

Target Price: SAR120/share
Current Price: SAR102/share
Upside: 17.6% (+Div. Yield: 2.3%)
Rating: Overweight

Arabian Contracting Company (AlArabia)

Beneficiary of Ad Digitalization and Outdoor Activities

Stock data	
TASI ticker	4071.SE
Mcap (SARmn)	5,100
Avg. Trd. Val (3m) (SARmn)	21
Free float	30%
QFI holding	2.2%
TASI FF weight	0.08%

Source: Bloomberg

TASI vs AlArabia indexed to 100



Source: Bloomberg

- AlArabia is a play on the growing outdoor advertising (Ad) market which is experiencing a transformation in KSA with Ad Digitalization and multiple outdoor initiatives
- Digitalization of BillBoards (BB) and the company's high operating leverage are likely to push margins higher. The Company also benefits from scale and network advantages
- We use an equal mix of PE (18x) / DCF valuations to initiate on the company with a target price of SAR120/sh., implying an upside of 17.6% excluding a 2.3% div. yield ('22e)

Digitalization and Outdoor activities: KSA outdoor activities are structurally seeing a wave of transformation with multiple initiatives led by Vision 2030 programs and a pick-up in business/tourism activities. Growth in Ad revenue is likely to translate to even higher gross profits as most of the costs in this business model are fixed. Along with this, the digitalization of billboards helps in boosting returns without a proportional increase in costs as a digital BB has approx. ten Ad faces as compared to two for a static BB, amplifying the operating leverage.

Strong network effects with a market leadership position: With a market share of ~62% in the outdoor Ad market in KSA, the company is best positioned to win large contracts given the network effects and is also able to influence the pricing for the sector. The company is set to see a strong 2022 post winning the Jeddah/Tabuk/Hail/Kharj contracts along with newer drivers such as seasons (Riyadh/Jeddah), and FIFA WC '22. Recently, the company announced partnerships in Egypt, UAE, and other Gulf nations. While the financial benefits from them may not be immediately significant, this helps increase the scale, coverage and to further diversify.

Valuation and Risks: The stock is trading around its IPO price of SAR100/share after having fallen from its peak of SAR124 in April and now trades at a P/E (2023) of 16.1x. We expect a net profit CAGR of 24% during 2021-23. Downside risks are global recessions, lower than expected benefits from Riyadh/Jeddah seasons, return of the pandemic, reputational risk, cost inflation of BB-related infrastructure, cancellation of contracts, and higher than expected lease liabilities.

Figure 1: Key financial metrics

SARmn	2020a	2021a	2022e	2023e
Revenue	498	720	849	911
Revenue growth	-37%	45%	18%	7%
Gross Profit	99	330	395	487
Gross Profit margin	20%	46%	47%	53%
EBITDA	415	574	644	706
Op. income	51	261	303	384
Net profit	25	206	235	316
Net profit margin	5%	29%	28%	35%
EPS (SAR)	0.5	4.1	4.7	6.3
DPS (SAR)	0.5	1.86	2.3	4.1
P/E	202.3x	24.7x	21.7x	16.1x

Source: Company, GiB Capital

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Investment case

With a wide network of Billboards (BBs), placed both outdoors and indoors, the company monetizes the BBs by placing Ads. Thus, revenue is driven by the number of contracts it wins from companies to place the Ads. Prices for Ads fluctuate widely depending on the demand and supply for Ad faces. As per our understanding, the company manages its inventory of Ad spaces to manage prices. The utilization of Ad spaces for 2021 is likely to have been around 55-60% and has remained at similar levels in the past.

While previously the BBs were mostly static (where there used to be around 2 Ad faces per BB at any point in time), the digitalization of BBs has enabled the company to have 10 Ad faces per digital BB. Thus, by substituting a static BB with a digital BB, the company can significantly boost Ad inventories.

