

OVERWEIGHT

Target price (SAR)	88.0
Share price (SAR)	60.0
Potential upside (%)	47.0

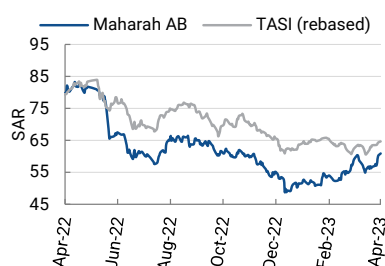
Share details

6M avg. daily value (USDmn)	3.1
%Δ: m-o-m / 6M / y-o-y	1 / 0 / (23)
Rel. %Δ: m-o-m / 6M / y-o-y	(1) / 8 / (5)
No. of shares (mn)	37.5
Market cap (USDmn)	600
Market cap (SARmn)	2,250

Ownership structure (%)

Abdullah Bin Sulaiman Al Amr	12.2
Saud Nasser Abdulaziz Al Shathri	8.55
Others	19.5
Free float	59.8

Performance



Source: Bloomberg
Closing prices as of 02 April 2023

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MAHARAH HUMAN RESOURCES

MAHARAH AB / 1831.SE

Household segment competition weighs down

Lower 12M TP by 12%, still OW as a play on the KSA labour market. Regulations that took effect mid-2022 triggered price competition among local players in the household (HH) segment (30% of 2022 revenue), leading to an unforeseen drop in the segment's margins. Adjusting our forecasts accordingly still puts Maharah on a 2023e PEG ratio of 0.4x (2023-25e EPS CAGR of 20.3%) vs. 1.2x for peers, with a dividend yield of 4.7%. We view Maharah as a proxy play on Saudi Arabia's buoyant labour market, with 2023e total employment growth of 7% y-o-y, particularly white-collar worker demand thanks to its leading corporate sector market share of 20%.

Resources disclosed. Maharah reinstated in 4Q22, for the first time since its IPO in 2019, the reporting of its number of resources, with 37k resources as of Dec-22, up 40% y-o-y. This is driven by both the corporate (23k, +39% y-o-y) and HH segment (13.5k, +35% y-o-y). We foresee 23% y-o-y growth in resources in 2023 to a new high of 45k, supported by a favourable labour market outlook. The growth is driven by higher construction spending, increased Saudization, HQs relocating to Riyadh, the government's non-religious tourism targets, social reforms, in addition to the company's 10-year contract with SABIC, which should start in 1Q23.

HH segment's profitability deteriorates, but corporate margins recover. The new regulations stipulate that all HR firms must have a minimum 30% of their total resource count within HH and set a ceiling for revenue per HH resource. With >500 small players, this triggered competition. Maharah's HH segment GPM fell to 13.4% in 3Q22 and further to 12.2% in 4Q22 vs. c19% in 1H22, and we reduce Maharah's 2023-25e HH GPM by 13pp a year. However, corporate segment GPM recovered as COVID-19 restrictions eased. Management guidance is for its aggregate 2023-24 GPM to remain flat vs. 2022, broadly in line with our view.

Results confirm reasonable price tags paid for associates. The acquisitions of 40% of SMS and 41.4% of Care Shield during 2022 were a much better ending to the company's M&A, with reasonable price tags of 13.2x and 15.2x on a 2022 P/E basis. Both accreted 37% to Maharah's 2022 earnings and may lead to business generation (in the form of resources to each of the associates), as well as dividends in the short and medium terms.

