

## OVERWEIGHT

Target price (SAR)	96.0
Share price (SAR)	79.5
Potential upside (%)	20.8

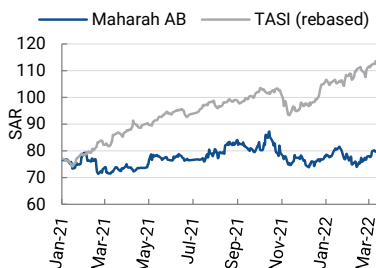
### Share details

6M avg. daily value (USDmn)	10.1
%Δ: m-o-m / 6M / y-o-y	5 / (3) / 10
Rel. %Δ: m-o-m / 6M / y-o-y	2 / (16) / (21)
No. of shares (mn)	37.5
Market cap (SARmn)	2,981
Market cap (USDmn)	795

### Ownership structure (%)

Abdullah bin Sulaiman Al Amr	12.2
Al Khibra Al Mimariya Co	11.1
Saud Nasser Abdulaziz Al Shathri	8.55
Others	19.5
Free float	48.7

### Performance



Source: Bloomberg  
Closing prices as of 31 March 2022

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## MAHARAH HUMAN RESOURCES

MAHARAH AB / 1831.SE

### A play on Saudi labour market recovery; Initiate at OW

**Initiate with a 12M TP of SAR96.** Maharah is Saudi's leading recruitment firm. We project its 2022 deployed resources – employees – represent 0.43% of the country's corporate labour market and 0.36% of household labour, giving them 15-18% of HR-company sourced expats. The stock trades on a 2022e P/E of 17.9x, falling to 13.4x by 2023e vs. peers' 14.3x, driven by a 2021-23e EPS CAGR of 29%. Maharah also offers an attractive 2022e dividend yield of 4.8%, compared to a Tadawul high of 5.9%.

**Saudisation risk waived.** Maharah's resources were only comprised of expats until May-21, then MHRSD introduced the ESNAD initiative, allowing HR companies to provide brokerage services to Saudi citizens. We see this as potential to Maharah's corporate segment, 72% of 2021 revenue, eliminating the risk of increased Saudisation and Saudi female employment efforts.

**Case for profit reversal.** We foresee above-trend growth for Maharah; a 2021-23e EBITDA CAGR of 20%, which saw a cumulative 32% decline in its 2020-21 EBITDA, mainly on the pandemic. Our growth outlook is based on oil price spill-over to corporate capex, amendments to the sponsorship system allowing for corporate job mobility, mega government projects, resumption of travel allowing the company to cater for pent-up demand for household labour, and resumption of its Khidmah services in full force. We expect the healthcare and hospitality sectors to continue to drive the corporate segment's growth.

**High EBITDA retention rate.** Maharah retained an 2014-21 average of 54% of its EBITDA as free cash flow, leading to a 2021 net cash of 0.7x EBITDA. This is a function of low capex needs (0.9% of sales, in 2021) and cash-generative working capital cycle (-12% of sales over 2014-21). The cash flow supported a generous 2014-21 average DPO of 78% and allowed for inorganic growth to better compete in supplying specialised healthcare resources.

### KPI summary

December (SARmn)	2020a	2021a	2022e	2023e	2024e
Revenue	1,416	1,319	1,550	1,792	1,920
EBITDA	217	165	218	286	323
EBITDA margin (%)	15.3	12.5	14.1	16.0	16.8
Net income	177	145	180	240	271
Growth (% y-o-y)	(35)	(18)	24	34	13
EV/EBITDA (x)	11.7	16.8	13.0	9.6	8.2
P/E (x)	18.2	22.3	17.9	13.4	11.9
Dividend yield (%)	7.1	4.7	4.8	6.4	7.3

Source: Company data, CI Capital estimates



## Maharah Human Resources

Services  
Saudi Arabia

### Overview: Maharah Human Resources

#### Business outline

Market leader	A provider of manpower services for the public and private sectors, via 18 branches scattered across Saudi. This entails the supply of labour, across more than 240 professions, for both individuals and corporates. Maharah boasts a market share of 18-20% for HR-company sponsored labour within the corporate sector, ranking it among the top two in Saudi out of a total of 28 competing firms.
Revenue split	<ul style="list-style-type: none"> <li>Corporate segment (72% of 2021 top line): Is the deployment of 'resources', mainly expat workers, but more recently Saudis too, within businesses. Key sectors: Industrial at 31% of 2021 corporate revenue, retail 21%, hospitality 18%, healthcare 16%, commercial 14%, and ESNAD 0.5%.</li> <li>Individual (28% of 2021 top line): Can be full-time or part-time household services, such as housekeepers, cooks, nannies, and drivers.</li> </ul>
Contract terms	<ul style="list-style-type: none"> <li>Corporate: 1–2-year tenors; Contracts are either fixed-price or cost-plus</li> <li>Individual: Full-time under the Saudi sponsorship system (80% of 2021 individual segment revenue), or part-time as pay-per hour services (via Khidmah services, 20% of 2021 individual segment revenue).</li> </ul>
Recovering profitability	Both corporate and individual segments have seen profit margins fall since 2016, due, in our view, to slow business activity, the introduction of (and ensuing hikes) in expat fees, increased Saudisation, compounded by the pandemic. We expect these trends to gradually reverse, with a 2022e EBITDA margin of 14.1%, up from 12.5% in 2021 and 15.3% in 2020, albeit remain lower 2016 EBITDA margin which peaked at 26%.

#### Top/down drivers to corporate segment

- Higher oil prices, improving corporate sector capex and government spending on mega projects; construction sector employs one-third of expats in Saudi, with 85% of construction sector labour being expats.
- Labour law reforms; Amendments to the kafala system, allowing for job mobility
- Saudisation; Since May-21 Maharah has been able to benefit from increased male and female labour market nationalisation via ESNAD
- Tourism plans, social changes, and VAT reduction positive for demand for hospitality and retail, the second highest most expat-dependent sectors
- Strong investment pipeline by the private sector in healthcare sector, which is also expat heavy
- Improved receivables collection in conjunction with improved oil prices, Saudi fiscal surplus and overall business environment health
- 2030 deadline to relocate regional HQs to Riyadh

#### Top/down drivers to individual segment

- Rising population, high household size (average of 5.6 persons) and new marriages
- Increased female employment
- Resumption of travel
- Demand recovery for Khidmah services, an on-demand household service
- Displacement of smaller brokers; Musaned portal and increased government regulation

#### Growth & yield play

Growth	Post-pandemic normalisation, macroeconomic growth-conducive backdrop, labour market reforms and favourable policy on Saudi Vision 2030, leads us to expect a 2021-23 revenue CAGR of 16.6%. With gradual improvement in margins, we expect this to filter to a 2021-23 net income CAGR of 28.8%, putting the stock on a 2023e P/E of 13.4x.
High EBITDA retention	Naturally a low-capex intensive industry, and working capital is a source of cash, so Maharah has managed to retain 54% of its 2014-21 EBITDA as free cash flow, and pre pandemic, 68%.
Liquid balance sheet	Net cash represented 0.7x 2021 EBITDA. Maharah collects advances for any resource it deploys in both the household or corporate segments.
High DPO	Marahah could head to top spot-on dividend yield rankings on Tadawul. Stock offers a 2021 dividend yield of 4.8%, rising to 7.3% by 2024, assuming the Board's minimum 80% DPO.

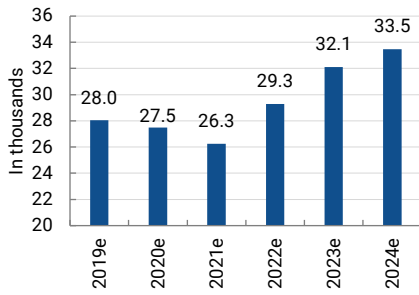
Source: Company information, CI Capital Research



**Maharah Human Resources**  
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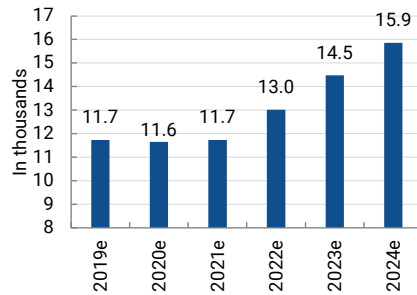
## Investment summary

### Corporate resources' recovery on positive macro and regulatory dynamics



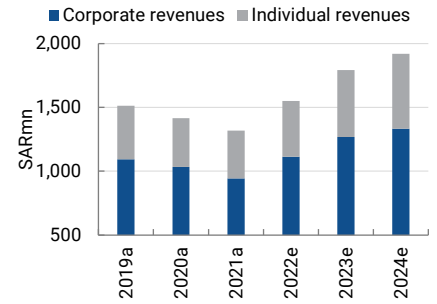
Source: CI Capital estimates.