The key cost driver is the lease cost, which is the annual rent the company pays for the location of the BB, based on the contractual agreement. This rent/fee is split as amortization and interest expense as per IFRS for accounting purposes. The company manufactures and installs its own BB. These are depreciated over the lifetime of the BB. Post winning a contract, the company recognizes lease liabilities immediately (included in debt as per our DCF model) and accordingly interest expenses due to these lease liabilities as per IFRS16. However, revenues are later recognized as and when the company wins clients for its Ad spaces. The company plans to digitalize 80% (55% at the end of 2021) of its BBs by 2025. By converting a static BB to a digital BB the company can increase the Ad spaces by approx. 8 with very minimal costs. This is the reason why margins could increase exponentially. As the costs are mainly fixed, there is an inherently high operating leverage for the company. Thus, when there is a higher outdoor activity, net margins also improve disproportionately. Investor concerns are about the possible shift of Ads from physical space to social media. We believe outdoor advertising has a niche space of its own and is thriving in KSA with various outdoor activities.

Key assumptions

1. Revenue

Volumes/Ads - By winning the Jeddah contract, we believe the company could add up to 4% of Ad spaces (40x10 Ad faces out of ~11,000 utilized Ad faces) with better than average pricing – the company guidance being >5% of revenues. Also, when Tabuk and other contracts totaling 211 BBs, come to full fruition, it could add up to 8% of total Ad faces as per our estimates (assuming all digital faces). However, the pricing could be significantly lower than for Riyadh in our view. Additionally, a possible win of the “1-Riyadh municipality contract” could add up to 3% of revenues based on our view (This is because the company has already 7 out of the approx. 9 contracts already awarded by the municipality and as per 2020 data, 1/3rd of the Ad faces is in Riyadh). However, there might be discounts or revenue-sharing agreements which may result in differences compared to our expectations. The company could benefit from higher Govt expenditure in 2H22. While the Jeddah season effect could be seen in 2Q, benefit from Riyadh seasons, FIFA World cup, etc. is likely to be seen in 4Q. Revenue from Egyptian JV and partnerships with UAE and other Gulf nations will directly flow via the associate/profit line as per our understanding. Additionally, businesses are returning to normalcy in 2022 and with improving oil prices, market activity and advertising spending are expected to pick up.

Revenue has multiple triggers for a good performance in 2022...

...and with high operating leverage, an even better net profit growth.

Amortization constitutes
around 75-80% of the Cost of
Goods sold

Pricing: Pricing in turn depends on volumes. Given that the company has pricing leadership because of its market share, we model the company to manage its inventory to have a gradual increase in pricing.

As per the CEO, advertising revenue for the sector is expected to grow by 10% - 15% annually over the next three years. Geographical expansion inside and outside the Kingdom is one of AlArabia's top priorities in the coming three years (source: Argaam).

2. Costs

Amortization being the main driver of costs (85% of COGS in 2020, 73% in 2021) will depend on the number of billboards. We expect the number of BBs to decline by 5% and 3% in 2022 and 2023 respectively in line with the past trends.

Sales & Marketing as well as General and Administrative expenses are linked to sales and Ad volumes. We forecast it to be 4.5% and 5.6% of revenues for 2022, in line with past trends.

A large part of the interest costs is linked to lease-related interest expenses which will increase proportionally with the number of contracts signed.

3. Capex

With a slower increase in digital BB as compared to the past, we forecast approx. SAR70mn, 8% of Sales in 2022 and 2023.

Figure 2: Key Performance Indicators

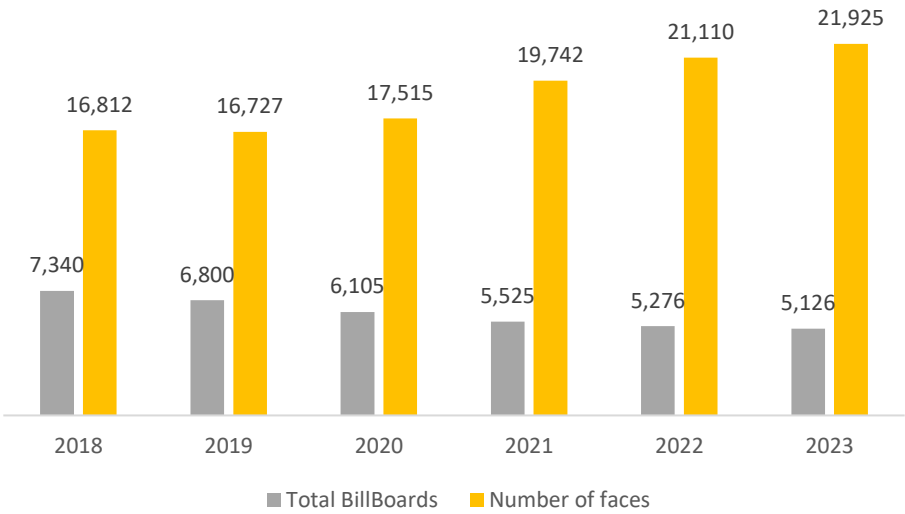
KPIs	2020a	2021a	2022e	2023e
Static BillBoards	5,725	4,390	3,890	3,590
Digital BillBoards	380	1,135	1,386	1,536
Total BillBoards	6,105	5,525	5,276	5,126
Increase in y/y	-10%	-10%	-5%	-3%
Static faces	13,715	8,947	7,928	7,317
Digital faces	3,800	10,795	13,182	14,609
Number of faces	17,515	19,742	21,110	21,925
Increase in y/y	5%	13%	7%	4%
Mix of faces	22%	55%	62%	67%
Faces/static BB	2.4	2.0	2.0	2.0
Faces/digital BB	10.0	9.5	9.5	9.5