KPI summary

(SARmn)	2021a	2022a	2023e	2024e	2025e
Revenue	1,319	1,684	2,146	2,395	2,593
EBITDA	155	146	221	259	307
EBITDA margin (%)	11.8	8.6	10.3	10.8	11.8
Net income	145	154	192	232	277
Growth (% y-o-y)	(18.3)	6.3	24.3	21.1	19.6
EV/EBITDA (x)	12.9	18.5	12.3	10.0	8.3
P/E (x)	15.5	14.6	11.7	9.7	8.1
Dividend yield (%)	6.3	3.8	4.7	5.7	6.8

Source: Company data, CI Capital estimates

Summary of forecast changes

(SARmn)	2023e			2024e			2025e		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Corporate segment									
Resources	29,099	33,173	(12.3)	31,916	35,177	(9.3)	34,220	32,923	3.9
Revenue	1,434	1,391	3.1	1,609	1,485	8.4	1,765	1,401	26.0
Gross profit	258	263	(1.8)	290	331	(12.5)	335	367	(8.6)
GPM (%)	18.0	18.9	(0.9)pp	18.0	22.3	(4.3)pp	19.0	26.2	(7.2)pp
Household segment									
Resources	15,820	17,033	(7.1)	17,022	18,328	(7.1)	17,363	18,694	(7.1)
Revenue	602	617	(2.5)	664	678	(2.1)	695	706	(1.5)
Gross profit	73.4	142	(48.3)	81	170	(52.2)	85	191	(55.5)
GPM (%)	12.2	23.0	(10.8)pp	12.2	25.0	(12.8)pp	12.2	27.0	(14.8)pp
Total									
No. of resources	44,919	50,206	(10.5)	48,939	53,504	(8.5)	51,583	51,617	(0.1)
Revenue	2,146	2,008	6.9	2,395	2,164	10.7	2,593	2,107	23.1
Gross profit	350	357	(2.0)	403	432	(6.6)	464	467	(0.8)
GPM (%)	16.3	17.8	(1.5)pp	16.8	20	(3.2)pp	17.9	20	(2.1)pp
EBITDA	221	237	(6.8)	259	314	(17.6)	307	402	(23.8)
EBITDA margin (%)	10.3	11.8	(1.5)pp	10.8	14.5	(3.7)pp	11.8	19.1	(7.3)pp
Net profit	192	233	(17.8)	232	308	(24.7)	277	377.8	(26.6)
NPM (%)	8.9	11.6	(2.7)pp	9.7	14.2	(4.5)pp	10.7	17.9	(7.2)pp
DPS (SAR)	2.8	5.0	(43.8)	3.4	6.6	(48.5)	4.1	7.3	(44.3)

Source: CI Capital estimates

Note (1): We reduce our estimates for Maharah's number of resources to reasonably represent the growth on the actual numbers Maharah's released for the first time since its IPO prospectus

Terminal discount rate breakdown

Metric (%)	Value
Cost of equity	12.1
Beta (x)	0.8
Equity risk premium	8.0
After-zakat cost of debt	5.5
Capital structure	
Weight of equity	81.7
Weight of debt	18.3
WACC	10.8
Perpetual growth	2.0

Source: CI Capital estimates

DCF valuation summary

(SARmn)	2023e	2024e	2025e	2026e	2027e
Adjusted NOPLAT	164	195	234	255	276
Depreciation & amortisation	33	36	40	45	52
Gross cash flow	196	231	274	301	328
Change in working capital	(37)	15	(30)	(30)	(32)
Capital expenditure, net	(14)	(18)	(21)	(34)	(38)
Free cash flow to the firm (FCFF)	145	228	223	237	257
Discount period	1.0	2.0	3.0	4.0	5.0
PV of FCFF	131	186	165	159	154
Sum of PVs of FCFF	795				
PV of terminal value	1,796				
Enterprise value	2,591				
Add cash (Dec-22)	84				
Less gross debt (Dec-22)	605				
Investments (Dec-22) ⁽¹⁾	870				
Equity value	2,940				
Shares (mn)	37.5				
Fair value (SAR/share)	78.4				
12M TP (SAR/share)⁽²⁾	88.0				

Source: CI Capital estimates

Note: (1) Includes Care Shield and SMS stakes at 1x book value (2) We multiply our fair value by (1 + cost of capital)

