

**Target Price: SAR140/share**  
Current Price: SAR119/share  
Upside: 17.6% (+Div. Yield: 3.5%)  
**Rating: Overweight**

## Arabian Contracting Company (AlArabia)

### 2022 results beat IPO targets. Raise TP to 140/share.

#### Stock data

TASI ticker	4071
Mcap (SARmn)	5,850
Avg. Trd. Val (3m) (SARmn)	17.6
Free float	30.0%
QFI holding	6.8%
TASI FF weight	0.16%

Source: Bloomberg

TASI vs AlArabia indexed to 100



Source: Bloomberg

- AlArabia's share price almost touched our prior target price of SAR120/sh. after reporting strong 2022 results with revenue up 56% y/y and net profit up 33% y/y.
- With above expected results, our investment thesis remains intact. The company beat midpoint of 2022 targets set at the time of IPO. QFIs have gradually increased stake in the company from 0.6% mid-2022 to 6.8% today.
- We raise our target price to SAR140/sh. and maintain our Overweight rating.

**Investment thesis stays intact:** AlArabia reported strong 2022 results, with revenue up 56% y/y, operating profit up 47% y/y and net profit up 33% (17% above our estimate). **The revenue came higher than the upper end of guidance set for 2022 during the time of IPO of 35%-45% y/y. Net margin at 24.3% (27.4% ex one-offs) too came within guided range of 22%-30%.** Our investment thesis remains intact that 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. Additionally, the company is strategically expanding its presence across the region. Along with this, the digitalization of billboards helps in boosting returns without a proportional increase in costs as a digital BB has c10 Ad faces as compared to two for a static BB, amplifying the operating leverage.

**Valuation and Risks:** Our valuation of SAR140/share is based on an average of DCF [142/sh.] and P/E (17x) [129/sh.] methods for AlArabia. Complete details on Faden are not available but Faden might "incrementally" contribute to ~SAR5/share to AlArabia based on our rough calculations (Please see page 3 for more details). We expect net profit CAGR of 14% in the next 3 years (2022a-25e). 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. The stock is thinly traded and hence may remain volatile.

Figure 1: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Revenue	1,126	1,193	1,247	1,276
Revenue growth	56%	6%	5%	2%
Gross Profit	487	557	604	638
Gross Profit margin	43%	47%	48%	50%
Op. income	384	442	484	514
Op. Profit margin	34%	37%	39%	40%
Net profit	275	318	370	403
Net profit margin	24%	27%	30%	32%
EPS (SAR)	5.5	6.4	7.4	8.1
DPS (SAR)	3.8	4.1	5.2	6.0
P/E	21.6x	18.7x	16.1x	14.8x

Source: Company, GIB Capital

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### 10 points for investors to know:

- What's changed since our initiation report:** We initiated the stock on 2nd August (before 2Q22 numbers were announced) with a target price of SAR120/share and the share touched a peak of SAR119.5/sh. since then and was range bound for a long period prior. While there was a drop in revenues in 2Q (from 1Q levels), the drop was much lower than what we anticipated. We forecasted a larger drop because the company had a downward revision of its Jeddah contract from SAR1.8bn to SAR1.1bn and thus we reduced the revenue base by similar percentage. Also, for the same reason, costs were also much higher than our estimates. As a result, overall, 2022 net profit came 17% above our estimate. Add to this the element of seasonality in the business model, the changes were difficult to forecast. However now we believe given the new base forecasting revenues is reasonably clear.
- Network is important:** The company has been expanding its network across the Gulf region. While this would directly not benefit much in terms of profits, it helps in bringing network advantages. For example, a company that would like to advertise across MENA would find value to have a single ad contract with Al Arabia than to have one for each country and region. The wider network also helps in negotiating better ad pricing. Hence the size/network spread is very important for Al Arabia.
- Volatility in Global ad pricing:** During a weak season, globally ad pricing could drop even as much as 25% between two quarters – this makes revenue moves quite volatile and hence seasonality is a big factor in ad companies. Thus, it is important to track y/y changes in revenues and profits instead of q/q moves.
- Liquidity:** Despite outstanding results in the last three quarters, the stock price has not moved as much likely because of its thinly traded volumes. The market cap at SAR5.8bn is below the last cut off for inclusion in MSCI EM. Even TASI FF weight is also low at 0.08%.
- Global drivers:** While Alarabia is a regional company, it is also influenced by global ad spends given the exposure to international clients. The industry is cyclical and thus the company's revenue can decline in the case of an economic recession globally even if the economy in Saudi remains strong. The company trades at similar PE but lower EV/EBITDA multiples to ad peers.