Source: Company, GIB Capital

Ad faces increase even as
BillBoards decline...

... amplifying operating leverage.

Figure 3: Number of BB is declining even as Ad faces are increasing



Source: Company data, GIB Capital

Company Profile

The Company's main activity is in the outdoor advertising sector in KSA. It started operating in this sector in 1983. The Company is the market leader by revenue in the sector. It has a strong footprint within Saudi Arabia in almost all the major cities.

Focused mainly on Outdoor advertising: As the name suggests, Outdoor advertising is a core advertising method that specifically targets people outside their homes, whether they are pedestrians, drivers, passengers, shopping center visitors, or airport travelers. Outdoor advertising is divided into three categories, by location: (1) roadside advertising, (2) indoor advertising, and (3) transit advertising. The Company's main business is currently limited to roadside advertising and indoor advertising. The Company had recently expanded its business by entering the indoor advertising market. The company entered into some exclusive contracts with the owners of commercial centers in different regions within the Kingdom of Saudi Arabia.

Market leader: Outdoor advertising revenues represented about 34.4% of total advertising expenditure in the Kingdom. As of 2020, the outdoor advertising market in the Kingdom of Saudi Arabia broadly consisted of four local entities and one international entity altogether constituting a market share of 97% or more.

AlArabia is the market leader in the Outdoor Ad market which is seeing a transformation in KSA

Figure 4: AlArabia leads the market share in Outdoor Advertising

Market Share of Outdoor Advertising in 2020	
1. AlArabia (KSA)	62.3%
2. Saudi Sign (KSA)	18.8%
3. Wave Media (KSA)	10.3%
4. JCDecaux (France)	3.8%
5. Faden Publicity and Advertising (KSA)	1.8%
6. Other companies	3.0%

Source: Company data

AlArabia accounted for about 62.3% of outdoor advertising revenues during 2020. All of the companies have long experience and massive, reliable inventory for both indoor and outdoor sites.

Figure 5: AlArabia has maintained the market leadership position

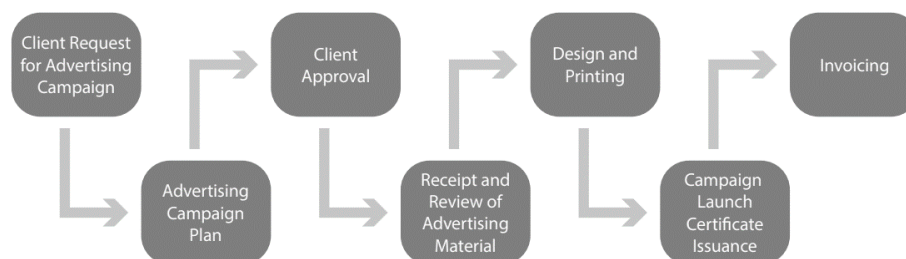
Year	Arabia Revenues	Market share
2017	612	63.8%
2018	639	65.6%
2019	788	65.8%
2020	498	62.3%

Source: Frost & Sullivan & Company Data

Concerning roadside advertising, the Company participates in tenders organized by various secretariats, municipalities, and government agencies throughout the Kingdom of Saudi Arabia to lease and invest in numerous sites belonging to these agencies and secretariats by installing billboards and selling the advertising space on such billboards to clients.