### Individual resources' recovery on favourable demographics



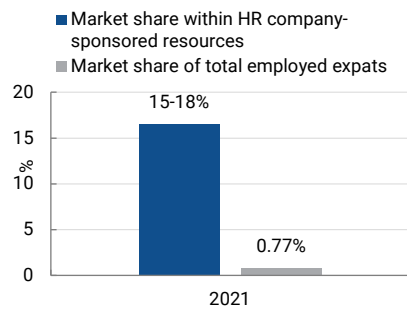
Source: CI Capital estimates

### Expect a 2021-24 revenue CAGR of 13%



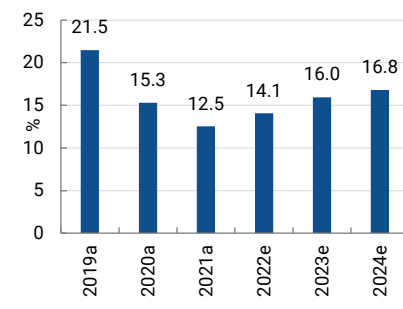
Source: Company data, CI Capital estimates

### Marginal market share in context of total expat labour force



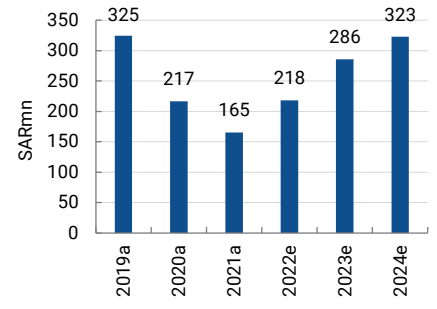
Source: Company data, GASTAT, CI Capital estimates

### Top line recovery, pass-through clauses back EBITDA margin upturn,...



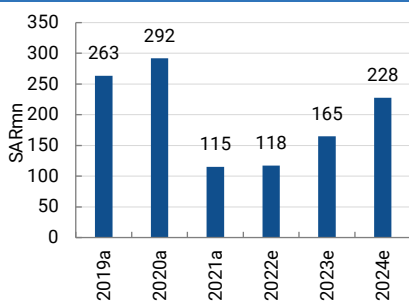
Source: Company data, CI Capital estimates

### ...leading to 2021-24e EBITDA CAGR of 24%



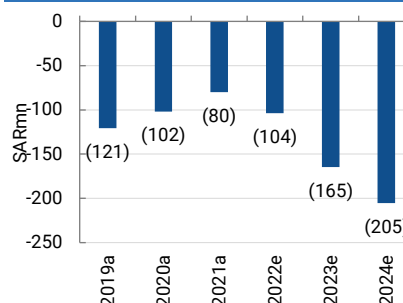
Source: Company data, CI Capital estimates

### Net cash balance sheet,...



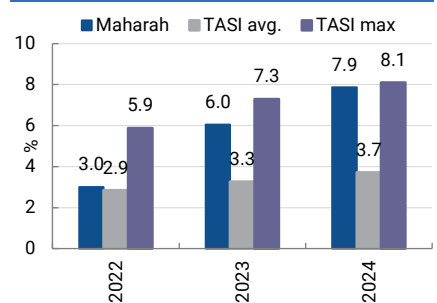
Source: Company data, CI Capital estimates

### ...supported by cash-generative working capital



Source: Company data, CI Capital estimates

### Attractive dividend yield among Tadawul



Source: Bloomberg, CI Capital estimates



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Services  
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### Discount rate calculation

Metric (%)	Value
<b>Cost of equity</b>	<b>11.3</b>
RFR	5.5
Beta (x)	0.8
Equity risk premium	7.0
After-zakat cost of debt	5.0
<b>Capital structure</b>	
Weight of equity	99.6
Weight of debt	0.4
<b>WACC</b>	<b>11.3</b>
<b>Perpetual growth</b>	<b>2.0</b>

Source: CI Capital estimates

## Valuation

### DCF valuation summary

SARmn	2022e	2023e	2024e	2025e	2026e
<b>Adjusted NOPLAT</b>	<b>115</b>	<b>164</b>	<b>224</b>	<b>255</b>	<b>283</b>
Depreciation & amortisation	14	14	14	14	14
<b>Gross cash flow</b>	<b>128</b>	<b>178</b>	<b>238</b>	<b>269</b>	<b>298</b>
Change in working capital	(129)	(21)	16	19	(6)
Capital expenditure, net	(12)	(9)	(10)	(11)	(11)
<b>Free cash flow to the firm (FCFF)</b>	<b>(12)</b>	<b>148</b>	<b>244</b>	<b>277</b>	<b>281</b>
Discount period	1.0	2.0	3.0	4.0	5.0
PV of FCFF	135	200	202	184	188
Sum of PVs of FCFF	909				
Terminal value	3,532				
<b>PV of terminal value</b>	<b>2,072</b>				
<b>Enterprise value</b>	<b>2,981</b>				
Add cash (Dec-21)	139				
Less gross debt (Dec-21)	24				
Investment (Dec-21)	152				
<b>Equity value</b>	<b>3,248</b>				
Shares (mn)	38				
<b>Fair value (SAR/share)</b>	<b>86.6</b>				
<b>12M TP (SAR/share)<sup>1</sup></b>	<b>96.0</b>				

Source: CI Capital estimates

Note: (1) We multiply the fair value by (1 + cost of capital)

### Maharah vs. industry peers

Company name	Country	Market cap (USDmn)	P/E (x)			EPS CAGR	EBITDA margin (%)			EV/EBITDA (x)			EBITDA	Dividend yield	
			2022e	2023e	2024e	(%)	2022e	2023e	2024e	2022e	2023e	2024e	CAGR (%)	2022e	2023e
Recruit Holdings Co Ltd	Japan	75,590	30.3	28.7	25.0	9.6	17.2	16.6	17.6	18.2	17.5	15.4	8.7	0.5	0.6
Robert Half International Inc	US	12,577	18.8	17.4	16.8	5.1	13.4	13.2	12.6	12.2	11.7	11.6	2.8	1.5	1.6
Randstad NV	Netherlands	10,853	10.8	10.1	9.3	8.0	5.7	5.9	6.1	6.7	6.3	5.7	8.1	6.5	6.7
Adecco Group AG	Switzerland	7,582	9.4	8.7	7.9	8.5	5.2	5.5	5.8	5.8	5.2	4.8	10.2	6.0	6.1
ManpowerGroup Inc	US	5,031	10.9	9.5	8.3	11.7	3.7	4.0	4.0	6.6	5.9	5.6	7.7	3.0	2.9
Persol Holdings Co Ltd	Japan	5,280	21.0	18.5	15.9	16.6	6.0	6.4	6.9	9.6	8.8	7.8	11.3	1.5	1.6
Kforce Inc	US	1,592	17.6	15.9	14.4	9.0	8.8	9.1	n/a	10.6	9.7	n/a	n/a	1.6	1.7
TrueBlue Inc	US	1,018	12.3	10.9	10.4	14.9	4.8	5.0	5.5	8.4	7.6	6.7	12.1	n/a	n/a
Groupe Crit	France	820	14.0	11.8	10.4	15.8	5.8	6.2	6.7	4.0	3.6	3.2	13.3	1.6	1.6
Robert Walters PLC	UK	695	13.1	11.7	10.1	13.5	7.0	7.4	7.6	5.7	5.2	4.8	9.0	2.9	3.2
Average			15.8	14.3	12.9	11.3	7.8	7.9	8.1	8.8	8.1	7.3	9.2	2.8	2.9
Maharah	KSA	795	17.9	13.4	11.9	22.9	14.1	16.0	16.8	13.0	9.6	8.2	14.0	4.8	6.4

Source: Bloomberg, CI Capital estimates

Closing prices as of 31 March 2022

## Risks

### Upside

- ▼ Further amendments within the Saudi labour market, specifically the potential abolition of the sponsorship system – kafala – for household labour, as it would heighten job change since the worker would enjoy full autonomy, thereby increasing potential resource allocation and revenue for Maharah. We believe it is inevitable that the Kingdom reforms its labour market to place it on par with the region.
- ▼ Expanded participation of skilled Saudi labour, through ESNAD initiative, and increased Saudisation.
- ▼ Higher-than-expected increase in demand for expat workers, alongside additional resources in the healthcare segment from Maharah's ongoing acquisitions. This would drive growth in what we understand is the company's most profitable corporate segment revenue stream.
- ▼ Displacement of smaller HR firms in the household segment, given increased government oversight and the launch of the Musaned portal. In Sep-21, Musaned suspended 90 local offices and revoked licences of four firms. We estimate Maharah's market share within the household help labour at 17-19%. We assume this share will remain stable over our forecast horizon.

### Downside

- ▼ Loss of major corporate clients, increased competition from new entrants, and/or higher-than-expected impact from corporate clients discarding their reliance on recruitment firms.
- ▼ Margin compression from cost increases that Maharah fails to pass on to clients. However, we expect less margin shocks from further changes in governmental fees, as Maharah embedded pass-through clauses.
- ▼ Receivables collection risk. Maharah allows its clients 60–90-day credit payment. 59% of the company's receivables (equivalent to SAR110mn) were past due, but not impaired, as of Dec-21. However, since 2018-21, receivable write-offs have been negligible, totalling SAR4.6mn.
- ▼ Political relations that hinder or decelerate the company's ability to continue to source expat labour. Maharah's main sourcing countries are India, Indonesia, Nepal, and Philippines, which together accounted for 93% of total resources, as of Sep-18 (latest available for such breakdown).  
In Dec-21, the Philippines Ministry of Labour announced a temporary suspension of sending domestic workers to Saudi Arabia. Philippine workers contribute 9% of Maharah's individual resources (2.6% of total resources), as of Sep-18.