Figure 2: Peer valuations

	Mkt Cap (USDmn)	P/E Ratio (TTM)	Est P/E Current Yr	P/E - FY2	EV/T12M EBITDA	Est. EV/ EBITDA - 1FY	Est. EV/EBITDA - 2FY	Dividend Yield - FY1	P/B	Country
JCDecaux SE	4377	31	28	19	7	14	12	2.1	2.3	France
Outfront Media Inc	2488	18	19	15	8	13	12	8.7	2.0	United States
Clear Channel Outdoor Holding	511	N.A.	N.A.	N.A.	7	13	12	0.0	N.A.	United States
Lamar Advertising Co	9597	23	18	17	11	14	13	5.4	8.0	United States
APG SGA SA	548	22	19	17	12	10	9	6.5	5.5	Switzerland
Surya Citra Media Tbk PT	938	11	12	10	8	9	8	3.9	1.6	Indonesia
Boston Omaha Corp	699	N.A.	N.A.	283	41	36	32	N.A.	1.3	United States
Stroer SE & Co KGaA	2949	7	17	14	7	8	7	5.0	6.3	Germany
oOh!media Ltd	601	30	16	14	6	12	11	3.7	1.2	Australia
APG SGA SA	548	22	19	17	12	10	9	6.5	5.5	Switzerland
Asiaray Media Group Ltd	98	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	4.4	Hong Kong
<b>Median</b>	<b>1713</b>	<b>20</b>	<b>19</b>	<b>17</b>	<b>8</b>	<b>13</b>	<b>12</b>	<b>5.0</b>	<b>2.3</b>	
<b>AlArabia</b>	<b>1550</b>	<b>22</b>	<b>19</b>	<b>16</b>	<b>8.8</b>	<b>8.3</b>	<b>7.9</b>	<b>3.5%</b>	<b>7.1</b>	<b>Saudi Arabia</b>

Source: Bloomberg, GIB Capital

**6. Faden acquisition details:** AlArabia had entered into a purchase agreement with Prince Abdulaziz bin Mashhor bin Mosaad bin Abdulaziz Al Saud the owner of Faden Media on 12<sup>th</sup> October 2022 to acquire 100% of Faden Media for SAR1.05bn. The transaction is financed with bank loans post approval taken in the board meeting on March 28<sup>th</sup>. The completion will be effective after obtaining approvals from the relevant government authorities and the General Authority for Competition. Faden had a capital of SAR25mn and was incorporated in 2006 in Riyadh. The company deals with digital advertising media on buildings and retail stores. As per the press release, this deal represents an extension of the strategy of AlArabia by entering profitable alliances and partnerships locally and regionally, with the aim of advancing the company's position, maintaining its leading position, and enhancing its market share by taking advantage of its competitive advantages and acquiring a larger share of the outdoor advertising market, whether roadside advertising or indoor advertisements.

Other aspects:

- At the time of the prospectus Faden had a market share of 1.8% (Outdoor Advertising, including Roadside, Indoor and Airport Advertising) in 2020. Faden also seems to have acquired another company and thus its market share is bound to be higher than that currently. The company has higher margin than Al Arabia due to its business model.
- Faden's core strength is its billboard presence in legacy high ticket size areas. It has presence in smaller retailers which is also unique. The unique know-how of these two areas is what Faden is likely to add value for Al Arabia .
- As for the financials, 2021 revenue and profits are more the normal recurring rate as per AlArabia. Q1 2022 numbers may not be representing the actual financial position as per the company.
- Advisor for valuations was one of the Big 4 and AlArabia has been working on it since November 2021.

