IPO COVERAGE

MOHAMMAD AL-MOJIL GROUP

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SUBSCRIBE

Sale of 30,000,000 shares representing 30% of Mohammad Al-Mojil Group through an Initial Public Offering at an offer price of SAR 70 per share

FALCOM فالكم

INTELLIGENT
INVESTMENT
IDEAS

Highlights

Sector

Building & Construction

Major Business

Contractor specialized in onshore and offshore oil & gas and petrochemical projects

IPO Closes on

May 12, 2008

Issue Price

SAR 70.00

Shares Offered

30 million

Issued Shares

100 million

Use of Proceeds

Existing Shareholder

Geographic Focus

Kingdom of Saudi Arabia

Free Float

30%

Year Founded

1954

Major Shareholder

Mohammad Hamad Al-Mojil

Latest Results

2007

Next Results

Q1 2008

Investment Thesis

Since its inception Mohammad Al-Majil Group ("MMG" or "Company") has completed more than 500 projects for a multitude of clients ranging from Government and semi-government agencies to private, local and international organizations. MMG has completed projects worth more than SAR 37.5 billion to date. Till 2009 company's order book is full with 22 ongoing projects and clients include Saudi Aramco, YANSAB, Saudi KAYAN, SABIC, etc.

Gross margins for 2007 improved 360bps to 32.5% as against 28.9% in 2006. We expect margins to remain range bound due to

i) Achieving economies of scale;

ii) Better pricing power; and

iii) State of the art equipment.

MMG PER of 12.8x based on 2007 reported earnings of SAR 549 million and issue price of SAR 70 appears attractive as against current market PER of 21x and Building & Construction sector PER of 16x given:

1. Strong book order amounting to SAR3.3bn providing stability;
2. Major expansion projects expected to commence in oil & gas, petrochemical and other sectors. The Company's management is well positioned across the different sectors.

MMG is a dominant player within the contracting industry which is growing by leaps and bounds. The prospects for the Company are bright given the strong order book positions and flawless track record on project delivery. Over 50 years of operations, the Company has never delayed a project.

FALCOM valuation based on DCF indicates a fair value of SAR 82 which is 17% above the issue price. We recommend SUBSCRIBE for the IPO.

Summary Financials & Valuation Statistics

Year	2006	2007	2008E	2009E	2010E
Revenues (SAR mn)	894	1,955	3,270	3,939	4,475
EBITDA (SAR mn)	246	640	916	1,142	1,298
EBIT (SAR mn)	212	563	788	983	1,119
Net Income (SAR mn)	208	549	767	961	1,092
EPS (SAR)	2.08	5.49	7.67	9.61	10.92
PER (x)	33.7	12.8	9.1	7.3	6.4
EV/EBITDA (x)	32.2	12.4	8.7	7.0	6.1
EV/EBIT (x)	37.5	14.1	10.1	8.1	7.1
PEG (x)	9.6	3.6	2.6	2.1	1.8

Introduction

The Company

Mohammad Al-Mojil Group ("MMG" or "Company") is a licensed general contractor specialized in onshore and offshore oil & gas and petrochemical projects. The Company's core activity is the construction of onshore and offshore oil & gas and petrochemical facilities on a subcontract basis from the primary project contractor.

The Company has an experienced management team. Each one has 8 to 30 years of industrial experience in the construction business.

MMG scope of work includes all construction activities involving civil, structural, mechanical, electrical, instrumental and maintenance. The company's services are supported by its two steel factories which provide fabrication of steel pipes and plates.

Business Activities

MMG does not plan to make any material change in the nature of its business which includes:

i) Civil – Includes preliminary groundwork of the project site area (excavation, construction of access routes, trenching and backfilling, clearing of drainage, construction of security fences, asphalting and concrete works) and the construction of buildings and structures to house the operations of the project, such as accommodation facilities, material & equipment storage areas and offices;

ii) Structural – Includes fabrication, installation and erection of steel or stainless steel structures used in the construction of oil rigs, refineries, petrochemical plants and other facilities;

iii) Mechanical – Includes piping fabrication, scaffolding, rigging and mechanical equipment installation;

iv) Electrical and Instrumentation – Includes installation of electrical systems (conduit & cable tray installation, cathodic protection, grounding systems, electric motors and generators, transformers and junction box installation, among others) and installation of transmitters & transducers, control valves & switches, etc;

v) Maintenance – Includes procurement of supplies & equipment, replacement & servicing works, et al.