### Number of resources by country (Sep-18)

	Individual	% of total	Corporate	% of total	Total	% of total
India	14,343	62.3	478	4.9	14,821	45.3
Indonesia	106	0.5	7,840	80.8	7,946	24.3
Nepal	3,627	15.8	-	-	3,627	11.1
Philippines	3,125	13.6	855	8.8	3,980	12.2
Others	1,825	7.9	524	5.4	2,349	7.2
<b>Total</b>	<b>23,026</b>	<b>100</b>	<b>9,697</b>	<b>100</b>	<b>32,723</b>	<b>100</b>

Source: Company prospectus

**Saudi fiscal revenue on recovery path;  
2022 budget surplus –first time in eight  
years**

**Riyadh has an ambitious target to attract  
480 companies to establish or relocate  
regional headquarters by 2030**

## Industry backdrop

### Demand drivers

- ▼ High oil price improving public spending, with noticeable effect on bettering receivables collection; mega projects provide medium-term visibility
- ▼ New regional headquarters requirement in Riyadh by end-2023
- ▼ Healthcare and expat-heavy hospitality sectors boom
- ▼ Increased job movement, due to easing of sponsorship system
- ▼ Saudisation and female empowerment
- ▼ Need for house help, with a high and stable household size of 5.6 persons
- ▼ Displacement of informal players – opportunity for market share gains

### Headquarters relocating to Riyadh

The Saudi government announced, in Feb-21, that multinational firms must relocate regional head offices to Riyadh by end-2023 to sustain government business. By Oct-21, local news reports cited that as many as 44 multinationals were establishing their regional headquarters in Riyadh.

### Saudisation mechanism

Saudisation, or Nitaqat, is a policy implemented by the Ministry of Human Resources and Social Development (MHRSD), in an aim to enforce the employment of Saudi nationals by local employers. Employers are obliged to meet a certain quota – Saudisation ratio – which varies according to the company size and sector. Companies which fail to reach the minimum Saudisation rate are categorised in the red zone and would face several drawbacks. These include not being able to renew work permits (Iqama), issue new visas, or open new branches.

Companies that reach their Saudisation ratio are categorised into lower, upper green, and platinum zones, and would receive benefits. Privileges would include facilitating the issuance of new visas, changing the profession of their employees, and importing employees from red zone companies without employers' approvals.

This policy has been implemented since 1985; however, over the last 5-10 years, the government raised Saudisation requirements, making certain roles exclusive for Saudi nationals in some sectors, such as the retail industry. These roles include, but are not limited to, all activities and professions in malls, except the cleaning, loading, unloading, maintenance of recreational facilities, barbershops, cafés, and restaurants, as well as custom clearance, co-pilots, gold shops, among others.

### Saudisation decrees by profession

Profession	Saudisation	Implementation date
n/a	MHRSD announces Saudisation of 30 professions, without naming the professions	2022
Customs clearance and driving school	100% for customs clearance, 70% for other professions	Dec-21
Law firms, cinemas, and transport apps	First phase: 50% (Dec-21), second phase 70% (Dec-22)	Dec-21
Health specialties and medical devices	First phase: 40% of medical supplies related jobs, 30% medical engineering related jobs Second phase: 80% of medical supplies related jobs, 50% medical engineering related jobs	Oct-21
Malls and restaurants	All jobs in malls, increased rates for restaurant, and cafes	Aug-21
Communications and IT	25% Saudisation in private sector, for firms with >5 employees	Jun-21
Accounting	30% Saudisation in private sector, for firms with >5 employees	Jun-21
Private and international schools	80% for international schools, and 60%,90% for male and female private schools, respectively	May-21
Real estate and air navigation	70% Saudisation rate	Oct-20

Source: MHRSD

## Maharah Human Resources

Services  
Saudi Arabia

The unemployment rate for Saudi nationals stood at a high 11% in 2021, falling only 0.6% over the past five years, from 11.6% in 2016. This was despite the increased efforts to enforce Saudi employment. We conclude this is mainly attributable to the shortage of skilled Saudis in the more technical roles, such as engineers, architects, IT specialists, and healthcare practitioners, accompanied by the lack of interest in low-skilled roles.

Saudisation does not pose a short-term risk on Maharah's business. We believe the company is likely to benefit from Saudisation through the ESNAD initiative.

### Expat fees

All companies operating in the Kingdom, including Maharah, are subject to the rules of work permit fees issued by the MHRSD, imposing monthly fees on expats and expat dependents. These rules entail that SAR100 must be paid for each expat in return for a one-year work permit, in addition to a monthly fee to be paid per each employed expat, as set out in the table below. Expat fees were flat since 2020, and it remains unclear whether the government would increase them.

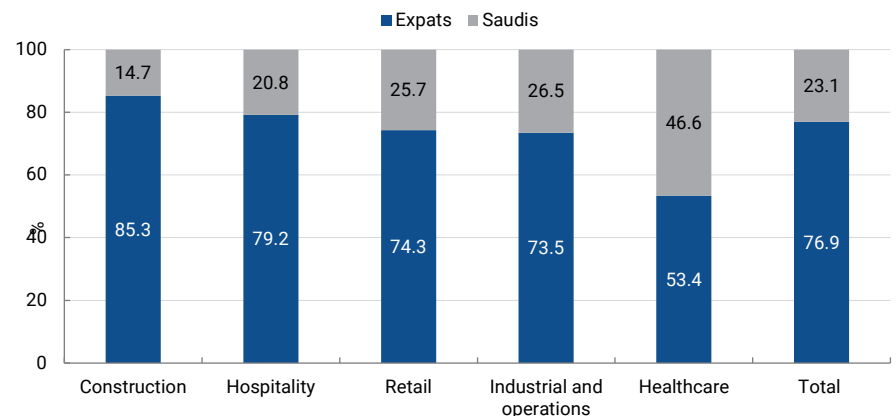
### Monthly expat fees

(SAR)	2012	2018	2019	2020 – to date
If expats workers ≤ Saudi workers	0	300	500	700
If expats workers > Saudi workers	200	400	600	800

Source: MHRSD

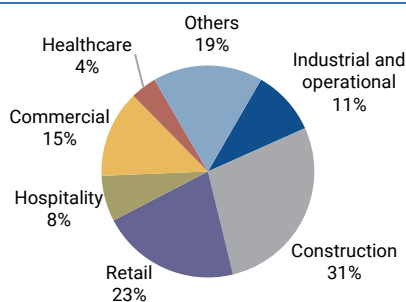
Expats in Saudi are mainly concentrated in the construction and retail industries, while healthcare and hospitality industries represent only 12% of total employed expat. Following the COVID pandemic, 1.7mn expats exited the market until 2021, mainly on the economic slowdown, travel restrictions, and high expat fees.

### Expats vs. Saudi workers in key sectors (2021)



Source: MHRSD

### Expat labour by sector (2021)



Source: MHRSD



### **Transfer of employment eased**

The kafala system – in place since the 1950s – has restricted the free movement of expat workers, as the latter was tied to the sponsoring employer, known as the kafeel. The sponsor was obligated to issue, renew, and cancel work permits of the expat worker, as well as manage the entry and exit visas. The sponsor could also object to the foreign worker changing employers.

The MHRSD announced, in Nov-20, the Labour Reforms Initiative, limiting what the expat worker needs from the sponsor. The reforms came into effect on 14 Mar-21, allowing non-nationals to switch jobs by transferring sponsorship to another employer without a 'no objection' consent. This can only happen after the expat has been in Saudi for at least one year, as long as they have notified their employers 90 days in advance.

The reforms only apply to expats within the corporate segment and not those working in the household segment – currently represent 34% of total expats in Saudi and 28% of Maharah's revenue, as of 2021. Nonetheless, we see increased transactions within the Saudi labour market because of this development, as employers rely on recruitment firms to seek replacements. A total of 65k expats have benefited from the labour reforms since Mar-21, according to a MHRSD statement.

### **Additional amendments to Labour Law on the table**

In Jan-21, the MHRSD published draft amendments to the Labour Law, to make the job market more attractive. It remains unclear when these changes would come into effect. The revisions include changes to:

- ▼ An employer's obligation to bear recruitment and repatriation costs of expat workers
- ▼ A reduction in weekly working hours, and an increase in the maternity leave period
- ▼ An increase in the worker's compensation, payable by employers for unlawful termination