Figure 6: Company's business model

The following figure summarises the model and stages of the Company's business with its clients:



Source: Company data

Integrated player: The Company's business includes setting up, operating, and, maintaining outdoor advertising billboards, specifically roadside advertising and indoor advertising. At end of 2021, the Company had about 5525 BBs. The Company has a variety of billboards utilizing different technologies including static billboards, dynamic billboards, and, digital billboards. AlArabia also offers a full range of solutions that include printing, design, implementation, and maintenance. As such, AlArabia has maintained a history of high credibility and long-standing relationships with many clients, municipalities, government agencies, and MBUs (Mupi) throughout Saudi Arabia

Figure 7: AlArabia has a diverse set of clientele

Sector Type	2018	2019	2020
Government and Public Sector	11.0%	21.2%	10.2%
Telecom Sector	11.4%	13.3%	14.1%
Restaurants/QSRs	19.3%	15.9%	17.0%
Banks	7.1%	8.6%	9.7%
Automotive Sector	12.3%	7.6%	6.7%
Electronics	6.1%	4.2%	3.6%
Consumer Goods	7.1%	6.8%	8.1%
Dairy	5.9%	3.5%	3.9%
E-Commerce	3.7%	4.7%	8.5%
Fashion, Jewellery and Perfumes	3.8%	5.4%	4.1%
Furniture	1.9%	1.4%	1.3%
Other	10.4%	7.4%	12.8%

Source: Company data

The company has a diverse set of clienteles

Clients: Advertising agencies or media buyers associated with main clients or agencies account for the bulk of outdoor advertising media purchases. The Kingdom of Saudi Arabia's outdoor advertising sector is undergoing a wave of integration through affiliations and alliances as well as product differentiation via specialization.

Figure 8: Clients mainly come via Media buyers

Revenues	2018	%	2019	%	2020	%
Media buyers	402,138	63%	534,816	68%	334,410	67%
Direct Advertisers	201,812	32%	182,659	23%	110,599	22%
Direct Gov. Clients	16,456	2%	40,467	5%	26,903	6%
Other	18,751	3%	29,556	4%	25,673	5%
Total	639,157	-	787,498	-	497,585	-

Source: Company data

Digitalization is one of the key trends in the sector

Digitalization trend in the sector: The company had 55% of its boards digital as of the end of 2021. Recently, the Company introduced digital billboard technology to its billboards. These billboards are attractive and capable of displaying a greater number of advertising panels, and the advertisements displayed thereon can be instantly changed from the Company's main control center, thus facilitating the implementation of advertising campaigns for the Company's clients. The Company carries out silk-screen printing (a printing technique using a silk screen to print advertisements), offset printing (a printing technique using metal printing plates in various printing operations), and digital printing (a printing technique in which computer systems are used to print advertisements).

About the sector

Sector growth is volatile: The performance of the Saudi advertising market is closely related to the Kingdom of Saudi Arabia's economic outlook. However, outdoor advertising expenditure has been unpredictable and inconsistent with the usual pattern. Compared to global growth trends, the rise in outdoor advertising expenditure in the Kingdom of Saudi Arabia was volatile. Over the past five years, the outdoor advertising market in the Kingdom of Saudi Arabia witnessed an initial decline, followed by a gradual recovery in 2018 and 2019.

Figure 9: Comparing AlArabia revenues and Total Ad expenses (SARmn)

Year	Total Ad exp.	Growth	Outdoor Ad Exp.	Growth	AlArabia	Growth
2015	3,863		1132			
2016	3,335	-14%	1068	-6%		
2017	2,994	-10%	959	-10%		
2018	2,836	-5%	974	2%	639	
2019	2,611	-8%	1197	23%	787	23%
2020	2,170	-17%	789	-34%	498	-37%

Source: Frost & Sullivan, Company data, GIB Capital

Advertising expenditure in the Kingdom of Saudi Arabia has been slow, with negative growth of 10.2% and 5.3% in 2016-2017 and 2017-2018 respectively. During the same time, Saudi expenditure on outdoor advertising witnessed negative growth of 10.2% in 2016-2017, followed by a growth of 1.6% in 2017-2018. Accordingly, it should be noted that despite the recession and the consequential declines in advertising expenditure in 2016G-2018, outdoor advertising expenditure in the Kingdom of Saudi Arabia gradually recovered by 2018. Outdoor advertising is advertisers' preferred medium and confirms that outdoor advertising is primarily affected by the economic cycle and expenditure trends. However, it is not affected by competition from other available advertising channels. Other factors contributing to this growth include

Sector growth has been volatile in the past

government expenditure on outdoor advertising and the benefits of the digitization of many indoor sites in the region.

