwill)	7.6x	6.8x	5.8x	4.9x
Dividend yield	1.7%	1.6%	2.1%	2.6%
Dividend payout	63%	60%	60%	60%
ROAA	6.5%	5.3%	5.7%	6.0%
ROAE	20.3%	18.5%	20.9%	22.0%
ROAE (ex-goodwill)	21.1%	19.2%	21.6%	22.6%
Gearing (assets / equity)	3.1x	3.5x	3.7x	3.7x
KPIs				
Claims ratio	85.1%	84.9%	84.4%	84.0%
Expense ratio	11.1%	11.1%	11.0%	10.9%
Combined ratio	96.2%	96.0%	95.4%	94.9%
Investment yield	5.3%	3.4%	3.4%	3.4%
Gross written premium growth	22.1%	22.0%	15.0%	13.0%
Net written premium growth	22.2%	22.0%	15.0%	13.0%
Net earned premium growth	20.9%	22.8%	16.5%	13.7%
Net underwriting result growth	3.4%	27.6%	32.7%	25.3%
Insurance profit growth	40.1%	1.9%	28.8%	23.0%
Net income growth	37.9%	-2.0%	29.4%	23.0%
Cash and financial inv. growth	13.5%	26.1%	19.7%	18.6%

Source: Bupa, EFG Hermes estimates

STOCK DATA

Closing Price	SAR210 as of 03 Sep 2023
Last Div. / Ex. Date	SAR3.60 / 02 Jul 2023
MKT. Cap / Shares (mn)	USD8,398 / 150.0
Av. Daily Liquidity (mn)	USD9.15
52-Week High / Low	SAR210 / SAR128
Bloomberg / Reuters	BUPA AB / 8210.SE
Est. Free Float	47.8%

Rajae Aadel
raadel@efg-hermes.com

INVESTMENT THESIS

National Medical Care (CARE) operates two hospitals in Riyadh: Care National Hospital (CNH; 330 beds, 61 clinics; since 1967) and Riyadh Care Hospital (RCH; 325, 109; since 1991), with a combined bed capacity of 655 beds and 170 clinics. It acquired 100% of Jiwar Medical Services for SAR65mn (owns 66-bed stand-alone emergency unity, located in central Mecca) which is expected to be operational by 3-4Q23. CARE is planning to: i) increase capacity via an expansion at CNH (+129 beds, +40 clinics), pending regulatory approvals (we expect them in 2023e); ii) convert its Family Healthcare Centre to an LTC facility (currently studying other options – not included in our numbers); and iii) build a third hospital in Riyadh (Narjes£pv£ we assume will have capacity of 300 beds, 100 clinics, capex of cSAR700mn, and to start operations in 2027e). The company's largest contributor to revenue is GOSI (c36% of total revenue), followed by insurers (28%), MoH (16%), National Guard (10%), cash (9%) and others (1%). In May 2019, Saudi Medical Care Group (100% owned by GOSI's investment arm, Hassana, after NMC Health exited its 53% stake in Mar 2022) bought a 49.2% stake in CARE, mostly at SAR54/share. We are Buyers of CARE, on valuation grounds, with the company delivering on its margin enhancement promises, along with improved revenue trends (2023-24 earnings CAGR of 27%).

VALUATION & RISKS

We value CARE using an eight-year discounted cash flow (DCF) methodology, yielding a target price of SAR150. Key upside risks include: i) faster-than-expected margin turnaround; ii) significant list price increases (looking to increase accreditations); iii) more capacity additions and/or quick ramp-up of added capacities; iv) additional revenue streams through new specialties, etc.; v) settlement of receivables and renewal of contract with GOSI (c60% of gross receivables); and vi) value-accretive acquisitions and new hospitals. Key downside risks include: i) slower-than-expected margin recovery; ii) prolonged occupancy ramp-up, once new capacity is added; iii) receivables/provisioning risk, due to high exposure to government business; iv) unfavourable changes to contract with GOSI once it is formally renewed; v) difficulties in hiring skilled labour and expat levy; vi) concentration of business with some clients (GOSI, etc.); and vii) expat departures (c40% of total patients).

QUESTIONS

1. How has patient traffic fared recently? What is the current utilisation rate at both hospitals?
2. When did the contract with National Guard end, and why was it not renewed? How did the contract differ from your other business channels (revenue/patient, margins, etc.)?
3. What are Care's expansion plans and their associated investment costs? What is the expected impact on profitability?
4. Is there room for further margin improvement? What measures have you implemented to improve margins? Do you see current levels as sustainable?
5. Do you have an update on receivables from GOSI and the formal renewal of this contract? Do you expect any settlements with key clients? Do you expect any further provisions to be booked for this?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	918	1,091	1,235	1,379
EBITDA	235	290	327	368
Net operating profit (EBIT)	189	245	282	322
Taxes or zakat	(28)	(28)	(28)	(28)
Minority interest	0	0	0	0
Net income	170	238	276	317
Balance Sheet				
Cash and cash equivalents	329	446	541	583
Total assets	1,713	1,930	2,167	2,427
Total liabilities	494	541	592	646
Total equity	1,219	1,389	1,576	1,781
Total net debt (cash)	(246)	(369)	(470)	(518)
Cash Flow Statement				
Cash operating profit after taxes	206	261	299	340
Change in working capital	(23)	(14)	(9)	(10)
CAPEX	(211)	(115)	(160)	(235)
Investments	0	0	0	0
Free cash flow	(28)	133	131	95
Net financing	(51)	(51)	(73)	(96)
Change in cash	(46)	117	96	42
Per Share Numbers				
EPS (SAR)	3.79	5.30	6.16	7.07
DPS (SAR)	1.00	1.50	2.00	2.50
BVPS (SAR)	27.2	31.0	35.1	39.7
Valuation Metrics				
Price to earnings	32.1x	23.0x	19.8x	17.2x
Price to book value	4.5x	3.9x	3.5x	3.1x
Price to cash flow	29.9x	22.1x	18.8x	16.5x
FCF yield	-0.5%	2.4%	2.4%	1.7%
Dividend yield	0.8%	1.2%	1.6%	2.1%
EV / EBITDA	21.9x	17.7x	15.7x	14.0x
EV / Invested capital	5.3x	5.0x	4.6x	4.1x
ROAIC	13.1%	15.7%	16.3%	16.9%
ROAE	14.9%	18.3%	18.7%	18.9%
KPIs				
Revenue growth (Y-o-Y)	8.6%	18.9%	13.2%	11.6%
EBITDA growth (Y-o-Y)	13.7%	23.6%	12.9%	12.5%
Gross profit margin	31.6%	34.3%	34.6%	34.9%
EBITDA margin	25.6%	26.6%	26.5%	26.7%
Net operating profit (EBIT) margin	20.6%	22.5%	22.8%	23.4%
Effective tax rate	14.3%	10.7%	9.2%	8.2%
Net Debt (Cash) / Equity	(0.2)x	(0.3)x	(0.3)x	(0.3)x
Net Debt (Cash) / EBITDA	(1.0)x	(1.3)x	(1.4)x	(1.4)x

Source: National Medical Care, EFG Hermes estimates

STOCK DATA

Closing Price	SAR122 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.00 / 20 Jun 2023
MKT. Cap / Shares (mn)	USD1,456 / 44.9
Av. Daily Liquidity (mn)	USD5.93
52-Week High / Low	SAR139 / SAR59
Bloomberg / Reuters	CARE AB / 4005.SE
Est. Free Float	50.8%

Ahmed Moataz
amoataz@efg-hermes.com

Hatem Alaa, CFA
halaa@efg-hermes.com

BUSINESS DESCRIPTION

Cenomi Centers is the largest owner, developer and operator of shopping malls in Saudi Arabia, with access to c1.33mn sqm of gross leasable area (GLA). The company's portfolio is composed of 21 shopping centres that are located strategically in 10 of the largest cities in the Kingdom, categorised as super-regional, regional and community centres. Out of these 21 centres, 10 are on leased land, 10 on land owned directly by the company and one is run under a management and operating agreement. The company's malls provide shoppers with a point of access to the full range of international, regional and local retail brands, having more than 4,300 stores and hosting more than 109mn visitors. Since its establishment in 2005, Cenomi Centers has effectively leveraged shopping malls' growing popularity as integrated leisure destinations – through offering a wide range of integrated leisure, shopping, entertainment and dining options. The company's developments include several iconic lifestyle centres, such as Mall of Arabia Jeddah, Mall of Dhahran and Nakheel Mall Riyadh, a consumer favourite in Riyadh.

INVESTMENT THESIS

Cenomi's business model leverages on malls being regarded as "leisure destinations" in KSA; hence, offering exposure to a wide cross-section of Saudi Arabia's young and growing consumer base. In recent years, primarily through its 2030 Vision programme, the Kingdom witnessed significant consumer developments, including the rise of a tech-savvy and young population, increasing disposable income and a growing middle class, shifting market demand from pure retail to more differentiated, lifestyle and experience-based formats, with accelerating spend on F&B. Moreover, the company is set to benefit from KSA's strong macro growth tailwinds, such as: i) growth in population, reaching 32.2mn, with the aim of attracting 25mn foreign tourists; and ii) increase in travel spending resulting from inbound and domestic travelers to USD9.8bn (+224.6% Y-o-Y). Cenomi Centers is well-positioned to unlock its growth potential, having a solid pipeline, with an ambitious SAR5.0bn capex programme to deliver seven new market-leading projects in the coming three years, which will see GLA increase by approximately 50% to c2mn sqm. The company attempts to maximise portfolio returns, with several factors on the list, including: i) unique design and project delivery capabilities providing competitive advantage; ii) consistently high occupancy and pre-letting track record; iii) growth in diversified tenants across the portfolio; and iv) favourable lease terms.

QUESTIONS

1. What is your view on the outlook for the retail market in Saudi Arabia over the coming three-five years?

2. What is the update on the potential merger with Cenomi Retail? Could you provide an update on your malls portfolio, with regard to occupancy levels and footfall?

3. What is your target for new mall openings and cinema complexes in 2023-25, and how much progress has been made towards achieving it? What is the average rent/sqm for the new mall openings?

4. Could you shed some light on your expansion plans across various cities and the desired tenant mix for new GLA? What is the rationale behind the establishment of two REITs for the purpose of developing Jawharat Riyadh and Jawharat Jeddah?

5. Could you provide us with details on your capex pipeline over the coming five years and the means of financing? Could you shed some light on the two recent land transactions as part of the company's programme to sell an identified portfolio of non-core assets worth cSAR2bn? How will you utilise the proceeds from the sale?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)
Income Statement				
Revenue	2,197	1,965	2,207	2,267
EBITDA	1,591	1,336	1,312	1,648
EBIT	1,160	978	1,110	1,456
EBT	744	688	761	1,113
Net income	732	730	668	1,032
Balance Sheet				
Account receivables	222	253	388	339
Development properties	-	276	346	351
Other assets	17,688	17,615	25,143	26,119
Total assets	17,910	18,144	25,877	26,809
Current liabilities (including debt)	1,304	1,094	1,915	2,374
Long-term liabilities (Including debt)	10,683	11,026	9,893	10,482
Total liabilities	11,987	12,120	11,808	12,857
Total net worth	5,919	6,026	14,019	13,900
Minority interest	4	(2)	49	53
Total equity & liabilities	17,910	18,144	25,877	26,809
Total net debt	6,182	6,947	7,727	8,113
Cash Flow Statement				
CF from operations	1,023	1,325	1,330	1,544
CF from investments	(281)	(859)	(713)	(224)
CF from finance & non operating CF	(127)	(597)	(668)	(1,164)
Per Share Numbers				
EPS (SAR)	1.54	1.54	1.41	2.17
DPS (SAR)	1.00	1.50	1.50	0.00
BVPS (SAR)	12.45	12.69	29.41	29.15
Valuation Metrics				
Price to earnings	14.4x	14.5x	15.8x	10.2x
Price to book value	1.8x	1.7x	0.8x	0.8x
FCF yield	7.0%	4.4%	5.9%	12.5%
Dividend yield	4.5%	6.8%	6.8%	0.0%
EV / EBITDA	11.8x	14.0x	14.3x	11.4x
ROAIC	4.7%	7.4%	4.7%	6.0%
ROAE	8.1%	12.2%	6.7%	7.4%
KPIs				
Revenue growth (Y-o-Y)	-15.5%	-10.6%	12.3%	2.7%
EBITDA margin	72.4%	68.0%	59.4%	72.7%
EBIT margin	52.8%	49.8%	50.3%	64.2%
Effective tax rate	1.7%	-6.0%	12.2%	7.3%
Net debt (cash) / equity	1.04x	1.15x	0.55x	0.58x
Net debt (cash) / EBITDA	3.89x	5.20x	5.89x	4.92x

Source: Cenomi Centers, Bloomberg

STOCK DATA

Closing Price	SAR22.20 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.87 / 24 Jul 2023
MKT. Cap / Shares (mn)	USD2,812 / 475
Av. Daily Liquidity (mn)	USD5.7
52-Week High / Low	SAR23.88 / SAR17.84
Bloomberg / Reuters	CENOMICE AB / 4240.SE
Est. Free Float	33.5%

Mai Attia

maiattia@efg-hermes.com

Shaza Shaker

sshaker@efg-hermes.com

INVESTMENT THESIS

City Cement Company (City) operates a 3.65 mtpa cement plant in the Central region (c33% of Saudi Arabian consumption; the plant is located 135 km from Riyadh). The company started production in 2008 (with 1.75mn tonnes of cement; added 1.9mn tonnes by mid-2015), showed robust growth in its sales and was able to gain market share over the past five years to reach 5%. City Cement Company has solid fundamentals; location is near high-demand areas and is one of the main beneficiaries of the megaprojects located in the capital region (Qiddiya and Dariyah), and enjoys a strong balance sheet. In addition, it is a pioneer as it started using alternative fuel in its fuel mix (c25% of its fuel is RDF), which will support its profit margin significantly amidst a fuel subsidy deregulation era, in our view. The company signed a non-binding MoU with Um-Al-Qura Cement (UACC) to acquire UACC in an all-share deal; if successful, it will increase its market share to c8%.

VALUATION & RISKS

We have a Neutral rating on City as it trades at a fair valuation (2024e EV/EBITDA of c13x) and its volume growth is comparatively weak vs. the sector, despite the fact that it is one of the potential beneficiaries of Qiddiya and Dariyah projects in the Central region. We have a TP of SAR24.1, which we derive from a DCF methodology. Upside risks to our valuation include: i) higher-than-expected increase in medium-term capacity utilisation; and ii) cost efficiencies after implementing the Waste Heat Recovery (WHR) project, which should minimise production costs, as well as rationalise energy usage. Any delay in the megaprojects' execution will be a key downside risk.

QUESTIONS

1. What is your overall demand outlook for 2H23? How will high interest rates impact housing demand and infrastructure/megaprojects? Do you expect megaprojects to create meaningful demand?

2. Cement prices have increased over the past few quarters. Should we expect this trend to continue for 2H23? What cement price level is sustainable over the medium term?

3. What are your thoughts on the potential deregulation of feedstock prices? To mitigate any potential impact, would you increase your alternative fuel use in terms of your feedstock mix?

4. Why is there a delay in the merger process with Umm-Al Qura? What kind of synergies are you expecting for City and the sector post the merger?

5. Is there any further strategic investment/diversification plan to improve earnings stability?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	431	465	498	559
EBITDA	192	219	237	272
Net operating profit (EBIT)	111	137	158	196
Taxes or zakat	(10)	(13)	(14)	(18)
Minority interest	0	0	0	0
Net income	115	139	156	192
Balance Sheet				
Cash and cash equivalents	221	290	329	354
Total assets	1,941	1,907	1,906	1,907
Total liabilities	122	130	131	133
Total equity	1,819	1,777	1,776	1,774
Total net debt (cash)	(221)	(290)	(329)	(354)
Cash Flow Statement				
Cash operating profit after taxes	183	207	222	254
Change in working capital	(22)	59	(1)	(8)
CAPEX	(11)	(39)	(38)	(43)
Investments	(28)	0	0	0
Free cash flow	122	227	183	203
Net financing	(124)	(180)	(157)	(193)
Change in cash	5	48	30	25
Per Share Numbers				
EPS (SAR)	0.82	0.99	1.12	1.37
DPS (SAR)	0.90	1.00	1.12	1.37
BVPS (SAR)	9.61	9.39	9.38	9.38
Valuation Metrics				
Price to earnings	24.8x	20.5x	18.2x	14.8x
Price to book value	2.1x	2.2x	2.2x	2.2x
Price to cash flow	24.0x	14.5x	17.4x	15.7x
FCF yield	3.2%	5.9%	4.8%	5.3%
Dividend yield	4.4%	4.9%	5.5%	6.8%
EV / EBITDA	13.2x	11.6x	10.7x	9.3x
EV / Invested capital	1.6x	1.7x	1.8x	1.8x
ROAIC	6.1%	8.0%	9.8%	12.4%
ROAE	6.3%	7.7%	8.8%	10.8%
KPIs				
Revenue growth (Y-o-Y)	-13.2%	7.9%	7.1%	12.2%
EBITDA growth (Y-o-Y)	-25.1%	13.9%	7.9%	14.9%
Gross profit margin	33.7%	37.4%	39.4%	42.1%
EBITDA margin	44.6%	47.1%	47.5%	48.6%
Net operating profit (EBIT) margin	25.7%	29.4%	31.7%	35.0%
Effective tax rate	7.8%	8.4%	8.4%	8.4%
Net Debt (Cash) / Equity	(0.1)x	(0.2)x	(0.2)x	(0.2)x
Net Debt (Cash) / EBITDA	(1.1)x	(1.3)x	(1.4)x	(1.3)x

Source: City Cement Company, EFG Hermes estimates

STOCK DATA

Closing Price	SAR20.3 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.400 / 13 Sep 2022
MKT. Cap / Shares (mn)	USD759.2 / 140.0
Av. Daily Liquidity (mn)	USD1.35
52-Week High / Low	SAR25.9 / SAR18.7
Bloomberg / Reuters	CITYC AB / 3003.SE
Est. Free Float	75.5%

Sameer Kattiparambil

skattiparambil@efg-hermes.com

Dina Hicham

dhicham@efg-hermes.com

INVESTMENT THESIS

Dallah owns and operates four hospitals (three in Riyadh and one in Mecca), with a total licenced capacity of c1.1k beds and 596 clinics that served c2.5mn patients in 2022. In 4Q20, it did two acquisitions: i) c58.64% stake in Care Shield (owns Riyadh's Kingdom hospital; 130 beds, 119 clinics) in a SAR366mn cash-and-share deal (SAR137mn cash + SAR229mn share swap for 4.2% of Dallah); and ii) upping its stake in Mecca Medical Center (134 beds, 35 clinics) to 90.87%, from 7.5% for SAR168mn (cash). Dallah Pharma (c5% of revenue) manufactures (in Jeddah) and distributes products. It also owns: i) 31.2% stake in Riyadh's Mohamed Al Faqih hospital (308 beds, 147 clinics; started ops in Sep 2020); ii) 35% stake in Meraas (70 Riyadh clinics for cosmetics, dermatology, dental care, etc.); and iii) 27.18% of Jeddah's Int'l Medical Centre (IMC; 300 beds) for cSAR1bn (bought 8.21% for SAR289mn in 4Q21 and 18.9% for cSAR1bn in 1Q23 via share swap with Kun Holding in return for 7.86% stake in Dallah). It is mulling two hospitals in Jeddah and North Riyadh, as well as Nakheel's medical tower expansion. We have a Neutral rating on Dallah, mainly on valuation grounds.

VALUATION & RISKS

We value Dallah using a discounted cash flow (DCF) model, yielding a target price of SAR140. Upside risks include: i) faster-than-expected ramp-up of capacities; ii) higher-than-expected average claim/patient, with the introduction of more value-added services and/or improved contractual terms with insurers; iii) benefits from increased government dependence on the private sector and wider insurance coverage in Saudi Arabia; iv) better contribution from recent acquisitions of Kingdom hospital and Mecca Medical Center and buying out minority stakes at favourable valuations; v) further acquisitions and/or expansions; and viii) greater contribution from associates (Faqih hospital and IMC). Downside risks include: i) inability to improve profitability and operations at recent acquisitions; ii) labour cost pressures and difficulties in hiring skilled staff; iii) increased competition in Riyadh; v) receivables risk if reliance on gov't continues to rise to fill capacities; and vi) volatility/margin pressure from the pharma segment.

QUESTIONS

1. How has patient traffic fared recently, and what is Dallah's blended utilisation? Were there any price increases implemented this year?
2. Could you provide an update on planned expansions and the associated investment costs? What is the expected impact on profitability? Are there any more potential investments that are not part of your business plan?
3. How have the newest acquired hospitals (Kingdom and Makkah Medical Center) been performing? What are the initiatives implemented to improve these hospitals and bring them to the levels of your existing network? What is their expected contribution to the overall business?
4. What are the plans for IMC, after you increased your stake to c27%? How do you intend to account for the asset (dividends received or share of net income), and what is its expected earnings contribution?
5. What is your overall targeted profitability level, and when is it planned to be achieved?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	2,488	2,950	3,389	3,763
EBITDA	507	645	746	830
Net operating profit (EBIT)	392	521	616	694
Taxes or zakat	(34)	(22)	(27)	(31)
Minority interest	(21)	(25)	(32)	(40)
Net income	312	393	506	620
Balance Sheet				
Cash and cash equivalents	238	571	576	671
Total assets	4,920	6,471	6,620	6,882
Total liabilities	2,688	3,003	2,883	2,801
Total equity	2,232	3,469	3,737	4,081
Total net debt (cash)	1,740	1,635	1,403	1,109
Cash Flow Statement				
Cash operating profit after taxes	473	623	719	799
Change in working capital	(117)	(39)	(45)	(50)
CAPEX	(173)	(180)	(126)	(124)
Investments	0	0	0	0
Free cash flow	183	404	549	626
Net financing	(186)	(124)	(610)	(606)
Change in cash	30	333	5	94
Per Share Numbers				
EPS (SAR)	3.47	4.37	5.62	6.89
DPS (SAR)	2.00	2.50	3.00	3.50
BVPS (SAR)	22.1	35.6	38.2	41.6
Valuation Metrics				
Price to earnings	40.1x	31.8x	24.8x	20.2x
Price to book value	6.3x	3.9x	3.6x	3.3x
Price to cash flow	35.2x	21.5x	18.6x	16.7x
FCF yield	0.9%	2.3%	3.5%	4.3%
Dividend yield	1.4%	1.8%	2.2%	2.5%
EV / EBITDA	28.7x	22.6x	19.5x	17.5x
EV / Invested capital	3.7x	2.8x	2.8x	2.8x
ROAIC	8.2%	10.3%	10.9%	12.4%
ROAE	16.2%	15.2%	15.2%	17.3%
KPIs				
Revenue growth (Y-o-Y)	18.2%	18.6%	14.9%	11.0%
EBITDA growth (Y-o-Y)	14.4%	27.2%	15.8%	11.3%
Gross profit margin	36.0%	36.0%	36.1%	36.1%
EBITDA margin	20.4%	21.9%	22.0%	22.1%
Net operating profit (EBIT) margin	15.8%	17.6%	18.2%	18.5%
Effective tax rate	10.2%	5.0%	4.8%	4.5%
Net Debt (Cash) / Equity	0.8x	0.5x	0.4x	0.3x
Net Debt (Cash) / EBITDA	3.4x	2.5x	1.9x	1.3x

Source: Dallah Healthcare, EFG Hermes estimates

STOCK DATA

Closing Price	SAR139 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.5 / 27 Aug 2023
MKT. Cap / Shares (mn)	USD3,340 / 90.0
Av. Daily Liquidity (mn)	USD4.38
52-Week High / Low	SAR182 / SAR120
Bloomberg / Reuters	DALLAH AB / 4004.SE
Est. Free Float	34.2%

Ahmed Moataz

amoataz@efg-hermes.com

Hatem Alaa, CFA

halaa@efg-hermes.com

BUSINESS DESCRIPTION

Elm was established in 1988 as a limited liability company and in 2007 was incorporated as a closed joint stock company. It provides readymade and customised integrated digital solutions. Elm's product and service portfolio is very diverse, offering technical solutions, cyber security, consulting, data analysis, integrated business technology (smartphone, business intelligence applications) and digital outsourcing (business support, logistics support, service centres). Elm's services and products cater to the needs of public (Saudi gov't) and private (B2B) entities, in addition to consumers (B2C). Its products and services are divided mainly into: i) products suite; ii) digital custom solutions; iii) professional services; iv) business process outsourcing; and v) nationalisation and upskilling. Moreover, Elm has seven subsidiaries: Saudi Company for Exchanging Digital Information (Tabadul), Emdad Al Khebrat, Elm Technology Investment Company, Umrah Premium Services Company, Future Resources Limited, Asdam Digital FZ LLC and Elm Arkan for Information Systems Technology. In 2022, Elm's majority shareholder, the PIF, sold 24mn ordinary shares in a secondary offering, representing 30% of its share capital. It also sold 2.4mn shares (3%) for the employee share programme. The IPO valued Elm at SAR10.24bn (USD2.73bn).

INVESTMENT THESIS

Elm is an attractive play on Saudi Arabia's digital transformation theme; its sources of growth include digital transformation, cloud strategies, smart cities, Industry 4.0, block chain and AI and cybersecurity. These areas of growth are all set to be fuelled by Saudi Arabia's Vision 2030; increased ICT spending from the gov't would bode well for Elm's various business units. Elm's pool of competitors is quite large and diversified, given the variety and number of products/services the company offers. However, none of them compete across its entire portfolio of services and products. It boasts superior margins vs competitors, which could be attributed to Elm's proprietary product development. Elm has a strong balance sheet, enabling it to fund various growth opportunities. Backing from a strong parent entity (PIF) could help Elm secure more contracts/business in KSA and expand in the region.

QUESTIONS

1. Who are Elm's main competitors in KSA, and what differentiates you from them? How aggressive is the competitive landscape, in terms of contract pricing and bidding?

2. Do you have plans to expand your physical presence in the region via M&As like Solutions did with its acquisition of Giza Systems in Egypt?

3. Governmental revenue decreased in 2022 and 1H23 to 42% and 36% of total revenue, respectively, after increasing between 2019 and 2021 (55% of 2019 total revenue, 59% in 2020 and 72% in 2021). Do you expect the proportion of revenue from private entities to increase further? Are there any new major projects with the government in the pipeline?

4. Given your sizeable exposure to government contracts and majority ownership by the PIF, are you facing any delays in collecting government receivables (similar to STC)?