## Maharah Human Resources

Services  
Saudi Arabia

### Mega projects in the pipeline across Saudi

Project	Description	Budget (USDbn)	Completion
Neom	Flagship high-tech city of 26.5k sqm located North-West of KSA; land is 35x the size of Singapore and will contain 450km of coastline. This is to house areas dedicated to future technologies in 16 sectors. The line will be home to 1mn persons, living in interconnected societies run by artificial intelligence designed to coexist with nature	500	2025
Jeddah metro	Saudi's second city is set for its own metro system by 2025, with three lines currently under development. Phase I will link the King Abdulaziz International Airport with the Prince Abdullah Al-Faisal Stadium, central Al-Ruwais and Al-Khozam. The network was set to be complete by 2020, but faced delays, pending the completion of Jeddah's bus network	60	Delayed
Red Sea project	30k sqm coastal city project, comprising 30k sqm of natural archipelago and desert landscape. First fully integrated mixed-use resort, with 8k new hotel rooms	>30	2030
Ad Diriyah	Major tourism destination on the outskirts of Riyadh. The location has a UNESCO site of At-Turaif and Al Saud dynasty	28.1	2027
Riyadh metro	One of the world's largest urban transport projects, with six lines covering an area of 176km and 85 metro stations across the city. The project is forecast to raise the share of journeys on public transport in the city to c20% from 2%	23	2021
Green Riyadh	Development of green spaces in Riyadh city, planting over 7.5mn trees distributed over 541km <sup>2</sup>	23	2030
Haramin Access Project: Mecca Gate	A newly integrated city on an area of 83mn sqm, located on the Jeddah Mecca highway near the western entrance of Mecca. The project will include the construction of complex for governmental departments on an area of 3mn sqm, a commercial neighbourhood, a university, a medical complex, a housing facility, and museums	20	2034
Dahiyat Al-Fursan	A project undertaken by the Ministry of Housing, including the construction of a residential city over an area of 12km, adjacent to King Khalid Airport	20	2027
Makkah Public Transport Programme	A new metro and bus network, to include a four-line metro covering 180km, with 88 stations designed to transport the millions who visit the city each year for Hajj and Umrah	17	2025-2042
Al Ula	Development of tourism infrastructure in the historical sites around the ancient city of Al-Ula in Yanbu. The site will include the fit-out of the existing airport and construction of new lounge, boutique, ultra-luxury Ashar resort, a recreational vehicle (RV) resort operated by Fairmont, and Maraya, the world's largest mirrored building	15	2027
The Qiddiya Project	334 km <sup>2</sup> entertainment city on outskirts of Riyadh; the first phase is set to be operational by 1Q23. By 2030, Qiddiya aims to draw 17mn visitors and have 11k housing units	8	2023-35
World's largest shopping and entertainment development	Located within Al Widyān	5	2025
Jabal Omar	Major Makkah development; 40 hectares of towering hotels, residential buildings, 36-100k guests p.a.	4.4	
Amaala	Mega project over 3k sqm in the Tabuk province along the Red Sea (bordering the city of Neom), intended to be a luxury tourism project	Funded by PIF (no size disclosed)	2028
Al Widyān	A cosmopolitan district in Riyadh, c7mn sqm mixed-use city and leisure destination with Al Widyān's natural wadis. Many commercial facilities and 20k housing units (17k units)	2.7	2025
Jeddah Tower	1km high tower, which faced several delays since construction began more than seven years ago, with still no completion date in sight. This is in addition to a 470k sqm commercial area, 800k sqm office space, a four-star hotel, and a beach resort	1.4	2031
King Salman Park	Over a 13.4k sqm area on the site of the old airport; set to include Islamic-themed and vertical gardens, a 7.5km circular walkway, among other sites, hotels, and residential units	1.0	2026
Sharaan Nature Reserve	At the heart of the development of Al Ula will be Al Sharaan Nature Reserve, a 925-sqm space set to make the most of the rocky landscape	1.0	2030

Source: MEED Projects, CI Capital Research

## Revenue analysis

Maharah classifies its revenue into two segments, corporate and individual revenue. Corporate revenues come from the deployment of employees, or resources, to various industries. These resources have, to date, been mostly expats.

Corporate revenues used to represent a larger share of Maharah's total revenue, at 95% in 2015, but have over the years declined to 72%, as of 2021, as revenue generated from the household segment grew at a faster 2015-21 CAGR of 39% vs. 1% for the corporate segment. Over these years slow business activity, due to low oil prices and slow construction activity, the introduction of expat fees, and increased Saudisation requirements have led to more benign growth in corporate revenue vis-à-vis individual segment revenue, which has more stable underlying demand drivers.

## Corporate segment

Corporate resources demand is becoming increasingly met by HR companies, although costlier, it provides a reliable source for mass scale employment in a timely manner. HR companies-sponsored resources grew at a 2014-17 CAGR of c24% vs. 2% of independent foreign manpower resources over the same period, signifying rising dependence on recruitment firms.

Sulaiman Al Habib Hospitals, Al Othaim Markets and Aldrees are examples of companies that have formed their own HR company or acquired an existing player. We believe that HR companies offer a quick solution to the need for deployment in scale, through their contracts with foreign recruitment agencies, and readily available inventory of visas. Many companies find it a reliable source of employment, particularly since the sourced labour is mostly low-skilled – construction workers, drivers, cleaning personnel. Maharah also takes responsibility of training, travel, and housing while in-transit...etc.

Getting displaced by corporates who prefer not to outsource is minimal, in our view. HR-company sponsored employees ultimately represent a marginal 1% of total employees.

## Corporate market developments

Full-time employees (mn)	2014a	2015a	2016a	2017a	CAGR (%)
HR company-sponsored	0.07	0.14	0.13	0.14	24
Maharah's implied market share	14	16	19	17	7
Estimated revenues (SARmn)	2,984	5,971	5,628	6,941	32
Independent foreign manpower resources market	5.2	5.3	5.6	5.5	2
Saudi manpower resources market	4.9	5.0	5.0	5.2	2
Total corporate manpower resources market	10.2	10.4	10.7	10.8	2

Source: Company prospectus, GASTAT

As of May-19, there were 28 recruitment firms operating in the corporate segment, six of which are market leaders with a collective market share of 63-75%. Maharah is one of the leading companies in the corporate segment, controlling 18-20% of the market, through 18 branches spanning across the Kingdom. The company has agreements with several foreign recruitment agencies in various countries including India, Indonesia, Philippines, Pakistan, Sri Lanka, Egypt, Tunisia, Canada, and Australia.

Recruitment firms must comply with several regulations, which we consider relatively high by EM standards, providing a barrier to entry. These include minimum capital of SAR100mn, 20% of visas provided must be for household manpower, compliance with the wage protection programme – at least 90% of resources must receive their salaries before month-end – and providing housing for at least 10% of resources.

## Corporate segment players

Company	Market share (%)
Maharah Human Resources	18-20
Saudi Manpower Solutions	18-20
International Recruitment Co.	9-11
Al Mawarid Manpower	7-9
Eastern Recruitment	6-8
Team Time Co.	5-7

Source: Company prospectus

Note: Market share as a % of total work visas in corporate segment, as of 1Q17



## Maharah Human Resources

Services  
Saudi Arabia

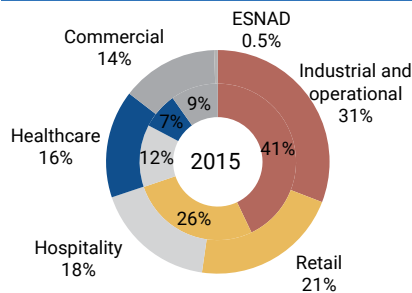
### Corporate segment breakdown

(SARmn)	2016a	2017a	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Resources	25,128	23,153	24,712	28,040	27,493	26,122	28,358	30,329	31,239
y-o-y (%)	8	(8)	7	13	(2)	(5)	9	7	3
Revenues	992	879	956	1,092	1,035	938	1,065	1,172	1,212
y-o-y (%)	9	(11)	9	14	(5)	(9)	14	10	3
Revenue/resource (SAR)	39,479	37,979	38,671	38,961	37,633	35,896	37,564	38,653	38,807
Gross profit	283	231	212	250	175	136	181	223	242
GPM (%)	29	26	22	23	17	14	17	19	20
GP per resource (SAR)	11,254	9,972	8,586	8,898	6,361	5,196	6,386	7,344	7,761
Contribution to total revenues (%)	84	75	71	72	73	71	69	65	63

Source: Company data, CI Capital estimates

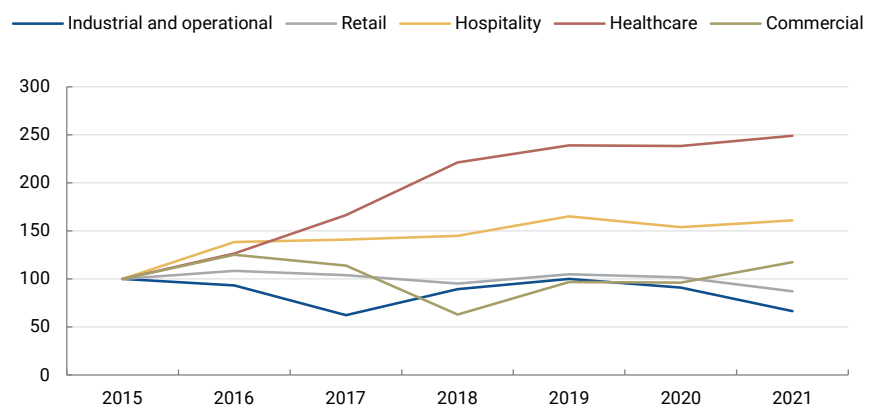
Note: Only 2016-17 are actual numbers for the company's resources; 2018-25 are based on our estimates. We calculate the number of resources relative to Saudi expat population trends over each year (ex-domestic labour), and factor in a recovery in corporate expat resources driven by significant additions to healthcare and hospitality sectors

### Corporate revenue by segment (2021 vs. 2015)



Source: Company data

### Healthcare and hospitality fastest growing segments (2015 rebased to 100)



Source: Company data

Maharah discloses, on an annual basis, the split of corporate revenue by subsegment. This segment's growth has been driven by the hospitality and healthcare subsegments, growing at a 2015-21 CAGR of 8% and 16%, respectively, while the remaining subsegments remained flattish. This comes despite the higher contribution of the industrial and retail industries – together 50% of total corporate revenues in 2021.

Significant additions in the number of hospital beds are due to come on stream across Saudi starting 2022 from both the private and public sector. These add-ons would see the number of beds increase by 11.2k beds, according to MEED Projects, which is as much as 14% of the 2020 ending stock of hospital beds capacity. On a cumulative basis, the supply due over 2022-26 totals 20.2k beds – 2x the capacity added over 2015-20 – up 26% to the existing capacity.

We view Maharah as a beneficiary, given that 53% of labour employed within Saudi's healthcare sector are expats, suggesting a greater need for corporates to resort to recruitment firms to avail resources.

