SAUDI MANPOWER SECTOR

SECTOR UPDATE

Q2 26

Positive outlook with revenue & margin improvement

We remain positive on the Saudi manpower sector, supported by favorable outlook across the corporate and individual segments. The early signs of improving individual segment's profitability following the introduction of slab-based allocation system is expected to support margin recovery while the corporate segment is expected to be supported by higher construction activity. We expect sector's recurring earnings to rise from SAR558mn in 2025 to SAR875mn in 2028f (3-yr CAGR of 16.2%). We maintain our Overweight ratings on SMASCO and Mawarid. However, we downgrade Tamkeen and Maharah to Neutral. The sector is trading at a 2026f P/E of 11.6x vs the historical average of 13.9x.

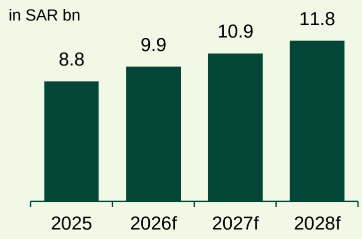
- **Solid Q1 26 results led by margin recovery**
  The four stocks under coverage delivered strong Q1 26 results. The sector revenues grew by 22.8% yoy (+5.2% qoq) to SAR2.51bn, higher than our estimates of SAR2.42bn, on healthy growth in average workforce. Gross margins expanded to 12.4% in Q1 26 from 11.6% in Q1 25 and 12.1% in Q4 25, on higher utilization and improving market dynamics (particularly in the individual segment). Accordingly, recurring earnings grew by 36.2% yoy to SAR191mn in Q1 26, while margins expanded to 7.6% from 6.9% in Q1 25, higher than our estimate of 6.6%.
- **Strong revenue momentum to continue**
  We expect revenue momentum to remain strong across sectors driven by robust demand and healthy renewal rates. Although demand from certain construction projects is expected to soften temporarily, we believe activity will pick up driven by 1) accelerated work on reprioritized projects, 2) the positive impact of the real-estate sector reforms and 3) the focus on the upcoming mega events. Accordingly, we expect manpower companies to continue expanding their workforce, with the combined average workforce expected to increase from c180k in 2025 to c232k by 2028f (CAGR of 8.7%). Improving market dynamics in the individuals segment following the slab-based allocation system would also support a gradual recovery in pricing and AMRs. Overall, we forecast the sector revenues to increase from SAR8.83bn in 2025 to SAR11.8bn by 2028f, reflecting a CAGR of 10.2%.
- **Margins to recover in 2026f, earnings to record a CAGR of 16.2%**
  Although the competitive pressure in the corporate segment is expected to persist in the near term, we expect individual segment margins to improve and offset that impact. Overall gross margins are expected to improve to 12.3% in 2026f from 11.8% in 2025 and increase slightly to 12.5% over 2027f-28f, supported by higher utilization and a more balanced workforce. The sector's EBIT margins are expected to recover to 7.2% in 2026f from 6.6% in 2025 and rise gradually to 7.4% by 2028f on stable ECL provisions. We expect recurring net margins to improve to from 6.3% in 2025 to 7.1% in 2026f and rise further to 7.4% by 2028f, supported by lower JV losses and finance expense. Overall, we expect recurring earnings to grow by 26.9% yoy to SAR708mn in 2026f and reach SAR875mn by 2028f, reflecting a 2025-28f CAGR of 16.2%.
- **Remain optimistic on the sector, prefer SMASCO and Mawarid**
  We maintain our Overweight ratings on SMASCO and Mawarid, on strong sector fundamentals while we downgrade Maharah to Neutral (following a gain of c20% since our last update) and Tamkeen (due to weaker earnings profile). We expect SMASCO to benefit from its strong position in the individual segment while Mawarid would benefit from the anticipated recovery in construction activity. The sector trades at a 2026f P/E of 11.6x, vs the historical average of 13.9x.

Valuation summary

	Rating	PT (SAR)	Current price	Upside/ Downside (%)	Mcap (SAR mn)	P/E (x) 2026f	EV/ EBITDA 2026f	Div. Yield 2026f	Stock perf ytd (%)
SMASCO	OW	7.59	6.47	17.2%	2,588	13.2	7.4	5.4	17.7
Mawarid	OW	118.8	100.5	18.2%	2,010	11.6	9.4	2.6	1.6
Tamkeen	N	52.7	46.0	14.5%	1,218	12.3	7.7	4.9	(16.5)
Maharah	N	7.29	6.53	11.7%	2,939	12.6	10.7	2.8	1.6

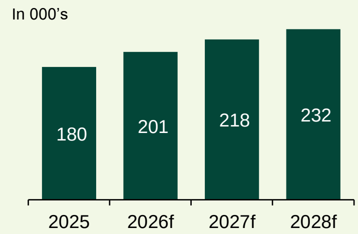
Source: SNB Capital Research estimates. All prices as of 11 Jun 2026

SECTOR REVENUES



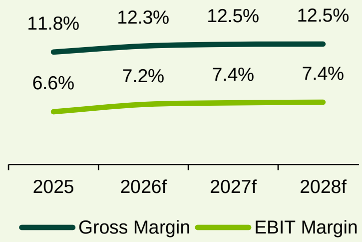
Source: Company reports, SNB Capital Research

OVERALL AVERAGE WORKFORCE



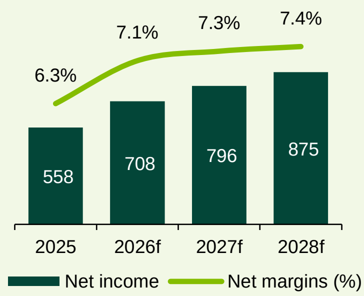
Source: Company reports, SNB Capital Research

SECTOR MARGINS (%)



Source: Company reports, SNB Capital Research

SECTOR EARNINGS (SAR MN)



Source: Company reports, SNB Capital Research

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