5. What is your dividend policy? How can you balance your need to prioritise spending to capture growth opportunities with your need to return more cash to shareholders?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)
Income Statement				
Revenue	2,466	3,828	4,606	5,167
EBITDA	467	730	1,092	1,293
Net operating profit (EBIT)	356	615	972	1,161
EBT	372	649	1,023	1,290
Net income	307	567	930	1,181
Balance Sheet				
Cash and cash equivalents	1,013	1,362	589	1,062
Current assets	3,282	4,392	5,155	5,798
Net fixed assets	614	513	492	499
Intangibles & others	129	289	380	168
Total assets	4,025	5,194	6,026	6,697
Current liabilities (Including debt)	1,387	1,984	2,575	2,760
Long-term liabilities (Including debt)	404	401	404	415
Total liabilities	1,791	2,385	2,979	3,175
Total net worth	2,234	2,810	3,047	3,523
Minority interest	-	-	-	-
Total equity & liabilities	4,025	5,194	6,026	6,697
Total net debt (cash)*	(1,324)	(1,281)	(2,454)	(2,398)
Cash Flow Statement				
CF from operations	724	598	1,706	1,765
CF from investments	283	(175)	(1,731)	(1,083)
CF from finance & non operating CF	(98)	(75)	(748)	(462)
Per Share Numbers				
EPS (SAR)	61.32	7.09	11.94	15.21
DPS (SAR)	0.00	3.00	5.00	6.00
BVPS (SAR)	446.79	35.12	39.27	44.03
Valuation Metrics				
Price to earnings	13.7x	118.9x	70.6x	55.4x
Price to book value	1.9x	24.0x	21.5x	19.1x
FCF yield	0.9%	0.7%	2.4%	2.5%
Dividend yield	0.0%	0.4%	0.6%	0.7%
EV / EBITDA	139.2x	89.1x	59.5x	50.3x
ROAIC	14.4%	20.7%	27.9%	18.4%
ROAE	14.6%	22.5%	31.8%	35.9%
KPIs				
Revenue growth (Y-o-Y)	3.9%	55.2%	20.3%	24.0%
EBITDA margin	18.9%	19.1%	23.7%	25.0%
Net operating profit (EBIT) margin	14.4%	16.1%	21.1%	22.5%
Effective tax rate	18.5%	13.3%	10%	8%
Net debt (cash) / equity	(0.6)x	(0.5)x	(0.8)x	(0.7)x
Net debt (cash) / EBITDA	(2.8)x	(1.8)x	(2.2)x	(1.9)x

*Includes Murabaha deposits
Source: Elm Co, Bloomberg

STOCK DATA

Closing Price	SAR843.00 as of 03 Sep 2023
Last Div. / Ex. Date	SAR3 / 14 Aug 2023
MKT. Cap / Shares (mn)	USD17,986 / 80
Av. Daily Liquidity (mn)	USD38.8
52-Week High / Low	SAR874.00 / SAR287.00
Bloomberg / Reuters	ELM AB / 7203.SE
Est. Free Float	33.0%

Omar Maher
omaher@efg-hermes.com

Laila Galal
lgalal@efg-hermes.com

INVESTMENT THESIS

Established in 2003, United Electronics Co. (eXtra) is a leading electronics retailer in KSA (c20% 2022 market share). It sells audio-visual equipment, digital & home appliances and computers (6.5k SKUs). eXtra had 54 stores as of end-2021 (49 in KSA across 28 cities, two in Bahrain and three in Oman; ex-KSA stores contributed c7% to 2022 revenue, c1% of net income), most of which are leased. eXtra has been offering instalment sales for products bought from its own showrooms, and in 2Q19, it launched a new consumer finance venture, Tas'heel, which offers unsecured cash loans (SAR15-250k; tenor of up to five years), as well as product loans (SAR4k-60k; up to three years), with a total portfolio size of cSAR1.6bn (2022). We expect a challenging 2023e (flat earnings), on a weak electronics market and higher interest rates impacting Tas'heel. We are Buyers, on valuation grounds, and as we expect earnings to rebound from 2024e (c13% CAGR), as: i) it will benefit from market consolidation (targeting a c25% market share), especially in white goods; ii) Tas'heel will still be a key earnings growth driver (c47% of 2022 recurring earnings); iii) it benefits from managing the electronics section at Panda hypermarkets (c60); and iv) it has a strong e-commerce platform (c19% of sales).

VALUATION & RISKS

Our SOTP-derived TP for eXtra is SAR105, where we value: i) the electronics business using a five-year discounted-cash-flow (DCF) methodology, yielding SAR57.1/share (c54% of valuation); and ii) consumer finance arm Tas'heel at c4x 2023e book value (SAR47.9/share; c46%). Upside risks include: i) greater consolidation benefits; ii) faster store additions; iii) higher same-store-sales growth, on greater footfall, market share gains, etc.; iv) stronger margins, on sales mix, lower marketing costs, better supplier rebates, direct distribution deals, higher after-sales and instalment sales, etc.; v) significant impact from Panda partnership; vi) stronger performance at consumer finance business Tas'heel; vii) better-than-expected performance at stores outside Saudi Arabia; and vii) faster recovery in KSA's electronics market. Downside risks include: i) suboptimal store opening strategy; ii) subdued discretionary spending; iii) margin compression, on unfavourable product mix and/or staff cost pressures; iv) weaker-than-expected performance at Tas'heel (competition, rising rates, etc.); v) asset-quality risk (stage 3 loans at c6%); vi) prolonged weakness in KSA's electronics market; vii) inventory risk; viii) increased competition; and ix) sharp decline in store traffic, with e-commerce platform failing to compensate for the drop.

QUESTIONS

1. How have LFL sales fared recently? What is eXtra's outlook for electronics sales growth? Do you intend to keep the mega sale in 2Q going forward (from typically being in 4Q)?
2. Do you expect further electronics market share gains? Do you expect to see some accelerated market consolidation and a pick-up in the white goods market, given the increase in mortgages? What are your store-opening plans?
3. What is the expected impact from operating Panda's electronics and home appliance segment? Are you planning to add more categories?
4. How has the consumer finance segment performed recently? How has the competitive environment been? What is the expected contribution to revenue and earnings? How quickly do you expect the book to grow, and is there a need for additional capital and/or leverage? What is the level of NPLs? Are there plans to IPO the business?
5. What is your 2023-24 guidance for the electronics and consumer finance business?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	6,031	6,220	6,877	7,202
EBITDA	593	605	667	731
Net operating profit (EBIT)	484	494	553	614
Taxes or zakat	(32)	(40)	(45)	(45)
Minority interest	0	0	0	0
Net income	409	400	456	517
Balance Sheet				
Cash and cash equivalents	147	160	260	393
Total assets	3,970	4,498	4,974	5,467
Total liabilities	2,991	3,407	3,757	4,102
Total equity	979	1,091	1,217	1,365
Total net debt (cash)	1,232	1,401	1,391	1,385
Cash Flow Statement				
Cash operating profit after taxes	473	468	521	580
Change in working capital	(314)	(3)	(3)	(3)
CAPEX	(91)	(102)	(79)	(65)
Investments	0	0	0	0
Free cash flow	68	364	439	512
Net financing	76	(82)	(237)	(289)
Change in cash	(26)	14	100	133
Per Share Numbers				
EPS (SAR)	5.12	5.00	5.70	6.47
DPS (SAR)	3.88	3.13	4.13	4.63
BVPS (SAR)	12.2	13.6	15.2	17.1
Valuation Metrics				
Price to earnings	14.5x	14.9x	13.0x	11.5x
Price to book value	6.1x	5.4x	4.9x	4.4x
Price to cash flow	37.3x	12.8x	11.5x	10.3x
FCF yield	1.0%	5.9%	7.3%	8.6%
Dividend yield	5.2%	4.2%	5.6%	6.2%
EV / EBITDA	10.2x	10.0x	9.0x	8.3x
EV / Invested capital	2.7x	2.4x	2.3x	2.2x
ROAIC	23.1%	18.1%	18.4%	18.9%
ROAE	44.9%	38.6%	39.5%	40.1%
KPIs				
Revenue growth (Y-o-Y)	3.4%	3.1%	10.6%	4.7%
EBITDA growth (Y-o-Y)	7.1%	2.0%	10.2%	9.5%
Gross profit margin	21.0%	21.8%	21.4%	21.7%
EBITDA margin	9.8%	9.7%	9.7%	10.1%
Net operating profit (EBIT) margin	8.0%	7.9%	8.0%	8.5%
Effective tax rate	6.8%	10.0%	9.0%	8.0%
Net Debt (Cash) / Equity	1.3x	1.3x	1.1x	1.0x
Net Debt (Cash) / EBITDA	2.1x	2.3x	2.1x	1.9x

Source: eXtra, EFG Hermes estimates

STOCK DATA

Closing Price	SAR74.3 as of 03 Sep 2023
Last Div. / Ex. Date	SAR2.00 / 21 May 2023
MKT. Cap / Shares (mn)	USD1,585 / 80.0
Av. Daily Liquidity (mn)	USD14.49
52-Week High / Low	SAR90.9 / SAR66.3
Bloomberg / Reuters	EXTRA AB / 4003.SE
Est. Free Float	76.7%

Hatem Alaa, CFA
halaa@efg-hermes.com

Ahmed Moataz
amoataz@efg-hermes.com

BUSINESS DESCRIPTION

Established in 2016, Jahez International Company for Information Systems Technology provides on-demand services, q-commerce and last-mile delivery through its technology platforms, connecting customers, merchants and delivery partners across 90 cities in the KSA. The company's network included 11k merchants and 2.8mn+ active users who placed c69mn orders via 60k+ delivery partners in 2022. To expand its customer and merchant base, Jahez developed a wide array of delivery and logistical services, through its five main business streams: i) the Jahez platform, which serves as a source of orders for merchants, providing complete logistical support and payment collection processes; ii) PIK Platform, a quick commerce business that serves as a platform for merchants within customers' reach and aims to connect customers with an array of their favourite brands within two-three hours; iii) Co Kitchens (60% owned), a cloud kitchen platform providing 150+ food businesses with commercial kitchen spaces (in five cities) with no dine-in facilities, to prepare food and sell it via a delivery-only model; iv) Logi provides logistical solutions for the e-commerce and delivery industry; and v) Red Color, the group's investment arm. Listed on Nomu in Jan 2022, the company is looking to move to the Tadawul exchange in 2024.

INVESTMENT THESIS

Jahez is a leading force behind the shift to online food delivery in Saudi Arabia, supported by the growing adoption of online delivery and mobile devices over the past few years. The company's revenues are generated mainly via attractive commissions for merchants and delivery fees. Notably, the company has a high delivery subsidy, whereby c98%+ of its delivery costs are covered by customers. It also has relatively limited advertising and promotion spend and relies on social media, which helps maintain healthy margins. The company is looking to raise its market share in food delivery services, logistics, q-commerce and cloud kitchen sectors by utilising its expertise and food delivery infrastructure. To continue to grow its verticals, Jahez recently: i) acquired 100% of Marn (POS and payment solutions) for SAR60mn; and ii) signed an SPA to acquire 100% of Chefz SPV, which operates a gourmet food and sweets delivery platform in KSA, (SAR325mn cash consideration and c376.9k new shares in Jahez for SAR10/share; in addition to a SAR100mn cash earn-out subject to some KPIs). Jahez also started pilot operations for its food delivery platform in Bahrain in May 2022, as well as trial operations in Kuwait on 5 Jan 2023. In 2022, the company grew its GOV c28% to SAR5.8bn (orders +34% to 69mn), which drove a 38% jump in revenue. While top-line growth was robust, 2022 saw added cost pressures, due to new gov't regulations for drivers that led to a cSAR80mn one-off cost adjustment, excluding which earnings grew c12% Y-o-Y.

QUESTIONS

1. What is the competitive environment like? What is Jahez's market share in the different segments? Where do you see the most pressure from competition?

2. Could you update us on the pending acquisitions and their expected impact on the overall business? Do you have any other M&A plans in the pipeline?

3. Could you give us an update on your operations in Bahrain? Are you facing any challenges there? How are trial operations in Kuwait going, and what initial challenges have you identified there? What contribution to revenue and bottom-line do you expect from ex-KSA operations?

4. What are the main growth drivers for the business? What is your 2023 outlook for revenue, earnings and dividend payout?

5. What is the update on the migration of the stock to Tadawul from Nomu?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2019a	2020a	2021a	2022a
Income Statement				
Revenue	159	459	1,160	1,602
EBITDA	(4)	44	126	88
Net operating profit (EBIT)	(6)	41	120	64
EBT	(6)	41	121	85
Net income	(6)	40	117	59
Balance Sheet				
Cash and cash equivalents	39	206	392	903
Current assets	47	215	435	1,209
Net fixed assets	9	13	35	174
Intangibles & others	4	4	24	28
Total assets	60	232	494	1,411
Current liabilities (Including debt)	54	178	279	299
Long-term liabilities (Including debt)	6	8	27	108
Total liabilities	60	187	306	407
Total net worth	0	44	187	1,005
Minority interest	-	1	1	(1)
Total equity & liabilities	60	232	494	1,411
Total net debt (cash)	(30)	(199)	(366)	(974)
Cash Flow Statement				
CF from operations	19	175	206	7
CF from investments	(3)	(5)	(17)	(219)
CF from finance & non operating CF	2	(3)	(3)	723
Per Share Numbers				
EPS (SAR)	(64.20)	231.80	19.60	5.70
DPS (SAR)	0.00	0.00	0.00	0.00
BVPS (SAR)	70.47	88.10	19.51	95.80
Valuation Metrics				
Price to earnings	N/M	2.4x	28.8x	107.4x
Price to book value	8.0x	6.4x	28.9x	6.4x
FCF yield	30.7%	176.7%	6.0%	-0.5%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EV / EBITDA	N/M	112.0x	39.3x	69.2x
ROAIC	N/M	123.6%	85.8%	9.2%
ROAE	N/M	179.9%	101.2%	9.9%
KPIs				
Revenue growth (Y-o-Y)	N/A	189.7%	152.5%	38.2%
EBITDA margin	-2.4%	9.6%	10.9%	5.5%
Net operating profit (EBIT) margin	-3.8%	8.9%	10.3%	4.0%
Effective tax rate	-4.1%	5.6%	7.4%	66.7%
Net debt (cash) / equity	N/M	(4.4)x	(1.9)x	(1.0)x
Net debt (cash) / EBITDA	8.0x	(4.5)x	(2.9)x	(11.1)x

Source: Jahez International Co, Bloomberg

STOCK DATA

Closing Price	SAR564.00 as of 03 Sep 2023
Last Div. / Ex. Date	N/A / N/A
MKT. Cap / Shares (mn)	USD1,578 / 10
Av. Daily Liquidity (mn)	USD1.1
52-Week High / Low	SAR1065.00 / SAR498.00
Bloomberg / Reuters	JAHEZ AB / 9526.SE
Est. Free Float	21.8%

Hatem Alaa, CFA

halaa@efg-hermes.com

Kareem Elsahn

kelsahn@efg-hermes.com

BUSINESS DESCRIPTION

Jamjoom Pharma (JP) is one of the key players in the MEA-branded generic pharmaceuticals sector. The company launched commercial operations from its manufacturing plant in Jeddah in 2000, followed by its first international operation in 2002. It is currently operating in 35 countries, with a strong focus on 10, including KSA (69% of total revenue), GCC countries (13%), Egypt (4%) and Iraq (8%). Its portfolio includes 100+ brands registered in Saudi Arabia, while focusing on key product categories across key therapeutic areas, including ophthalmology (26% of 1H23 revenue), dermatology (18%), consumer health (14%), general (18%) and others. JP is the third largest pharma manufacturer in KSA as of Jun 2023. It also ranks within the top 10 in Iraq and has been gaining market share in the UAE (achieving growth double that of the market). JP has managed to build a leading position across key focus therapeutic areas; it is a Saudi market leader in over 25% of all therapeutic subcategories in which it operates, according to IQVIA Retail sales data (May 2022), including: i) HyFresh in ophthalmology (17% market share); ii) Elica-M in dermatology (57% market share); iii) Ciproxen in general medicine (13% market share); iv) Zoron in other specialties (45% market share); and v) Omega 3 in consumer health (29% market share).

INVESTMENT THESIS

The company aims to become a leading MEA pharmaceuticals manufacturer by 2026 by focusing on five key pillars: i) optimising its portfolio through re-introducing key brands, limiting production of low-demand products and concentrating its sales and distribution capacities; ii) tapping into the tender market (used to focus on private/retail segment); iii) growing across all focus markets; iv) continuing to focus on efficiency and effectiveness; and v) investing in talent. JP is looking to add two new facilities, one in Egypt (+52mn units; already operational) and another in Algeria (+25mn units; to open in 2H23), which should increase its capacity by 70% to 190mn units p.a. Meanwhile, a new Jeddah sterile facility will be operational by Oct-Nov 2023, expected to add 25mn more units. JP's 1H23 net income increased c82% Y-o-Y to SAR171mn in 1H23, driven by: i) higher revenue (+25% Y-o-Y); ii) slight improvement in gross margin (+0.4ppt Y-o-Y to 66.3%); iii) opex controls through improved efficiencies in sales and distribution; and iv) lower finance costs (-97% Y-o-Y). Revenue growth (25% Y-o-Y) was supported by higher volumes (launched seven new brands in 1H23; contributed cSAR10mn) and some price increases in 1Q23. The company guided for 17-19% revenue growth for FY23e (not factoring in new expansions), with an EBITDA margin of c31%.

QUESTIONS

1. How do you expect the KSA pharmaceuticals market (volumes and value) to perform in 2023 onwards?

2. What is the expected additional capacity associated with the new facilities in Egypt and Algeria? How much is the associated investment cost, and what is the expected impact on numbers from this? When are they expected to begin operations?

3. What is your guidance for 2023 revenue and net profit? What is the sustainable EBITDA/net margin target, and how are you planning to achieve them?

4. Have there been any recent changes to the pricing regulations of drugs in Saudi Arabia? Have you increased your prices recently? Are you planning on increasing them further?

5. What does your R&D pipeline look like? What is the timeline for new product launches? What is the expected financial impact associated with new products?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)a
Income Statement				
Revenue	805	736	917	1,035
EBITDA	282	209	258	310
Net operating profit (EBIT)	240	185	233	285
EBT	232	188	186	269
Net income	207	171	171	248
Balance Sheet				
Cash and cash equivalents	236	113	141	170
Current assets	847	700	688	921
Net fixed assets	614	714	705	685
Intangibles & others	35	19	15	15
Total assets	1,496	1,432	1,408	1,621
Current liabilities (Including debt)	239	138	127	196
Long-term liabilities (Including debt)	78	62	65	70
Total liabilities	317	201	192	266
Total net worth	1,179	1,232	1,216	1,355
Minority interest	-	-	-	-
Total equity & liabilities	1,496	1,432	1,408	1,621
Total net debt (cash)	(159)	(149)	(144)	(173)
Cash Flow Statement				
CF from operations	262	229	229	205
CF from investments	(178)	(143)	(54)	(47)
CF from finance & non operating CF	(28)	(209)	(146)	(85)
Per Share Numbers				
EPS (SAR)	2.96	2.44	2.45	3.54
DPS (SAR)	0.00	0.00	0.00	1.00
BVPS (SAR)	16.84	17.59	17.38	19.36
Valuation Metrics				
Price to earnings	38.5x	46.7x	46.5x	32.1x
Price to book value	6.8x	6.5x	6.5x	5.9x
FCF yield	1.0%	1.1%	1.8%	2.0%
Dividend yield	0.0%	0.0%	0.0%	1.8%
EV / EBITDA	27.6x	37.3x	30.2x	25.1x
ROAIC	19.5%	14.3%	18.5%	19.5%
ROAE	18.4%	14.2%	14.0%	18.3%
KPIs				
Revenue growth (Y-o-Y)	10.1%	-8.6%	24.6%	12.9%
EBITDA margin	35.0%	28.4%	28.2%	29.9%
Net operating profit (EBIT) margin	29.8%	25.1%	25.5%	27.5%
Effective tax rate	10.7%	9.2%	8.1%	8.0%
Net debt (cash) / equity	(0.1)x	(0.1)x	(0.1)x	(0.1)x
Net debt (cash) / EBITDA	(0.6)x	(0.7)x	(0.6)x	(0.6)x

Source: Jamjoom Pharmaceuticals, Bloomberg

STOCK DATA

Closing Price	SAR113.80 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.00 / 21 Aug 2023
MKT. Cap / Shares (mn)	USD2,125 / 70
Av. Daily Liquidity (mn)	USD34.1
52-Week High / Low	SAR132.20 / SAR66.00
Bloomberg / Reuters	JAMJOOMP AB /4015.SE
Est. Free Float	43.7%

Ahmed Moataz
amoataz@efg-hermes.com

Hatem Alaa, CFA
halaa@efg-hermes.com

INVESTMENT THESIS

Jarir Marketing is a leading player in KSA's retail sector and was established in 1974 by Al Agil family. It has a unique business model and offers stationery items, books and electronics (computers, phones, etc.). Smartphones, electronics & accessories made up 56% of 2022 sales, other IT & digital products & services 31% and books and office, school & arts supplies 13% (high-margin). Jarir is the market leader in laptops and tablets, with an overall market share of 30% and is the number one smartphone retailer (21%+ market share). The company had 68 showrooms across KSA (17 owned) and nine in other GCC countries (c5% of revenue) as of end-2022, and we assume they will reach 85 by 2027e. It has a solid e-commerce platform that reached c13% of sales in 2022. Its wholesale division (c3% of revenue; c5% of net income; four showrooms in KSA) focuses on sales of office and school supplies to re-sellers (c82% are Jarir's private label supplies brand ROCO). We like Jarir's solid balance sheet, returns (c70%+) and FCF generation, as well as its high DPO (95%+) and strong management. We have a Neutral rating, on valuation grounds, and as the company has been struggling to grow earnings (nearly flat since 2019), partly on increased promotions to drive top-line and a change in sales mix.

VALUATION & RISKS

We value Jarir using the five-year discounted cash flow (DCF) methodology, yielding a target price of SAR18.1. Upside risks include: i) faster-than-expected store additions; ii) higher same-store-sales growth; iii) stronger-than-expected margins, on higher supplier rebates, increased direct distribution agreements, with suppliers and/or sales mix shift to higher-margin products (school and office supplies, books, etc.); iv) fast ramp-up of new products (smart TVs, etc.); and v) expansion into new geographies (Egypt is a target). Key downside risks include: i) slower-than-expected pace of new store openings; ii) risks to like-for-like growth as consumer spending slows; iii) volatility in demand for computers and other electronics in KSA; iv) cannibalisation, especially if the geographic distribution of KSA stores is sub-optimal; v) margin compression, on competition and further sales mix shift to lower-margin products (electronics, especially smartphones); vi) temporary slowdown in sales ahead of new key IT product launches; vii) inventory risk; viii) labour cost pressures (limited, as Saudisation is high at c60%); and ix) slow recovery in sales of high-margin office and school supplies.

QUESTIONS

1. How does Jarir see consumer shopping patterns evolving over the coming 12-18 months? What is the current and targeted sales contribution from e-commerce? How different is the margin profile for online and in-store sales? Are you planning to venture into consumer finance (instalment sales)?
2. How has the competitive environment fared recently? Have you seen any market consolidation, given recent pressure on smaller players?
3. What is the expected performance for the office and school supplies business going forward? Are you planning to add new categories?
4. What is the reason for the recent decline in your gross margin? Is it due to sales mix and/or increased promotions?
5. What are the planned store openings in 2023 and beyond? And what is the associated capex?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	9,392	10,890	11,980	13,119
EBITDA	1,173	1,255	1,399	1,561
Net operating profit (EBIT)	1,006	1,075	1,205	1,353
Taxes or zakat	(8)	(26)	(29)	(33)
Minority interest	0	0	0	0
Net income	957	1,006	1,135	1,282
Balance Sheet				
Cash and cash equivalents	526	452	434	453
Total assets	4,257	4,367	4,562	4,802
Total liabilities	2,720	2,837	3,031	3,244
Total equity	1,538	1,529	1,531	1,558
Total net debt (cash)	195	236	239	208
Cash Flow Statement				
Cash operating profit after taxes	1,027	1,076	1,210	1,361
Change in working capital	(124)	(30)	(33)	(36)
CAPEX	(57)	(85)	(109)	(111)
Investments	0	0	0	0
Free cash flow	847	961	1,068	1,213
Net financing	(1,066)	(1,209)	(1,268)	(1,386)
Change in cash	94	(74)	(17)	19
Per Share Numbers				
EPS (SAR)	0.80	0.84	0.95	1.07
DPS (SAR)	0.80	0.85	0.95	1.05
BVPS (SAR)	1.28	1.27	1.28	1.30
Valuation Metrics				
Price to earnings	18.6x	17.7x	15.6x	13.9x
Price to book value	11.6x	11.6x	11.6x	11.4x
Price to cash flow	19.7x	17.0x	15.1x	13.4x
FCF yield	4.8%	5.4%	6.0%	6.9%
Dividend yield	5.4%	5.7%	6.4%	7.1%
EV / EBITDA	15.8x	14.8x	13.3x	11.9x
EV / Invested capital	10.7x	10.5x	10.5x	10.5x
ROAIC	45.0%	46.9%	53.2%	59.7%
ROAE	62.3%	65.6%	74.2%	83.0%
KPIs				
Revenue growth (Y-o-Y)	3.3%	16.0%	10.0%	9.5%
EBITDA growth (Y-o-Y)	1.1%	7.0%	11.4%	11.6%
Gross profit margin	13.7%	12.8%	13.0%	13.2%
EBITDA margin	12.5%	11.5%	11.7%	11.9%
Net operating profit (EBIT) margin	10.7%	9.9%	10.1%	10.3%
Effective tax rate	0.8%	2.5%	2.5%	2.5%
Net Debt (Cash) / Equity	0.1x	0.2x	0.2x	0.1x
Net Debt (Cash) / EBITDA	0.2x	0.2x	0.2x	0.1x

Source: Jarir, EFG Hermes estimates

STOCK DATA

Closing Price	SAR14.8 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.205 / 16 May 2023
MKT. Cap / Shares (mn)	USD4,735 / 1,200
Av. Daily Liquidity (mn)	USD9.76
52-Week High / Low	SAR17.8 / SAR14.3
Bloomberg / Reuters	JARIR AB / 4190.SE
Est. Free Float	72.6%

Hatem Alaa, CFA
halaa@efg-hermes.com

Ahmed Moataz
amoataz@efg-hermes.com

INVESTMENT THESIS

Formed in 2005, Leejam Sports has the largest network of fitness centres in the Middle East (c25% of total KSA fitness market by member count, c50% of organised market; total of c327k members as of 2022). It operates 156 fitness clubs (2022; mostly leased) under the "Fitness Time" (FT) brand in KSA (c98% of revenue, 140 branches) and the UAE (c2%, five branches), which cater to a variety of price points: mass market 'FT' (87 branches), lower-end "FT Pro" (40) and premium "FT Plus" (four). In Jul 2017, Leejam opened its first women's branch in KSA, with the start of the licencing for female fitness centres (44 branches, five of which are Xpress; c24% of revenue and c19% of gross profit). In 4Q20, the company launched its budget brand "FT Xpress", with 25 locations at end-2022. FCF generation is strong (mostly positive since 2014), owing to a negative working capital cycle (gym subscriptions collected in advance), which allows the company to have high returns (sustainable RoAE: 30%+). We have a Buy rating on Leejam, as we expect c16% 5YR earnings growth, driven by aggressive gym openings (targeting to reach 250-300 gyms and 500k members by 2025e).