Maharah's management is growing inorganically to capture healthcare sector opportunity, acquiring 90% of Spectra in 3Q21. The company is in the process of acquiring 85% of Alshifa Al Arabia Medical Company, which specialises in home healthcare services and medical centres (deal values undisclosed).

## Saudi hospitals bed capacity

No. of beds	Existing capacity						Pipeline				
	2015	2016	2017	2018	2019	2020	2022	2023	2024	2025	2026
Min of Health	41,297	41,835	43,080	43,680	44,665	45,180	5,310	-	300	844	2,524
Other government	11,449	11,581	12,279	12,662	13,177	13,989	3,988	800	-	850	-
<b>Total public sector</b>	<b>52,746</b>	<b>53,416</b>	<b>55,359</b>	<b>56,342</b>	<b>57,842</b>	<b>59,169</b>	<b>9,298</b>	<b>800</b>	<b>300</b>	<b>1,694</b>	<b>2,524</b>
Yearly change		670	1,943	983	1,500	1,327	9,298	800	300	1,694	2,524
Private sector	16,648	17,428	17,622	18,883	19,146	19,427	1,867	2,769	-	900	-
<b>Total private sector</b>	<b>16,648</b>	<b>17,428</b>	<b>17,622</b>	<b>18,883</b>	<b>19,146</b>	<b>19,427</b>	<b>1,867</b>	<b>2,769</b>	<b>-</b>	<b>900</b>	<b>-</b>
Yearly change		780	194	1,261	263	281	1,867	2,769	-	900	-
<b>Grand total</b>	<b>69,394</b>	<b>70,844</b>	<b>72,981</b>	<b>75,225</b>	<b>76,988</b>	<b>78,596</b>	<b>11,165</b>	<b>3,569</b>	<b>300</b>	<b>2,594</b>	<b>2,524</b>
<b>Yearly change</b>		<b>1,450</b>	<b>2,137</b>	<b>2,244</b>	<b>1,763</b>	<b>1,608</b>	<b>11,165</b>	<b>3,569</b>	<b>300</b>	<b>2,594</b>	<b>2,524</b>

Source: MEED Projects, Company announcements, CI Capital Research

## Healthcare, hospitality, and retail promising areas of growth for Maharah

Hospitality revenue (20% of corporate segment revenue) and the second fastest growing for Maharah, declined in 2020 for the first time since 2015, expectedly on increased travel restrictions due to the pandemic. However, like the healthcare sector, we foresee this proving a sustainable source of revenue growth. The number of hotel keys due in 2022, primarily in Mecca, Riyadh, Jeddah, and DMA is +18% y-o-y to 104k keys, according to JLL. These additions are estimated to reflect higher hospitality manpower demand to operate the increased hotel expansions, as the hospitality sector consists of 79% expats. Beyond 2022, Saudi's robust investment pipeline into religious and non-religious tourism provides medium-term growth prospects.

## 2022 additions to Saudi Arabia's market

	Riyadh	Jeddah	DMA	Mecca	2022 stock	y-o-y (%)
Hospitality, k keys	4	4	2	6	104	18
Retail, k sqm	235	94	175	46	7,950	7
Office, k sqm	360	56	18	11	7,601	6
Residential, k units	49	12	17	10	3,008	3

Source: JLL

Note: Additions are for Mecca, Riyadh, Jeddah, and DMA

## ESNAD initiative, a new revenue stream

In May-21, the MHRSD issued regulations for companies interested to provide HR services for Saudi nationals under the "ESNAD the Saudis" initiative. Companies looking to provide their services under this initiative must be a registered human company/office, deposit a SAR0.3mn as a non-refundable insurance (SAR0.1mn for the offices), and apply for MHRSD's approval.

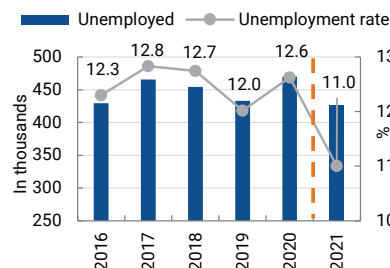
We deem Maharah is well-positioned to capture the added potential of Saudi resources, given its extended base of corporate clients (+800 served since inception) across all industries. The company confirmed having met all the requirements.

This initiative would pose an upside potential for Maharah over the long-term, in our view, through sourcing Saudi manpower to companies struggling to meet their target Saudisation thresholds. Saudi unemployment stood at 11%, as of 2021, implying ~426k unemployed nationals.

The MHRSD continually increases Saudisation requirements within the corporate segment. On 16 Feb-21, the MHRSD asserted it would issue 30 new job requirements in 2022, and that private sector compliance with the current localisation stands at 95%. The

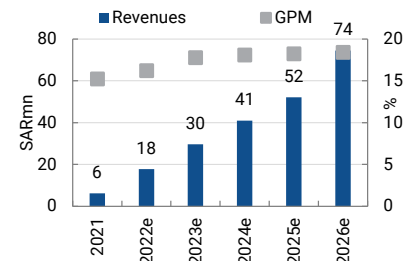
new Saudisation requirements will cover new professions in the areas of project management, quality, procurement, sales, and finance.

### Saudi unemployment rate



Source: GASTAT

### Saudi manpower services



Source: CI Capital estimates

### Contract pricing

Maharah prices contracts based on the resumes of manpower resources and professions they work in, while considering:

- ▶ Salary, allowances, or benefits
- ▶ Government fees, such as visa, permit fees, and work permits, among others
- ▶ Medical check-ups and healthcare insurance
- ▶ Recruitment fees, such as foreign recruitment agency fees
- ▶ Travel tickets
- ▶ Job-specific risks and other costs, such as return ticket charges
- ▶ The company's margin, which it adds to the manpower resources monthly costs
- ▶ Bargaining power with the client

Contracts usually have a duration of 1-2 years. As of 2021, more than one-year contracts represented 72% of total contracts. Maharah has discretion over its prices with the renewal of these contracts, however, over the contract life span, it does not raise rates. The company may experience more competitive pricing pressure during periods of economic downturn.

Maharah's contracts are classified into fixed contracts, which the company bears any cost increases, and cost-plus contracts, which allow the company to pass cost increases on to its clients. The company does not disclose the split of cost-plus vs. fixed, or lump-sum, contracts, yet we conclude the lion's share was historically lump-sum, evidenced by the margin pressure Maharah witnessed when the Saudi government introduced expat fees in 2016. New contracts, signed since, embed a clause allowing for pass-through of any new or change in government fee(s).

Expat fees represented 19% of Maharah's operating costs in 2021. For cost-plus contracts, the company receives the amount of expat fees and pays it on behalf of its resources, increasing both revenues and costs. This affects the overall gross profit margin.

### Impact of expat fees

(SARmn)	2018a	2019a	2020a	2021a
Reported revenues	1,352	1,512	1,416	1,319
Reported gross profit	303	385	274	219
GPM (%)	22.4	25.4	19.3	16.6
Revenues without expat fees	1,213	1,326	1,187	1,114
Gross profit without expat fees	303	385	274	219
GPM (%)	25.0	29.0	23.1	19.6

Source: Company data

## Individual segment

The individual segment's revenues come from two main sources:

- I. **Full-time household services**, in which the employed resource lives with a family. These resources include housekeepers, cooks, nannies, and drivers. The demand for these services is a function of disposable income, middle to large sized families, and female employment. Typically, households with a high income, a large family, and/or a working mother are likely to hire household manpower under a long-term contract.
- II. **Part-time household services** (Khidmah programme), refers to the pay-per-hour services that include pre-booked housekeeping services for a short period of time. These services usually target small households unable to pay for full-time services. The demand for part time services usually stems from middle-to-high income families.

We estimate Maharah's market share within the household labour market stands at 17-19%. Maharah's individual segment is the fastest growing of the company's two segments, growing at 2015-21a CAGR of 41%. It contributed 28% of Maharah's 2021 top line vs. 5% in 2015. The segment's profitability, in our view, is a function of better bargaining power with individual clients vs. the lower pricing power with corporates as they order in scale, in addition to the imposition of expat fees. The 2016-21a average GPM for the individual segment was 27% vs. 21% for the corporate segment.

Deployment of labour within the household labour takes place via Musaned, an electronic portal launched by the MHRSD in 2015, in a bid to facilitate domestic labor recruitment procedures, while protecting the rights of all parties involved. The portal provides international contracting system called E-Tawtheeq, which facilitates contracts and agreements between local recruitment agencies and non-Saudi manpower agencies. Once an agreement is reached, local agencies start to source domestic labour to local employers. An employer selects from various local recruitment agencies the price and level of service desired, followed by the submission of an employer request, a contract detailing the rights and obligation of both the local agency and the employer.