Challenge from social media advertising? With the advent of the Internet, digital media, and social media sites (Facebook, Instagram, and Twitter) introducing new advertising platforms, traditional mediums used by advertisers have undergone radical change. Most traditional media such as print (magazines and newspapers), television, and radio have suffered a decline in their share of advertising revenue in the past decade. Digital media is expected to dominate advertising expenditure in 2021G, accounting for 50% of the market share, with social media, search and video expected to be key factors of this growth. Meanwhile, the oldest outdoor advertising medium has not been affected by the onslaught of digital technology.

One of the challenges for the broader sector is the increase in online Ad spending

Various phases of sector growth:

1. **2014G-2016G:** A large portion of outdoor advertising expenditure from 2014G-2016G was driven by the telecommunications sector and the electronics sector. Advertisers such as STC, Mobily, and Zain accounted for most expenditure during this period.
2. **However, from 2017 onwards,** these telecom companies shifted nearly 60% of their advertising expenditure to digital media and social media sites due to the prevalence of these new media. In the past, numerous cultural barriers restricted the growth of outdoor advertising expenditure in certain sectors, such as telecommunications, automotive, retail, food and beverages, restaurants, and hospitality.
3. **Since 2018,** most of the expenditure on outdoor advertising has been made by government entities such as the Ministry of Health, the Ministry of Energy, and others. Some other private sector advertisements contributed to the higher expenditure on outdoor advertising during this period, including the restaurant, hospitality, and food and beverages sectors. There was also a remarkable trend of software providers and global manufacturers establishing strategic partnerships with local outdoor advertising providers in the Kingdom of Saudi Arabia to implement large-scale projects that require the creation and digitization of outdoor advertising sites. Examples can be found in both indoor advertising, especially in the banking sector, and outdoor advertising, where local stakeholders collaborate with international stakeholders such as Broadsign and Daktronics to digitize existing indoor advertising media and install new digital indoor advertising sites. The growth in the Kingdom of Saudi Arabia's outdoor advertising market was due to the establishment of several outdoor and indoor sites with Megacom billboards, Mupi billboards, and Super Structures.
4. **In 2019,** the entertainment sector, consumer electronics, and apps accounted for nearly 30% of outdoor advertising expenditure, followed by the government and then the consumer goods, restaurant, and hospitality sector with 21% and 17% of outdoor advertising expenditure, respectively. The telecommunication sector accounted for 13% of expenditure. Many companies have reallocated their advertising budgets from digital and social media towards expenditure on outdoor and indoor advertising spaces in malls.
5. **In 2020** with the onset of COVID, Ad spending was limited, and the company's revenues declined by 37%.

6. In 2021, based on the 2021 financial statement the company had won a major contract as a result of which there was a SAR1.7bn increase in lease liability which was mostly reversed as per 1Q22 financial statements.

Recent company updates:

2022 has seen multiple announcements for growth which is likely to ensure strong 2022/23 profit growth

On March 15, a site lease contract for 40 digital billboards to be installed on bridges and tunnels in Jeddah at a total amount of over SAR 1 billion for 10 years. The financial impact was expected to begin to appear at the end of the second quarter of 2022. Revenues are likely to increase by 5% of the total target for 2022, as per a press release.

The company established a 100%-owned subsidiary, with a capital of SAR 50,000. The step was based on the approval of the board of director's decision in its meeting held on July 14, 2021, which was set up Arabian Bird Trading Co. (Sindebaad), headquartered in Riyadh, specialized in providing multi-vendor B2C with multiple categories including fashion, cosmetics, perfumes & home.

Arabian Contracting Services Co. received 211 sites to install billboards in Tabuk, Hail, and Al-Kharj for SAR 48.16 million worth of lease contracts. In Tabuk city, the company received 75 sites at a total value of SAR 23.59 million and received 11 sites in Hail for SAR 10.80 million, in addition to 125 sites in Al-Kharj with SAR 13.78 million worth of lease contracts.