VALUATION & RISKS

We value Leejam using a five-year DCF valuation, yielding a target price of SAR175. Key upside risks include: i) higher growth in member count or gyms (more aggressive Xpress rollout); ii) less aggressive promotions or rack price hikes (last was in 2014); iii) lower churn rates; iv) higher profitability, especially if female gym margins recover at a faster-than-expected pace; v) improvement in sales mix in favour of higher-priced brands, shorter membership durations, etc.; and vi) better working capital (higher deferred revenue). Key downside risks include: i) slowdown in memberships growth; ii) fiercer competition, especially in the new women's segment; iii) cannibalisation of fitness centres due to overexpansion, especially with the Xpress format; iv) higher churn rates; v) slower-than-expected ramp-up of new gyms; vi) lower LFL growth, if consumer spending slows down; vii) margin pressure from higher operating costs (staff salaries 50%+ of cash costs); viii) inability to raise prices; ix) corporate segment weakness (c20% of members, 240+ customers); x) changes to deferred revenue (shorter membership durations), which could affect working capital negatively; xi) supplier disruptions and contractor delays; xii) frequent management changes; and xiii) societal changes in KSA, with mixed-gender gyms allowed in some areas (we believe acceptance from nationals will be low).

QUESTIONS

1. What has been driving the rebound in member numbers? How has the competitive environment fared recently?
2. What is the strategy for pricing and promotions for 2023 and beyond? What are your targeted profitability levels, and how do you plan to reach/maintain them?
3. What is the targeted number of gym openings and associated capex? What is the split between male and female gyms?
4. How has the Xpress (budget) gym format been performing? What is the associated capex and membership pricing profile? How many of these gyms are you planning to open in the coming years, and what is their expected contribution to your financials?
5. Could you provide further details on the recently acquired Al-Tather Sports and the planned physiotherapy JV with the UAE's Burjeel? What are your plans for this company and expected contribution going forward? Also, what are Leejam's plans for the recently signed agreement with World Wide Padel to form a company specialised in padel? What is the expected contribution from this business?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	1,066	1,220	1,416	1,601
EBITDA	558	631	720	803
Net operating profit (EBIT)	328	382	447	506
Taxes or zakat	(7)	(8)	(10)	(11)
Minority interest	0	0	0	0
Net income	262	314	379	438
Balance Sheet				
Cash and cash equivalents	301	361	442	549
Total assets	2,698	2,830	3,003	3,194
Total liabilities	1,818	1,825	1,846	1,861
Total equity	880	1,006	1,157	1,332
Total net debt (cash)	870	787	670	516
Cash Flow Statement				
Cash operating profit after taxes	438	497	573	642
Change in working capital	113	32	37	42
CAPEX	(178)	(196)	(238)	(242)
Investments	0	0	0	0
Free cash flow	372	333	371	442
Net financing	(369)	(388)	(428)	(485)
Change in cash	121	60	82	107
Per Share Numbers				
EPS (SAR)	5.00	5.99	7.23	8.35
DPS (SAR)	2.65	3.59	4.34	5.01
BVPS (SAR)	16.8	19.2	22.1	25.4
Valuation Metrics				
Price to earnings	30.3x	25.3x	20.9x	18.1x
Price to book value	9.0x	7.9x	6.9x	6.0x
Price to cash flow	14.4x	15.0x	13.0x	11.6x
FCF yield	4.4%	4.0%	4.5%	5.5%
Dividend yield	1.8%	2.4%	2.9%	3.3%
EV / EBITDA	15.8x	14.0x	12.2x	11.0x
EV / Invested capital	5.0x	4.9x	4.8x	4.8x
ROAIC	15.6%	17.9%	19.9%	21.3%
ROAE	32.3%	33.6%	35.3%	35.4%
KPIs				
Revenue growth (Y-o-Y)	20.4%	14.5%	16.1%	13.0%
EBITDA growth (Y-o-Y)	21.0%	13.1%	14.1%	11.5%
Gross profit margin	40.8%	41.5%	41.7%	41.5%
EBITDA margin	52.3%	51.7%	50.8%	50.2%
Net operating profit (EBIT) margin	30.8%	31.3%	31.6%	31.6%
Effective tax rate	2.8%	2.5%	2.5%	2.5%
Net Debt (Cash) / Equity	1.0x	0.8x	0.6x	0.4x
Net Debt (Cash) / EBITDA	1.6x	1.2x	0.9x	0.6x

Source: Leejam, EFG Hermes estimates

STOCK DATA

Closing Price	SAR151 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.640 / 22 May 2023
MKT. Cap / Shares (mn)	USD2,114 / 52.4
Av. Daily Liquidity (mn)	USD6.44
52-Week High / Low	SAR160 / SAR74
Bloomberg / Reuters	LEEJAM AB / 1830.SE
Est. Free Float	48.2%

Hatem Alaa, CFA
halaa@efg-hermes.com

Ahmed Moataz
amoataz@efg-hermes.com

BUSINESS DESCRIPTION

Luberef is a base oil producer in KSA, which was incorporated in 1976 and has two facilities, with a combined capacity of 1.35mn tonnes of base oils: i) Jeddah Facility, established in 1977, which has an annual production capacity of c275k MT of Group I base oils; and ii) Yanbu Facility, commissioned in 1997, with an initial production capacity of c300k MT before it completed the Yanbu Growth I Expansion in 2017 (c1.1 mn tonnes of capacity), which enabled the company to produce Group II base oils. The company also produces various byproducts (such as asphalt, marine heavy fuel oil (MHFO), slack wax, bright stock extract and sulphur) and white products (such as ultra-low sulphur diesel (ULSD), naphtha and drilling fluid) that are sold in the Kingdom and across MENA, the Americas and Europe. In 1H23, the company recorded revenue of SAR4.4bn (cUSD1.17bn) and EBITDA of SAR1.1bn (cUSD290mn), with a crack margin of cUSD630/t.

INVESTMENT THESIS

Luberef is one of the largest base oil producers in the world and is the only virgin base oil producer in KSA. The company is part of the Saudi Aramco base oil alliance, responsible for one in every eight barrels of base oil produced globally. Luberef's operations benefit from two key advantages vs peers, in our view: i) a long-term supply agreement with Saudi Aramco that provides straight-run residue (RCO) derived from Arab Light Crude oil, which allows the company to achieve higher and more stable crack margins than peers that utilise vacuum gas oil (VGO) feedstock; and ii) its production assets have competitive scale globally, with the Yanbu facility ranked amongst the 10 largest refining facilities in the world, in terms of capacity, when including the planned Yanbu Growth II expansion project. The company recently introduced a performance-linked dividend, targeting a payout of 60-80% of FCF, providing more visibility for investors and reducing downside risks on dividends. In the medium term, the company is planning some changes to its operations, including: i) expanding the Yanbu facility to include Group III base oils, which offer better margins and returns; and ii) the permanent shutdown of the Jeddah facility, as it is now over 45 years old, and its technology and efficiency are outdated. The largest risk to Luberef is global crack margins, as this is the main driver of the company's profitability.

QUESTIONS

1. What is Luberef's outlook for global base oil prices and crack margins in 2H23 and FY24? What kind of crack margin premium should we expect for Group III base oils vs Group II, and Group II vs Group I?
2. Do you have any planned shutdowns for 2H23 and FY24?
3. What is your view on local demand in 2H23 and in the medium term? What percentage of local sales are you targeting in the long term, and how would this influence your product premiums, positively or negatively?
4. You were recently allocated additional 2k barrels per day (kbpd) of VGO feedstock and 5 kbpd of RCO feedstock. Should we expect an increase in utilisation rate from the current 90%? How much additional volume do you expect to generate in Group I and Group II and when?
5. How are you planning to balance growth, debt and dividends as part of your long-term strategy?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)
Income Statement				
Revenue	4,394	8,847	10,614	8,940
EBITDA	458	2,096	2,511	2,501
Net operating profit (EBIT)	160	1,742	2,171	2,167
EBT	82	1,691	2,132	2,140
Net income	81	1,502	1,978	2,139
Balance Sheet				
Cash and cash equivalents	673	1,349	1,912	994
Current assets	1,794	3,108	3,695	4,013
Net fixed assets	5,481	5,224	4,913	4,876
Intangibles & others	38	32	37	36
Total assets	7,312	8,364	8,645	8,925
Current liabilities (Including debt)	2,051	1,494	1,216	1,482
Long-term liabilities (Including debt)	1,550	2,626	2,346	2,297
Total liabilities	3,601	4,120	3,562	3,779
Total net worth	3,712	4,245	5,083	5,146
Minority interest	-	-	-	-
Total equity & liabilities	7,312	8,364	8,645	8,925
Total net debt (cash)	1,599	868	152	3
Cash Flow Statement				
CF from operations	311	1,815	2,017	2,547
CF from investments	11	(222)	(49)	(1,943)
CF from finance & non operating CF	171	(916)	(1,405)	(1,194)
Per Share Numbers				
EPS (SAR)	0.48	8.90	11.72	12.68
DPS (SAR)	N/M	N/M	5.00	5.00
BVPS (SAR)	N/M	N/M	N/M	N/M
Valuation Metrics				
Price to earnings	N/M	11.8x	12.4x	11.5x
Price to book value	N/M	N/M	4.8x	4.8x
FCF yield	N/M	N/M	8.0%	N/M
Dividend yield	0.0%	0.0%	3.4%	3.4%
EV / EBITDA	N/M	11.7x	9.8x	9.8x
ROAIC	2.6%	27.4%	30.3%	31.2%
ROAE	2.2%	37.8%	42.4%	41.8%
KPIs				
Revenue growth (Y-o-Y)	-22.0%	101.4%	20.0%	-17.8%
EBITDA growth (Y-o-Y)	86.0%	357.5%	19.8%	28.0%
Net operating profit (EBIT) margin	N/M	987.6%	24.6%	24.2%
Effective tax rate	-1.1%	-11.2%	-13.0%	0.0%
Net debt (cash) / equity	0.4x	0.2x	0.0x	0.0x
Net debt (cash) / EBITDA	3.5x	0.4x	0.1x	0.0x

Source: Saudi Aramco Base Oil Co, Bloomberg

STOCK DATA

Closing Price	SAR145.40 on 03 Sep 2023
Last Div. / Ex. Date	SAR5.00 / 10 Feb 2023
MKT. Cap / Shares (mn)	SAR24,536 / 169
Av. Daily Liquidity (mn)	USD34
52-week High / Low	SAR153.00 / SAR92.50
Bloomberg / Reuters	LUBEREF AB / 2223.SE
Est Free Float	30.0%

Yousef Husseini

yhusseini@efg-hermes.com

Alaa Saleh Aly

asaly@efg-hermes.com

BUSINESS DESCRIPTION

Established in 2013, Maharah Human Resources Co. received a licence from the Ministry of Labour (MoL), allowing it to engage in foreign manpower resource recruitment as an intermediary and to provide manpower services to households, private sector corporates and public sector companies in Saudi Arabia. The company is involved in the retail, hospitality & entertainment, medical, industrial & operational, commercial & banking, and government sectors, with strategic partnerships with 45 global recruitment agencies. The company owns several subsidiaries, mainly: i) Growth Avenue Investment Co. (100%-owned), the company's investment arm that acquired 40% of Saudi Medical Systems Co, which recently won a cSAR3bn government project to supply cooked meals for three years. Growth Avenue also acquired 41% of Care Shield Holding Company last year, which owns and operates Riyadh's Kingdom hospital and specialised clinics; ii) Ayadi Academy (100%), which provides training for domestic workers in housekeeping, cooking, etc.; iii) Spectra Support Services (90%), a market leader in providing workforce related solutions to corporations; iv) GlobCare 'Shifaa' (85%) that provides home medical care and telemedicine using international standards; v) NABD (100%), a logistics services company, serving as the pulse of delivery and logistic services to Maharah's customers; and vi) The Perfect Help Group (96%), providing household services in Dubai and Abu Dhabi. The company also has a 19% shareholding in Kabi Technology, which is an outcome of a merger between Bloovo (Maharah had a 40% stake) and OHR, providing solutions to help employers and jobseekers through AI.

INVESTMENT THESIS

Maharah is one of the largest human resources companies in Saudi Arabia, with 22 branches across 10 cities. It is looking to expand its range of corporate services by assisting employers and job seekers through human resources technology. Key challenges the company is facing include: i) an increase in competition from new entrants; ii) the seasonality of the household sector; iii) required ramp-up of newly acquired companies to obtain maximum value by achieving expected synergies, in addition to restructuring and margin improvement; iv) Saudisation rules affecting the company's core business; v) a highly regulated market with frequent updates; and vi) new government fees. The company's BoD recently approved a new strategic plan to be implemented from 2024, which aims to achieve sustainable revenue growth and profitability by focusing on its core strength segments and entering new key target sectors to differentiate its offering. Meanwhile, the company's 1H23 earnings rose 46% Y-o-Y, on higher revenue, SAR29mn income from associates acquired in 3Q22 (Care Shield Holding and Saudi Medical Systems), and a lower zakat rate.

QUESTIONS

1. Which sectors have returned to pre-COVID-19 levels, in terms of employment, and which sectors are still under pressure in the corporate segment?
2. How is competition, given the new entrants in the market? What is your current market share in the individual and corporate segments?
3. Could you explain the rationale of Maharah's investment strategy (in minority owned companies)? What is the expected impact of the government contract won by Saudi Medical Systems Co. (value, duration and profitability of the contract)?
4. How is the restructuring and ramp-up of newly acquired companies going? When do you expect margin pressure, if any, from the new businesses to subside? There is a decent amount of debt on your balance sheet post recent acquisitions – how does this influence your growth strategy (organic vs inorganic)?
5. What is your outlook on revenue and margins going forward? What is the sustainable margin level for the individual segment? Could you provide us with your guidance for 2023 and 2024?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)a
Income Statement				
Revenue	1,416	1,319	1,684	1,820
EBITDA	207	169	138	149
Net operating profit (EBIT)	183	146	108	117
EBT	190	159	166	187
Net income	177	145	154	178
Balance Sheet				
Cash and cash equivalents	58	89	84	134
Current assets	769	669	676	695
Net fixed assets	199	152	169	167
Intangibles & others	58	215	904	898
Total assets	1,026	1,036	1,749	1,761
Current liabilities (Including debt)	389	376	473	440
Long-term liabilities (Including debt)	81	89	678	684
Total liabilities	470	465	1,151	1,124
Total net worth	559	572	599	638
Minority interest	(4)	(1)	(1)	(1)
Total equity & liabilities	1,026	1,036	1,749	1,761
Total net debt (cash)	(325)	(215)	496	428
Cash Flow Statement				
CF from operations	247	28	194	250
CF from investments	(163)	158	(623)	(659)
CF from finance & non operating CF	(214)	(155)	423	442
Per Share Numbers				
EPS (SAR)	3.73	3.05	3.24	3.79
DPS (SAR)	1.78	1.58	1.58	N/A
BVPS (SAR)	11.77	12.05	12.61	13.43
Valuation Metrics				
Price to earnings	17.0x	20.8x	19.5x	16.7x
Price to book value	5.4x	5.3x	5.0x	4.7x
FCF yield	7.9%	0.5%	6.0%	8.1%
Dividend yield	2.8%	2.5%	2.5%	0.0%
EV / EBITDA	16.6x	20.3x	25.0x	23.1x
ROAIC	26.2%	21.1%	11.0%	12.2%
ROAE	30.8%	25.6%	26.3%	28.8%
KPIs				
Revenue growth (Y-o-Y)	-6.3%	-6.9%	27.7%	24.2%
EBITDA margin	14.6%	12.8%	8.2%	8.2%
Net operating profit (EBIT) margin	12.9%	11.1%	6.4%	6.5%
Effective tax rate	11.5%	19.3%	17.7%	8.3%
Net debt (cash) / equity	(0.6)x	(0.4)x	0.8x	0.7x
Net debt (cash) / EBITDA	(1.6)x	(1.3)x	3.6x	2.9x

Source: Maharah Human Resources Co, Bloomberg

STOCK DATA

Closing Price	SAR63.40 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.00 / 03 Sep 2023
MKT. Cap / Shares (mn)	USD803 / 48
Av. Daily Liquidity (mn)	USD7.3
52-Week High / Low	SAR65.30 / SAR37.89
Bloomberg / Reuters	MAHARAH AB / 1831.SE
Est. Free Float	70.3%

Hatem Alaa, CFA

halaa@efg-hermes.com

Ahmed Moataz

amoataz@efg-hermes.com

INVESTMENT THESIS

The Saudi Arabian Mining Company (Maaden) was founded in 1997 by the Saudi government in order to exploit Saudi Arabia's mineral resources. It operates a fully integrated business through three main divisions: phosphate, aluminium and gold, of which we expect phosphate to be the largest cash generator. Maaden's full vertical integration makes the company one of the lowest-cost global phosphate fertiliser and aluminium producers. Maaden enjoys a grace period at its operations, whereby it will continue to enjoy gas prices at USD0.75/mmBTU until end-2021 for aluminium and 2023 for its second phosphate expansion, protecting the company from sudden feedstock price hikes and providing some visibility on future costs. We expect lower earnings in 2023, as we think ammonia and DAP prices peaked in 2022, but we still expect a strong performance for the company, from a historical perspective. We have a Sell rating on Maaden.

VALUATION & RISKS

We value Maaden using the sum-of-the-parts valuation, which yields a TP of SAR35, with the phosphate division accounting for 57%, aluminium 19% and gold 12% of our TP. We value the phosphate and aluminium division via a discounted cash flow methodology, in line with the commodity stocks within our coverage. For the gold division, we use a combination of P/NAV (1.5x) and EV/reserve and EV/resource metrics. Note that our valuation is highly biased to our terminal assumptions (c70% of our valuation) and that we include the phosphate 3 project in our LT forecasts. The main upside/downside risks to our forecasts would be lower-/higher-than-expected feedstock costs (we assume feedstock prices would eventually rise to USD2.5/mmBtu) and higher-/lower-than-expected product prices.

QUESTIONS

1. What is Maaden's outlook on DAP, gold and aluminium prices in 2H23 and FY24?
2. Could you give us the latest updates on your growth projects (phosphate III project and the Mansourah-Massarah gold project)?
3. Could you discuss your rationale in your recent Vale stake purchase? Did Maaden and the PIF agree with Vale on a potential long-term strategy and expansion?
4. Could you share your thoughts on your optimal target capital allocation, in terms of net debt to EBITDA? When are you planning to begin paying dividends, and how are you planning to allocate capital between debt repayment, capex and dividends?
5. How are you planning to reduce CO2 emissions in the long term? What are your main ESG targets?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	40,277	30,086	32,129	32,495
EBITDA	18,550	9,597	14,674	15,964
Net operating profit (EBIT)	13,537	4,455	9,286	10,641
Taxes or zakat	(889)	(238)	(365)	(457)
Minority interest	(2,810)	(114)	(1,609)	(2,207)
Net income	9,319	2,700	5,715	6,940
Balance Sheet				
Cash and cash equivalents	16,373	11,234	16,164	11,859
Total assets	111,586	105,111	107,493	106,841
Total liabilities	55,546	46,661	42,524	35,675
Total equity	56,040	58,450	64,969	71,166
Total net debt (cash)	26,662	22,727	14,986	12,722
Cash Flow Statement				
Cash operating profit after taxes	17,661	9,359	14,310	15,508
Change in working capital	(1,083)	2,618	1,149	21
CAPEX	(3,466)	(6,208)	(5,333)	(9,278)
Investments	0	0	0	0
Free cash flow	13,111	5,769	10,126	6,251
Net financing	(6,429)	(11,221)	(5,420)	(10,721)
Change in cash	7,266	(5,139)	4,930	(4,304)
Per Share Numbers				
EPS (SAR)	2.52	0.73	1.55	1.88
DPS (SAR)	0	0	0	0.500
BVPS (SAR)	12.2	12.9	14.5	15.9
Valuation Metrics				
Price to earnings	15.9x	55.0x	26.0x	21.4x
Price to book value	3.3x	3.1x	2.8x	2.5x
Price to cash flow	9.0x	12.4x	9.6x	9.6x
FCF yield	4.5%	-3.7%	3.2%	-1.8%
Dividend yield	0.0%	0.0%	0.0%	1.2%
EV / EBITDA	10.8x	20.8x	13.6x	12.5x
EV / Invested capital	2.4x	2.5x	2.5x	2.4x
ROAIC	16.5%	5.1%	11.1%	12.4%
ROAE	23.1%	5.8%	11.3%	12.4%
KPIs				
Revenue growth (Y-o-Y)	50.5%	-25.3%	6.8%	1.1%
EBITDA growth (Y-o-Y)	54.2%	-48.3%	52.9%	8.8%
Gross profit margin	40.3%	22.2%	37.1%	41.0%
EBITDA margin	46.1%	31.9%	45.7%	49.1%
Net operating profit (EBIT) margin	33.6%	14.8%	28.9%	32.7%
Effective tax rate	6.8%	7.8%	4.7%	4.8%
Net Debt (Cash) / Equity	0.5x	0.4x	0.2x	0.2x
Net Debt (Cash) / EBITDA	1.4x	2.4x	1.0x	0.8x

Source: Maaden, EFG Hermes estimates

STOCK DATA

Closing Price	SAR40.3 as of 03 Sep 2023
Last Div. / Ex. Date	N/A / N/A
MKT. Cap / Shares (mn)	USD39,615 / 3,692
Av. Daily Liquidity (mn)	USD18.68
52-Week High / Low	SAR56.9 / SAR40.1
Bloomberg / Reuters	MAADEN AB / 1211.SE
Est. Free Float	34.6%

Yousef Husseini

yhusseini@efg-hermes.com

INVESTMENT THESIS

Middle East Healthcare Co. (MEAHCO) owns and manages hospitals under the Saudi German Hospital (SGH) brand, with a total capacity of 1,986 beds and 831 clinics (2022). MEAHCO has a geographically diverse network, with hospitals in Aseer, Jeddah (a hospital and a one-day surgery facility), Medina, Riyadh, Ha'il (c53%-owned, fully consolidated), Dammam (launched in Feb 2020) and Mecca (Sep 2022). It also operates polyclinics in Jeddah and Abha, and is looking to renovate and expand its hospital in Jeddah (adding 194 beds, 22 clinics, expected in 1H25), as well as partnering in Batterjee medical hospital in Jeddah, with a contribution of SAR70mn (23.33% of the project's total capital). MEAHCO offers operations and management (O&M) services for hospitals outside KSA (currently in the UAE, Egypt and Yemen) that use the SGH brand name in return for 10% of pre-tax profit of the managed hospital (c1% of revenues, c2% of gross profit). We are Buyers of MEAHCO, as we expect earnings recovery that started in 4Q22 to continue (2023-24e CAGR of 96%, followed by 2025-27e CAGR of 23%) with improved visibility, given limited expansion plans.

VALUATION & RISKS

We value MEAHCO using a five-year discounted cash flow (DCF) model, yielding a target price of SAR92.0. Upside risks include: i) higher-than-expected utilisations; ii) faster breakeven at new assets (Jeddah, Mecca hospitals and Abha clinics); iii) price increase, on better contractual terms with insurers, etc.; iv) improved receivables' days-on-hand, mainly through the collection of late dues from MoH and insurance; v) quicker recovery in margins after sizable pressure over 2016-21 (targeting an overall EBITDA margin of 20-25% and net margin of 15-20%; we assume c20% and c13% by 2027e); vi) new hospital expansions and/or value-accretive acquisitions; and vii) reaching settlement with MoH on written-off receivables (SAR358mn). Downside risks include: i) receivables' risk, due to high exposure to government business (MoH); ii) slower ramp-up of new capacities; iii) pressure on margins; iv) tougher competition as private sector players expand; and v) labour costs (c63% of cash costs) pressures, given a limited supply of skilled local physicians.

QUESTIONS

1. How have MEAHCO's newest hospitals (Riyadh and Makkah) been performing? When do you expect the hospitals to reach net income breakeven?
2. What are your expansion plans and their associated investment costs? What is the expected impact on profitability?
3. What is the update on the review of legacy MoH receivables that were written off? What is the targeted MoH contribution going forward and overall receivables collection period?
4. What is your targeted profitability level, and when do you plan to achieve it?
5. Could you provide further details on the intended issuance of a sukuk? What will be the intended use from this issuance?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	2,152	2,609	2,981	3,427
EBITDA	286	480	587	663
Net operating profit (EBIT)	140	293	397	462
Taxes or zakat	(10)	(12)	(18)	(19)
Minority interest	4	(6)	(12)	(19)
Net income	77	189	297	368
Balance Sheet				
Cash and cash equivalents	16	102	132	173
Total assets	4,499	4,896	5,087	5,209
Total liabilities	3,091	3,339	3,313	3,232
Total equity	1,408	1,557	1,774	1,977
Total net debt (cash)	2,225	2,224	2,049	1,753
Cash Flow Statement				
Cash operating profit after taxes	277	467	569	644
Change in working capital	(229)	(71)	(24)	(28)
CAPEX	(250)	(250)	(265)	(183)
Investments	0	0	0	0
Free cash flow	(201)	146	280	433
Net financing	161	(15)	(276)	(419)
Change in cash	(13)	86	30	41
Per Share Numbers				
EPS (SAR)	0.84	2.03	3.16	3.87
DPS (SAR)	0	0.495	0.979	1.938
BVPS (SAR)	14.8	16.2	18.2	20.0
Valuation Metrics				
Price to earnings	69.6x	28.7x	18.5x	15.1x
Price to book value	3.9x	3.6x	3.2x	2.9x
Price to cash flow	N/M	13.7x	10.1x	9.0x
FCF yield	-5.0%	0.8%	3.5%	6.5%
Dividend yield	0.0%	0.8%	1.7%	3.3%
EV / EBITDA	26.6x	15.9x	13.0x	11.5x
EV / Invested capital	2.1x	2.0x	2.0x	2.0x
ROAIC	3.8%	7.4%	9.7%	11.3%
ROAE	5.9%	13.2%	18.5%	20.4%
KPIs				
Revenue growth (Y-o-Y)	14.9%	21.3%	14.2%	15.0%
EBITDA growth (Y-o-Y)	46.3%	67.6%	22.4%	12.9%
Gross profit margin	31.6%	34.6%	35.9%	35.9%
EBITDA margin	13.3%	18.4%	19.7%	19.3%
Net operating profit (EBIT) margin	6.5%	11.2%	13.3%	13.5%
Effective tax rate	11.8%	6.0%	5.5%	4.8%
Net Debt (Cash) / Equity	1.6x	1.4x	1.2x	0.9x
Net Debt (Cash) / EBITDA	7.8x	4.6x	3.5x	2.6x

Source: MEAHCO, EFG Hermes estimates

STOCK DATA

Closing Price	SAR58.4 as of 03 Sep 2023
Last Div. / Ex. Date	SAR2.00 / 25 Jun 2018
MKT. Cap / Shares (mn)	USD1,433 / 92.0
Av. Daily Liquidity (mn)	USD13.77
52-Week High / Low	SAR78.8 / SAR25.1
Bloomberg / Reuters	MEH AB / 4009.SE
Est. Free Float	44.3%

Ahmed Moataz
amoataz@efg-hermes.com

Hatem Alaa, CFA
halaa@efg-hermes.com

INVESTMENT THESIS

Etihad Etisalat (Mobily) is Saudi Arabia's second largest mobile operator by market and revenue share. Historically, the stock offered a similar dividend yield as that of cash-cow competitor, STC; however, following the 2014 accounting restatements, Mobily ceased dividend payments for five years. The ensuing restructuring efforts to restore profitability and financial health led to a visible turnaround, which enabled the company to resume paying dividends in 2020. Despite the need to continue improving asset monetisation and FCF generation, we believe Mobily has the capacity and financial strength to increase its dividends gradually. As a priority, Mobily is focusing on increasing data revenue, while simultaneously optimising costs, in addition to attracting government contracts. The company focuses on growth pockets in the KSA telecom market, particularly data, broadband and the corporate segment; we believe it is well-positioned to benefit from the digitisation theme that continues to drive data usage in the market. Moreover, one of Mobily's key strategic priorities is deleveraging, an effort that - in addition to a lower interest rate environment - has already led to lower finance charges.