### Individual segment breakdown<sup>1</sup>

(SARmn)	2016a	2017a	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Resources <sup>2</sup>	5,741	8,274	10,965	11,732	11,647	11,730	13,018	14,475	15,859
y-o-y (%)	317	44	33	7	(1)	1	11	11	10
Revenues	189	289	389	420	382	375	437	524	587
y-o-y (%)	295	52	35	8	(9)	(2)	17	20	12
Revenue/resource (SAR)	32,989	34,883	35,519	35,785	32,774	31,934	33,531	36,213	37,010
Gross profit	54	72	145	130	91	82	96	121	135
GPM (%)	29	25	37	31	24	22	22	23	23
GP per resource (SAR)	9,404	8,737	13,212	11,106	7,808	7,004	7,354	8,329	8,512
Contribution to total revenues (%)	16	25	29	28	27	28	28	29	31

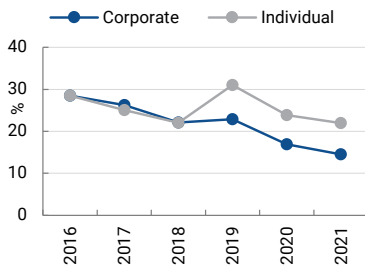
Source: Company data, CI Capital estimates

Note: (1) Individual segment revenue includes 70%-owned UAE subsidiary (2) Only 2016-17 are actual numbers for the company's resources; 2018-25 represent our estimates. We calculate the number of resources through its proportion of household labour in Saudi's market, and base our household labour assumptions on the number of new marriages as a % of population



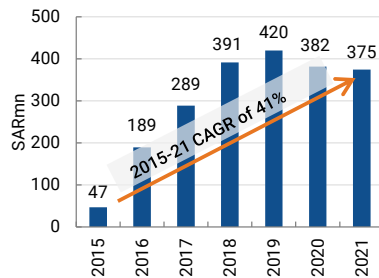
**Maharah Human Resources**  
Services  
Saudi Arabia

### GPM corporate vs. individual



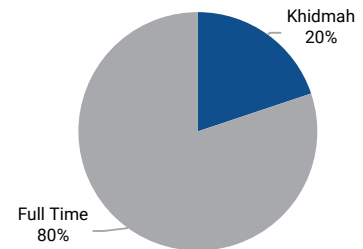
Source: Company data

### Individual segment fastest growing



Source: Company data

### Individual revenues breakdown (2021)



Source: Company data

### Stronger competition, increased oversight

Saudi Arabia's household labour demand is met by over 500+ HR offices/companies, usually small offices that only provide manpower brokerage services, posing a competition risk on Maharah's individual segment revenues. The segment's clients tend to be demanding, having specific criteria for their requested manpower, such as preferred nationality, religion, spoken language, skills, and absconders' free replacement. These criteria are unlikely to be met by smaller local offices, limiting competition risk for the likes of Maharah.

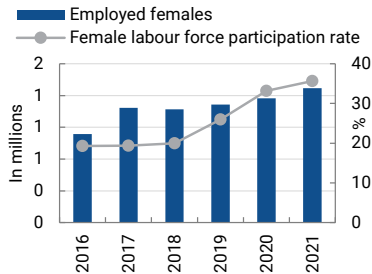
The increased government regulations in the segment add to the downside risks of the small local offices. In Sep-21, Musaned suspended 90 local offices after receiving a total of 874 complaints, revoking licences for four offices, and liquidating their financial guarantees, according to Saudi Gazette.

### Demand for household segment likely to unwaveringly continue

We expect demand for Maharah's HR services in households to continue steadily, thanks to the Kingdom's high, stable average household size of six persons, as well as high disposable income, signifying the household can easily afford to fulfill its need for house help. This should particularly be the case among newlyweds, with a likely increase of females joining the workforce. There are 3.3mn expats working across Saudi households as of 2021, forming 34% of the country's total expat population. This figure has grown at a CAGR of 7% since 2016.

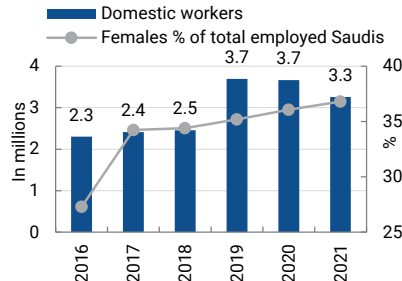
Saudi has been exerting increased efforts towards female empowerment via eliminating restrictions on employment, empowering females in education and training – females enrolled in higher education rose 32% to 822k in 2019 vs. 623k in 2013 – and empowering working females through various initiatives (Qiyadyat, Tamheer, Wusool, Qurrah, etc.), which mainly aim to facilitate hire.

### Saudi achieved 2030 target of 30% female participation, ten years ahead



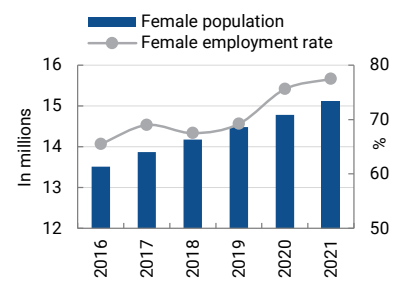
Source: GASTAT

### Higher Saudi female employment, increases demand for domestic workers



Source: GASTAT

### Saudi female employment drives more reliance on domestic workers

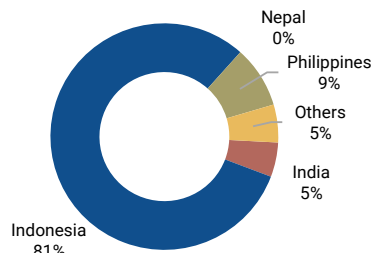


Source: GASTAT, CI Capital estimates

Disposable income for Saudi families is one of the main drivers for the individual segment; the wealthier Saudi families become, the more likely they will be reliant on household services to ease off their daily responsibilities.

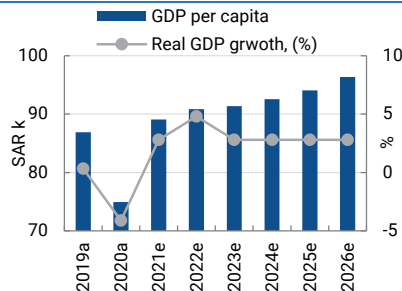
Annualised GDP per capita rose 16% y-o-y to SAR86k in 2021. We believe the oil price rally, accompanied with the easing of travel restrictions between main sourcing countries (KSA now allows direct entry from six countries India, Indonesia, Pakistan, Brazil, Vietnam, and Egypt, effective 1-Dec-21), will contribute to the segment's significant recovery.

### Indonesia: Main sourcing country for individual segment (9M18)



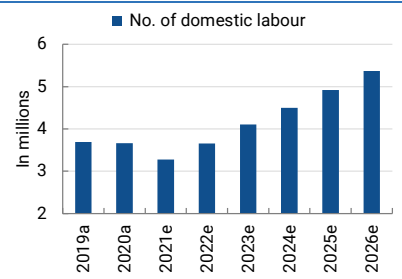
Source: Company data

### GDP/capita to recover in 2021, supported by higher oil prices



Source: GASTAT, IMF, CI Capital estimates

### Higher disposable income, less travel restrictions to support domestic labor



Source: GASTAT, CI Capital estimates

### Individual revenues by country in 2021

(SARmn)	KSA	UAE
Revenues	232	39
CoGS	(177)	(30)
Gross profit	55	9
GPM (%)	23.6%	22.7%

Source: Company data

### Regional contribution, 3% of total revenue

In Sep-17, Maharah acquired 70% of Musanid, a UAE based company that has no operation and acts as a holding company. Musanid has 100% stake in TPH (TPH for domestic workers), providing various household services, namely residential cleaning services – serving an average of 14k clients/month – full-time household services, residential handyman services, pest control through its four subsidiaries – The Perfect Help, TPH Public Health Pest Control Services, M P L Building Maintenance One Person Co., and Yalla Fix It One Person Company.

Musanid contributes 10% to Maharah's individual revenues (3% of total revenues), but we see it profitable, generating a 23% gross margin, in line with KSA individual segment profitability in 2021.





## Maharah Human Resources

Services  
Saudi Arabia

### Population and labour market assumptions

	2014a	2015a	2016a	2017a	2018a	2019a	2020a	2021a <sup>1</sup>	2022e	2023e	2024e	2025e
<b>Population</b>												
Total population	30.4	31.0	31.7	32.6	33.4	34.2	35.0	33.4	34.8	36.4	37.7	39.1
Growth (% y-o-y)	2.6	2.1	2.3	2.7	2.5	2.4	2.3	(4.7)	4.2	4.8	3.6	3.6
Saudi	19.4	19.7	20.1	20.4	20.8	21.1	21.4	20.4	20.8	21.1	21.5	21.9
Growth (% y-o-y)	2.1	1.6	1.7	1.8	1.7	1.6	1.5	(4.7)	1.7	1.7	1.7	1.7
Expats	11.0	11.3	11.7	12.2	12.6	13.1	13.6	12.9	14.0	15.3	16.2	17.2
Growth (% y-o-y)	3.5	3.0	3.4	4.3	3.8	3.7	3.6	(4.7)	2.0	3.6	4.6	5.6
<b>Total employed (mn)</b>												
Total employed (mn)	11.1	11.5	13.9	13.6	12.5	13.4	13.3	13.0	13.9	14.9	15.6	16.4
Growth (% y-o-y)	3.2	3.8	21.4	(2.6)	(7.7)	6.8	(0.5)	(2.1)	6.7	7.1	4.8	4.8
Saudi unemployment rate	11.7	11.5	11.6	12.8	12.7	12.0	12.6	11.0	0.0	0.0	0.0	0.0
<b>Labour split</b>												
Saudis	4.9	5.0	3.1	3.2	3.1	3.2	3.3	3.5	3.6	3.7	3.8	3.9
Growth (% y-o-y)	4.4	1.0	(38.5)	3.3	(1.7)	1.9	2.6	6.1	3.0	3.0	3.0	3.0
Expats	6.1	6.5	10.9	10.4	9.4	10.2	10.1	9.6	10.4	11.2	11.8	12.5
Growth (% y-o-y)	2.2	6.0	67.2	(4.3)	(9.5)	8.4	(1.5)	(4.7)	8.0	8.5	5.3	5.3
<b>Split of expats</b>												
Household labour	n/a	n/a	n/a	4.7	1.7	50.4	(0.7)	(11.1)	11.0	11.2	9.6	9.3
Growth (% y-o-y)	n/a	n/a	8.6	8.0	7.0	6.5	6.4	6.3	6.7	7.2	7.4	7.7
Expats in corporate segment	n/a	n/a	n/a	(6.7)	(12.9)	(6.4)	(2.0)	(1.0)	6.5	7.0	3.0	3.0
Growth (% y-o-y)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Avg. expat family size	1.8	1.7	1.1	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4
<b>Wages</b>												
Average expat wages, SAR/month	n/a	n/a	n/a	3,674	3,741	3,769	4,213	4,023	n/a	n/a	n/a	n/a
Growth (% y-o-y)	n/a	n/a	n/a	0.0	1.8	0.7	11.8	(4.5)	n/a	n/a	n/a	n/a
Average Saudi wages, SAR/month	n/a	n/a	n/a	9,939	10,292	10,256	9,971	10,186	n/a	n/a	n/a	n/a
Growth (% y-o-y)	n/a	n/a	n/a	0.0	3.6	(0.3)	(2.8)	2.2	n/a	n/a	n/a	n/a