Arabian Contracting Services Co. (AlArabia) formed a partnership with Egypt-based United Media Services Co. to establish an Egyptian joint stock company. The 25-year partnership includes installing and operating no less than 120 digital screens. Under the deal, AlArabia will supervise, manage, and operate all stages of the advertising process that enables advertisers to reach their targeted customers in Egypt.

On 17th June, the company entered into an exclusive agency agreement for advertising services with Elan Media Advertising, a leading media group that owns and operates various outdoor and indoor advertising and media platforms in Qatar as its exclusive representative in the external advertising portfolios and acquired exclusive rights to locate and attract customers and businesses in the local market in Kingdom of Saudi Arabia, Egypt, Bahrain, and Kuwait during the FIFA World Cup 2022 held in Qatar.

On the 19th of June, the company entered into an exclusive agency agreement for advertising services with Elevision Media, a leading digital advertising company for residential and office complexes as an exclusive agent for advertising in Dubai International Financial Center and its affiliated areas.

Strategy

The company's strategy as disclosed in its IPO Prospectus:

- Maintain a market-leading position to help the company stay at the forefront of companies operating in its field.
- Maintain and increase market share to enhance revenues and profits.
- Raise the operational efficiency of the Company's integrated business model and increase revenues from support services within the said model.
- Maintain and improve the quality of services by introducing the latest technologies in the field of outdoor advertising.
- Increase sales through direct marketing to strategic clients.
- Maintain the Company's excellent financial position and establish factors of resistance to recession stages in economic cycles through proper planning.
- Expand the field of information technology by using data to grow the Company's business and provide effective information solutions to clients, which serve their goals and help them scientifically reach their clients and analyze the available data on consumers.
- Consider remunerative alliances and partnerships that support geographical expansion to enhance the Company's position, maintain its leadership locally and regionally and benefit from global experiences in this field

IPO details

The company was listed on 15 Nov 2021. The company raised SAR1500mn with 127x institutional coverage and 14.8x retail coverage. The book building price range was SAR90-100/share and was listed at SAR100/share.

Ownership

The ownership structure is shown below.

Figure 10: Current ownership structure

Ownership	stake
Engineer Holding Grp	65%
MBC Grp Holding	5%

Source: Tadawul

The stock does not meet the size criteria to get into the MSCI EM index yet based on our understanding.

Currently the stock trades around its IPO price and below peak price of SAR124 in mid April 2022

Financial analysis

Revenue Growth has been volatile with 23% in 2019, -37% in 2020, and 45% in 2021. This is because of the cyclical nature of this industry. However, the difference between KSA and the Global Ad market is that currently there is a significant increase in outdoor activity which helps AlArabia. Volume growth depends on the contracts won from clients.

Margins swing given fixed costs: Given that the major costs for the company are fixed because of the amortization of lease liabilities, the profitability has swung along with the revenue. The operating leverage works both ways – on the upside and the downside. The other costs are depreciation with the useful lives as shown below

Figure 11: BBs have an asset life of 7 years

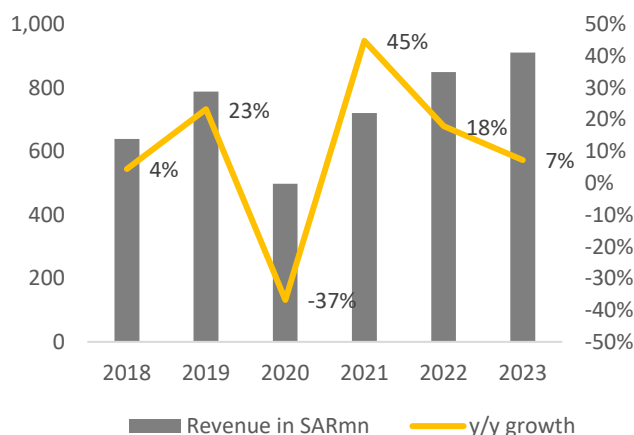
Useful life of Assets	Years
Buildings	20
Static and dynamic billboards	7
Vehicles	4
Furniture	10
Machines and Equipment	10

Source: Company data

Interest/debt: The bulk of the interest costs is related to the lease liability interest costs and not the actual interest due to the banks. This is because of the IFRS16 lease liabilities.