Assets and Facilities

Company's Infrastructure

MMG owns and operates a fleet of 19 vessels used for offshore construction, maintenance & drilling support for oil rigs and oil production platforms and material handlings services.

In addition MMG owns two steel fabrication plants located in Dammam and Rabigh; training center in Dammam (training skills certified by Saudi Aramco); and self sufficient accommodation facilities for its employees.

The Company's heavy machinery and equipment facility maintains stores and services a fleet of 5,057 units of major construction related equipment including 293 cranes of different tonnage.

There has been a massive 78% increase YoY in Company's fixed assets reaching SAR 1,044 million in 2007 as against SAR 587 million in 2006.

Predominantly family controlled

Ownership Structure

In November 2007, the Company was converted into a joint stock company with a paid up capital of SAR 1,000 million divided into 100 million shares with nominal value of SAR 10 per share.

The founding shareholders owned the entire share capital of the Company prior to the offering and will collectively own 70% of the share capital post offering. Mohammad Hamad Al-Mojil will offer the 30 million shares and his ownership in the Company will be 50% post offering.

Shareholder	Pre-Offering		Post-Offering	
	Shares	Ownership	Shares	Ownership
Mohammad Hamad Al-Mojil	80,000,000	80%	50,000,000	50%
Adel Mohammad Al-Mojil	5,000,000	5%	5,000,000	5%
Mohammad Hamad Al-Mojil International Company for Investment	5,000,000	5%	5,000,000	5%
Al-Mojil Investment Company Limited	5,000,000	5%	5,000,000	5%
Al-Mojil Holdings Limited	5,000,000	5%	5,000,000	5%
Public	-	-	30,000,000	30&
Total	**100,000,000**	**100%**	**100,000,000**	**100%**

(Source: MMG Prospectus)

Growth engine

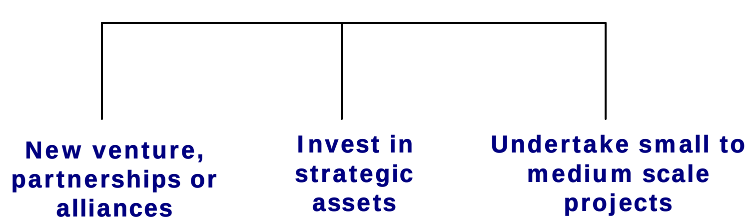
Growth Strategy

The Company is determined to enhance its engineering capabilities, improve quality of service and adopt a more competitive pricing strategy.

In order to increase its market share, MMG will;

1. Contemplate new ventures, partnerships of alliances that will expand its range of services across key sectors of the contracting industry;
2. Invest in strategic assets that will improve the range of value added services;
3. Diversify its client base by undertaking small to medium scale projects.

Driving Factors



(Source: MMG Prospectus)

Key Suppliers and Sub-Contractors

Diversified basket of Suppliers and Sub-Contractors

The Company does not rely on any particular supplier of sub-contractor. MMG has been able to secure a steady supply of materials for its operations at relatively stable prices from various established manufacturers and distributors in the Kingdom and abroad.

MMG has relations with 9 major suppliers/sub-contractors providing insulating & fireproofing, catering services, catalyst loading works, lifting equipment rental, insurance, electrical & instrumentation, NDT services, ready-mix concrete, fuel & oil, et al with an average experience of more than 10 years within the Kingdom.

Ongoing Projects

Strong portfolio of 22 major Ongoing Projects

The Company is currently executing 22 major ongoing projects with contract values ranging between SAR 105 to SAR 386 million. The basket of clients is concentrated in the eastern region with projects timelines going as far as June 2010. The tree below outlines the major clients along with the expected time of project delivery:

Saudi Aramco - Feb'09	**Saudi Kayan / SABIC / FLUOR Arabia - Mar'09, May'09 & Sep'09**	**Samsung Engineering – Jun'10**	**SNV Lavalin / Saudi Arabian Saipem – Jun & Jul'10**	**Mitsui Engineering – Jun'08**

(Source: MMG Prospectus)

The ultimate beneficiaries of the projects are blue chip companies of Saudi Arabia including Saudi Aramco, SABIC, YANSAB, Saudi Kayan. The Company's client base is divided within the oil & gas, petrochemical, power & water and infrastructure sector.