VALUATION & RISKS

We value Mobily using a discounted cash flow (DCF) model, which yields a TP of SAR55.0, using a cost of equity of 10.5% to reflect the risks the company is facing, in terms of competition, tough regulatory environment and lack of visibility on the macroeconomic outlook; hence, our growth and margin assumptions lean towards the lower end, and we see an upside to our forecasts and TP, if the company accelerates revenue growth as it pushes ahead with its 5G network roll-out and asset-monetisation efforts. We have a Buy rating on the stock, as we see attractive trading multiples relative to historical forward levels, and considering the company's improved risk profile. Upside risks and catalysts include: i) an improvement in FCF generation£pv£ ii) stronger profitability margins; and iii) higher dividend distribution. The main downside risk to our valuation is a return to aggressive tariff-based competition, which could cause value destruction in the KSA telecom market as a whole, particularly as the market is still unbalanced because of STC's dominance. While the regulator has been attempting to remedy this issue, the overall environment remains unfavourable for smaller players. Lastly, higher interest rates pose a moderate risk to earnings.

QUESTIONS

1. Where does Mobily see its long-term fair share of the enterprise market, given STC's dominance in this segment? What capex is allocated to your digitisation strategy? Do you believe your current network capacity is sufficient to capture the increasing demand from B2B?

2. Do you have any large capex plans in the near term? What should the capex-to-sales level be in the coming years, and where will you direct most capex spending?

3. With the momentum in the tower sector accelerating, would you reconsider selling your towers? Why did you walk away from potential deals in the past?

4. With leverage now at a comfortable level, declining capex intensity and DPS hikes in FY21 and FY22, should we expect higher dividends going forward? What will your dividend policy be?

5. How are you capitalising on the government's digitalisation initiatives so far? Are there any major projects with the government in the pipeline?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	15,669	16,626	17,123	17,627
EBITDA	6,162	6,550	6,727	6,907
Net operating profit (EBIT)	2,312	2,754	2,943	3,151
Taxes or zakat	(122)	(160)	(160)	(160)
Net income	1,657	1,945	2,210	2,496
Balance Sheet				
Cash and cash equivalents	2,841	2,939	3,387	4,585
Total assets	39,769	39,484	39,408	40,143
Total liabilities	23,411	22,066	20,819	20,290
Total equity	16,359	17,418	18,589	19,853
Total net debt (cash)	10,004	8,575	6,675	4,741
Cash Flow Statement				
Cash operating profit after taxes	6,725	6,550	6,732	6,918
Change in working capital	(682)	(531)	(145)	(153)
CAPEX	(2,430)	(3,055)	(3,075)	(3,105)
Investments	(1,014)	14	(500)	(1,000)
Free cash flow	2,599	2,977	3,012	2,660
Net financing	(2,821)	(2,866)	(3,064)	(2,462)
Change in cash	(223)	111	(52)	198
Per Share Numbers				
EPS (SAR)	2.15	2.53	2.87	3.24
DPS (SAR)	1.15	1.35	1.60	1.85
BVPS (SAR)	21.2	22.6	24.1	25.8
Valuation Metrics				
Price to earnings	21.1x	17.9x	15.8x	14.0x
Price to book value	2.1x	2.0x	1.9x	1.8x
Price to cash flow	6.1x	6.6x	5.9x	5.6x
FCF yield	9.4%	6.6%	8.4%	9.1%
Dividend yield	2.5%	3.0%	3.5%	4.1%
EV / EBITDA	7.3x	6.9x	6.7x	6.5x
EV / Invested capital	1.7x	1.7x	1.8x	1.8x
EV / Sub	4,862	4,612	4,392	4,195
ROAIC	8.4%	10.0%	10.9%	11.7%
ROAE	10.5%	11.5%	12.3%	13.0%
KPIs				
Revenue growth (Y-o-Y)	5.6%	6.1%	3.0%	2.9%
EBITDA growth (Y-o-Y)	10.1%	6.3%	2.7%	2.7%
Gross profit margin	59.8%	58.9%	58.8%	58.7%
EBITDA margin	39.3%	39.4%	39.3%	39.2%
Net operating profit (EBIT) margin	14.8%	16.6%	17.2%	17.9%
Effective tax rate	6.8%	7.6%	6.8%	6.0%
Net Debt (Cash) / Equity	0.6x	0.5x	0.4x	0.2x
Net Debt (Cash) / EBITDA	1.6x	1.3x	1.0x	0.7x

Source: Mobily, EFG Hermes estimates

STOCK DATA

Closing Price	SAR45.3 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.15 / 04 Jun 2023
MKT. Cap / Shares (mn)	USD9,299 / 770.0
Av. Daily Liquidity (mn)	USD12.67
52-Week High / Low	SAR49.5 / SAR31.8
Bloomberg / Reuters	EEC AB / 7020.SE
Est. Free Float	72.0%

Omar Maher

omaher@efg-hermes.com

Laila Galal

lgalal@efg-hermes.com

BUSINESS DESCRIPTION

Established in 2003, Perfect Presentation (2P) is an ICT service and solutions provider operating under a call centre and an SMS service provision licence. The company's operating units are software development (25% of FY22 revenue), operations and maintenance (38%), and customer experience (37%). 2P's journey began with the development of a system providing educational and entertainment content and interactive SMS services. It established a customer services system in 2005, after internally developing the first electronic payment system in KSA. The main focus was government operations and data-centre-related projects to expand the scope of its services. Through partnerships with Saudi banks, 2P was able to introduce software in 2013 that automates the payment of salaries and collects employee dues for their customers. Currently, its main activities include provision of call centre services, robot and AI technologies, application development, cloud computing and big data. In Nov 2022, 4.5mn shares, representing 30% of the company's share capital, were offered in an IPO at SAR10 per share.

INVESTMENT THESIS

Saudi Arabia's focus on digital transformation and the increasing ICT spending, driven by Vision 2030, allows ample room for growth for ICT service providers such as Perfect Presentation. The company's revenue grew 36% and 41% Y-o-Y in 2021 and 2022, respectively. Revenue from government entities made up c86% of total revenue in 2021 and c83% in 2022, giving the company a good level of earnings visibility and a stable flow of contracts. At the time of listing, 2P said it was able to expand its backlog by 2.6x because of strong sales, favourable vendor and client terms and well-established relations with both government and corporate clients. While government initiatives towards digital transformation are significant, 2P is subject to competition across its different business units, which could potentially impede its growth in the future.

QUESTIONS

1. Is Perfect Presentation facing delays in collecting government receivables, considering the 80%+ contribution of government entities to your revenue in the past two years?

2. What are your main products and who do you consider to be your closest competitors in KSA? How can a medium-size business like 2P differentiate itself from large players in the market like Solutions and Elm?

3. Do you plan to diversify the scope of your business outside of your current product offering/segments?

4. Will you maintain a focus mostly on government projects in the long run, or do you have plans to gain customers in the private sector as well? If yes, how will you do that? Which business segment do you believe will generate most of the growth going forward?

5. What is your dividend policy? Do you plan to continue paying dividends after your first-time DPS of SAR0.7 announced in December 2022?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)
Income Statement				
Revenue	482	655	927	967
EBITDA	70	96	142	154
Net operating profit (EBIT)	68	93	138	150
EBT	66	84	136	140
Net income	64	81	131	136
Balance Sheet				
Cash and cash equivalents	11	69	67	45
Current assets	218	383	673	814
Net fixed assets	98	117	131	139
Intangibles & others	1	2	3	1
Total assets	317	501	807	954
Current liabilities (Including debt)	182	313	522	610
Long-term liabilities (Including debt)	24	28	32	34
Total liabilities	206	342	554	643
Total net worth	111	160	254	311
Total equity & liabilities	317	501	807	954
Total net debt (cash)	67	25	92	289
Cash Flow Statement				
CF from operations	49	97	(22)	(116)
CF from investments	(37)	(22)	(20)	(21)
CF from finance & non operating CF	(5)	(16)	40	118
Per Share Numbers				
EPS (SAR)	0.43	0.54	0.88	0.90
DPS (SAR)	0.00	0.00	0.70	0.70
BVPS (SAR)	0.74	1.06	1.69	2.07
Valuation Metrics				
Price to earnings	56.2x	44.9x	27.5x	26.7x
Price to book value	32.6x	22.7x	14.3x	11.6x
FCF yield	0.6%	2.4%	-0.6%	-4.1%
Dividend yield	0.0%	0.0%	2.9%	2.9%
EV / EBITDA	55.5x	40.7x	27.4x	25.3x
ROAIC	N/A	41.3%	38.8%	28.9%
ROAE	N/A	59.5%	63.6%	48.1%
KPIs				
Revenue growth (Y-o-Y)	N/A	35.9%	41.4%	17.8%
EBITDA margin	14.6%	14.6%	15.4%	16.0%
Net operating profit (EBIT) margin	14.1%	14.2%	14.9%	15.5%
Effective tax rate	5.3%	8.6%	7.2%	2.8%
Net debt (cash) / equity	0.6x	0.2x	0.4x	0.9x
Net debt (cash) / EBITDA	1.0x	0.3x	0.6x	1.9x

Source: Perfect Presentation, Bloomberg

STOCK DATA

Closing Price	SAR24.12 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.7 / 18 Dec 2022
MKT. Cap / Shares (mn)	USD965 / 150
Av. Daily Liquidity (mn)	USD10.3
52-Week High / Low	SAR26.25 / SAR13.78
Bloomberg / Reuters	2P AB / 7204.SE
Est. Free Float	81.8%

Omar Maher
omaher@efg-hermes.com

Laila Galal
lgalal@efg-hermes.com

BUSINESS DESCRIPTION

Retal Urban Development Company (Retal) is a KSA-listed real estate development company that develops residential, commercial and mixed-use properties in Saudi Arabia, primarily through the off-plan sales model. Retal was founded in 2012 as a subsidiary of Alfozan Holding based in Al Khobar, Saudi Arabia, aiming to be the most iconic urban developer in the country known for creating highly integrated urban residential communities with innovative designs, premium quality and full access to amenities. Retal has 6,560 units under development and in the pipeline and is building iconic master planned communities under a number of brands, including Nesaj Town, Ayala Ewan and Roya. There are currently 11 projects under construction and eight in the pipeline, with around 50% of the units located in the Central region. The company is engaged principally in the: i) purchase of land for construction, development, investment, sale or leasing purpose; ii) construction of buildings, dams and tunnels; iii) management and operation of factories, industrial projects, malls, hotels, restaurants and supermarkets; and iv) maintenance and repair of irrigation and drainage works, including airports, water facilities, sanitation, telephone networks and artesian wells. Retal has been recognised by the Ministry of Municipal, Rural Affairs and Housing (MOMRAH) as the best developer in KSA in 2019 and 2020.

INVESTMENT THESIS

Retal is set to benefit from Saudi Arabia's strong economy and favourable demographics over the long term, capitalising on a young, growing population and the government's commitment to transforming the real estate landscape and improving the standard of living in the country, primarily through its 2030 Vision programme, which is revolutionising the Kingdom into a top destination of choice. The company is focused strategically on acquiring premier locations in Saudi Arabia and offering a premium portfolio that captures a wide range of clients across the affordable, mid-market and high-end market segments, benefitting from the considerable demand for high-quality developments in desirable destinations across the Kingdom. Moreover, through its fully owned subsidiaries, the company offers a full-service integrated platform, delivering solutions across the value chain, including project management, contracting, facilities management and property management. This integration allows Retal to have full control over quality, whilst minimising operational cost. The company's subsidiaries include Tadbeir Real Estate Company, Nesaj Urban Development Company and Building and Construction Company.

QUESTIONS

1. What is your view on the outlook for the Saudi Arabia property market over the coming three-five years? Do you expect the approval of the foreign ownership law to have a significant impact on the sector's dynamics in the short term?

2. What is your view on the project pipeline with National Housing Company (NHC) and Roshn?

3. What are the latest sales trends, in terms of product mix and customer base? What is Retal's sales guidance for 2023? Do you have a set timeline for new launches?

4. What are your plans regarding further land acquisitions?

5. What is your view on the Kingdom's new giga-projects, and do you expect Retal to participate in such developments?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)
Income Statement				
Revenue	587	1,085	1,107	1,281
EBITDA	103	196	232	247
EBIT	90	182	218	236
EBT	103	188	257	277
Net income	98	193	246	265
Balance Sheet				
Account receivables	83	269	243	160
Development properties	139	309	818	1,093
Other assets	947	1,266	1,368	1,760
Total assets	1,170	1,844	2,429	3,013
Current liabilities (including debt)	574	1,039	1,200	1,408
Long-term liabilities (Including debt)	77	236	494	878
Total liabilities	651	1,275	1,694	2,286
Total net worth	519	569	734	727
Minority interest	-	(0)	-	-
Total equity & liabilities	1,170	1,844	2,429	3,013
Total net debt	145	294	299	675
Total net debt (cash)				
Cash Flow Statement				
CF from operations	114	113	0	(188)
CF from investments	(154)	(4)	82	(77)
CF from finance & non operating CF	195	32	24	213
Per Share Numbers				
EPS (SAR)	0.20	0.39	0.49	0.53
DPS (SAR)	0.00	0.16	0.40	0.00
BVPS (SAR)	1.04	1.14	1.47	1.45
Valuation Metrics				
Price to earnings	45.3x	22.9x	18.0x	16.7x
Price to book value	8.5x	7.8x	6.0x	6.1x
FCF yield	-0.9%	2.5%	1.9%	-6.0%
Dividend yield	0.0%	1.8%	4.5%	0.0%
EV / EBITDA	49.7x	26.0x	22.0x	20.6x
ROAIC	16.3%	17.9%	15.3%	10.3%
ROAE	22.8%	35.5%	37.7%	36.2%
KPIs				
Revenue growth (Y-o-Y)	28.7%	84.8%	2.0%	15.7%
EBITDA margin	17.5%	18.0%	21.0%	19.3%
EBIT margin	15.4%	16.7%	19.7%	18.5%
Effective tax rate	5.5%	N/M	4.2%	4.3%
Net debt (cash) / equity	0.28x	0.52x	0.41x	0.93x
Net debt (cash) / EBITDA	1.41x	1.50x	1.29x	2.73x

Source: Retal Urban Development Company, Bloomberg

STOCK DATA

Closing Price	SAR8.84 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.3 / 03 May 2023
MKT. Cap / Shares (mn)	USD1,179 / 500
Av. Daily Liquidity (mn)	USD3.2
52-Week High / Low	SAR11.81 / SAR8.81
Bloomberg / Reuters	RETAL AB / 4322.SE
Est. Free Float	30.9%

Mai Attia

maiattia@efg-hermes.com

Shaza Shaker

sshaker@efg-hermes.com

INVESTMENT THESIS

Riyad Bank is the third largest bank by assets in the Kingdom. It has 338 branches (third largest network) through which it serves c2.3mn customers. It enjoys a strong position in corporate and retail, is the leading SME bank and is the second largest asset manager by AUMs. Riyad has a strong track record of providing finance to Saudi's oil and petrochemicals industry and most of the infrastructure projects. We think its diversified business model, scale and strong corporate relationships position it well to facilitate the Kingdom's transformation under Vision 2030. Incrementally, the bank is focusing on sustainable and green finance and beefing up its private banking business.

VALUATION & RISKS

Our target price is based on a residual income model. In this approach we value the bank using a combination of the book value and a present value of the residual income: the amount by which 2023-27e profits are expected to exceed the required cost of equity. We use a discount rate of 10.0% for Riyad Bank (risk free: 5.0%; ERP: 5.0%) and a terminal growth rate of 4.0% for the terminal value. Key downside risk is slower-than-expected loan growth due to competition or funding constraints.

QUESTIONS

1. Riyad is the largest SME bank in the country. How has the sector performed following the withdrawal of the deferred programme?
2. Your loan growth outlook of high single to low double digits for 2023 looks cautious, considering 8.5% YTD growth. What is shaping your expectations for 2H23?
3. You are eyeing a full-year NIM of 3.5-3.7%. In 1H23, your NIM was c3.7%, which implies it could potentially be lower in 2H23. What are your main concerns?
4. You raised your 2023 cost of risk guidance to 70-90bps, from 60-80bps. What was the reason behind the downgrade?
5. You are part of various Vision 2030 initiatives. Which ones are you most excited about?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Net interest income	10,052	11,744	12,627	13,761
Non interest income	3,547	3,878	4,169	4,571
Total banking income	13,599	15,622	16,796	18,332
Operating expenses	(4,410)	(4,796)	(5,083)	(5,388)
Operating income	9,189	10,827	11,713	12,944
Total provisions	(1,281)	(1,599)	(1,735)	(1,874)
Other income / (expense)	(80)	(34)	(34)	(35)
Income before taxes or zakat	7,828	9,194	9,943	11,035
Taxes or zakat	(809)	(1,011)	(1,094)	(1,214)
Minorities & other items	(65)	(113)	(113)	(113)
Net income	6,955	8,070	8,737	9,709
Balance Sheet				
Customer loans	242,365	272,891	299,299	328,348
Total interest earning assets	348,541	398,238	438,928	483,880
Risk-weighted assets	310,425	336,835	371,226	409,219
Total assets	359,653	410,774	452,715	499,048
Customer deposits	240,007	278,408	309,033	343,027
Total interest bearing liabilities	287,526	332,128	367,699	407,182
Common shareholders' equity	47,652	51,544	55,727	60,178
Cash Flow Statement				
EPS (SAR)	2.32	2.59	2.79	2.97
DPS (SAR)	1.15	1.30	1.39	1.48
BVPS (SAR)	15.9	17.2	18.6	20.1
Valuation Metrics				
Price to earnings	13.0x	11.6x	10.8x	10.1x
Price to pre-provision earnings	9.8x	8.1x	7.5x	7.0x
Price to book value	1.9x	1.7x	1.6x	1.5x
Price to book value (tangible)	1.9x	1.7x	1.6x	1.5x
Dividend yield	3.8%	4.3%	4.6%	4.9%
ROAA	2.0%	2.0%	1.9%	1.9%
ROAE	14.9%	15.7%	15.6%	15.4%
ROAE (tangible)	14.9%	15.7%	15.6%	15.4%
Leverage (Assets / Equity)	7.3x	7.8x	8.0x	8.2x
KPIs				
Loan growth (Y-o-Y)	11.5%	12.6%	9.7%	9.7%
Loans / Deposits	101.0%	98.0%	96.9%	95.7%
Banking income growth (Y-o-Y)	17.6%	19.1%	7.1%	6.3%
Operating income growth (Y-o-Y)	20.9%	21.0%	8.1%	6.9%
Earnings growth (Y-o-Y)	15.4%	11.9%	7.5%	6.4%
Net interest spread	3.49%	3.63%	3.43%	3.38%
Non-interest income / Banking inc.	26.1%	22.4%	22.3%	22.4%
Cost-to-income	32.4%	31.3%	30.7%	30.3%
NPL ratio	1.7%	1.7%	1.8%	1.8%
NPL coverage	112.0%	132.5%	142.4%	156.8%
Cost of risk (bps)	56.1	102.8	103.8	102.3
Tier 1 ratio	18.1%	15.9%	15.6%	15.3%
Capital adequacy ratio	21.1%	19.2%	18.7%	18.1%

Source: Riyad Bank, EFG Hermes estimates

STOCK DATA

Closing Price	SAR30.1 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.650 / 27 Mar 2023
MKT. Cap / Shares (mn)	USD24,034 / 3,000
Av. Daily Liquidity (mn)	USD14.15
52-Week High / Low	SAR37.3 / SAR26.0
Bloomberg / Reuters	RIBL AB / 1010.SE
Est. Free Float	40.4%

Shabbir Malik
smalik@efg-hermes.com

Omnia Kadry
okadry@efg-hermes.com

INVESTMENT THESIS

Riyadh Cables (RC) is MENA's largest cable producer, contributing a 36% market share to KSA's market in 2022. Despite having manufacturing facilities in four markets: KSA, UAE, Kuwait and Iraq, KSA makes up 67% of the company's revenues. RC operates across the whole spectrum, producing wires, low-voltage, medium-voltage, high/extra-high and instrumentation cables. While raw materials represent 77% of cash costs, RC hedges commodities to create a defensive model, built on a cost-plus basis, protecting its profitability. given the strong market dynamics, we expect volumes to enjoy healthy growth to settle at 292k tonne by our terminal year as we take into account the capex deployed in 2023-26e. We expect a normalise FCF converison rate of 80%, offering shareholders the benefit of a sustainable 85% dividend payout. We have a Neutral rating on the name.

VALUATION & RISKS

We value Riyadh Cables using a 10-year discounted cash flow methodology (DCF) until 2031, arriving at our TP of SAR63. We utilise a WACC of 9.2%, deduced from: i) a cost of equity of 10%, derived from a risk free rate of 4.5% and an ERP of 5.5%; ii) a cost of debt of 5%; iii) a weight of debt of c16%; iv) and a TGR of 3%. We assume capacity will grow to 365K tonnes per annum, while normalised utilisation will reach c80% by our terminal year. Key downside risks: i) hike in interest rates will increase difficulty of financing short-term debt; ii) inability to pass on the increase on cash margin per tonne; iii) decrease in volumes and demand; and iv) removal of import barriers could lead to higher competition.

QUESTIONS

1. Do you expect a pick-up in retail demand in 2H23? If so, how would this impact the volume mix? Could you provide guidance on volumes for FY23/24?
2. Do you see margins improving, considering the recent growth of Riyadh Cables Group? When do you expect volumes per tonne to normalise?
3. What are your expansion plans, in view of market growth? Could you provide capex guidance for these growth targets?
4. What is your maximum leverage targets? Will new projects be debt- or equity-funded (or a mix of both)? Will the facilities be fixed, or will they have a variable rate?
5. Is competition in KSA intensifying? What are the barriers to entry?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	6,852	7,600	7,632	8,112
EBITDA	508	733	809	889
Net operating profit (EBIT)	444	666	736	811
Taxes or zakat	(33)	(44)	(61)	(69)
Minority interest	(0)	(0)	(1)	(1)
Net income	323	491	547	621
Balance Sheet				
Cash and cash equivalents	107	242	388	306
Total assets	4,624	5,185	5,422	5,692
Total liabilities	2,503	2,794	2,874	2,956
Total equity	2,121	2,391	2,549	2,735
Total net debt (cash)	1,682	1,772	1,711	1,843
Cash Flow Statement				
Cash operating profit after taxes	465	678	738	810
Change in working capital	(488)	(235)	93	(177)
CAPEX	(19)	(197)	(252)	(210)
Investments	(40)	0	0	0
Free cash flow	(43)	246	579	423
Net financing	132	(109)	(441)	(513)
Change in cash	57	135	146	(81)
Per Share Numbers				
EPS (SAR)	2.29	3.27	3.65	4.14
DPS (SAR)	1.63	2.78	3.10	3.52
BVPS (SAR)	14.1	15.9	17.0	18.2
Valuation Metrics				
Price to earnings	34.6x	24.2x	21.7x	19.2x
Price to book value	5.6x	5.0x	4.7x	4.3x
Price to cash flow	25.6x	17.5x	16.1x	14.7x
FCF yield	-1.0%	1.1%	3.7%	2.5%
Dividend yield	2.1%	3.5%	3.9%	4.4%
EV / EBITDA	26.7x	18.5x	16.8x	15.3x
EV / Invested capital	3.6x	3.3x	3.2x	3.0x
ROAIC	9.9%	13.7%	14.2%	15.3%
ROAE	15.6%	19.9%	20.7%	21.9%
KPIs				
Revenue growth (Y-o-Y)	40.3%	10.9%	0.4%	6.3%
EBITDA growth (Y-o-Y)	41.6%	44.3%	10.4%	9.9%
Gross profit margin	9.4%	11.8%	12.9%	13.1%
EBITDA margin	7.4%	9.6%	10.6%	11.0%
Net operating profit (EBIT) margin	6.5%	8.8%	9.6%	10.0%
Effective tax rate	9.1%	8.2%	10.0%	10.0%
Net Debt (Cash) / Equity	0.8x	0.7x	0.7x	0.7x
Net Debt (Cash) / EBITDA	3.3x	2.4x	2.1x	2.1x

Source: Riyadh Cables Group, EFG Hermes estimates

STOCK DATA

Closing Price	SAR79.3 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.50 / 21 Jun 2023
MKT. Cap / Shares (mn)	USD3,171 / 150.0
Av. Daily Liquidity (mn)	USD5.53
52-Week High / Low	SAR79.3 / SAR36.3
Bloomberg / Reuters	RIYADHCA AB / 4142.SE
Est. Free Float	22.0%

Ahmed Hazem Maher
ahmaher@efg-hermes.com

INVESTMENT THESIS

SADAFCO is KSA's number one UHT milk (c65% of FY22/23 revenue) producer, sold under the 'Saudia' brand, with a 62.6% market share. It is also the leader in ice cream (c30.2% market share; c14% of revenue; c50% gross margin) and tomato paste (c54.4%; c9%). SADAFCO underwent four years of restructuring post the 2006 boycott, from which it emerged with a strong, cash-rich balance sheet and solid returns. It has a premium pricing strategy, demonstrating greater pricing power than other KSA dairy players. Its reliance on powder vs raw milk as its main input grants it flexibility in cost management. It has four plants: three in Jeddah (milk and ice cream – new factory opened in 2021 and an idle one that was the old ice cream facility) and one in Dammam (tomato paste, snacks and feta cheese). The reopening of the Dammam plant in 2H13 (closed in 2006) has allowed for capacity expansions and could enable the production of outsourced SKUs (ketchup, water, French fries, etc.). In Jul 2018, SADAFCO acquired a 76% stake in Polish powdered milk producer, Mlekoma, for SAR77mn, which should provide some vertical integration benefits, but overall contribution is small (10% of FY22/23 revenue). We have a Buy rating, as we expect continued strong revenue trends and earnings growth (+33% Y-o-Y in FY24e after +67% in FY23; c14% CAGR thereafter), supported by higher volumes, prices and margins.

VALUATION & RISKS

We value SADAFCO using the discounted cash flow methodology, yielding a target price of SAR377. Upside risks include: i) better-than-expected gross margin, on favourable SMP sourcing/prices and/or higher end-product prices (fewer promotions); ii) faster growth at smaller segments (ice cream, tomato paste, powdered milk, cheese, snacks, etc.); iii) capacity additions/new categories (Dammam plant reopening in 2013 and old ice cream factory); iv) robust growth outside KSA (c17% of revenue, including c10% from Mlekoma); v) value-accretive acquisitions; vi) market share gains in key categories and successful ramp-up of new products; and vii) utilisation of large cash pile (net cash at c25% of FY21/22 assets). Downside risks include: i) revenue weakness, on aggressive price competition, market share loss, etc.; ii) SG&A cost spike, on Saudisation pressures and/or efforts to gain market share; iii) input cost hikes (mainly SMP and AMF); iv) launch of aggressive price promotions to gain market share; v) shift away from long-life to fresh milk; vi) single product risk (sales largely skewed towards UHT milk); and vii) unfavourable channel mix (rising contribution from lower-margin modern trade that is at c30% of sales; however, traditional trade c33%] and wholesalers c31%] have a larger contribution).

QUESTIONS

1. How has the competitive environment changed? Are you seeing signs of increased discounting by players in the UHT milk segment as commodity prices have eased or a shift in consumption towards UHT milk? What is SADAFCO's market share for the different segments?
2. What price increases have you implemented in 2023 and what is your pricing strategy going forward? What is your margin outlook, given the decline in commodity prices vs last year? How much SMP inventory do you hold, and at what prices? What is your targeted marketing spending and opex as a % of sales?
3. What drove the decline in sales and profitability at your Polish subsidiary, Mlekoma, in 1Q23/24? How much of your total raw material needs can it provide? Does it sell exclusively to you? What is the impact of Mlekoma on your bottom-line? When will Mlekoma's put option be exercised?
4. Apart from existing product lines, do you see room for any major product introductions to contribute meaningfully over the coming two-three years? Why was capex elevated in 2022/23, and what is the normalised level going forward?
5. How do you plan to utilise excess cash on your balance sheet? Are you looking at any M&A opportunities? Is there room for a higher DPO?

DATA MINER

(Mar Year End) In SARmn, unless otherwise stated	2022a	2023a	2024e	2025e
Income Statement				
Revenue	2,170	2,648	3,015	3,310
EBITDA	335	489	601	674
Net operating profit (EBIT)	231	369	480	550
Taxes or zakat	(25)	(29)	(40)	(40)
Minority interest	(2)	(2)	(5)	(5)
Net income	206	345	458	528
Balance Sheet				
Cash and cash equivalents	626	685	944	1,248
Total assets	2,286	2,484	2,809	3,184
Total liabilities	823	906	996	1,098
Total equity	1,464	1,578	1,813	2,086
Total net debt (cash)	(559)	(621)	(890)	(1,204)
Cash Flow Statement				
Cash operating profit after taxes	310	461	561	634
Change in working capital	(27)	(91)	(13)	(14)
CAPEX	(167)	(96)	(91)	(90)
Investments	2	1	0	0
Free cash flow	117	275	457	530
Net financing	(209)	(195)	(204)	(233)
Change in cash	(82)	62	259	304
Per Share Numbers				
EPS (SAR)	6.3	10.6	14.1	16.2
DPS (SAR)	6.00	6.00	7.00	8.00
BVPS (SAR)	44.4	47.9	55.0	63.2
Valuation Metrics				
Price to earnings	49.4x	29.6x	22.2x	19.3x
Price to book value	7.1x	6.5x	5.7x	5.0x
Price to cash flow	36.1x	27.5x	18.6x	16.4x
FCF yield	1.1%	2.8%	4.7%	5.4%
Dividend yield	1.9%	1.9%	2.2%	2.6%
EV / EBITDA	28.5x	19.5x	15.9x	14.2x
EV / Invested capital	10.6x	10.0x	10.3x	10.8x
ROAIC	13.6%	21.7%	25.3%	25.7%
ROAE	14.5%	23.2%	27.7%	27.7%
KPIs				
Revenue growth (Y-o-Y)	3.1%	22.0%	13.9%	9.8%
EBITDA growth (Y-o-Y)	-12.1%	46.1%	22.9%	12.1%
Gross profit margin	30.3%	31.1%	33.1%	33.7%
EBITDA margin	15.4%	18.5%	19.9%	20.4%
Net operating profit (EBIT) margin	10.6%	13.9%	15.9%	16.6%
Effective tax rate	10.8%	8.4%	8.0%	7.0%
Net Debt (Cash) / Equity	(0.4)x	(0.4)x	(0.5)x	(0.6)x
Net Debt (Cash) / EBITDA	(1.7)x	(1.3)x	(1.5)x	(1.8)x

Source: SADAFCO, EFG Hermes estimates

STOCK DATA

Closing Price	SAR313 as of 03 Sep 2023
Last Div. / Ex. Date	SAR3.00 / 08 Jan 2023
MKT. Cap / Shares (mn)	USD2,715 / 32.5
Av. Daily Liquidity (mn)	USD5.27
52-Week High / Low	SAR372 / SAR193
Bloomberg / Reuters	SADAFCO AB / 2270.SE
Est. Free Float	48.2%

Hatem Alaa, CFA
halaa@efg-hermes.com

Mirna Maher, CFA
mmaher@efg-hermes.com

INVESTMENT THESIS

Saudi Airlines Catering is the sole provider of airline catering services in KSA (c63% of 2022 revenues; 6 production units with 72mn meals capacity + 27mn frozen meals). Its main client is KSA's flag carrier Saudia (c36% stake; c63% of revenues) and 50+ other airlines. It has exclusive rights to sell products on board Saudia flights (Sky Sales, c3%) and runs duty-paid boutiques in some KSA airports (18). It also operates first and business class lounges at KSA airports (c10%; 10+ lounges; c2mn guests with c4mn capacity). Catering has been strongly diversifying into the non-airline segment (religious, business, rail and remote site catering, and accommodation, security and laundry services; c21%; 50+ clients) that has high growth but lower margins. The company historically maintained impressive margins and returns, owing to an asset-light model and its strong FCF generation and balance sheet (cash-rich, debt-free). We have a Buy rating as we expect strong 5YR earnings CAGR of 28% driven by KSA's attractive aviation and tourism sectors (aggressive Saudia fleet and airport expansions; expected uptick in pilgrim numbers, in line with vision 2030) as well as continued non-airline contract wins (targeting for non-airline revenue to be c50% of total).

VALUATION & RISKS

We value Catering using the DCF methodology, yielding a target price of SAR116. Upside risks include: i) higher in-flight catering revenue strong passenger traffic growth at Saudia and other airlines; ii) accelerated growth at Catering's non-airline division; iii) better working capital management (shorter collection periods); iv) limited margin dilution, as a result of diversification into the non-airline business and changes in contract with Saudia; v) value-accretive acquisitions in the non-airline segment; and vi) faster growth at Sky Sales, business lounges and other revenue. Downside risks include: i) unfavourable changes to Saudia catering contract; ii) margin dilution, as a result of diversification into the lower margin, non-airline division; iii) price discounts to Saudia and other airlines (previous catering contract had volume-linked discounts of 1-2.25%; one-time c10% discount took place in 2011); iv) indirect exposure to airline industry risk£pv£ v) infrequent contract price adjustments to movements in commodity prices; vi) longer collection periods; vii) non-renewal of the Saudia catering agreement (unlikely, given Saudia's shareholding in Catering; current contract expires on 31 Dec 2029); and viii) competition risk, especially in the non-airline segment, or if a strong player enters Saudi's airline catering market.

QUESTIONS

1. Has travel activity returned to pre-COVID-19 levels? Other than in-flight catering, how have other segments (Sky Sales, business lounge and non-airline) been performing/ recovering?
2. How do you intend to grow non-airline to c50% of total revenue? Are you looking at any M&A targets to help achieve this target? Also, could you share details on the recently signed SAR9bn non-catering contract with Red Sea Global?
3. What are Catering's targeted profitability levels, and how do you plan to achieve them? Should we expect margin dilution, due to the rising contribution from your non-airline business?
4. What are the terms of the renewed contract with Saudia? Have there been any material changes from the previous one? How has the collection of receivables been from Saudia, and are you taking provisions against overdue receivables?
5. What is your targeted dividend payout ratio and capex plan?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	1,818	2,301	2,827	3,391
EBITDA	421	489	605	727
Net operating profit (EBIT)	258	338	446	561
Taxes or zakat	(29)	(39)	(49)	(59)
Minority interest	0	0	0	0
Net income	236	316	420	528
Balance Sheet				
Cash and cash equivalents	417	619	765	908
Total assets	2,031	2,304	2,557	2,839
Total liabilities	952	1,156	1,337	1,542
Total equity	1,079	1,149	1,220	1,297
Total net debt (cash)	(110)	(291)	(457)	(614)
Cash Flow Statement				
Cash operating profit after taxes	308	364	468	578
Change in working capital	(107)	(168)	(87)	(104)
CAPEX	(18)	(28)	(30)	(34)
Investments	0	0	0	0
Free cash flow	182	168	351	441
Net financing	(90)	(101)	(345)	(447)
Change in cash	241	201	147	143
Per Share Numbers				
EPS (SAR)	2.88	3.85	5.12	6.44
DPS (SAR)	0.50	3.00	4.25	5.50
BVPS (SAR)	13.2	14.0	14.9	15.8
Valuation Metrics				
Price to earnings	36.7x	27.4x	20.6x	16.4x
Price to book value	8.0x	7.5x	7.1x	6.7x
Price to cash flow	43.2x	44.2x	22.7x	18.3x
FCF yield	2.1%	1.9%	4.1%	5.1%
Dividend yield	0.5%	2.8%	4.0%	5.2%
EV / EBITDA	20.3x	17.5x	14.1x	11.7x
EV / Invested capital	8.8x	10.0x	11.2x	12.5x
ROAIC	16.8%	20.9%	26.4%	32.2%
ROAE	24.2%	28.3%	35.5%	41.9%
KPIs				
Revenue growth (Y-o-Y)	49.9%	26.6%	22.9%	19.9%
EBITDA growth (Y-o-Y)	87.0%	16.1%	23.7%	20.2%
Gross profit margin	28.4%	29.0%	29.8%	30.2%
EBITDA margin	23.2%	21.2%	21.4%	21.4%
Net operating profit (EBIT) margin	14.2%	14.7%	15.8%	16.5%
Effective tax rate	10.0%	11.0%	10.5%	10.0%
Net Debt (Cash) / Equity	(0.1)x	(0.3)x	(0.4)x	(0.5)x
Net Debt (Cash) / EBITDA	(0.3)x	(0.6)x	(0.8)x	(0.8)x

Source: Saudi Airlines Catering, EFG Hermes estimates

STOCK DATA

Closing Price	SAR106 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.500 / 03 Apr 2023
MKT. Cap / Shares (mn)	USD2,309 / 82.0
Av. Daily Liquidity (mn)	USD14.15
52-Week High / Low	SAR126 / SAR70
Bloomberg / Reuters	CATERING AB / 6004.SE
Est. Free Float	54.9%

Hatem Alaa, CFA
halaa@efg-hermes.com

Ahmed Moataz
amoataz@efg-hermes.com

INVESTMENT THESIS

Saudi Awwal Bank (SAB), was formed through a merger between SAB and Alawwal in 2019. It is the fourth largest bank by assets in the Kingdom. SAB is primarily a corporate bank, with the segment accounting for 50% of revenue and 75% of its loans. SAB's retail bank, fourth largest in the KSA, is focused on affluent Saudi nationals and expatriates. It is making inroads in the mortgage segment, due to growth in the non-REDF sub-segment. It has a strong trade finance franchise and a credit card product. Its partnership with HSBC is unique, as it offers the bank's customers access to international services, a wide international network of branches and global best practices. SAB also offers superior capitalisation and liquidity relative to the sector.

VALUATION & RISKS

Our target price is based on a residual income model. Through this approach, we value the bank using a combination of the book value and present value of the residual income: the amount by which 2023-27e profits are expected to exceed the required cost of equity. We use a discount rate of 10% for SAB and a terminal growth rate of 4.0% for the terminal value. SAB's NIM could surprise positively if CASA migration to time is not as strong as we envisage. High interest rates could mean that SAB experiences sharp migration of CASA to time deposits, which would negatively impact its NIM. Loan growth could disppoint if macro weakens or high rates dents credit appetite.

QUESTIONS

1. SAB's NIM was sequentially lower in 2Q23. Your guidance envisages NIM expansion in 2H23. What factors are shaping this outlook?

2. You said your NIM sensitivity to rates has moderated, relative to recent history. Why has this been the case?

3. You guide for 12-13% loan growth for 2023, and you have already achieved 8% growth YTD, implying somewhat of a slowdown in 2H23. What are your concerns for 2H23?

4. Your provisioning was low in 1H23 (cost of risk: 37bps) and last year (24bps). Do you expect it to normalise in the near to medium term?

5. You have indicated that you will unveil your MT targets in 2H23. What should we expect to see unveiled?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Net interest income	7,408	8,904	9,329	10,105
Non interest income	2,235	2,650	2,815	2,991
Total banking income	9,643	11,554	12,145	13,096
Operating expenses	(3,662)	(4,094)	(4,298)	(4,513)
Operating income	5,981	7,461	7,846	8,582
Total provisions	(445)	(910)	(991)	(1,081)
Other income / (expense)	172	N/A	N/A	N/A
Income before taxes or zakat	5,708	6,626	6,936	7,589
Taxes or zakat	(836)	(994)	(1,041)	(1,139)
Minorities & other items	0	0	0	0
Net income	4,872	5,632	5,895	6,450
Balance Sheet				
Customer loans	183,132	204,097	222,885	242,487
Total interest earning assets	294,626	305,997	331,674	359,778
Risk-weighted assets	264,835	9,480	10,244	11,080
Total assets	314,451	326,121	352,401	381,139
Customer deposits	214,279	227,997	248,517	270,884
Total interest bearing liabilities	244,911	250,960	273,091	297,214
Common shareholders' equity	53,162	57,628	60,282	63,186
Per Share Numbers				
EPS (SAR)	2.37	2.74	2.87	3.14
DPS (SAR)	1.35	1.51	1.58	1.73
BVPS (SAR)	25.9	28.1	29.4	30.8
BVPS (tangible) (SAR)	20.6	22.8	24.1	25.5
Valuation Metrics				
Price to earnings	15.0x	13.0x	12.4x	11.3x
Price to pre-provision earnings	12.2x	9.8x	9.3x	8.5x
Price to book value	1.4x	1.3x	1.2x	1.2x
Price to book value (tangible)	1.7x	1.6x	1.5x	1.4x
Dividend yield	3.8%	4.2%	4.4%	4.9%
ROAA	1.7%	1.8%	1.7%	1.8%
ROAE	9.2%	10.0%	10.0%	10.4%
ROAE (tangible)	11.5%	12.3%	12.2%	12.6%
Leverage (Assets / Equity)	5.5x	5.6x	5.8x	5.9x
KPIs				
Loan growth (Y-o-Y)	9.3%	9.3%	9.2%	8.8%
Loans / Deposits	85.5%	89.5%	89.7%	89.5%
Banking income growth (Y-o-Y)	21.5%	18.3%	5.1%	7.8%
Operating income growth (Y-o-Y)	41.6%	27.2%	5.2%	9.4%
Earnings growth (Y-o-Y)	52.2%	17.1%	4.7%	9.4%
Net interest spread	2.55%	2.81%	2.73%	2.73%
Non-interest income / Banking inc.	23.2%	22.9%	23.2%	22.8%
Cost-to-income	38.0%	35.4%	35.4%	34.5%
NPL ratio	4.8%	4.0%	3.5%	3.5%
NPL coverage	122.8%	144.6%	162.2%	160.3%
Cost of risk (bps)	24.4	45.0	45.0	45.0
Tier 1 ratio	17.5%	516.5%	503.9%	492.1%
Capital adequacy ratio	19.9%	591.2%	579.2%	568.0%

Source: SAB, EFG Hermes estimates

STOCK DATA

Closing Price	SAR35.6 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.740 / 05 Apr 2023
MKT. Cap / Shares (mn)	USD19,502 / 2,055
Av. Daily Liquidity (mn)	USD14.41
52-Week High / Low	SAR43.5 / SAR32.3
Bloomberg / Reuters	SABB AB / 1060.SE
Est. Free Float	42.4%

Shabbir Malik
smalik@efg-hermes.com

Omnia Kadry
okadry@efg-hermes.com

BUSINESS DESCRIPTION

Established in 2011, Saudi Ground Services Co. (SGS) is the leading ground-handling service provider in KSA operating across all airports in the Kingdom. The company offers a range of services to both local and international airlines (carrying c70mn passengers on 760k flights in 2022), including: i) passenger services, such as ticketing, check-in, boarding & gate arrival and departure services; ii) ramp services, such as baggage and cargo handling and other technical support functions; iii) fleet-cleaning services for various airlines; iv) traffic control services, including maintaining communication between the aircraft and terminals; and v) security assistance prior to boarding aircraft. SGS's main contributors to revenue are Jeddah (37% of FY22 revenue) and Riyadh (31%) airports. The company's main client is Saudia (c40% of 1H23 revenue), which is also the largest shareholder in the company (owns c52.5%).

INVESTMENT THESIS

Although SGS's presence across all KSA airports is unmatched by any player in the market, competition is rising, mainly from Swissport, which was awarded KSA's second ground-handling licence in 2015, in addition to other ground service providers, such as Arabasco, Future Light Aircraft Services and Al-Shati'. The company's strategy is to convert from a single-service operator to an airport operator by applying for catering services, as well as looking into offering fueling services. SGS was impacted severely by the COVID-19 pandemic, especially in 2020, but managed to mitigate the impact through several cost-cutting initiatives. In 1H23, the company recorded net profit of SAR90mn (vs net loss of SAR86mn in 1H22), mainly on a 29% Y-o-Y increase in revenue and higher margins. In Jun 2021, SGS signed a five-year contract worth SAR5.9bn with Saudia, to renew the provision of ground-handling services for Saudia's domestic and international flights at all airports across Saudi Arabia. In Apr 2022, the company's consortium with Saudi Services and Operations Co. was awarded an SAR342.8mn contract to operate and maintain passenger bridges and gate services at King Abdulaziz International Airport (KAIA) in Jeddah for five years.

QUESTIONS

1. How fast is demand recovering, in light of the resumption of international travel? What is your current level of operations compared to pre-COVID-19 levels?

2. How is the competitive environment faring? How are your services priced, compared to other players? Have you changed any of the terms of your contractual agreements with airlines?

3. What is your outlook on margins for the coming 12-18 months? What measures have you taken to reduce operating costs? How much in cost savings did you achieve so far during the year, and is there room for further cost savings?

4. Could you update us on SGS's plan to convert from a single-service to an airport operator? What other services are you planning to offer? Are you considering any M&A opportunities? What is your guidance on capex?

5. Are you planning to take on any debt? What is the outlook on dividends?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)a
Income Statement				
Revenue	1,252	1,608	1,977	2,247
EBITDA	(206)	(0)	62	190
Net operating profit (EBIT)	(403)	(170)	(120)	7
EBT	(427)	(214)	(78)	56
Net income	(454)	(254)	(244)	(69)
Balance Sheet				
Cash and cash equivalents	96	255	864	69
Current assets	2,751	3,328	2,868	2,824
Net fixed assets	657	593	562	614
Intangibles & others	1,009	926	941	903
Total assets	4,417	4,847	4,371	4,340
Current liabilities (Including debt)	786	1,451	1,191	1,486
Long-term liabilities (Including debt)	1,132	1,131	1,077	662
Total liabilities	1,918	2,582	2,269	2,148
Total net worth	2,499	2,265	2,102	2,192
Minority interest	-	-	-	-
Total equity & liabilities	4,417	4,847	4,371	4,340
Total net debt (cash)	(456)	(362)	(317)	(403)
Cash Flow Statement				
CF from operations	(393)	26	34	113
CF from investments	(66)	(496)	1,163	(1)
CF from finance & non operating CF	436	629	(587)	(268)
Per Share Numbers				
EPS (SAR)	(2.42)	(1.35)	(1.30)	(0.37)
DPS (SAR)	0.00	0.00	0.00	N/A
BVPS (SAR)	13.29	12.05	11.18	11.66
Valuation Metrics				
Price to earnings	N/A	N/A	N/A	N/A
Price to book value	2.4x	2.7x	2.9x	2.8x
FCF yield	-7.2%	-1.1%	-0.4%	0.1%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EV / EBITDA	N/A	N/A	91.3x	29.9x
ROAIC	-11.7%	-4.5%	-3.2%	0.2%
ROAE	-16.7%	-10.7%	-11.2%	-3.2%
KPIs				
Revenue growth (Y-o-Y)	-50.7%	28.4%	23.0%	26.2%
EBITDA margin	-16.5%	0.0%	3.1%	8.4%
Net operating profit (EBIT) margin	-32.2%	-10.6%	-6.1%	0.3%
Effective tax rate	-12.6%	-37.5%	N/M	N/M
Net debt (cash) / equity	(0.2)x	(0.2)x	(0.2)x	(0.2)x
Net debt (cash) / EBITDA	2.2x	N/M	(5.1)x	(2.1)x

Source: Saudi Ground Services Co, Bloomberg

STOCK DATA

Closing Price	SAR32.35 as of 03 Sep 2023
Last Div. / Ex. Date	N/A / N/A
MKT. Cap / Shares (mn)	USD1,622 / 188
Av. Daily Liquidity (mn)	USD8.6
52-Week High / Low	SAR39.60 / SAR20.80
Bloomberg / Reuters	SGS AB / 4031.SE
Est. Free Float	47.5%

Hatem Alaa, CFA
halaa@efg-hermes.com

Mirna Maher, CFA
mmaher@efg-hermes.com

INVESTMENT THESIS

Saudi National Bank (SNB) operates in the Kingdom through its c500 branches, c4k ATMs and c300k POS terminals. It is the largest bank by assets (26% market share) and corporate loans and the second largest in terms of retail loans in the Kingdom. It offers exposure to a G20 economy, which is a key player in the global energy markets and that is undergoing economic and social reforms. SNB offers a strong liquidity profile and an ability to tap MT/LT funding from its branches in Singapore, London, and the UAE. Since the merger with Samba, SNB has built adequate buffers and diversified its loan book so that it is less concentrated and better spread across economic segments. The bank's ill-fated investment in Credit Suisse is now behind it and the focus should be on SNB's fundamentals, which are strong, in our view.

VALUATION & RISKS

Our target price is based on a residual income model. In this approach, we value the bank using a combination of the book value and a present value of the residual income: the amount by which 2023-27e profits are expected to exceed the required cost of equity. We use a discount rate of 10% for SNB and a terminal growth rate of 4.0% for the terminal value. If loan growth falls short of expectations and NIM compression is stronger than expected, these would pose downside risks to our earnings estimates and target price.

QUESTIONS

1. SNB is guiding for low double-digit loan growth in 2023. YTD loan growth at 6% is balanced between the corporate and retail segments. Is this trend likely to continue in 2H23?
2. You cut your 2023 NIM guidance to 3.0-3.2%, from 3.2-3.3%. In 1H23, your NIM was 3.11%. What factors could move your NIM to the upper and lower ends of your guidance?
3. Despite the sharp increase in interest rates, your CASA mix at 74% has been quite robust. What factors are driving the high CASA, and how sticky do you think these deposits are, considering that rates are likely to stay high?
4. Asset quality has been a strong area for you, with your 1H23 cost of risk at 20bps. Your guidance of 30-50 bps implies some deterioration in 2H23. What are your concerns on credit quality?
5. Your cost-to-income ratio of below 27% is good, relative to the sector's. Is this a good indicator of your long-term cost-to-income ratio?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Net interest income	26,286	27,982	30,294	32,662
Non interest income	6,717	7,080	7,692	8,315
Total banking income	33,003	35,062	37,986	40,977
Operating expenses	(9,784)	(9,859)	(10,238)	(10,715)
Operating income	23,220	25,203	27,749	30,262
Total provisions	(1,685)	(2,268)	(3,198)	(3,501)
Other income / (expense)	0	0	0	0
Income before taxes or zakat	21,277	22,916	24,530	26,740
Taxes or zakat	(2,548)	(2,744)	(2,938)	(3,202)
Minorities & other items	(716)	(836)	(836)	(836)
Net income	18,013	19,336	20,757	22,702
Balance Sheet				
Customer loans	545,311	596,954	656,312	714,904
Total interest earning assets	861,710	944,602	1,036,790	1,129,040
Risk-weighted assets	696,082	759,781	830,362	900,954
Total assets	945,496	1,032,019	1,127,890	1,223,776
Customer deposits	568,283	636,477	700,125	763,136
Total interest bearing liabilities	732,265	818,579	899,138	978,891
Common shareholders' equity	147,799	159,028	170,656	183,007
Per Share Numbers				
EPS (SAR)	3.00	3.22	3.46	3.78
DPS (SAR)	1.27	1.61	1.73	1.89
BVPS (SAR)	24.6	26.5	28.4	30.5
BVPS (tangible) (SAR)	17.7	19.8	21.9	24.1
Valuation Metrics				
Price to earnings	12.0x	11.1x	10.4x	9.5x
Price to pre-provision earnings	9.3x	8.5x	7.8x	7.1x
Price to book value	1.5x	1.4x	1.3x	1.2x
Price to book value (tangible)	2.0x	1.8x	1.6x	1.5x
Dividend yield	3.5%	4.5%	4.8%	5.3%
ROAA	1.9%	2.0%	1.9%	1.9%
ROAE	12.3%	12.6%	12.6%	12.8%
ROAE (tangible)	17.1%	17.2%	16.6%	16.5%
Leverage (Assets / Equity)	6.3x	6.4x	6.6x	6.6x
KPIs				
Loan growth (Y-o-Y)	9.6%	9.5%	9.9%	8.9%
Loans / Deposits	96.0%	93.8%	93.7%	93.7%
Banking income growth (Y-o-Y)	16.9%	6.2%	8.3%	7.9%
Operating income growth (Y-o-Y)	24.3%	8.5%	10.1%	9.1%
Earnings growth (Y-o-Y)	47.8%	7.3%	7.4%	9.4%
Net interest spread	2.94%	2.78%	2.83%	2.85%
Non-interest income / Banking inc.	20.4%	20.2%	20.2%	20.3%
Cost-to-income	29.6%	28.1%	27.0%	26.1%
NPL ratio	1.6%	1.7%	1.7%	1.7%
NPL coverage	127.0%	117.7%	120.6%	124.5%
Cost of risk (bps)	31.8	39.0	50.0	50.0
Tier 1 ratio	18.3%	18.0%	17.7%	17.6%
Capital adequacy ratio	19.0%	18.8%	18.5%	18.4%

Source: Saudi National Bank, EFG Hermes estimates

STOCK DATA

Closing Price	SAR35.9 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.600 / 08 May 2023
MKT. Cap / Shares (mn)	USD57,426 / 6,000
Av. Daily Liquidity (mn)	USD51.09
52-Week High / Low	SAR51.1 / SAR31.0
Bloomberg / Reuters	SNB AB / 1180.SE
Est. Free Float	50.0%

Shabbir Malik
smalik@efg-hermes.com

Omnia Kadry
okadry@efg-hermes.com

BUSINESS DESCRIPTION

Saudi Tadawul, established in 2007 as a joint stock company, is the largest stock exchange in the Middle East, carrying out listing and trading in securities for local and international investors. Its majority shareholder is the Saudi Public Investment fund. The exchange is composed of 290 listed companies, REITs and debt issuances. It is one of the largest stock exchanges amongst the 67 members of the World Federation of Exchanges and is the dominant market in the GCC and MENA. The business is organised around three main segments: i) post trade (50% of revenue in 1H23), which includes clearing and settlement, safekeeping, registry and depository; ii) capital markets (33%), which includes listing and trading; and iii) data and technology services (17%), which includes market information and innovations.