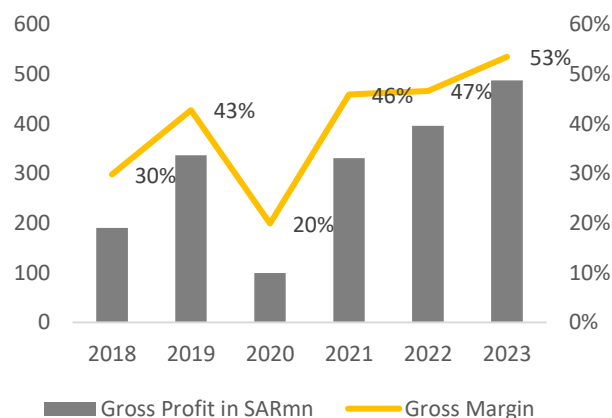
Days of receivables are high. As per the prospectus, this is typical of the industry. And with regards to Government balances, they are usually delayed for relatively longer periods (settlement takes up to two years) compared to other client balances, as the company deals with government sectors directly or indirectly via advertising agencies.

Figure 12: Revenue trends



Source: Company data, GIB Capital

Figure 13: Gross profit to increase more than revenue



Source: Company data, GIB Capital

The key assumptions for the financials are discussed on page 2.

We arrive at our Target price per share at SAR120/share based on an equal mix of DCF-based value at SAR121/share and PE-based value at SAR120/share (1 year forward)

Figure 14: DCF model

DCF model (SARmn)	2022	2023	2024	2025	2026	2027	2028	2029	2030
EBIT	303	384	419	437	465	485	505	525	544
tax	-13	-17	-19	-20	-22	-23	-24	-25	-26
Change in WC	82	26	31	42	87	-13	-13	-14	-14
Dep	33	39	45	45	46	43	41	39	38
Amort, adjusted for lease payments	153	8	5	8	0	0	0	0	0
Capex	-68	-73	-47	-48	-29	-30	-31	-32	-32
FCF	491	368	434	465	547	463	478	494	510
Terminal Value									7,924
Enterprise value of the explicit period	2,551								
PV of Terminal Value	3,948			P/E		18			
Total Enterprise Value	6,499			EPS 2023		6.3			
(-)Debt, incl. lease liabilities	-1,289			PE-based price		114			
(-) Pension/liabilities	-15			Adjusted PE-based Price*		120			
(+) Cash	508								
(+) Associate	0								
(-) Minority	0								
Equity value	5,703								
Number of shares	50								
Equity value per share	114								
Adjusted DCF-based equity value per share*	121								
Cost of Equity	10%								
Cost of debt	4.0%								
Target D/A	15%								
WACC	9.1%								

Source: GIB Capital, * Target price is rounded, and time value adjusted 1 year forward

Figure 15: Sensitivity of terminal growth rate and WACC

		Terminal growth				
		2.00%	2.25%	2.50%	3.00%	3.50%
W	8.1%	129	133	137	148	160
	8.6%	118	121	125	133	143
	9.1%	108	111	114	121	129
	9.6%	100	102	105	111	117
	10.1%	93	95	97	102	107

Source: GIB Capital

Peer multiples

The global peers are trading at 18x. We use a similar multiple for our relative valuation. This is also in line with the broader market in KSA.

Figure 16: Peer valuations, as on 31 July 2022

Name	Mkt Cap (USDmn)	P/E	P/E FY1	P/E FY2	Div Yield %
Median	-	28.2	19.6	18.2	6.3
Jcdecaux SA	3,690	-	28.6	18.7	2.7
Outfront Media Inc	2,960	33.4	18.9	14.0	6.6
Clear Channel Outdoor Holding	684	-	-	120.0	-
Lamar Advertising Co-A	10,125	23.0	20.3	19.6	4.8
Apg Sga SA	540	40.9	20.9	18.2	6.9
Surya Citra Media Pt Tbk	1,144	11.3	14.0	11.5	-
Boston Omaha Corp-CI A	686	-	-	-	-
Stroeer Se & Co Kgaa	2,437	16.4	12.7	10.9	5.9
Focus Media Holding-Adr	-	-	-	-	-
Ooh!Media Ltd	512	-	14.1	11.9	-
Apg Sga SA	540	40.9	20.9	18.2	6.9
Asiaray Media Group Ltd	66	-	-	-	-