The portfolio comprises of projects directly from the owner (like Aramco, SABIC) or from Engineering, Procurement and Construction ("EPC") vendors (like Samsung Engineering, Mitsubishi Heavy Industries).

Market Overview

On the back of high oil prices and benefit of lower feedstock prices, the region has witnessed significant expansion in the petrochemicals. Being a contractor the Company is well poised to take advantage of the growth in petrochemical expansion.

Huge pipeline of projects within the Kingdom

Over the next five years major expansion is taking place within the oil & gas, petrochemical, infrastructure, water and power and industrial sectors. These expansions are as follows;

i) Saudi Aramco is increasing its crude oil capacity to 12.5mb/d from current capacity of 11.1mb/d by 2009;

ii) Petrochemical sector is expected to spend USD 300 billion over the next 20 years;

iii) USD 624 billion estimated for infrastructure construction projects by 2020 of which 48% have been announced so far by SAGIA;

iv) USD 184 billion allocated for electricity and water projects; and

v) According to MEED, USD 24 billion of investments in industrial projects.

Non-oil sectors: the major beneficiaries

The Kingdom has earmarked SAR 1,044.8 billion during the 8th Development Plan for different projects, of which 88% would flow to the non-oil sectors where as nearly 12% would go into the traditional oil & gas sector.

The table below provides an illustration of the total developments planned and underway for the various sectors over the next 5 years. It is estimated that the contracting work value represents 30% of the value of planned projects.

Sector	Total Planned Development (SAR billion)	Estimated Contracting Value (SAR billion)
Oil & Gas	412	124
Petrochemicals	573	172
Power	112	34
Waste & Water	37	11
Industrial	90	27
Commercial Construction	752	226
Total	**1,975**	**593**

(Source: MMG Prospectus)

Underlying Risks

Risk Factors

- Dependence on key personnel for sourcing and execution of projects
- Dependence on major clients such as Aramco and SABIC for book orders
- Slowdown in construction activity may affect the operational and financial results
- Fluctuation in construction material prices may affect construction cost of the project
- Increase in competitive landscape from local and international companies

Projections

The growth of MMG had been astounding in the last 2 years. However, what drives 'Value' is a result of future operations and the ability to sustain the margins amidst rising competition and price inflation.

The table below highlights that the Company would be able to churn double digit revenue and earnings growth in the near future. A look at the margins would foretell the economies MMG has achieved over time and strengthened its capacity to leverage the zero long-term debt balance sheet.

Ratio Analysis

Ratio Analysis (%)

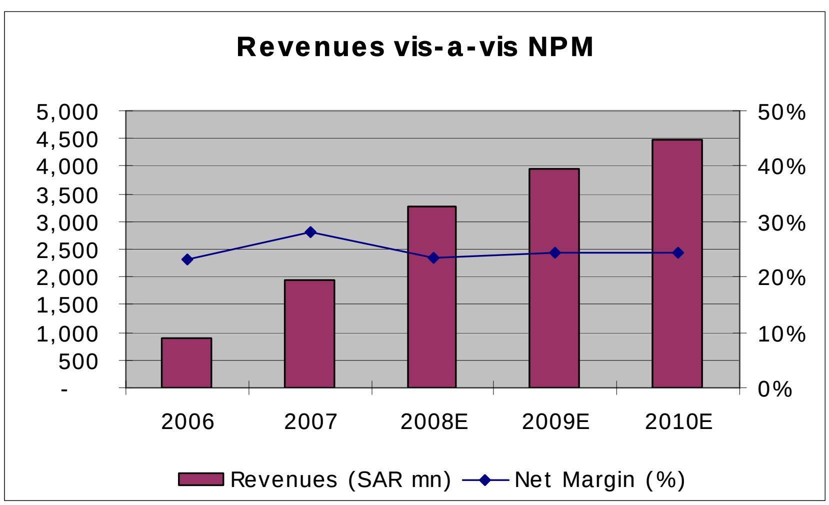
Year	2006	2007	2008E	2009E	2010E
Revenue Growth	92%	119%	67%	20%	14%
EBITDA Growth	142%	160%	43%	25%	14%
Net Income Growth	156%	164%	40%	25%	14%
Gross Margin	29%	32%	28%	29%	29%
Operating Margin	24%	29%	24%	25%	25%
Net Margin	23%	28%	23%	24%	24%