INVESTMENT THESIS

The key growth drivers for Tadawul are: i) new listings (IPOs); ii) capital raises (rights issues); iii) market capitalisation (MCAP) growth, due to new listings and growth of MCAP of listed companies; iv) efforts to encourage listings of smaller companies on Nomu; and v) Vision 2030. Some key initiatives taken by mgmt. to boost revenue include the establishment of a post-trade infrastructure programme (e.g. short-selling and flexible settlement cycles), hosting and co-location services through WAMID (improve access for high frequency trading) and dual listings (e.g. Americana Restaurants was dual-listed on Tadawul and ADX). The total number of listed companies on the main market increased to 290 as of 1H23, compared to 205 last year. Tadawul's profit declined 30% Y-o-Y to SAR196mn in 1H23 as trading-linked revenue declined 39% Y-o-Y.

QUESTIONS

1. What is Saudi Tadawul's strategy for the coming three-five years? What measures have you taken or plan to take to expand digitalisation to optimise costs?
2. What initiatives have you introduced to generate new revenue streams?
3. How do you invest your cash balance, and what is your investment philosophy?
4. How is the IPO pipeline looking for this year and the next one?
5. Trading activity has decreased, relative to last year. What is the reason for the decline? Are we approaching a more normalised level of activity for the market?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1Q2023a (TTM)a
Income Statement				
Revenue	1,080	1,166	1,071	989
EBITDA	591	671	490	393
Net operating profit (EBIT)	543	614	427	324
EBT	584	654	492	439
Net income	501	588	425	375
Balance Sheet				
Cash and cash equivalents	97	86	2,119	1,995
Current assets	3,392	2,905	6,979	6,323
Net fixed assets	41	63	116	322
Intangibles & others	660	576	596	1,108
Total assets	4,093	3,543	7,690	7,753
Current liabilities (Including debt)	363	354	4,431	4,348
Long-term liabilities (Including debt)	96	97	80	422
Total liabilities	458	451	4,510	4,770
Total net worth	3,635	3,092	3,180	2,929
Minority interest	-	-	-	54
Total equity & liabilities	4,093	3,543	7,690	7,753
Total net debt (cash)	(3,187)	(2,717)	(2,737)	(2,084)
Cash Flow Statement				
CF from operations	634	591	470	435
CF from investments	(673)	522	1,935	1,936
CF from finance & non operating CF	(133)	(1,133)	(372)	(418)
Per Share Numbers				
EPS (SAR)	4.17	4.90	3.54	3.13
DPS (SAR)	0.00	3.00	2.31	#N/A N/A
BVPS (SAR)	30.29	25.77	26.50	24.41
Valuation Metrics				
Price to earnings	47.5x	40.4x	56.0x	63.4x
Price to book value	6.5x	7.7x	7.5x	8.1x
FCF yield	2.5%	2.3%	1.6%	1.4%
Dividend yield	0.0%	1.5%	1.2%	0.0%
EV / EBITDA	36.8x	32.4x	44.4x	55.4x
ROAIC	15.5%	17.7%	13.2%	8.6%
ROAE	14.5%	17.5%	13.5%	12.3%
KPIs				
Revenue growth (Y-o-Y)	91.2%	8.0%	-8.1%	-12.3%
EBITDA margin	54.8%	57.5%	45.8%	39.7%
Net operating profit (EBIT) margin	50.3%	52.6%	39.9%	32.8%
Effective tax rate	28.6%	20.3%	27.5%	0.0%
Net debt (cash) / equity	(0.9)x	(0.9)x	(0.9)x	(0.7)x
Net debt (cash) / EBITDA	(5.4)x	(4.1)x	(5.6)x	(5.3)x

Source: Saudi Tadawul Group Holding, Bloomberg

STOCK DATA

Closing Price	SAR198.20 as of 03 Sep 2023
Last Div. / Ex. Date	SAR2.31 / 11 May 2023
MKT. Cap / Shares (mn)	USD6,369 / 120
Av. Daily Liquidity (mn)	USD18.7
52-Week High / Low	SAR245.00 / SAR134.80
Bloomberg / Reuters	TADAWULG / 1111.SE
Est. Free Float	40.0%

Shabbir Malik

smalik@efg-hermes.com

Omnia Kadry

okadry@efg-hermes.com

INVESTMENT THESIS

Established in 1979, Savola is a leading MENA food conglomerate, with c2.0 tpa of edible oils refining capacity (c6% of valuation ex. holding co. adjustments and NAV discount) across six countries (mainly Iran, KSA and Egypt). It owns c99% of KSA's largest grocery retailer, Panda (c11%), which had 187 stores (126 supermarkets and 61 hypermarkets – including five stores in Egypt) as of 31 Dec 2022 and a market share of c25.8% of organised market. Savola also has c1.5mn tpa of sugar refining capacity in KSA and Egypt (ex. USCE, which has been deconsolidated as stake dropped to c33.8%) and fully owns Egypt's largest pasta company (c1%) that has two brands. It also has a 34.5% stake in MENA's largest dairy & juice producer, Almarai (c71%), and 49% of KSA fast-food restaurant operator Herfy (c3%), as well as some other investments (c2%; mainly Kinan and USCE) worth cSAR642n. Savola bought a 51% stake in frozen-food player Al Kabeer Group (c3%) in 4Q18 for SAR566mn and 100% of snack producer Bayara (c3%) in 4Q21 for SAR975mn. While the market is assigning limited value to Savola's unlisted core food and grocery retail businesses, we are Neutral, as we believe this will continue to be the case until there is a noticeable turnaround at grocery retailer Panda (loss-making since 2016 except for 2020).

VALUATION & RISKS

We value Savola at SAR42.0 using a sum-of-the-parts methodology, while applying a 20% discount to our NAV. We use a DCF methodology to value Savola's consolidated core businesses (Panda, oils and Al Kabeer), as well as Almarai and Herfy. We assign no value to the sugar segment and value the pasta business on multiples, Bayara on deal value, and other investments at cost. Upside risks include: i) fast profitability turnaround at Savola's grocery retail business (targeted to return to profits in 2024e); ii) better-than-expected improvement in oil and sugar volumes and profitability per tonne; iii) divestment of remaining non-core investments at favourable valuations; iv) valuation upgrades to Almarai and Herfy; v) further consolidation of minority stakes in core segments at attractive valuations; and vi) value-accretive acquisitions and new initiatives (Al Kabeer, Bayara, specialty fats in KSA, bakery business in Iran, USD30mn JV with Thai Union for selling canned seafood). Downside risks include: i) further impairment to existing businesses/investments; ii) valuation downgrades to Almarai and Herfy; iii) sustained weak grocery retail margins and LFLs; iv) pressures on oil and sugar profitability per tonne£pv£ v) loss of market share to competition; vi) currency risk (mainly Iran, Egypt and Sudan); and vii) value-dilutive acquisitions.

QUESTIONS

1. Why did retail revenue decline in 2Q23? How did LFL sales fare for Panda in 1H23? What do you see as a sustainable rate going forward?
2. When do you expect to achieve net income breakeven for Panda, and what is the targeted margin level? Could you update us on your turnaround strategy and the newly launched customer experience programme? How many stores do you expect to renovate, and what is the related expected capex? When do you expect to restart your store expansion plan? What is the Saudisation rate at Panda?
3. What drove the decline in edible oil volumes in 1H23? How is Central Asia performing? What is a sustainability profitability level per tonne for the oil business? How are the sugar segment and Egyptian businesses performing, in terms of market growth, market share, etc.? What drove the recent decline in sugar profitability?
4. What is your outlook on the food segment's profitability in 2023 and beyond, in light of the easing of commodity prices? What are the impacts from the Morocco exit and the temporary suspension of operations in Sudan?
5. Have you seen a recovery in sales for food services and fast-food segment? How has frozen-food player Al Kabeer been performing? Could you shed some light on the performance of Bayara? Are there any other planned acquisitions – if so, in which segments and geographies?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	28,055	29,219	29,494	30,350
EBITDA	2,039	2,527	2,546	2,631
Net operating profit (EBIT)	976	1,417	1,419	1,485
Taxes or zakat	(168)	(164)	(209)	(247)
Minority interest	(122)	(100)	(173)	(250)
Net income	648	847	1,062	1,313
Balance Sheet				
Cash and cash equivalents	1,436	1,543	1,294	1,156
Total assets	29,565	30,503	31,318	32,380
Total liabilities	20,600	20,983	21,129	21,301
Total equity	8,964	9,520	10,189	11,079
Total net debt (cash)	10,432	9,660	8,989	8,205
Cash Flow Statement				
Cash operating profit after taxes	1,138	1,525	1,509	1,564
Change in working capital	(534)	511	(198)	(203)
CAPEX	(864)	(1,083)	(531)	(549)
Investments	31	0	0	0
Free cash flow	(230)	954	781	812
Net financing	(1,208)	(2,077)	(2,267)	(2,234)
Change in cash	236	108	(249)	(138)
Per Share Numbers				
EPS (SAR)	1.21	1.59	1.99	2.46
DPS (SAR)	0.66	0.86	1.06	1.26
BVPS (SAR)	14.8	15.7	16.6	17.8
Valuation Metrics				
Price to earnings	31.0x	23.7x	18.9x	15.3x
Price to book value	2.5x	2.4x	2.3x	2.1x
Price to cash flow	33.3x	9.9x	15.3x	14.8x
FCF yield	-3.5%	0.9%	0.8%	1.6%
Dividend yield	1.8%	2.3%	2.8%	3.4%
EV / EBITDA	8.9x	7.2x	6.9x	6.4x
EV / Invested capital	1.6x	1.6x	1.6x	1.6x
ROAIC	7.6%	10.8%	11.3%	12.4%
ROAE	10.6%	13.4%	15.6%	17.8%
KPIs				
Revenue growth (Y-o-Y)	13.7%	4.2%	0.9%	2.9%
EBITDA growth (Y-o-Y)	4.7%	23.9%	0.8%	3.3%
Gross profit margin	17.4%	18.2%	18.7%	19.1%
EBITDA margin	7.3%	8.6%	8.6%	8.7%
Net operating profit (EBIT) margin	3.5%	4.9%	4.8%	4.9%
Effective tax rate	16.3%	13.9%	14.5%	13.7%
Net Debt (Cash) / Equity	1.2x	1.0x	0.9x	0.7x
Net Debt (Cash) / EBITDA	4.0x	3.1x	2.8x	2.4x

Source: Savola, EFG Hermes estimates

STOCK DATA

Closing Price	SAR37.6 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.660 / 11 May 2023
MKT. Cap / Shares (mn)	USD5,353 / 534.0
Av. Daily Liquidity (mn)	USD9.07
52-Week High / Low	SAR42.5 / SAR26.3
Bloomberg / Reuters	SAVOLA AB / 2050.SE
Est. Free Float	65.9%

Hatem Alaa, CFA
halaa@efg-hermes.com

Mirna Maher, CFA
mmaher@efg-hermes.com

BUSINESS DESCRIPTION

Founded in 1980, Seera Holding Group is the largest travel agency in the Middle East. The group provides ticketing, tourism services and travel and holiday solutions through its travel platform (c24% of 1H23 revenue) to its customers across MENA through its travel service outlets and online travel platforms: i) 'Almosafer' for consumer travel in KSA, the UAE and Kuwait; ii) "Almosafer Business" providing travel bookings and consultancy services in KSA for gov't and private sector entities; iii) 'Mawasim', a wholesale tour operator for Hajj and Umrah, focusing on nine key markets, including Egypt, Pakistan and Turkey; and iv) "Discover Saudi Arabia", a strategic unit for tourist destination management, marketing KSA as a popular tourist destination by developing tour packages to travel companies worldwide. Seera also offers car-rental services (c34% of 1H23 revenue) through its car rental brand 'Lumi', managing a fleet of c26k vehicles as of 1H23 (+49% Y-o-Y). Moreover, it offers hospitality services (c7% of 1H23 revenue) through eight hotels, including Sheraton Jabal Al Kaaba, Mövenpick City Star (Jeddah), three unbranded properties in Mecca and three new hotels across Riyadh and Jeddah. Meanwhile, the company has recently signed a contract with Al-Ula Development Co. to establish a JV to develop and operate a hotel in Al-Ula. Under its corporate ventures umbrella, Seera also has a number of non-core assets, including Portman Travel Group (33% of 1H23 revenue).

INVESTMENT THESIS

The group's gross booking value (NBV) recovered from the COVID-19 hit in 2020-21 and increased 38% Y-o-Y in 1H23, on a continued strong recovery of domestic and int'l travel. The company reported its highest quarterly profit, since 1Q20, in 2Q23, with earnings of SAR67mn vs a loss of SAR68mn in 2Q22. The company booked one-off income from Careem holdback of cSAR15mn, without which net profit would have come in at cSAR53mn. Almosafer, Seera's travel platform, achieved 24% growth in NBV in 2Q23, with revenue up 55% Y-o-Y to SAR186mn and an EBITDA of SAR20.6mn (vs a loss of SAR51.9mn in 2Q22), driven by growth in the consumer travel business. Seera's car rental arm, Lumi, saw its revenue increase 36% Y-o-Y, while EBITDA grew 41% Y-o-Y to SAR140mn, driven by continuous growth across long- and short-term rental revenue, as a result of newly signed lease agreements, as well as the growing contribution of revenue from the sale of used cars, supported by the expansion of Lumi car showrooms in Jeddah. Lumi notably signed a long-term lease contract with Aramco for SAR471mn in Apr 2023. Revenue from the hospitality business increased 132% Y-o-Y in 2Q23, with EBITDA up 8.3x to SAR28mn, led by healthy occupancy levels across its property portfolio in KSA and improved average daily rates. Under the corporate ventures umbrella, the Portman Travel Group saw significant recovery across all verticals and achieved NBV growth of 35% to SAR685mn during the quarter, with revenue +25% Y-o-Y and EBITDA +103% Y-o-Y. The group is taking Lumi public on Tadawul through the secondary offering of a 30% stake in the company. It also signed a non-binding term sheet with PIF to invest up to SAR1.554bn for a 30% ownership in Almosafer.

QUESTIONS

1. What is Seera's guidance for FY23 and FY24? What impact did the pick-up in Umrah and Hajj numbers have on earnings?
2. What is the update on the proposed investment by PIF in Almosafer Travel and Tourism Co.? What is the expected timeline for the deal? What is the update of the JV with Al-Ula Development to establish and operate a hotel in Al-Ula?
3. What is your market share in different categories, and how has it evolved? Are you seeing consolidation opportunities or smaller competitors exiting the market?
4. What is your fleet utilisation in LT and ST rentals? What is your outlook for fleet growth? What is your capex strategy?
5. How do you plan to use the proceeds from Lumi's IPO?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)a
Income Statement				
Revenue	905	1,328	2,271	2,719
EBITDA	(243)	35	400	711
Net operating profit (EBIT)	(534)	(286)	3	287
EBT	36	(322)	(51)	207
Net income	18	(372)	(48)	209
Balance Sheet				
Cash and cash equivalents	249	318	539	724
Current assets	2,140	1,932	2,263	2,920
Net fixed assets	4,161	4,218	4,407	4,818
Intangibles & others	1,505	1,740	1,856	1,921
Total assets	7,805	7,891	8,526	9,659
Current liabilities (Including debt)	1,367	1,933	2,221	2,907
Long-term liabilities (Including debt)	561	452	878	1,125
Total liabilities	1,928	2,385	3,099	4,032
Total net worth	5,877	5,508	5,420	5,619
Minority interest	0	(2)	8	8
Total equity & liabilities	7,805	7,891	8,526	9,659
Total net debt (cash)	747	863	1,063	1,366
Cash Flow Statement				
CF from operations	(233)	(304)	(463)	(439)
CF from investments	389	218	383	331
CF from finance & non operating CF	(252)	151	230	197
Per Share Numbers				
EPS (SAR)	0.06	(1.23)	(0.16)	0.70
DPS (SAR)	0.00	0.00	0.00	N/A
BVPS (SAR)	25.00	18.36	18.07	18.73
Valuation Metrics				
Price to earnings	N/M	N/M	N/M	40.0x
Price to book value	1.1x	1.5x	1.5x	1.5x
FCF yield	-7.1%	-3.9%	-6.0%	-5.8%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EV / EBITDA	N/M	N/M	24.4x	13.7x
ROAIC	-7.4%	-4.1%	0.0%	3.8%
ROAE	0.3%	-6.5%	-0.9%	3.8%
KPIs				
Revenue growth (Y-o-Y)	-58.7%	46.9%	70.9%	45.1%
EBITDA margin	-26.8%	2.6%	17.6%	26.2%
Net operating profit (EBIT) margin	-59.0%	-21.5%	0.1%	10.5%
Effective tax rate	73.2%	-15.6%	10.8%	53.2%
Net debt (cash) / equity	0.1x	0.2x	0.2x	0.2x
Net debt (cash) / EBITDA	(3.1)x	24.8x	2.7x	1.9x

Source: Seera Group Holding, Bloomberg

STOCK DATA

Closing Price	SAR28.00 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.357 / 19 Feb 2018
MKT. Cap / Shares (mn)	USD2,240 / 300
Av. Daily Liquidity (mn)	USD9.8
52-Week High / Low	SAR29.80 / SAR16.46
Bloomberg / Reuters	SEERA AB / 1810.SE
Est. Free Float	91.4%

Hatem Alaa, CFA
halaa@efg-hermes.com

Mirna Maher, CFA
mmaher@efg-hermes.com

INVESTMENT THESIS

Shaker is the exclusive producer (since 2006) and distributor (1995) of LG residential and commercial ACs in KSA (ACs c65% of 2022 topline; c12%+ retail volume mkt. share). Production is done via LG Shaker, a JV with SK's LG (49% owned; 900k units; agreement until 12 Sep 2026). Shaker also distributes other household appliances in KSA (c35%), with main brands being Ariston, Bompani, Indesit, Maytag and Midea. It added LG home appliance and entertainment products to its portfolio in Dec 2022. It sells to 400+ dealers (c900 showrooms) in KSA (c10 own showrooms) and provides after-sale service through 25 centres. New mgmt. completed a "breakthrough programme" in 2019-20 that succeeded in improving revenue, lowering costs and optimising balance sheet, with focus on growing the business over 2021-23. In 2Q22, Shaker did a c148mn capital reduction to write-off cumulative losses. It sold its 74% stake in UAE's Energy Management Services in 2022 and is in the process of divesting 60% of New Vision (distributes LG products in Jordan). It has a 9% effective stake in BNPL company Cashew KSA and signed MoU with Bompani to have a factory for cooker ranges in KSA. We have a Buy rating, as Shaker is on a path for strong earnings recovery, from a depressed base, aided by strong AC and electronics demand supported by gov't initiatives, as well as a clean and solid balance sheet.

VALUATION & RISKS

We value Shaker using the DCF methodology, yielding a TP of SAR32. We value its 49% stake in LG Shaker at 1.5x book value (cSAR15.3/share; c48% of valuation). Upside risks include: i) further benefits from cost-rationalisation strategy (headcount reduction, etc.) and balance sheet restructuring; ii) improved demand for ACs as the KSA real estate market picks up and gov't projects kick off; iii) shift in sales mix to higher-margin household appliances and stronger contribution from new LG agreement to distribute products other than ACs; iv) market share gains; v) ramp-up of high-margin after-sale services; vi) value-accretive sale of Jordan subsidiary; vii) higher custom duties, on imported ACs in KSA (LG Shaker has 40%+ localisation); and viii) faster normalisation of receivable provisions. Downside risks include: i) deterioration in cash conversion cycle (prolonged receivables collection and inventory holding periods); ii) weaker-than-expected top-line, on slower consumer spending and sustained weakness in KSA's real estate and construction markets, and negative impact from higher custom duties (mainly on appliances business); iii) loss of market share, on pressure from cheaper Chinese ACs; iv) margin pressure from promotions, sales mix shift, etc.; v) product concentration risk (LG ACs are the bulk of revenue); and vi) non-renewal of agreement with LG (extended until 2026).

QUESTIONS

1. How has the aggregate white goods market performed recently, and do you expect it to pick up, given the increase in mortgage loans? What is your market share in the segments in which you operate, and do you see room for market share gains? How has competition from cheaper Chinese products affected your sales?
2. What are Shaker's areas of focus in its new strategy? Is there room for further balance sheet optimisation (receivables, inventory and leverage)?
3. What are the recent government initiatives that should support your revenue growth over the coming three-five years, and what is their expected contribution? What is the split of the business between B2B (including government) and B2C?
4. Could you shed more light on the recent agreement to distribute LG electronics (other than ACs) in KSA, and what is the expected contribution to the business?
5. Could you share any details on the recently signed MoUs with Bompani (to launch a manufacturing facility in KSA to produce cooking ranges) and acquisition of Cashew KSA? What is the expected impact and contribution to your business?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	1,037	1,233	1,410	1,600
EBITDA	52	72	83	95
Net operating profit (EBIT)	38	60	71	83
Taxes or zakat	(11)	(7)	(8)	(9)
Minority interest	(1)	(1)	(1)	(2)
Net income	34	59	73	90
Balance Sheet				
Cash and cash equivalents	73	53	59	59
Total assets	1,616	1,745	1,870	2,002
Total liabilities	944	1,013	1,064	1,104
Total equity	672	732	807	899
Total net debt (cash)	494	528	515	491
Cash Flow Statement				
Cash operating profit after taxes	41	65	75	87
Change in working capital	(83)	(43)	(20)	(22)
CAPEX	(2)	(18)	(7)	(8)
Investments	0	0	0	0
Free cash flow	(44)	5	48	57
Net financing	41	(28)	(47)	(61)
Change in cash	28	(20)	6	(0)
Per Share Numbers				
EPS (SAR)	0.70	1.23	1.51	1.87
DPS (SAR)	0	0	0	0
BVPS (SAR)	13.6	14.8	16.3	18.2
Valuation Metrics				
Price to earnings	36.4x	20.8x	17.0x	13.7x
Price to book value	1.9x	1.7x	1.6x	1.4x
Price to cash flow	N/M	54.4x	22.2x	19.2x
FCF yield	-3.6%	0.4%	3.9%	4.6%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EV / EBITDA	19.3x	13.8x	12.0x	10.4x
EV / Invested capital	0.9x	0.8x	0.8x	0.7x
ROAIC	4.4%	7.7%	8.2%	8.8%
ROAE	5.4%	8.8%	9.8%	11.0%
KPIs				
Revenue growth (Y-o-Y)	3.4%	18.9%	14.3%	13.5%
EBITDA growth (Y-o-Y)	-2.1%	39.5%	15.4%	15.0%
Gross profit margin	22.9%	23.6%	23.7%	23.8%
EBITDA margin	5.0%	5.8%	5.9%	6.0%
Net operating profit (EBIT) margin	3.7%	4.8%	5.0%	5.2%
Effective tax rate	24.3%	10.0%	9.5%	8.8%
Net Debt (Cash) / Equity	0.7x	0.7x	0.6x	0.5x
Net Debt (Cash) / EBITDA	9.6x	7.3x	6.2x	5.1x

Source: Shaker, EFG Hermes estimates

STOCK DATA

Closing Price	SAR25.6 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.750 / 06 Nov 2016
MKT. Cap / Shares (mn)	USD329.2 / 48.2
Av. Daily Liquidity (mn)	USD3.70
52-Week High / Low	SAR28.6 / SAR16.5
Bloomberg / Reuters	SHAKER AB / 1214.SE
Est. Free Float	72.2%

Hatem Alaa, CFA
halaa@efg-hermes.com

Ahmed Moataz
amoataz@efg-hermes.com

Target Price
SAR36.5

Rating
Neutral

INVESTMENT THESIS

Sipchem is one of the largest diversified chemical producers in Saudi Arabia, with attractive downstream integration and a highly advantageous cost structure. Sipchem began methanol production in 2004, butanediol in 2006 and acetyls in 2010, with the commercial operation of its acetic acid, VAM and carbon monoxide plants. Most recent investments include ethylene vinyl acetate (EVA) and low-density polyethylene (LDPE) plants, which started operations in 2015. In 2019, the company finalised its merger with Sahara, adding several products to its portfolio (HDPE, PP, acrylates, EDC and caustic). Sipchem enjoys a significant global cost advantage because of cheap methane (USD1.25/mmBtu) and ethane (USD1.75/mmBtu) in Saudi Arabia. We have a Neutral rating on Sipchem.

VALUATION & RISKS

We value Sipchem using a discounted cash flow (DCF) methodology, which yields a TP of SAR36.5. In 1H23, prices have fallen as a result of very muted demand, but we expect some product prices to see some rebound in 2H23 and 2024, as the global macro bottoms and starts to recover. We continue to believe the outlook for the next five years for Sipchem is much better than the past five, as there has been limited investment in the space globally, given very weak pricing in the past few years and as management has made large strides in its cost-cutting programme. On the polymer side, we expect spreads to remain weak as supply growth exceeds demand growth, with the exception of LDPE, which is seeing minimal new capacity this year. The largest upside/ downside risk to our forecasts are: i) higher-/lower-than-expected feedstock prices in Saudi Arabia (we assume a terminal gas price of USD2.5/mmBtu for methane, USD3.5/mmBtu for ethane); and ii) higher-/lower-than-expected oil prices, given methanol's relatively strong correlation in recent years.

QUESTIONS

1. What is Sipchem's outlook for product prices in 2H23 and FY24?
2. Are there any planned turnarounds/shutdowns at any of your plants in 2H23 and FY24?
3. What is the required capex for the debottlenecking and expansion projects for VAM and PP, and when could these projects start up if the expansions are approved? Is there any update on the Shareek programme?
4. What is your dividend strategy for 2023? Are you planning to deleverage the balance sheet further? What kind of long-term capital structure are you targeting?
5. How are you planning to reduce CO2 emissions in the long term? What are your main ESG targets?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	10,254	7,116	7,364	7,646
EBITDA	4,970	2,558	2,831	2,826
Net operating profit (EBIT)	4,047	1,644	1,883	1,888
Taxes or zakat	(231)	(115)	(252)	(269)
Minority interest	(358)	(227)	(277)	(296)
Net income	3,595	1,381	1,568	1,675
Balance Sheet				
Cash and cash equivalents	2,606	3,671	3,809	3,667
Total assets	23,475	23,411	23,019	22,481
Total liabilities	6,738	6,696	6,091	5,238
Total equity	16,737	16,714	16,928	17,243
Total net debt (cash)	1,059	691	(337)	(1,164)
Cash Flow Statement				
Cash operating profit after taxes	4,739	2,443	2,579	2,557
Change in working capital	453	(63)	247	(15)
CAPEX	(946)	(362)	(355)	(383)
Investments	0	0	0	0
Free cash flow	4,246	2,018	2,471	2,160
Net financing	(5,210)	(1,462)	(2,672)	(2,690)
Change in cash	(234)	752	138	(142)
Per Share Numbers				
EPS (SAR)	4.90	1.88	2.14	2.28
DPS (SAR)	3.25	2.25	2.25	2.28
BVPS (SAR)	22.8	22.8	23.1	23.5
Valuation Metrics				
Price to earnings	7.5x	19.6x	17.3x	16.2x
Price to book value	1.6x	1.6x	1.6x	1.6x
Price to cash flow	5.2x	11.4x	9.6x	10.7x
FCF yield	14.1%	6.9%	9.3%	8.6%
Dividend yield	8.8%	6.1%	6.1%	6.2%
EV / EBITDA	6.0x	11.6x	10.5x	10.5x
EV / Invested capital	1.7x	1.7x	1.8x	1.8x
ROAIC	20.0%	9.1%	10.0%	11.4%
ROAE	23.7%	8.8%	10.0%	10.6%
KPIs				
Revenue growth (Y-o-Y)	2.7%	-30.6%	3.5%	3.8%
EBITDA growth (Y-o-Y)	-9.3%	-48.5%	10.7%	-0.2%
Gross profit margin	47.2%	32.5%	34.6%	33.7%
EBITDA margin	48.5%	35.9%	38.4%	37.0%
Net operating profit (EBIT) margin	39.5%	23.1%	25.6%	24.7%
Effective tax rate	5.5%	6.7%	12.0%	12.0%
Net Debt (Cash) / Equity	0.1x	0.0x	(0.0)x	(0.1)x
Net Debt (Cash) / EBITDA	0.2x	0.3x	(0.1)x	(0.4)x

Source: Sipchem, EFG Hermes estimates

STOCK DATA

Closing Price	SAR37.0 as of 03 Sep 2023
Last Div. / Ex. Date	SAR1.25 / 09 Jul 2023
MKT. Cap / Shares (mn)	USD7,224 / 733.3
Av. Daily Liquidity (mn)	USD21.09
52-Week High / Low	SAR49.1 / SAR31.9
Bloomberg / Reuters	SIPCHEM AB / 2310.SE
Est. Free Float	69.3%

Yousef Husseini

yhusseini@efg-hermes.com

Alaa Saleh Aly

asaly@efg-hermes.com

INVESTMENT THESIS

SPIMACO is KSA's largest drug producer, with 7.5% market share (2022) of total private sector sales and 380 registered SKUs (mainly branded generics). It has five manufacturing facilities (seven production lines), two of which are in KSA (Qassim and Dammam – latter is 85%-owned) and one in each of Morocco (c73%-owned), Egypt (c78.5%) and Algeria (fully own distribution arm; own c22% of production arm). Sale of pharma and non-pharma products constituted c86% of sales in 2022, of which c48% were to the private sector (pharmacies, hospitals, etc.), followed by c14% international sales (exports and foreign subsidiaries; GCC, Egypt, Morocco and Algeria), c12% gov't sales, c10% others (non-pharma products such as cosmetics, etc.) and c2% toll manufacturing. Non-pharma revenue constituted c14% of revenue (57.27%-owned hospital in Qassim and distribution). The company embarked on a five-year strategy (likely to be revised upwards), which set ambitious targets to grow revenue by a 2023-27e CAGR of 13-15% and achieve a c15-17% EBITDA margin by 2027e. We do not factor in inorganic plans in our numbers (15-30% of revenue target), pending execution. We are Buyers of SPIMACO, as we expect strong ST earnings recovery (2024-25e CAGR of 55%), supported by favourable pharma market dynamics and the five-year strategy reaping benefits.

VALUATION & RISKS

We value SPIMACO using a five-year discounted cash flow (DCF) methodology, yielding a TP of SAR55.5. Upside risks include: i) more-than-planned product launches (114 over 2023-27e); ii) reduction in receivable days on hand; iii) better margins, on improved product/channel mix, opex savings, etc.; iv) faster ramp-up of the new oncology facility in KSA (first product in 3Q23); and v) value-accretive acquisitions (looking to spend SAR2bn on M&As over 2023-27e; not in our numbers). Downside risks: i) inability to deliver on the five-year strategy; ii) slower-than-expected new product launches; iii) long drug registration period (4.5+ years; targeting to reduce it to 2.5-4 years); iv) increased competition; v) sustained regulatory challenges (price reductions, etc.); vi) labour cost pressures (headcount of 1.2k with Saudisation at c53%); vii) value-destructive acquisitions; and viii) lower-than-expected margins (we assume EBITDA margin of c20% by 2027e; which is higher than the targets set under the five-year strategy), on higher raw material costs, unfavourable sales mix, etc.

QUESTIONS

1. How do you expect the KSA pharmaceutical market (volumes and value) to perform in 2023? Have there been any recent changes to pricing regulations of drugs in Saudi Arabia?
2. How has your international operations fared recently, given the FX weakness in Egypt and political unrest in Sudan? How much do they contribute to your revenue?
3. What are SPIMACO's planned expansions and the associated investment costs? What impact will this have on your numbers?
4. What are the main pillars of your five-year strategy? What are the criteria for your inorganic opportunities? Is there any scope to reduce your receivable days on hand and leverage?
5. Do you expect to incur additional one-off costs? What is your guidance for 2023 revenue and net profit?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	1,426	1,860	2,109	2,345
EBITDA	(34)	254	332	409
Net operating profit (EBIT)	(124)	166	244	320
Taxes or zakat	(25)	(25)	(27)	(28)
Minority interest	6	2	(4)	(7)
Net income	(155)	115	195	278
Balance Sheet				
Cash and cash equivalents	380	503	526	518
Total assets	3,832	4,168	4,325	4,466
Total liabilities	2,139	2,362	2,380	2,355
Total equity	1,693	1,806	1,945	2,110
Total net debt (cash)	701	746	616	468
Cash Flow Statement				
Cash operating profit after taxes	(59)	228	306	381
Change in working capital	2	(128)	(35)	(38)
CAPEX	(84)	(77)	(82)	(85)
Investments	0	0	0	0
Free cash flow	(141)	23	189	257
Net financing	(345)	117	(151)	(253)
Change in cash	43	122	23	(8)
Per Share Numbers				
EPS (SAR)	(1.29)	0.96	1.62	2.32
DPS (SAR)	0	0	0.500	1.000
BVPS (SAR)	12.8	13.8	14.9	16.2
Valuation Metrics				
Price to earnings	N/M	39.3x	23.3x	16.3x
Price to book value	2.9x	2.7x	2.5x	2.3x
Price to cash flow	N/M	45.4x	16.7x	13.2x
FCF yield	-4.1%	-0.6%	3.2%	4.9%
Dividend yield	0.0%	0.0%	1.3%	2.6%
EV / EBITDA	N/M	21.9x	16.7x	13.6x
EV / Invested capital	2.3x	2.2x	2.2x	2.2x
ROAIC	-4.3%	5.9%	8.1%	10.5%
ROAE	N/M	7.2%	11.3%	14.9%
KPIs				
Revenue growth (Y-o-Y)	-2.3%	30.4%	13.4%	11.2%
EBITDA growth (Y-o-Y)	-123.9%	843.4%	31.0%	23.1%
Gross profit margin	39.7%	48.0%	48.8%	49.5%
EBITDA margin	N/M	13.6%	15.8%	17.4%
Net operating profit (EBIT) margin	N/M	8.9%	11.6%	13.6%
Effective tax rate	N/M	18.4%	11.9%	9.0%
Net Debt (Cash) / Equity	0.4x	0.4x	0.3x	0.2x
Net Debt (Cash) / EBITDA	(20.6)x	2.9x	1.9x	1.1x

Source: SPIMACO, EFG Hermes estimates

STOCK DATA

Closing Price	SAR37.8 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.600 / 09 Jun 2022
MKT. Cap / Shares (mn)	USD1,209 / 120.0
Av. Daily Liquidity (mn)	USD6.85
52-Week High / Low	SAR44.5 / SAR21.4
Bloomberg / Reuters	SPIMACO AB / 2070.SE
Est. Free Float	66.2%

Ahmed Moataz
amoataz@efg-hermes.com

Hatem Alaa, CFA
halaa@efg-hermes.com

INVESTMENT THESIS

Saudi Telecom Company (STC), KSA's incumbent operator, lost its mobile monopoly in May 2005, when Mobily started operations, and its fixed-line monopoly in June 2009, when Etihad Atheeb started operations in Riyadh and Jeddah. STC's acquisition of a 25% stake in Malaysia's Maxis and a 62% effective stake in its Indonesian subsidiary, Axis, in 2007 marked a strategic shift for it, leading the company to evolve from a local operator to one with significant regional and international ambitions. STC followed with the acquisition of a 35% stake in Oger Telecom and two Greenfield licences (Kuwait and Bahrain). In 2012, STC went through a management overhaul, which saw key senior executives leave the company, after which there was a review of the operator's international operations and talks about potential sale of some of its assets (India, Indonesia and South Africa). This resulted in an agreement to sell its Indonesian asset, the proceeds of which were used to repay related bank loans. STC is still in search of growth opportunities in the region, but has put more focus on its domestic operation, which began to bear fruit in 2014. Moreover, in recent years, STC began investing in adjacent businesses, such as mobile money, which we view as a promising strategy.

VALUATION & RISKS

We value STC using a DCF model that yields a TP of SAR48.0, and we have a Neutral rating on the stock. We value the company as a single entity because the KSA unit contributes the most to EBITDA and FCF by far, while the contribution of international operations remains negligible. We use a WACC of 9.6%, derived from a cost of equity of 10.0%, a cost of debt of 3.5% and a terminal growth rate of 3.0%. We do not capture the value of international businesses that are not fully consolidated (mainly Binariang), as we have limited visibility on their performance. The main catalyst, in our view, lies in higher dividend distributions from the company, which, we believe, is possible, given: i) strong balance sheet, with a substantial net cash position; and ii) high FCF generation, with no immediate need for cash. Nevertheless, given the high balance of receivables and potential M&A, we believe a special dividend is unlikely in the short term. Downside risks include: i) more aggressive competition, particularly in Saudi Arabia, as growth in the market slows down over time; ii) a tougher regulatory environment in KSA, given STC's dominant position; and iii) a challenging macroeconomic outlook.

QUESTIONS

1. Have you seen any recent slowdown in the government's digitisation projects (as part of Vision 2030) being awarded to telecom operators? Do you expect a change in their strategy? How will the RFP process for future government project awards affect your margins and revenue growth?

2. After receiving one of the country's first digital banking licences, what strategy will you use for STC Pay? Could we expect an IPO for the subsidiary, or any other subsidiary anytime soon, similar to Solutions? Where do you plan to use the latter's proceeds?

3. What is the status of regulatory approval for PIF's acquisition of a 51% stake in Tawal? What are the strategic plans for Tawal after that? Could it be listed and/or acquire towers in KSA and abroad? How will Tawal's acquisition of United Group's towers affect profitability and shareholder value? Will there be more M&A outside KSA? If so, in which regions?

4. What impact will your investment in adjacent businesses have on your margins in 2024? How do you plan to mitigate the pressure on EBITDA until your new subsidiaries breakeven?

5. Is the improvement in the collection of government receivables after the launch of Etimad platform sustainable? Have you faced any collection issues since then?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	67,432	73,073	77,016	80,764
EBITDA	25,079	26,422	28,382	30,231
Net operating profit (EBIT)	15,088	15,982	17,530	18,968
Taxes or zakat	(1,083)	(1,491)	(1,499)	(1,630)
Minority interest	(216)	(214)	(224)	(222)
Net income	12,171	14,865	15,911	17,320
Balance Sheet				
Cash and cash equivalents	25,784	27,903	30,740	36,769
Total assets	137,220	143,054	146,683	154,958
Total liabilities	61,194	59,938	57,417	58,136
Total equity	76,026	83,116	89,266	96,822
Total net debt (cash)	(11,997)	(14,892)	(21,260)	(27,524)
Cash Flow Statement				
Cash operating profit after taxes	25,745	26,145	28,382	30,173
Change in working capital	609	(5,341)	(2,815)	(2,731)
CAPEX	(7,702)	(11,030)	(11,390)	(11,703)
Investments	(742)	1,070	0	0
Free cash flow	17,910	10,844	14,177	15,738
Net financing	(8,390)	(17,736)	(14,340)	(14,710)
Change in cash	9,513	(6,892)	(163)	1,028
Per Share Numbers				
EPS (SAR)	2.44	2.98	3.19	3.47
DPS (SAR)	1.60	1.60	2.00	2.00
BVPS (SAR)	14.7	16.1	17.3	18.8
Valuation Metrics				
Price to earnings	16.4x	13.4x	12.5x	11.5x
Price to book value	2.7x	2.5x	2.3x	2.1x
Price to cash flow	7.5x	7.2x	6.7x	6.3x
FCF yield	9.1%	5.5%	7.3%	8.2%
Dividend yield	4.0%	4.0%	5.0%	5.0%
EV / EBITDA	7.4x	7.0x	6.5x	6.1x
EV / Invested capital	2.9x	2.7x	2.7x	2.7x
EV / Sub	N/A	N/A	N/A	N/A
ROAIC	22.4%	23.1%	24.7%	26.5%
ROAE	17.0%	19.3%	19.1%	19.3%
KPIs				
Revenue growth (Y-o-Y)	7.0%	8.4%	5.4%	4.9%
EBITDA growth (Y-o-Y)	9.8%	5.4%	7.4%	6.5%
Gross profit margin	55.5%	53.3%	53.9%	54.4%
EBITDA margin	37.2%	36.2%	36.9%	37.4%
Net operating profit (EBIT) margin	22.4%	21.9%	22.8%	23.5%
Effective tax rate	8.0%	9.0%	8.5%	8.5%
Net Debt (Cash) / Equity	(0.2)x	(0.2)x	(0.2)x	(0.3)x
Net Debt (Cash) / EBITDA	(0.5)x	(0.6)x	(0.7)x	(0.9)x

Source: Saudi Telecom Company (STC), EFG Hermes estimates

STOCK DATA

Closing Price	SAR39.9 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.400 / 22 May 2023
MKT. Cap / Shares (mn)	USD53,112 / 4,993
Av. Daily Liquidity (mn)	USD34.84
52-Week High / Low	SAR45.8 / SAR34.4
Bloomberg / Reuters	STC AB / 7010.SE
Est. Free Float	36.0%

Omar Maher

omaher@efg-hermes.com

Laila Galal

lgalal@efg-hermes.com

BUSINESS DESCRIPTION

Established in 1962, Tanmiah is one of the leading integrated poultry manufacturers in Saudi Arabia, operating farms, hatcheries, feed mills, slaughterhouses, food-processing plants and dry and cold storage facilities located across KSA (95% of 1H23 revenue), Bahrain (5%) and other GCC countries. In addition, the company sells its products in several countries via a network of distributors, wholesalers, and retailers. The company produces and sells fresh poultry products (c84% of 1H23 revenue) to supermarkets, distributors and food service providers through its subsidiary, Agricultural Development Co. (ADC). The company also operates in the food-processing segment, through its subsidiaries SFPC, PFF and SFC (Bahrain), whereby it manufactures and sells ready-to-cook and fully cooked poultry, turkey and beef products for its HORECA customers. Through its subsidiaries DHC and DHV, Tanmiah also operates in the feed and veterinary segment (c12%), which consists of the manufacturing and sale of animal feed, broiler chicks, hatching eggs, animal health products, turnkey poultry and greenhouse projects. The company's subsidiary Gulf Brand Fast Food Co. signed a master franchise and development agreement with Popeyes, one of the world's largest chicken QSRs, to expand the brand's footprint in KSA (4% of 1H23 revenue, with 31 stores operational as of 1H23). Tanmiah's 1H23 earnings declined 62% Y-o-Y on margin contraction and higher below-EBIT expenses (+3.9x Y-o-Y to SAR10mn), on higher zakat charges (+222% Y-o-Y to SAR2mn) and due to the absence of income from discontinued operations, which accounted for SAR5mn profit in 2Q22.

INVESTMENT THESIS

Saudi Arabia's poultry consumption is relatively high, compared to other animal protein alternatives, with half of the local market demand being fulfilled by frozen chicken imports from other countries, such as Brazil. However, the market is expected to shift from imported to local players, in line with the government's strategic goal of meeting 80% of local poultry demand domestically within the coming five years, and as local producers benefit from increased tariffs on imported poultry. Tanmiah is looking to expand its capacity further to serve growing demand, with plans to invest SAR4.5bn by 2030 to increase capacities. It recently secured an SAR150mn short-term financing facility from Agricultural Development Fund (ADF) to finance the import of grains, and an EUR48.2mn long-term facility from Rabobank to support its expansion plans. Furthermore, its subsidiary, SFPC, recently signed a three-year supply agreement with Burger King to supply it with further processed chicken products in key markets in the MENA region, with a contract value of cSAR80mn per year (based on orders delivered). Meanwhile, through its strategic partnership with Tyson Foods, Tanmiah sold 15% and 60% of its subsidiaries ADC and SFPC, respectively, for a total of USD75.4mn. The partnership enables Tanmiah to gain exposure to global industry know-how and could lead to opportunities in the fast-growing Halal market. Key risks include a slowdown in consumer spending, changes in government subsidies and competition, given the industry's relatively low barriers to entry.

QUESTIONS

1. What are your targets, in terms of volumes and revenue for each of your segments? What is your strategy, in terms of your channel mix going forward? How are the newly opened Popeyes stores performing? How many new stores do you expect to have in the coming one-two years? What was Popeyes' LFL growth in 1H23? When do you expect Popeyes to breakeven?
2. What is Tanmiah's margin outlook, in light of lower subsidies? How is the pricing environment, given the competitive pressure from frozen poultry?
3. How has your market share evolved over the past year? Are you seeing any changes in the competitive landscape? How will the PIF's announcement to establish a JV with Brazil's BRF Co. to produce and sell poultry products in Saudi Arabia impact the market?
4. What is the current utilisation level? How much capacity do you expect to add from the SAR4.5bn announced investments by 2030? Could you give us an update on the partnerships with PIF's Halal Products Development Co. and Tyson?
5. What is your outlook on inventory and debt levels? Are you looking at any M&A opportunities? What is your outlook for dividends?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2020a	2021a	2022a	1H2023a (TTM)a
Income Statement				
Revenue	1,212	1,210	1,727	1,744
EBITDA	183	105	220	234
Net operating profit (EBIT)	107	10	113	121
EBT	82	(10)	82	90
Net income	74	14	189	190
Balance Sheet				
Cash and cash equivalents	60	186	267	285
Current assets	840	833	1,021	1,108
Net fixed assets	355	491	687	807
Intangibles & others	2	3	92	93
Total assets	1,197	1,328	1,801	2,008
Current liabilities (Including debt)	643	694	747	887
Long-term liabilities (Including debt)	207	277	391	490
Total liabilities	850	971	1,138	1,377
Total net worth	348	356	614	577
Minority interest	-	-	48	54
Total equity & liabilities	1,197	1,328	1,801	2,008
Total net debt (cash)	431	394	417	557
Cash Flow Statement				
CF from operations	161	325	53	69
CF from investments	(38)	(124)	116	86
CF from finance & non operating CF	(86)	(75)	(75)	19
Per Share Numbers				
EPS (SAR)	3.72	0.68	9.34	3.78
DPS (SAR)	0.00	0.51	0.00	3.50
BVPS (SAR)	17.38	17.81	30.72	28.85
Valuation Metrics				
Price to earnings	26.5x	144.7x	10.5x	26.0x
Price to book value	5.7x	5.5x	3.2x	3.4x
FCF yield	6.2%	10.3%	-5.5%	-6.2%
Dividend yield	0.0%	0.5%	0.0%	0.0%
EV / EBITDA	14.1x	24.6x	11.7x	11.0x
ROAIC	12.9%	1.1%	9.7%	9.6%
ROAE	23.5%	3.9%	39.0%	31.9%
KPIs				
Revenue growth (Y-o-Y)	5.8%	-0.2%	42.8%	39.4%
EBITDA margin	15.1%	8.7%	12.7%	13.4%
Net operating profit (EBIT) margin	8.8%	0.9%	6.6%	7.0%
Effective tax rate	17.5%	-100.8%	18.5%	0.0%
Net debt (cash) / equity	1.2x	1.1x	0.6x	0.9x
Net debt (cash) / EBITDA	2.4x	3.8x	1.9x	2.4x

Source: Tanmiah Food Co, Bloomberg

STOCK DATA

Closing Price	SAR98.40 as of 03 Sep 2023
Last Div. / Ex. Date	SAR3.5 / 08 Jun 2023
MKT. Cap / Shares (mn)	USD525 / 20
Av. Daily Liquidity (mn)	USD4.7
52-Week High / Low	SAR148.20 / SAR80.80
Bloomberg / Reuters	TANMIAH AB / 2281.SE
Est. Free Float	30.0%

Hatem Alaa, CFA
halaa@efg-hermes.com

Mirna Maher, CFA
mmaher@efg-hermes.com

INVESTMENT THESIS

Tawuniya is the largest insurer in Saudi Arabia and a multi-line insurer with a strong presence in medical, motor and P&C segments. Multi-line exposure, economies of scale, solid value proposition across segments give Tawuniya a clear competitive edge. Tawuniya has embarked on a robust digitalisation strategy over the past three years, which has significantly improved its product offering (Drive, Vitality, Tree) and driven market share gains. We see room for further medical loss ratio improvement as Tawuniya continues to tighten its claim and fraud management. We believe solid GWP momentum will continue across its key segments, driven by a favourable pricing environment in medical, increase in insured lives driven by employment, motor market share gains in comprehensive, and retail and sizeable P&C contract wins related to Vision 2030 projects.

VALUATION & RISKS

We have a TP of SAR102 for Tawuniya. We value Tawuniya based on a residual income model, using a discount rate of 10.5% and terminal growth rate of 5.0%. We see significant room for long-term growth as insurance penetration levels in the country are low. Tawuniya's economies of scale should enable it to gain market share from competitors and as under-capitalised insurers scale back or fold their businesses. Key downside risks to our Buy rating are: i) higher-than-expected medical claims due to regulatory changes; ii) contract losses due to competitive pressure; iii) rising motor loss ratio following strong market share gains; and iii) pressure on investment income from mark-to-market losses and poor equity performance.

QUESTIONS

1. Could you shed some colour on Meena, Tawuniya's new primary care provision company and your expectations, in terms of revenue and profit in the short term?
2. Medical inflation has decelerated since June. What is your outlook on medical pricing going into 2024?
3. Could you shed some light on your P&C pipeline? Do you still see strong demand from Vision 2030 projects? How do you expect Fitch's recent upgrade to 'A' will support your P&C volume growth?
4. Could you shed some light on the competitive dynamics in the motor segment? Are motor rates still stable, or have you seen some competition arising from smaller peers?
5. Could you update us on the progress of Tree? How many motor policies were sold through the platform? Are you planning to expand the Tree offering beyond the motor segment and into other retail markets?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Gross written premium	14,350	16,335	19,234	22,570
Net written premium	12,212	13,831	16,229	18,984
Net earned premium	10,609	13,138	15,056	17,634
Net claims incurred	(8,455)	(11,129)	(12,667)	(14,652)
Underwriting expenses	(1,648)	(2,024)	(2,282)	(2,643)
Underwriting result	594	110	272	544
Investment income	304	442	560	703
Reinsurance & other ins. income	179	249	330	408
Insurance profit	558	662	950	1,372
Income before tax and minorities	480	571	832	1,213
Net income	391	470	717	1,080
Balance Sheet				
Cash and investments	8,621	10,536	11,375	13,652
Insurance and other receivables	5,422	5,445	6,411	7,523
Total assets	18,915	22,104	25,032	29,599
Technical reserves	12,258	14,788	16,834	20,206
Total liabilities	15,550	18,269	20,597	24,300
Minority interest	0	0	0	0
Shareholders' equity	3,365	3,835	4,435	5,300
Per Share Numbers				
EPS (SAR)	2.61	3.13	4.78	7.20
DPS (SAR)	0	0.783	1.435	2.160
BVPS (SAR)	22.4	25.6	29.6	35.3
BVPS (tangible) (SAR)	22.3	25.5	29.5	35.2
Valuation Metrics				
P/E	44.1x	36.7x	24.0x	16.0x
P/ BV	5.1x	4.5x	3.9x	3.3x
P/BV (ex-goodwill)	5.1x	4.5x	3.9x	3.3x
Dividend yield	0.0%	0.7%	1.2%	1.9%
Dividend payout	0%	25%	30%	30%
ROAA	2.3%	2.3%	3.0%	4.0%
ROAE	12.2%	13.1%	17.3%	22.2%
ROAE (ex-goodwill)	12.2%	13.1%	17.3%	22.2%
Gearing (assets / equity)	5.3x	5.7x	5.7x	5.6x
KPIs				
Claims ratio	80.1%	85.1%	84.4%	83.4%
Expense ratio	14.6%	14.4%	14.0%	13.8%
Combined ratio	94.7%	99.5%	98.5%	97.2%
Investment yield	3.8%	4.6%	5.1%	5.6%
Gross written premium growth	40.4%	13.8%	17.7%	17.3%
Net written premium growth	41.5%	13.3%	17.3%	17.0%
Net earned premium growth	33.4%	23.8%	14.6%	17.1%
Net underwriting result growth	254.6%	-81.5%	147.4%	100.1%
Insurance profit growth	35.2%	18.7%	43.5%	44.5%
Net income growth	46.7%	20.2%	52.6%	50.6%
Cash and financial inv. growth	17.5%	22.2%	8.0%	20.0%

Source: Tawuniya, EFG Hermes estimates

STOCK DATA

Closing Price	SAR115 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.83 / 06 Aug 2023
MKT. Cap / Shares (mn)	USD4,599 / 150.0
Av. Daily Liquidity (mn)	USD11.59
52-Week High / Low	SAR133 / SAR60
Bloomberg / Reuters	TAWUNIYA AB / 8010.SE
Est. Free Float	74.1%

Rajae Aadel

raadel@efg-hermes.com

INVESTMENT THESIS

Zain Saudi Arabia launched commercial operations in 2008 as Saudi Arabia's third mobile operator. It has suffered since its inception from an overstretched balance sheet and high debt levels, due to a very expensive licence fee (SAR22.9bn). In 2010, it started a two-step capital restructuring process: a capital decrease to wipe off accumulated losses, followed by a rights issue, where founding shareholders participated through a debt-for-equity swap. Zain KSA's parent company, Zain Group, increased its stake to 37% from 25% by subscribing to more than its share in the rights issue. Zain Group cemented its control by appointing a new mgmt. team, signalling its strong commitment. In 2013, the gov't allowed it to defer the licence-fee related annual payments for seven years, providing the operator with needed liquidity, and it cancelled accumulated losses against capital in 2015. It successfully underwent a new two-step capital restructuring in 4Q20 to address its capital structure problems by bolstering the equity base and using proceeds for deleveraging mostly; this marks the last step of several years' turnaround efforts on many fronts. In 2022, Zain KSA kicked off the sale of its towers and paid its first-ever dividend.