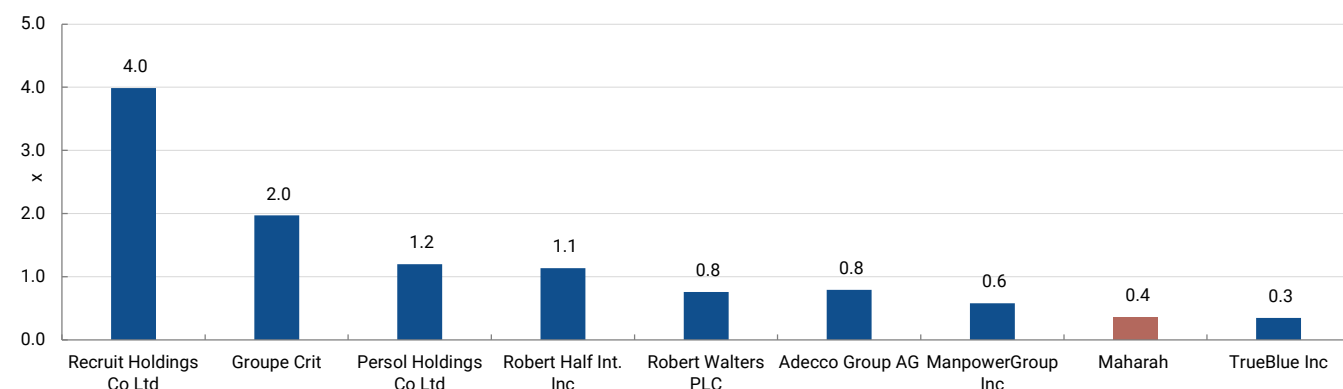
Maharah vs. global industry peers

	Country	Market cap (USDmn)	P/E (x)			EPS CAGR (%)		EBITDA margin (%)			EV/EBITDA (x)			EBITDA CAGR (%)		Dividend yield (%)	
			2023e	2024e	2025e	2023-25e	2023e	2024e	2025e	2023e	2024e	2025e	2023-25e	2023e	2024e	2023e	2024e
Recruit Holdings	Japan	46,624	20.3	21.5	18.7	5.1	14.5	14.2	15.0	11.3	11.5	10.2	5.4	0.6	0.7		
Robert Half Int'l	US	8,677	16.7	14.2	12.6	14.6	11.3	12.1	12.9	10.5	9.2	8.0	14.2	2.3	2.2		
Randstad NV	Netherlands	10,917	12.6	11.8	10.4	8.6	5.3	5.4	5.5	7.8	7.5	7.0	5.7	4.5	5.2		
Adecco Group AG	Switzerland	6,110	11.8	9.7	8.3	14.9	3.8	4.3	4.5	9.0	7.9	7.2	12.2	7.5	7.6		
Manpower Group	US	4,191	11.8	9.9	7.8	20.3	3.2	3.6	4.0	7.4	6.4	5.4	16.8	3.4	3.5		
Persol Holdings	Japan	4,732	19.1	16.8	14.1	15.9	5.7	5.8	6.3	8.7	7.9	6.9	12.2	1.7	1.8		
Kforce Inc	US	1,285	16.1	14.7	13.2	9.8	7.9	8.0	8.5	9.9	9.6	8.5	n/a	2.3	2.5		
TrueBlue Inc	US	584	21.3	10.4	9.2	61.4	2.6	3.7	4.6	9.6	6.4	5.1	37.8	n/a	n/a		
Groupe Crit	France	893	12.3	11.9	10.9	6.2	5.8	5.8	5.7	3.8	3.7	3.4	5.0	2.1	2.1		
Robert Walters	UK	416	8.8	7.6	6.4	11.6	7.1	7.3	6.4	4.1	3.8	3.5	8.8	5.5	7.1		
Average			15.1	12.8	11.2	16.8	6.7	7.0	7.3	8.2	7.4	6.5	13.1	3.3	3.6		
Maharah	KSA	600	11.7	9.7	8.1	20.3	10.3	10.8	11.8	12.3	10.1	8.3	17.8	4.7	5.7		