(Source: Falcom Research)

With an upturn in the domestic economic activity, revenue registers of MMG have been beating the global slow down. Being a dominant player within the contracting industry, MMG seeks to attain a sizeable pie of the Government, semi-government and private sector spending in oil & gas, petrochemical, waste & water and industrial sector.

The net profit margin is expected to remain healthy near the 25% mark and could see strengthening if the Company is able to aggressively prune its expenses.

Rising tide of revenues



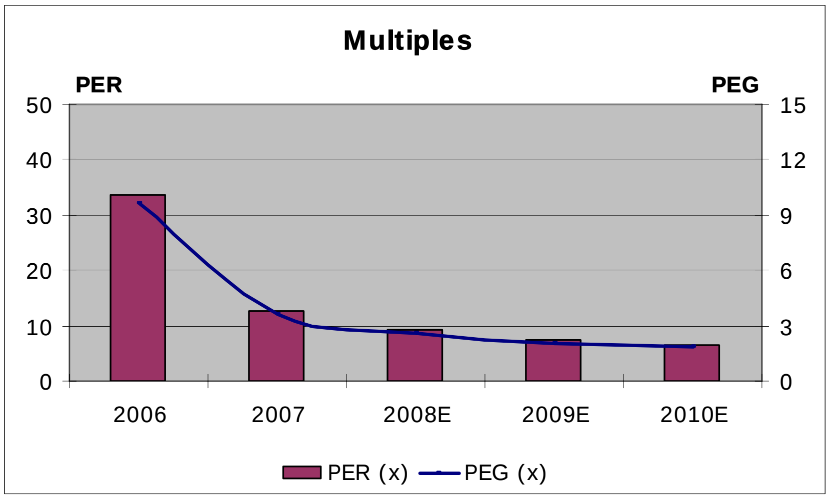
(Source: Falcom Research)

Valuation Multiples (x)					
Year	2006	2007	2008E	2009E	2010E
PER	33.7	12.8	9.1	7.3	6.4
PEG	9.6	3.6	2.6	2.1	1.8
EV/EBITDA	32.2	12.4	8.7	7.0	6.1

(Source: Falcom Research)

The PEG is expected to decline gradually and the EV/EBITDA also trends downward during the forecast period. The PER based on 2007 reported earnings is 12.8x vis-à-vis the current market PER of 21.

Attractive PEG and EV/EBITDA



(Source: Falcom Research)

Valuation

DCF valuation @ SAR 82

Based on the book order for MMG, the DCF valuation gives a fair value of SAR 81.8 using cost of equity of 14% and long term cash flow growth rate of 3%.

Sensitivity of Fair Value (SAR per share)					
Terminal Growth / Cost of Capital	13.50%	13.75%	14.00%	14.25%	14.50%
2.50%	84.2	81.9	79.7	77.7	75.7
2.75%	85.3	83.0	80.7	78.6	76.6
3.00%	86.5	84.1	81.8	79.6	77.5
3.25%	87.7	85.2	82.8	80.6	78.4
3.50%	89.0	86.4	84.0	81.6	79.4

FALCOM valuation has been based on the book order visibility and conservative estimates. With more than SAR 1 trillion worth of projects announced in the 8th Development Plan, and growing, the Company with a flawless delivery track record could hit the jackpot of higher than anticipated order book revenues.

As such there is a possibility of the valuation to be on the upper side in which case the recommendation could be upgraded.

SUBSCRIBE IPO

With IPO sentiments running high within the Kingdom, the issue of MMG is likely to witness increased participation from subscribers.

Based on fair value estimate of SAR 82 per share, we recommend SUBSCRIBE for the IPO.

Disclaimer: