

## Arabian Contracting Services Co. (ALARABIA)

Target Price: SAR 280.0/share

Upside: 9.7%

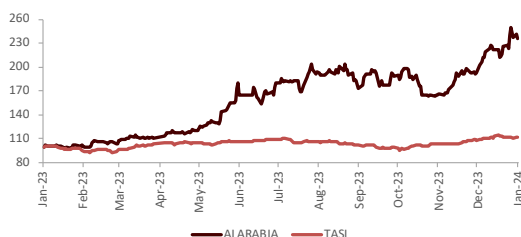
## Recommendation

Hold

Current Market Price (SAR)	255.4
52wk High / Low (SAR)	283.4/105.2
Mkt. Cap. (USD/SAR Mn)	3,403/12,770
Shares Outstanding (mn)	50.0
Free Float (%)	50.0%
3m Average Vol. (000)	218.1
3m Avg Daily Turnover (SAR'000)	44,674
Dividend Yield '24e (%)	2.8%
P/E'24e (x)	10.8
EV/EBITDA'24e (x)	24.5

Source: Bloomberg

## Relative Price Performance



## Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Revenue	721	1,126	1,287	1,579
Gross profit	330	487	573	711
GPM (%)	46%	43%	45%	45%
EBIT	259	391	456	572
EBIT margin (%)	36%	35%	35%	36%
EBITDA	286	423	488	608
EBITDA margin (%)	40%	38%	38%	38%
Net Income	206	275	355	462
Net margin (%)	29%	24%	28%	29%
EPS (SAR)	4.12	5.49	7.11	9.23
RoE (%)	33%	35%	38%	38%

Source: Company Reports, Yaqeen Capital

## Major Shareholders (%)

Engineer Holding Group Company	50.00%
MBC Group Ltd	20.00%

Source: Bloomberg, Yaqeen Capital

## Earnings declined largely on account of higher finance costs

- ALARABIA's net income declined 4.5% YoY (-26.0% QoQ) in 3Q2023 to SAR 63mn on account of higher finance costs of SAR 23mn (vs. SAR 15mn in 3Q2022). Net profit margin contracted to 20.7% (-4.9ppts YoY, -8.2ppts QoQ) in 3Q2023.
- Revenue was up by 18.0% YoY (+3.3% QoQ) to SAR 304mn, driven by robust outdoor advertising revenue growth of 19.0% YoY. The quarter also benefited from the commencement of the school and university seasons, the initiation of the Gamers 2023 season, and National Day campaigns, all contributing to the overall top-line growth during the quarter.
- For 3Q2023, gross profit surged to SAR 123mn, registering growth of 16.1% YoY (-13.4% QoQ). Gross margin declined by -0.6ppts YoY and -7.8ppts QoQ to 40.5% in 3Q2023.
- Operating income increased by 8.7% YoY (-16.9% QoQ) in 3Q2023. The increase in professional fees related to completing the full acquisition of Faden Media limited the gains from gross income level. Operating margins came lower by 2.6ppts YoY (-7.4ppts QoQ) to 30.6% in 3Q2023.
- Finance costs increased by 51.2% YoY (+2.9% QoQ) to SAR 22.8mn because of an increase in both financing interest expenses from short-term loans and right-of-use due to an increase in interest rates.
- For 9M2023, net income increased by 23.4% YoY to SAR 238.8mn and net margin improved to 26.2% compared to 23.9% in 9M2022.

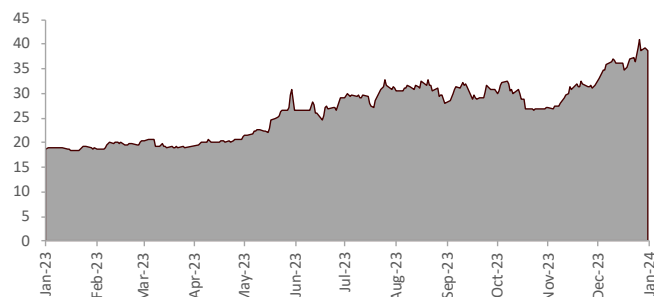
**Outlook & Valuation:** The advertising industry in Saudi Arabia is strategically positioned for growth, driven by the swift increase in online expenditures, as well as the expanding presence of cinema, outdoor, and radio advertising. Furthermore, outdoor advertising has gained popularity with the development of infrastructure and urbanization across the kingdom. With its extensive network, strong presence in both traditional and digital media platforms, and market leadership in the KSA advertising market, Al Arabia is well positioned to capitalize on the growing advertising market in Saudi Arabia. The company's solid financial position allows it to invest in state-of-the-art infrastructure and technology. Additionally, Al Arabia's continuous focus on expansion through both organic growth and strategic acquisitions, such as the company's recent acquisition of Faden Media, is expected to support further growth and help the company maintain its dominant position in the ever-evolving advertising industry in the kingdom. Overall, we maintain an optimistic outlook on the company. However, we believe that most of the positives are already priced into the stock, given the significant 136% rise in the stock price in the last year. Based on the DCF valuation, we determine a fair value of SAR 280.0 per share, indicating an upside of 9.7% from the present value. Consequently, we suggest a Hold rating for the stock.

## Financial Summary

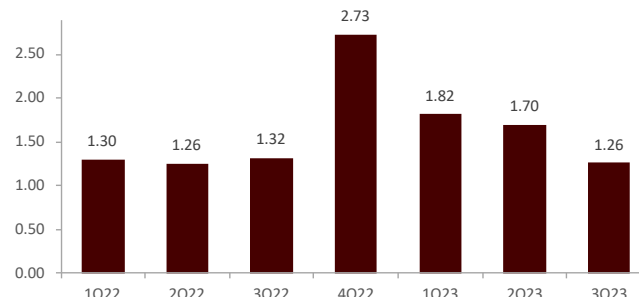
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	304	258	18%	294	3%
Gross profit	123	106	16%	142	-13%
GPM (%)	41%	41%		48%	
EBIT	93	85	9%	112	-17%
EBIT margin (%)	31%	33%		38%	
Net Income	63	66	-4%	85	-26%
Net margin (%)	21%	26%		29%	
EPS (SAR)	1.26	1.32	-4%	1.70	-26%

Source: Company Reports, Yaqeen Capital

Price to Book Ratio Trend



EPS (SAR) Trend



## Rating Methodology

**Buy:** The Target share price exceeds the current share price by  $\geq 10\%$

**Hold:** The Target share price is either more or less than the current share price by 10%

**Sell:** The Target share price is less than the current share price by  $\geq 10\%$

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