Source: GASTAT, CI Capital estimates. Note (1): Population figures for 2021 are estimated



## Maharah Human Resources

Services  
Saudi Arabia

### Summary of operational forecasts

	2014a	2015a	2016a	2017a	2018a	2019a	2020a	2021a	2022e	2023e	2024e	2025e
<b>Corporate segment<sup>2</sup></b>												
Resources <sup>1</sup>	10,000	23,223	25,128	23,153	24,712	28,040	27,493	26,251	29,285	32,094	33,467	34,891
Growth (%)	n/a	132.2	8.2	(7.9)	6.7	13.5	(2.0)	(4.5)	11.6	9.6	4.3	4.3
Revenues (SARmn)	426	910	992	879	956	1,092	1,035	944	1,114	1,268	1,333	1,399
Growth (%)	n/a	113.8	9.0	(11.4)	8.7	14.3	(5.3)	(8.7)	18.0	13.8	5.2	4.9
Gross margin (%)	33	27.5	28.5	26.3	22.2	22.8	16.9	14.5	16.9	18.7	19.5	20.4
GP per resource (SAR)	n/a	10,766	11,254	9,972	8,586	8,898	6,361	5,201	6,433	7,387	7,787	8,166
Contribution to total revenues (%)	100.0	95.0	84.0	75.3	71.0	72.2	73.1	71.9	74.2	74.7	74.1	73.4
<b>Individual segment</b>												
Resources <sup>1</sup>	n/a	1,377	5,741	8,274	10,965	11,732	11,647	11,730	13,018	14,475	15,859	17,330
Growth (%)	n/a	n/a	316.9	44.1	32.5	7.0	(0.7)	0.7	11.0	11.2	9.6	9.3
Revenues (SARmn)	n/a	48	189	289	389	420	382	375	437	524	587	654
Growth (%)	n/a	n/a	295.3	52.4	34.9	7.8	(9.1)	(1.9)	16.5	20.1	12.0	11.5
Gross margin (%)	n/a	30.3	28.5	25.0	37.2	31.0	23.8	21.9	21.9	23.0	23.0	23.0
GP per resource (SAR)	n/a	10,548	9,404	8,737	13,212	11,106	7,808	7,004	7,354	8,329	8,512	8,683
Contribution to total revenues (%)	n/a	5.0	16.0	24.7	29.0	27.8	26.9	28.1	25.8	25.3	25.9	26.6
<b>Total</b>												
				0.0								
Resources <sup>1</sup>	10,000	24,600	30,869	31,427	35,677	39,772	39,140	37,981	42,303	46,569	49,327	52,221
Growth (%)		146.0	25.5	1.8	13.5	11.5	(1.6)	(3.0)	11.4	10.1	5.9	5.9
Revenues (SARmn)	426	958	1,181	1,168	1,345	1,512	1,416	1,319	1,550	1,792	1,920	2,053
Growth (%)	n/a	125.0	23.4	(1.1)	15.2	12.4	(6.3)	(6.9)	17.6	15.6	7.2	6.9
Gross margin (%)	32.9	32.9	27.0	28.5	26.0	22.4	25.4	19.3	16.6	17.9	19.6	20.3
GP per resource, SAR	14015	10526	10910	9647	9247	9673	6991	5758	6554	7532	7885	8198

Source: Company data, CI Capital estimates

Note: (1) Only 2014-17 are actual numbers for the company's resources, 2018-25 represent our estimates (2): Corporate segment includes ESNAD numbers

## Profit margin outlook

The bulk of Maharah's costs are employee costs, averaging 53% of revenue, and are considered pass-through plus a mark-up. The second largest cost component is resident fees and work permits, which used to be 10.3% of top line in 2018, but grew to 15.5%, as of 2021, reflecting expat fee increases. Any further introduction or changes in expat fees will be contractually passed onto clients, in our view, whether the company's contracts are lump-sum or cost-plus.

Maharah's healthcare resources are the most profitable within its corporate sales mix, according to management, with the highest monthly revenues per resource of SAR7,902, as of 9M18<sup>1</sup>. We expect growth of the Saudi healthcare industry to support Maharah's overall profitability.

We reach our profit margins assumptions for the corporate segment on the view that revenue per resource will increase at an average of 1.4% higher rate than CPI, and in turn the company's cost per resource, over 2022-26e, to reflect increased exposure to higher-wage subsegments predominantly healthcare. All else constant, we believe that higher oil prices should improve the company's ability to increase its mark-ups. On a gross profit per resource basis, our margin projections remain below the pre-COVID-19 levels achieved.

For the individual segment, we look for relative gross profit margin stability. Historical margins for this segment have been much more volatile from one year to another, on both gross profit margin and gross profit per resource levels. We attribute this to the nationality-mix of household help, although unconfirmed by the company, with nationalities like Philippines and Indonesia being higher-paying than for example, Egypt and India. These factors are hard to predict and as a result, we acknowledge high uncertainty surrounding our margin assumptions, also due to the limited company guidance.

In Feb-15, the company launched its Khidmah programme, through which it provides a pay-by-hour service scheme. In this programme, deployed resources are transferred to and from the client's premises through the company's dedicated fleet (125 vehicles, as of Sep-18). Khidmah contributes 6% to Maharah's 2021 total revenues.

In Mar-20, MHRSD announced a seven-month suspension of the part-time electronic domestic labour because of the pandemic, lowering Maharah's individual revenues by 10% in 2020. However, we expect continued recovery, supporting margins, as Khidmah's revenues grew 20% in 2021.

### CoGs breakdown

(SARmn)	2018a	2019a	2020a	2021a
Employees costs	730	781	740	728
% of revenues	54.0	51.6	52.2	55.2
Resident fee and work permits <sup>2</sup>	139	187	230	204
% of revenues	10.3	12.3	16.2	15.5
Leave salaries and tickets	73	46	54	29
% of revenues	5.4	3.0	3.8	2.2
Recruitment and visa costs	65	54	45	67
% of revenues	4.8	3.6	3.2	5.1
Other and depreciation costs	47	65	85	72
% of revenues	3.5	4.3	6.0	5.4
<b>Total CoGS</b>	<b>1,054</b>	<b>1,132</b>	<b>1,154</b>	<b>1,100</b>

Source: Company data

Note: (2) Includes expat fees

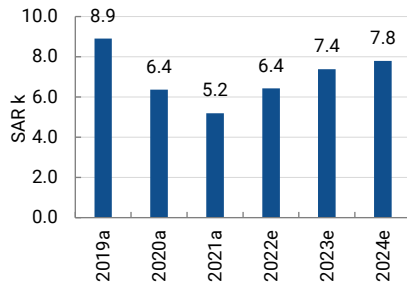
<sup>1</sup> The last period for the company to disclose its number resources



**Maharah Human Resources**  
Services  
Saudi Arabia

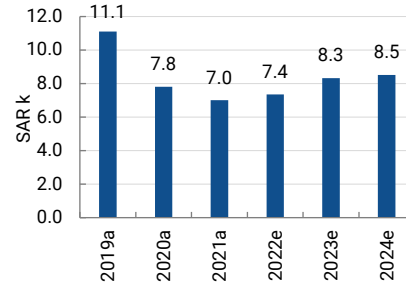
## Gross profit per resource

### Corporate segment



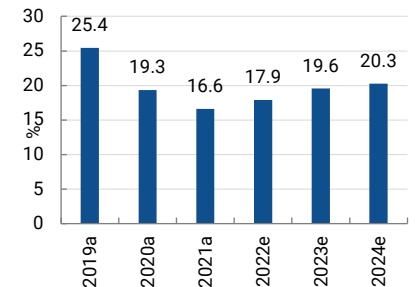
Source: Company data, CI Capital estimates

### Individual segment



Source: Company data, CI Capital estimates

### Total gross margin



Source: Company data, CI Capital estimates



## Maharah Human Resources

Services  
Saudi Arabia

## High cash generation profile

Maharah has enjoyed a negative cash conversion cycle (CCC), mainly due to high payables, including retained deposits and contract liabilities (as advances for corporate and individual resources, respectively), alongside low inventory days, reflecting efficient use of its available visas. Retained deposits are collected for the corporate segment and entail a 2–3-month insurance paid in advance for the salary of deployed corporate resources. Because individual segment revenue contribution grew to reach 28% in 2021, payable days fell to 88 DoH in 2021. The company collects payments, booked as contract liabilities, by individual segment's clients, which are required to pay the full contract amount in advance, that are transferred to unearned revenues as soon as the resource get on with their work.