Source: Bloomberg, CI Capital estimates

Closing prices as of 02 April 2023

Maharah vs. global industry peers on 2023 PEG ratio⁽¹⁾



Source: Bloomberg, CI Capital estimates

Note (1): 2023 P/E divided by 2023-25 EPS CAGR

Maharah's revenue breakdown by sector: 2022 saw increases across-the-board of sectors for the first time since 2019

(SARmn)	2015a	2016a	2017a	2018a	2019a	2020a	2021a	2022a
Household	46.8	189	289	391	420	382	375	498
Growth y-o-y (%)	n/a	305	52.4	35.6	7.3	(9.1)	(1.9)	32.9
Industrial and operational	391	365	244	350	392	356	252	320
Growth y-o-y (%)	n/a	(7)	(33.3)	43.7	11.9	(9.2)	(29.1)	26.8
Retail	245	266	254	233	257	249	201	202
Growth y-o-y (%)	n/a	9	(4.3)	(8.5)	10.3	(2.9)	(19.2)	0.5
Hospitality	118	163	166	170	194	181	189	210
Growth y-o-y (%)	n/a	38.5	1.8	2.7	14.1	(6.9)	4.6	10.9
Healthcare	68.3	86.3	114	151	163	163	167	178
Growth y-o-y (%)	n/a	26.3	31.7	33.0	8.0	(0.2)	2.8	6.2
Commercial	89.3	112	102	56.2	86.4	86.0	68.8	84.5
Growth y-o-y (%)	n/a	25	(9.0)	(44.8)	53.7	(0.5)	(20.0)	22.9
Facility management	-	-	-	-	-	-	63.7	156
Growth y-o-y (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	145
ESNAD	-	-	-	-	-	-	1.6	31
Growth y-o-y (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,771

Source: Company data

Population and labour market assumptions

	2015a	2016a	2017a	2018a	2019a	2020a	2021a	2022a	2023e	2024e	2025e	2026e
Population (mn)												
Total population	31.0	31.7	32.6	33.4	34.2	35.0	34.1	36.1	37.4	38.3	39.0	39.6
Growth y-o-y (%)	2.1	2.3	2.7	2.5	2.4	2.3	(2.6)	5.9	3.7	2.4	1.6	1.6
Saudi	19.7	20.1	20.4	20.8	21.1	21.4	21.7	21.9	22.1	22.3	22.5	22.7
Growth y-o-y (%)	1.6	1.7	1.8	1.7	1.6	1.5	1.2	1.7	1.7	1.7	1.7	1.7
Expats	11.3	11.7	12.2	12.6	13.1	13.6	12.4	14.2	15.3	16.0	16.5	16.9
Growth y-o-y (%)	3.0	3.4	4.3	3.8	3.7	3.6	(8.6)	14.5	7.9	4.5	2.7	2.7
Total employed (mn)												
Growth y-o-y (%)	3.8	21.4	(2.6)	(7.7)	6.8	(0.5)	(2.1)	13.1	6.7	4.2	2.7	2.7
Saudi unemployment rate (%)	11.5	11.6	12.8	12.7	12.0	12.6	11.0	8.0	n/a	n/a	n/a	n/a
Labour split (mn)												
Saudis	5.0	3.1	3.2	3.1	3.2	3.3	3.5	3.8	3.9	4.0	4.1	4.2
Growth y-o-y (%)	1.0	(38.5)	3.3	(1.7)	1.9	2.6	6.1	9.3	3.0	3.0	3.0	3.0
Expats	6.5	10.9	10.4	9.4	10.2	10.1	9.6	11.0	11.9	12.4	12.7	13.1
Growth y-o-y (%)	6.0	67.2	(4.3)	(9.5)	8.4	(1.5)	(4.7)	14.5	7.9	4.5	2.7	2.7
Split of expats (mn)												
Household labour	n/a	2.3	2.4	2.5	3.7	3.7	3.3	3.6	4.0	4.3	4.3	4.4
Growth y-o-y (%)	n/a	n/a	4.7	1.7	50.4	(0.7)	(11.1)	10.5	9.8	7.6	2.0	2.0
Expats in corporate segment	n/a	8.6	8.0	7.0	6.5	6.4	6.3	7.4	7.9	8.1	8.4	8.6
Growth y-o-y (%)	n/a	n/a	(6.7)	(12.9)	(6.4)	(2.0)	(1.0)	16.6	7.0	3.0	3.0	3.0
Avg. expat family size (persons)	1.7	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Wages (SAR/month)												
Average expat wages	n/a	n/a	3,674	3,741	3,769	4,213	4,023	4,390	n/a	n/a	n/a	n/a
Growth y-o-y (%)	n/a	n/a	0.0	1.8	0.7	11.8	(4.5)	9.1	n/a	n/a	n/a	n/a
Average Saudi wages	n/a	n/a	9,939	10,292	10,256	9,971	10,186	9,702	n/a	n/a	n/a	n/a
Growth y-o-y (%)	n/a	n/a	0.0	3.6	(0.3)	(2.8)	2.2	(4.8)	n/a	n/a	n/a	n/a