VALUATION & RISKS

We value Zain Saudi Arabia using a discounted cash flow (DCF) model, which yields a target price of SAR14.30. We have a Neutral rating on the stock. We discount the company's cash flows using a cost of equity of 10.5%, a cost of debt of 5.7% and a terminal growth rate of 2.5%. The main upside risk to our valuation is better-than-forecast operational performance, which could be helped by the reinvestment of tower sale proceeds in high-margin revenue segments and additional government support (past: deferral of licence-fee related payments, licence extension, effective royalty reduction, MTR cuts, etc.). Another upside is the possibility of dividend surprises, following the tower sale and first-ever dividend in 2022; this would be a key catalyst for the stock. Downside risks include: i) value erosion in the Saudi telecom market, as competitive dynamics could shift towards more aggressive tariff-based competition, which is unfavourable for Zain KSA, given its revenue and market share disadvantage; and ii) a more difficult operating scene, as a result of a volatile macroeconomic environment.

QUESTIONS

1. How do you view the competitive dynamics in the market? What are Zain KSA's plans with regard to the enterprise segment, as competition is increasing on that front, given the ongoing digital transformation in KSA?

2. Do you consider an increase in DPS after receiving the proceeds from the sale of towers to GLI?

3. What is your capex guidance, and where will you direct most of your capex spending in the coming years?

4. Could you provide an update on your deleveraging strategy? How do you plan to pay down the remaining portion of debt? Are there plans for refinancing?

5. With the traditional pre-paid market weakening, how can you diversify your revenue streams further (fintech, digital business, etc.)? Which areas of business generate the most profitability and improve margins? Are you planning to expand these?

DATA MINER

(Dec Year End) In SARmn, unless otherwise stated	2022a	2023e	2024e	2025e
Income Statement				
Revenue	9,075	9,743	10,107	10,450
EBITDA	3,155	3,069	3,254	3,406
Net operating profit (EBIT)	1,089	1,065	1,272	1,429
Taxes or zakat	(24)	(48)	(38)	(28)
Net income	550	914	1,213	905
Balance Sheet				
Cash and cash equivalents	375	1,316	1,809	1,267
Total assets	28,356	28,809	28,704	27,570
Total liabilities	18,556	18,544	17,765	16,356
Total equity	9,800	10,265	10,939	11,215
Total net debt (cash)	9,372	8,024	6,401	5,166
Cash Flow Statement				
Cash operating profit after taxes	3,200	3,815	4,057	3,659
Change in working capital	(1,282)	(301)	(221)	(216)
CAPEX	(1,346)	(1,181)	(1,181)	(1,181)
Free cash flow	562	2,333	2,655	2,262
Net financing	(701)	(1,293)	(2,062)	(2,703)
Change in cash	(137)	941	493	(541)
Per Share Numbers				
EPS (SAR)	0.61	1.02	1.35	1.01
DPS (SAR)	0.50	0.60	0.70	0.80
BVPS (SAR)	10.9	11.4	12.2	12.5
Valuation Metrics				
Price to earnings	21.8x	13.1x	9.9x	13.3x
Price to book value	1.2x	1.2x	1.1x	1.1x
Price to cash flow	6.3x	3.4x	3.1x	3.5x
FCF yield	2.1%	12.9%	15.9%	13.4%
Dividend yield	3.7%	4.5%	5.2%	6.0%
EV / EBITDA	6.6x	6.8x	6.4x	6.1x
EV / Invested capital	1.1x	1.1x	1.2x	1.3x
EV / Sub	2,333	2,196	2,077	1,972
ROAIC	5.9%	5.6%	7.2%	8.6%
ROAE	5.9%	9.2%	11.7%	8.4%
KPIs				
Revenue growth (Y-o-Y)	14.9%	7.4%	3.7%	3.4%
EBITDA growth (Y-o-Y)	0.8%	-2.7%	6.0%	4.7%
Gross profit margin	58.6%	59.0%	59.3%	59.5%
EBITDA margin	34.8%	31.5%	32.2%	32.6%
Net operating profit (EBIT) margin	12.0%	10.9%	12.6%	13.7%
Effective tax rate	4.2%	5.0%	3.0%	3.0%
Net Debt (Cash) / Equity	1.0x	0.8x	0.6x	0.5x
Net Debt (Cash) / EBITDA	3.0x	2.6x	2.0x	1.5x

Source: Zain KSA, EFG Hermes estimates

STOCK DATA

Closing Price	SAR13.4 as of 03 Sep 2023
Last Div. / Ex. Date	SAR0.5 / 25 Jun 2023
MKT. Cap / Shares (mn)	USD3,201 / 898.7
Av. Daily Liquidity (mn)	USD10.19
52-Week High / Low	SAR16.1 / SAR10.0
Bloomberg / Reuters	ZAINKSA AB / 7030.SE
Est. Free Float	53.1%

Omar Maher

omaher@efg-hermes.com

Laila Galal

lgalal@efg-hermes.com

CONTACTS

NAME	POSITION	E-MAIL	DIRECT NUMBER
Ahmed Shams El Din	Managing Director, Head of Research	ashamseldin@efg-hermes.com	+20 2 35356143
Macro Strategy			
Simon Kitchen	Managing Director, Head of Strategy	skitchen@efg-hermes.com	+44 20 7062 2163
Mohamed Abu Basha	Managing Director, Head of Macroeconomic Analysis	mbasha@efg-hermes.com	+20 2 36361157
Saad Ali, CFA	Director, Research Pakistan	saad.ali@efg-hermes.com	+92 345 215 2953
Farah Hamza	Associate, Strategy	fhamza@efg-hermes.com	+20 2 35356289
Sarosh Khan	Analyst, Strategy	sarosh.khan@efg-hermes.com	+20 2 35356289
Financials			
Kato Mukuru	Managing Director, Head of Frontier	kmukuru@efg-hermes.com	+971 4 364 1904
Murad Ansari	Managing Director, Head of Asia	mansari@efg-hermes.com	+971 4 363 4010
Elena Sanchez-Cabezudo, CFA	Managing Director, Head of Financials	esanchez@efg-hermes.com	+971 4 363 4007
Shabbir Malik	Managing Director, Financials	smalik@efg-hermes.com	+971 4 363 4009
Ronak Gadhia, CFA	Director, Sub-Saharan Banks	rgadhia@efg-hermes.com	+44 20 7518 2905
Rajae Aadel	Associate Director, Financials	raadel@efg-hermes.com	+971 4 363 4003
Ahmed El Shazly	Vice President, Financials	aelshazly@efg-hermes.com	+20 2 353 56570
Maureen Kirigua	Associate VP, Financials	mkirigua@efg-hermes.com	+254 703 203 459
Kazi Raquib, CFA	Associate, Bangladesh Pharmaceuticals	kraquib@efg-hermes.com	+88 0173 0727 931
Omnia Kadry	Associate, Financials	okadry@efg-hermes.com	+234 1906 4603
Mona Eid	Analyst, Financials	mheid@efg-hermes.com	+20 2 353 56697
Consumer & Healthcare			
Hatem Alaa, CFA	Deputy Head of Research, Head of Consumer & Healthcare	halaa@efg-hermes.com	+20 2 35356156
Adrian Cundy	Director, Vietnam Country analyst	acundy@efg-hermes.com	+971 43634042
Luis Colaco, CFA	Director, Sub-Saharan Consumers	lcolaco@efg-hermes.com	+44 7500 515721
Fahad Shaikh, CFA	Vice President, South Asian Consumer	fshaikh@efg-hermes.com	+971 4 363 4005
Ahmed Moataz	Vice President, Consumer & Healthcare	amoataz@efg-hermes.com	+20 2 35356515
Mirna Maher, CFA	Vice President, Consumer & Healthcare	mmaher@efg-hermes.com	+20 2 35356141
Kareem Elsahn	Associate, Consumer & Healthcare	kelsahn@efg-hermes.com	+20 2 35356420
Nazmus Saadat, CFA	Associate, South Asian Consumer	nsaadat@efg-hermes.com	+88 0167 0073 543
Chemicals & Materials			
Yousef Husseini	Director, Chemicals	yhusseini@efg-hermes.com	+20 2 35356013
Sameer Kattiparambil	Associate Director, Materials	skattiparambil@efg-hermes.com	+968 2476 0023
Moses Waireri Njuguna, CFA	Associate VP, Cement/Consumer	mnjuguna@efg-hermes.com	+254 20 374 3038
Alaa Saleh Aly	Associate VP, Chemicals	asaly@efg-hermes.com	+20 2 35356562
Dina Hicham	Associate VP, Materials	dhicham@efg-hermes.com	+20 2 35356049
Salma El-Feqy	Associate, Chemicals	sfeqy@efg-hermes.com	+20 2 35356322

NAME	POSITION	E-MAIL	DIRECT NUMBER
Industrials / Small & Mid-Caps			
Ahmed Hazem Maher	Director, Industrials / Small & Mid-Caps	ahmaher@efg-hermes.com	+20 2 35356137
Muhammad Ahmad	Associate, Pakistan Utilities	muhammad.ahmad@efg-hermes.com	+92 3334884453
Zeina Fares	Analyst, Industrials / Small & Mid-Caps	zfares@efg-hermes.com	+20 2 35356131
Real Estate & Construction			
Mai Attia	Managing Director, Head of Real Estate & Construction	maiattia@efg-hermes.com	+20 35356434 2
Shaza Shaker	Associate, Real Estate & Construction	sshaker@efg-hermes.com	+20 35356070 2
Telecommunications			
Omar Maher	Associate Director, Telecommunications	omaher@efg-hermes.com	+20 2 35356388
Silha Rasugu	Associate VP, Telcos, Utilities//Oil and Gas	srasugu@efg-hermes.com	+254 20 374 3037
Laila Galal	Analyst, Telecommunications	lgalal@efg-hermes.com	+20 2 35356698
Quantitative Research			
Ahmed Difrawy	Managing Director, Head of Quantitative research	adifrawy@efg-hermes.com	+20 2 35356144
Refaat Mahmoud	Associate Director, Quantitative research	rmahmoud@efg-hermes.com	+20 2 35356095
Yousef Mourad, CFA	Vice President, Quantitative research	ymourad@efg-hermes.com	+20 2 35356572
Ahmed Abdelmeged	Associate VP, Quantitative research	aabdelmeged@efg-hermes.com	+20 2 35356065
Editing Team			
Russell Curtis	Director, Supervisory Analyst	rcurtis@efg-hermes.com	+20 2 35356469
Rehab El Kobtan	Director, Editor	relkobtan@efg-hermes.com	+20 2 35356392
Amr Shehata	Associate Director, Editor	ashehata@efg-hermes.com	+20 2 35356059
Production & Distribution			
Haidy Samir	Director, Head of Production & Distribution	hsfahmy@efg-hermes.com	+20 2 35352180
David Nasr	Vice President, Production & Distribution	dnasr@efg-hermes.com	+20 2 35356500
Sandra Azer	Associate VP, Production & Distribution	sazer@efg-hermes.com	+20 2 35356469
Mirna Ezzat	Associate, Production & Distribution	mezzat@efg-hermes.com	+02 2 35356392
Retail			
Sandra Raef	Associate Director, Retail	sraef@efg-hermes.com	+20 2 35356059
Ahmed Nabil Sarhan	Vice President, Retail	ansarhan@efg-hermes.com	+20 2 35356442
Translation Team			
Shaimaa ElSarky	Vice President	selsarky@efg-hermes.com	+20 2 35356163
Admin			
Fuyumi Archer	Senior Executive Support Manager, Research	farcher@efg-hermes.com	+9714 363 4008
Nermeen Abdel Khalek	Research Contracts & External Affairs Senior Manager, Research	nabdelkhalek@efg-hermes.com	+20 2 35356684
Sherouq Abdelsalam	Senior Department Assistant, Research	sabdelsalam@efg-hermes.com	+20 2 35356107

Sales Contacts

NAME	E-MAIL	DIRECT NUMBER
Institutional Sales		
Cairo Office		
Mohamed Aly	maly@efg-hermes.com	+20 2 35356052
Wael El Tahawy	weltahawy@efg-hermes.com	+20 2 35356359
Yasser Waly	ywaly@efg-hermes.com	+20 2 35356339
Ahmed Hashem	ahashem@efg-hermes.com	+20 2 35356286
Carol Aziz	caziz@efg-hermes.com	+20 2 35356312
Dubai Office		
Ramy El Essawy	ressawy@efg-hermes.com	+971 43634093
Ayah Abou Steit	asteit@efg-hermes.com	+971 43634091
London Office		
Sruti Patel	spatel@efg-hermes.com	+44 2075182903
New York Office		
Karim Baghdady	kbaghdady@efg-hermes.com	+1 2123151292
Srikanth Ramanathan	sramanathan@efg-hermes.com	+1 2015546005
Nairobi Office		
Muathi Kilonzo	mkilonzo@efg-hermes.com	+254 2037433032
Natalya Wjenje	nwjenje@efg-hermes.com	+254 114717635
Karachi Office		
Saad Iqbal	saad.iqbal@efg-hermes.com	+92 2135141140
Lagos Office		
Oluseun Olukanmi	oolukanmi@efg-hermes.com	+234 19064607GCC
Singapore office		
John Yoon	jyoon@efg-hermes.com	+65 9342 3354
GCC High Net Worth Sales		
Hatem Adnan	hadnan@efg-hermes.com	+20 2 35351083
Hany Ghandour	hghandour@efg-hermes.com	+20 2 35356007
Rami Samy	rsamy@efg-hermes.com	+971 43634099
Individual Sales		
Bassam Nour	bassam@efg-hermes.com	+20 2 35356069

DISCLAIMER

Analyst Certification

The research analyst(s) of this report certifies that the views expressed in this document accurately reflect personal views about the securities and companies that are the subject of this report. The research analyst(s) of this report also certifies that any spouse(s) or dependents (if relevant) do not hold a beneficial interest in the securities that are subject of this report. The research analyst(s) of this report also certifies no part of their respective compensation was, is &/or will be directly or indirectly related to the specific ratings or views expressed in this research report. EFG Hermes has taken measures to ensure that the review process and signing off on this report is conducted by person(s) who do not have a beneficial interest in the securities mentioned in this report and are neither remunerated directly nor indirectly for the specific ratings mentioned in this report nor for the review process of this report. The research analyst(s) of this report also certifies that they are acting independently and impartially from EFG Hermes shareholders, directors and is not affected by any current or potential conflict of interest that may arise from any of EFG Hermes' activities

Analyst compensation: The research analyst(s) primarily responsible for the preparation of the content of the research report attests that no part of the analyst's(s') compensation was, is or will be, directly or indirectly, related to the specific recommendations expressed by the research analyst's(s') in the re search report. The research analyst's (s') compensation is, however, determined by the overall economic performance of EFG Hermes

Registration of non-US analysts: Unless otherwise noted, the non-US analysts listed on the front of this report are employees of EFG Hermes, which is a non-US affiliate and parent company of EFG Hermes USA, a SEC registered and FINRA member broker-dealer. Research analysts employed by EFG Hermes are not registered/qualified as resea rch analysts under FINRA/NYSE rules, may not be associated persons of EFG Hermes USA, Inc. ("EFG Hermes USA"), and may not be subject to FINRA Rule 2241 restrictions on communications with covered companies, public appearances, and trading securities held
by a research analyst account

Important Disclosures

EFG Hermes Holding, or any of its subsidiaries or officers (other than the authors of this report) may have a financial interest in one or any of the securities that are the subject of this report. Funds managed by EFG Hermes Holding SAE and its subsidiaries (together and separately, "EFG Hermes") for third parties may own the securities that are the subject of this report. EFG Hermes may own shares in one or more of the aforementioned funds, or in funds managed by third parties. The author(s) of this report ma y own shares in funds open to the public that invest in the securities mentioned in this report as part of a diversified portfolio, over which the author(s) has/have no discretion. The Investment Banking division of EFG Hermes may be in the process of soliciting or executing fee-earning mandates for companies (or affiliates of companies) that are either the subject of this report or are mentioned in this report. Research reports issued by EFG Hermes are prepared and issued in accordance with the requirements
of the local exchange conduct of business rules, where the stock is primarily listed

Investment Disclaimers

This research report is prepared for general circulation and has been sent to you as a client of one of the entities in the EFG Hermes Group, and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any security

It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. This research report must not be considered as advice nor be acted upon by you unless you have considered it in conjunction with additional advice from an EFG Hermes entity, with which you have a client agreement. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs

Our investment recommendations take into account both risk and expected returns. We base our long-term target price estimate on fundamental analysis of the company's future prospects, after having taken perceived risk into consideration. We have conducted extensive research to arrive at our investment recommendation(s) and target price estimate(s) for the company or companies mentioned in this report. Readers should understand that financial projections, target price estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without prior notice. The target prices stated in our company update, initiation and corporate action adjustment reports on stocks listed on the EGX are valid for three months starting from the date of publication. EFG Hermes' target prices for stock coverage in other countries (excl. Egypt) are on a 12-month basis. All other reports on EGX-listed stocks, such as flash notes, sector or company commentaries, do not include, denote, or imply any : changes to target prices. EFG Hermes' analysts plan to update all covered stock forecasts on a quarterly basis. For any additional information, please visit
http://www.efghermesresearch.com

Although the information in this report has been obtained from sources that EFG Hermes believes to be reliable, we have not independently verified such information, and it may not be accurate or complete. EFG Hermes does not represent or warrant, either expressly or implied, the accuracy or completeness of the information or opinions contained within this report, and no liability whatsoever is accepted by EFG Hermes or any other person for any loss, howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith

The decision to subscribe to or purchase securities in any offering should not be based on this report and must be based only on public information on such security and/or information made available in the prospectus or any other document prepared and issued in connection with the offering

Investment in equities or other securities are subject to various risks, including, among others, market risk, currency risk, default risk and liquidity risk. Income from such securities, and their value or price may, therefore, fluctuate. Basis and levels of taxation may change, which would affect the expected return from such securities. Foreign currency rates of exchange may affect the value or income of any security mentioned in this report. Investors should, therefore, note that, by purchasing such securities, including GDRs , the y effectively assume currency risk
This report may contain a short- or medium-term recommendation or trading idea, which underscores a near-term event that would have a short-term price impact on the equity securities

DISCLAIMER

of the company or companies' subject of this report. Short-term trading ideas and recommendations are different from our fundamental equity rating, which reflects , among other things, both a longer-term total return expectation and relative valuation of equity securities relative to other stocks within their wider peer group. Short-term trading recommendations may, therefore, differ from the longer-term stock's fundamental rating

For Entities and Clients in the United States

Hermes Securities Brokerage and EFG Hermes UK Limited are not registered as broker-dealers with the US Securities and Exchange Commission, and it and its analysts are not subject to SEC rules on securities analysts' certification as to the currency of their views reflected in the research report. Hermes Securities Brokerage and EFG Hermes UK Limited are not members of the Financial Industry Regulatory Authority (FINRA), and its securities analysts are not subject to FINRA's rules on Communications with the Public and Research Analysts and Research Reports and the attendant requirements for fairness, balance, and disclosure of potential conflicts of interest.

This research report is only being offered to U.S. Institutional and Major US Institutional Investors (subject to conditions outlined in Rule 15a-6) and is not available to, and should not be used by, any US person or entity that does not fall within one (1) of these categories/classifications. Hermes Securities Brokerage and EFG Hermes UK Limited cannot and will not accept orders for the securities covered in this research report placed by any person or entity in the United States. Hermes Securities Brokerage and EFG Hermes UK Limited are affiliates companies of EFG Hermes International Securities Brokerage (EHISB), located at B129, Phase 3, Smart Village – KM28 Cairo, Alexandria road 6th of October 12577 – Egypt. EHISB has a 15a-6 chaperoning agreement with EFG-Hermes USA, Inc., a FINRA member firm, located at 200 Vesey street 24th floor NY 1028 | USA. Orders should be placed with our correspondent, EFG-Hermes USA Inc. 212-315-1372.
A major US Institutional Investor who may receive and use this report must have assets under management of more than USD100,000,000 and is either an investment company registered. with the SEC under the US Investment Company Act of 1940, a US bank or savings and loan association, business development company, small business investment company, employee benefit plan as defined in SEC Regulation D, a private business development company as defined in SEC Regulation D, an organization described in US Internal Revenue Code Section 501(c) .(3) and SEC Regulation D, a trust as defined in SEC Regulation D, or an SEC registered investment adviser or any other manager of a pooled investment vehicle

U.S. institutional investors who may receive and use this report must be a bank, insurance company, investment company registered with the SEC, small business investment company, private business development company, certain employee benefits plans, as well as trusts and tax-exempt organizations with more than $5 million in assets.
This research report was prepared by EFG Hermes, a company authorized to engage in securities activities in various jurisdictions. EFG Hermes is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and "U.S. Institutional Investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").
Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through EFG Hermes USA, a SEC registered and FINRA member broker-dealer authorized in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through EFG Hermes. To contact EFG Hermes USA directly via phone at (212)315-1372 or via mail at EFG Hermes USA, Inc. - 200 Vesey street 24th floor NY 1028.

EFG Hermes USA accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

Additional - U.S. person other than a major U.S. institutional investor disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither EFG Hermes nor any of its directors, officers, employees or a gents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report. EFG
Hermes may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of EFG Hermes

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instrume nts may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States . T he value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments. Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by EFG Hermes with respect to future perfo rma nce . Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used he rein. No part of the content of this research re port may be copied, forwarded or duplicated in any form or by any means without the prior consent of EFG Hermes and EFG Hermes accepts no liability whatsoever for the actions of third parties in this respect

DISCLAIMER

Investment Banking Business

EFG Hermes, or any of its subsidiaries, does and seeks to do business with companies mentioned in its research reports or any of their affiliates. As a result, investors should be aware that the firm, or any of its subsidiaries, maintains material conflict of interest that could affect the objectivity of this report

Guide to Analysis

EFG Hermes investment research is based on fundamental analysis of companies and stocks, the sectors that they are exposed to, as well as the country and regional economic environment

In special situations, EFG Hermes may assign a rating for a stock that is different from the one indicated by the 12-month expected return relative to the corresponding target price. For the 12-month long-term ratings for any investment covered in our research, the ratings are defined by the following ranges in percentage terms

Rating	(Potential Upside (Downside)%
Buy	Above 15%
Neutral	and 15% (10%)
Sell	Below (10%)

EFG Hermes policy is to update research reports when appropriate based on material changes in a company's financial performance, the sector outlook, the general economic outlook, or any other changes which could impact the analyst's outlook or rating for the company. Share price volatility may cause a stock to move outside of the longer-term rating range to which the original rating was applied. In such cases, the analyst will not necessarily need to adjust the rating for the stock immediately. However, if a stock has been outside of its longer-term investment rating range consistently for 30 days or more, the analyst will be encouraged to review the rating

Copyright and Confidentiality

Contacts and Statements

All reports are prepared by Hermes Securities Brokerage (main office), Building No. B129, Phase 3, Smart Village, KM 28, Cairo-Alexandria Desert Road, Egypt 12577 Tel +20 2 35 35 6140 | Fax +20 2 35 37 0939 which has an issued capital of EGP3,843,091,115 while some reports are produced by analysts registered at EFG Hermes UK Limited, authorized and regulated by the UK Financial Conduct Authority

Reviewed and approved by EFG Hermes KSA - a closed joint stock company established under license number 06016-37 issued by the Capital Market Authority in Saudi Arabia whose registered office is in Sky Towers, Northern Tower, Olaya, Riyadh, Saudi Arabia with Commercial Registration number 1010226534

Reviewed and approved by EFG Hermes UAE Limited, which is regulated by the DFSA and has its address at Office 301, The Exchange, DIFC, Dubai. The material is distributed in the UAE or the Dubai International Financial Centre (DIFC) (as applicable) by EFG Hermes UAE Limited. The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" as defined in the DFSA Rulebook. No other person should act upon it. This Research Report should not be relied upon by or distributed to Retail Clients

Reviewed and approved by EFG Hermes Pakistan Limited. (Research Entity Notification No. REP-192), incorporated in Pakistan with registered number 0040559, and has its address at Office No. 904, 9th Floor, Emerald Tower, Plot No. G19, Block-5, Clifton, Karachi, Pakistan. Distributed in Kenya by EFG Hermes Kenya Limited, an entity licensed under the Capital Markets Act and regulated by the Capital Markets Authority

The information in this document is directed only at Institutional Investors If you are not an institutional investor you must not act on it

BLOOMBERG EFGH REUTERS PAGES .EFGS .HRMS .EFGI .HFISMCAP
www.efghermesresearch.com