### Revenues and payables breakdown by segment

	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
<b>Revenue by segment (SARmn)</b>											
Corporate	992	879	956	1,092	1,035	944	1,114	1,268	1,333	1,399	1,467
Individual	189	289	389	420	382	375	437	524	587	654	727
Total revenue	1,181	1,168	1,345	1,512	1,416	1,319	1,550	1,792	1,920	2,053	2,195
<b>% of total revenue</b>											
Corporate	84.0	75.3	71.0	72.2	73.1	71.6	71.8	70.7	69.4	68.1	66.9
Individual	16.0	24.7	29.0	27.8	26.9	28.4	28.2	29.3	30.6	31.9	33.1
<b>Payables by segment (SARmn)</b>											
Corporate (retained deposits)	159	132	137	119	85	93	108	122	130	138	145
Individual (contract liabilities)	55	88	91	97	90	90	105	125	140	156	173

Source: Company data, CI Capital estimates

Receivable days deteriorated since the pandemic, peaking 69 DoH, as of 2021 vs. a 2014–19 average of 47. We look for improving receivables collection, in line with the company's pre-pandemic norm, supported by enhanced corporate profitability, with Saudi Vision 2030 investment-friendly policies and higher oil prices. Historical receivable write-downs have been insignificant.

On inventory, the company maintains a readily available balance of visas, to use for urgent resource deployment. It can refund/modify the issued visas' nationality at no additional cost. Each year new visas are issued based on the expected demand and the beginning balance of visas. We calculate Maharah's 2021 ending balance of visas at 3.9k, based on an estimated visa cost of SAR7.2k — equivalent to ~10% of 2021e resources.

Owing to minimal capex and well-managed working capital, 54% of 2014–21 EBITDA was converted into free cash flow. Maharah sits on a net cash position equivalent to SAR115mn, 0.7x 2021 EBITDA.



## Maharah Human Resources

Services  
Saudi Arabia

## Working capital, EBITDA convertibility

(SARmn)	2016a	2017a	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Inventory days	8.4	8.9	10.2	9.6	9.1	9.5	9.5	9.5	9.5
Receivable days	38.3	44.7	49.0	63.2	62.5	69.5	65.0	55.0	50.0
Payable days	79.0	105.9	113.8	94.8	91.9	88.3	87.4	88.5	90.1
<b>CCC</b>	<b>(32.3)</b>	<b>(52.4)</b>	<b>(54.6)</b>	<b>(22.1)</b>	<b>(20.2)</b>	<b>(9.3)</b>	<b>(12.9)</b>	<b>(24.1)</b>	<b>(30.7)</b>
Working capital (SARmn)	(198.2)	(218.7)	(253.3)	(120.7)	(101.7)	(79.8)	(103.8)	(164.5)	(205.4)
WC/sales (%)	(7.2)	(16.8)	(18.7)	(18.7)	(8.0)	(7.2)	(6.0)	(6.7)	(9.2)
WC/EBITDA (%)	(64.6)	(99.1)	(105.5)	(37.2)	(46.9)	(48.3)	(47.6)	(57.5)	(63.6)
Cash from operations	261.6	253.3	155.2	80.3	248.4	26.6	183.8	282.3	315.7
CFO/EBITDA (%)	85.3	114.7	64.6	24.7	114.5	16.1	84.3	98.7	97.8
Net debt/(cash) (SARmn)	(207.3)	(346.2)	(355.7)	(263.3)	(291.8)	(115.1)	(117.6)	(164.7)	(227.7)
Net (cash)/EBITDA (x)	(0.7)	(1.6)	(1.5)	(0.8)	(1.3)	(0.7)	(0.5)	(0.6)	(0.7)
Free cash flow	228.8	215.6	71.6	7.1	212.1	(12.3)	147.8	243.8	277.0
FCF yield (%)	7.7	7.2	2.4	0.2	7.1	(0.4)	5.0	8.2	9.3
Dividend payout	40.0	28.4	45.1	68.6	89.9	97.0	80.0	80.0	80.0
DPS (SAR)	26.6	3.8	1.6	2.7	5.5	3.8	3.8	5.1	5.8
Dividend yield (%)	0.0	0.0	0.0	3.1	7.1	4.7	4.8	6.4	7.3

Source: Company data, CI Capital estimates

We estimate the company's high 2021 DPO of 97% (85% over 2019-20) will stabilise at 80% (2014 and 2015 DPO ratios were 118% and 137%, respectively). This should rank Maharah among the highest dividend yielding stocks in TASI. While the company does not disclose a specific dividend policy, its BoD report advertises for +80% DPO, which we use as basis for our assumptions.

## Maharah vs. TASI on dividend yield

	Dividend yield (%)		
	2022	2023	2024
Maharah	4.8	6.4	7.3
TASI avg.	2.9	3.3	3.7
TASI max	5.9	7.3	8.1

Source: Bloomberg, CI Capital estimates

## Financial statements

SARmn   FY end: Dec	2020a	2021a	2022e	2023e	2024e
<b>Income statement</b>					
Revenue	1,416	1,319	1,550	1,792	1,920
CoGS	(1,143)	(1,100)	(1,273)	(1,441)	(1,531)
Gross profit	274	219	277	351	389
SG&A	(73)	(77)	(82)	(90)	(92)
EBIT	193	142	195	261	297
D&A	14	13	14	14	14
EBITDA	217	165	218	286	323
Net interest income (expense)	2	2	4	5	5
Investment income (expense)	(0)	(2)	(3)	(3)	(2)
Other income (expense)	(5)	17	(1)	(8)	(12)
PBT	190	159	194	255	288
Taxes	(11)	(15)	(16)	(17)	(19)
NPAT	179	144	178	239	269

### Balance sheet

Cash & equivalents	318	139	145	192	255
Net receivables	243	251	276	270	263
Inventory	29	29	33	37	40
Current assets	769	669	748	839	922
Net fixed assets	173	125	122	119	117
Investments and intangibles	57	159	176	194	203
Non-current assets	257	367	380	396	404
Total assets	1,026	1,036	1,128	1,235	1,326
Short-term debt	-	-	-	-	-
Accounts payable	279	256	297	341	370
Other current liabilities	110	120	132	147	157
Current liabilities	389	376	428	489	527
Long-term debt	17	14	19	19	19
Other non-current liabilities	64	75	75	75	75
Total liabilities	470	465	523	583	622
Shareholders' equity	556	571	606	652	704

### Cash flow summary

EBIT before WC change	210	157	205	266	297
Change in WC	39	(129)	(21)	16	19
Cash flow from operations	248	27	184	282	316
Capex	(8)	(12)	(9)	(10)	(11)
Other Investment cash flow	(148)	211	(56)	(17)	(9)
Cash flow from investing	(10)	(2)	(27)	(30)	(23)
Cash flow from financing	(166)	157	(93)	(57)	(42)
Total cash flow	(213)	(152)	(139)	(192)	(217)

Source: Company data, CI Capital estimates  
Closing price as of 31 March 2022

	2020a	2021a	2022e	2023e	2024e
<b>Basic data (SAR)</b>					
Market cap (mn)	2,882	2,981	2,981	2,981	2,981
Enterprise value (mn)	2,536	2,778	2,827	2,749	2,631
Net debt/(cash)	(292)	(115)	(118)	(165)	(228)
EPS	4.7	3.9	4.8	6.4	7.2
DPS	5.5	3.8	3.8	5.1	5.8
BVPS	14.8	15.2	16.1	17.4	18.8
FCF-to-firm	5.7	(0.3)	3.9	6.5	7.4
FCF-to-equity	5.7	(0.2)	3.9	6.5	7.4

### Valuation

P/E (x)	18.2	22.3	17.9	13.4	11.9
P/BV (x)	5.8	5.6	5.3	4.9	4.6
FCF to equity yield (%)	7.1	(0.2)	5.0	8.2	9.3
Dividend yield (%)	7.1	4.7	4.8	6.4	7.3
EV/revenue (x)	1.8	2.1	1.8	1.5	1.4
EV/EBITDA (x)	11.7	16.8	13.0	9.6	8.2

### Growth (% y-o-y)

Revenue	(6.3)	(6.9)	17.6	15.6	7.2
EBITDA	(33.2)	(23.8)	31.9	31.1	12.9
EBIT	(36.5)	(26.4)	37.2	33.9	13.9
EPS	(34.8)	(18.3)	24.1	33.7	12.9
DPS	104.1	(31.2)	2.3	33.7	12.9

### Profitability (%)

RoE	31.9	25.4	29.7	36.9	38.5
RoA	17.3	14.0	15.9	19.5	20.5
RoIC	69.0	28.2	36.8	50.1	58.3
Gross margin	19.3	16.6	17.9	19.6	20.3
EBITDA margin	15.3	12.5	14.1	16.0	16.8
Net margin	12.6	10.9	11.5	13.3	14.0

### Liquidity (x)

EBITDA/net interest	66.3	91.8	71.5	82.8	88.4
ND/equity	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)
ND/assets	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)
ND/EBITDA	(0.1)	(0.4)	(0.1)	(0.1)	(0.3)
Current ratio	2.0	1.8	1.7	1.7	1.7
Quick ratio	0.7	0.7	0.7	0.6	0.6



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**SP:** Suspended

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