*Figure 3: Aggregate earnings excluding interest costs and synergies\*\**

(All SARmn)	2019	2020	2021	1Q22
<b>Faden</b>				
Revenue	96	86	145	39
Net income	43	28	86	11
Net margin	45.4%	33.2%	59.4%	28.4%
<b>Al Arabia</b>				
Revenue	787	498	721	287
Net income	225	25	206	65
Net margin	28.6%	5.1%	28.6%	22.6%
<i>% of AlArabia's n.i.</i>	<i>19.3%</i>	<i>112.8%</i>	<i>41.7%</i>	<i>17.1%</i>
Total Net Income**	269	54	292	76
Number of shares (mn)	50	50	50	50
<b>Total EPS (SAR)</b>	<b>5.38</b>	<b>1.07</b>	<b>5.84</b>	<b>1.52</b>

Source: GIB Capital, Company

## 7. Valuing Faden:

The implied P/E based on avg of 2019 and 2021 EPS was 16x (SAR1050mn/average of SAR86mn and SAR43mn) while based on 2021 only the P/E was 12x. Assuming the company continues to trade at 17x after the acquisition there could be value accretion to Al Arabia to the tune of (17x minus acquisition multiple) on Faden's net income after factoring for the interest expenses, which comes to around SAR2-10/share based on this table. We take it at SAR5/share conservatively.

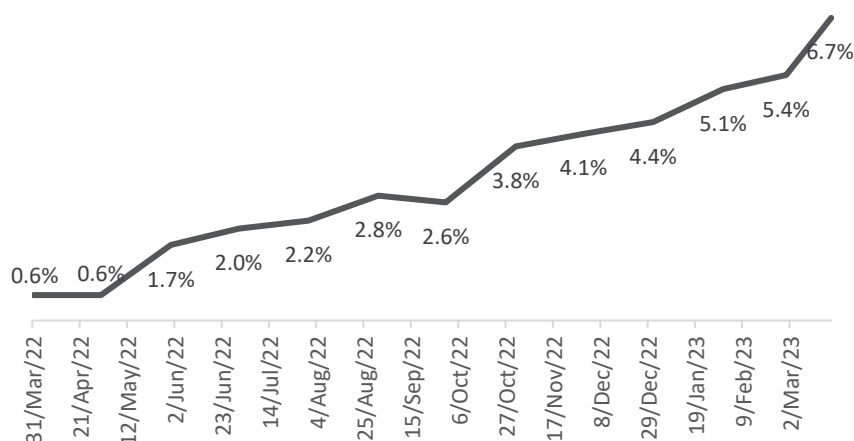
Figure 4: Incremental value/share for Al Arabia based on difference between 17x and acquisition multiple

P/E at purchase price	10.0x	12.5x	15.0x	17.5x	20.0x
Incremental value/share by PE rerating	10	6	2	-2	-6

Source: GIB Capital, Company.

8. **Purchase option:** MBC Group Holding exercised its right of purchase option and increased its ownership by 15%, bringing the total ownership percentage in the company to 20% from 5% for SAR497.25mn (at SAR66.3/share). While this arrangement was disclosed in the prospectus, the pricing was not disclosed. This was for the strategic purpose of entering into alliances with the aim of expanding regionally through cooperation with the MBC Group Holding Ltd. due to its strong position in the Middle East Markets, which serves the company's goals of geographical expansion. This does not affect the minority shareholders.
9. **Regulatory change:** With regards to the resolution by the council of ministers which imposed a cap of fees on advertising boards not exceeding SAR600/sqm/yr., the company clarified that it is a non-material news as it was already applicable on the company and the announcement has been only a result of wording change.
10. **Foreign shareholder increasing:** We see that gradually QFIs have been increase its stake in AlArabia as shown below:

Figure 5: Total Foreign ownership (QFI)



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