Source: Bloomberg

Risks

Given the cyclical nature of the industry, the company's profitability can swing much more than the average industry as there is high operating leverage in the business model. During a recession, the costs may remain flat as revenues decline to lead to a sharper drop in profitability. Non-renewal of lease agreements for old contracts and the inability to win new advertising sites could impact the revenues. Reliance on top 10 clients which are 50%+ of revenues could weaken the position if the company fails to maintain a relationship with them. Write-off of revenues, higher than expected cost of BillBoards, lower than expected lifetime of assets, the spread of the coronavirus (COVID-19), unexpected fluctuations in weather, etc are other risks to earnings that could be considered.

Financials

Figure 17: Summarized basic financial statements

Income statement	2020a	2021a	2022e	2023e
Revenue	498	720	849	911
revenue y/y	-37%	45%	18%	7%
COGS	399	390	454	424
Gross Profit	99	330	395	487
Gross Profit margin	20%	46%	47%	53%
Sales & Marketing	11	31	38	42
G&A	29	40	48	51
Others	8.0	-2.7	6.3	9.3
Operating profit	51	261	303	384
Operating margin	10%	36%	36%	42%
Finance costs	21	33	55	51
Other income	(0)	11	0	0
PBT	31	218	248	333
Zakat/tax	5	11	13	17
Net income	25	206	235	316
Net margin	5%	29%	28%	35%
y/y	-89%	718%	14%	34%
EPS	0.5	4.1	4.7	6.3
DPS	0.5	1.86	2.3	4.1
Payout	95%	45%	50%	65%
D&A	364	313	341	321
EBITDA	415	574	644	706
Net debt (w/o lease liabilities)	105	258	(60)	(171)
Net debt (w/ lease liabilities)	637	2,159	782	655

Balance Sheet	2020a	2021a	2022e	2023e
Inventories	16	15	33	35
Accounts and Notes Receivable	336	419	465	487
Due From Parties/Affiliates (Short-Term)	19	0	0	0
Prepaid Expenses and Other	69	396	250	200
Cash and Equivalents	27	190	508	619
Total Current Assets	466	1,020	1,256	1,341
Right of Use Assets	694	2,027	814	791
Property Plant & Equipment - Net	155	193	228	262
Total Non-Current Assets	849	2,220	1,042	1,053
Total Assets	1,315	3,240	2,298	2,393
Current Liabilities	460	907	907	907
Non-current Liabilities	329	1,602	542	527
Equity	526	731	849	959
Total Equity and Liabilities	1,315	3,240	2,298	2,393
BVPS	10.5	14.6	17.0	19.2

Cashflow	2020a	2021a	2022e	2023e
Cashflow from Operations	349	208	713	715
Cashflow from Investing	-57	-78	-68	-73
Cashflow from Financing	-301	33	-327	-531
Total Cashflows	-10	163	318	111

Source: Company, GIB Capital

Figure 18: Key ratios

Key ratios	2020a	2021a	2022e	2023e
Profitability ratios				
RoA	2%	6%	10%	13%
RoE	5%	28%	28%	33%
Sales/Assets	38%	22%	37%	38%
Net margin	5.1%	28.6%	27.7%	34.7%
Liquidity ratios				
Current Assets/ Current Liabilities	1.0	1.1	1.4	1.5
Debt to Total Equity	1.3	3.2	1.5	1.3
Receivable Days	246	212	200	195
Inventory Days	14	14	14	14
Payable days	7	4	4	4
Cash conversion cycle	254	222	210	205
Debt ratios				
Net Debt/EBITDA (w/o IFRS liab.)	0.3	0.4	-0.1	-0.2
Net Debt/EBITDA (w/ IFRS liab.)	1.5	3.8	1.2	0.9
Debt/Assets (w/o IFRS liab.)	10%	14%	19%	19%
Debt/Equity (w/o IFRS liab.)	25%	61%	53%	47%
Valuation ratios				
P/E	202.3	24.7	21.7	16.1
P/B	9.7	7.0	6.0	5.3
EV/EBITDA	14	10	9	8
Dividend Yield	0.5%	1.8%	2.3%	4.0%

Source: Company, GIB Capital

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