Source: GASTAT, CI Capital estimates

Summary of operational forecasts

	2015a	2016a	2017a	2018a	2019a	2020a	2021a	2022a	2023e	2024e	2025e	2026e
Corporate segment⁽¹⁾												
Resources ⁽²⁾	23,223	25,128	23,153	24,712	25,947	21,623	16,628	23,000	29,099	31,916	34,220	36,556
Growth y-o-y (%)	132.2	8.2	(7.9)	6.7	5.0	(16.7)	(23.1)	38.3	26.5	9.7	7.2	6.8
Revenue (SARmn)	910	992	879	956	1,092	1,035	910	1,186	1,545	1,732	1,897	2,071
Growth y-o-y (%)	113.8	9.0	(11.4)	8.7	14.3	(5.3)	(12.1)	30.4	30.2	12.1	9.6	9.2
Gross margin (%)	27.5	28.5	26.3	22.2	22.8	16.9	14.8	15.1	18.0	18.0	19.0	19.0
GP per resource (SAR)	10,766	11,254	9,972	8,586	9,616	8,088	8,072	6,549	8,871	9,076	9,801	10,025
Contribution to total revenue (%)	94.9	84.0	75.3	70.7	72.2	73.1	69.0	66.9	66.8	67.2	68.1	69.0
Individual segment												
Resources ⁽²⁾	1,377	5,741	8,274	10,965	11,732	10,665	10,000	13,500	15,820	17,022	17,363	17,710
Growth y-o-y (%)	n/a	316.9	44.1	32.5	7.0	(9.1)	(6.2)	35.0	17.2	7.6	2.0	2.0
Revenue (SARmn)	48	189	289	389	420	382	375	498	602	664	695	723
Growth y-o-y (%)	n/a	295.3	52.4	34.9	7.8	(9.1)	(1.9)	32.8	20.9	10.3	4.8	4.0
Gross margin (%)	30.3	28.5	25.0	37.2	31.0	23.8	21.9	15.8	12.2	12.2	12.2	12.2
GP per resource (SAR)	10,548	9,404	8,737	13,212	11,106	8,527	8,215	5,821	4,641	4,757	4,885	4,983
Contribution to total revenue (%)	5.0	16.0	24.7	29.0	27.8	26.9	31.0	33.1	33.2	32.8	31.9	31.0
Total												
Resources ⁽²⁾	24,600	30,869	31,427	35,677	37,679	32,288	26,628	36,500	44,919	48,939	51,583	54,267
Growth y-o-y (%)	146.0	25.5	1.8	13.5	5.6	(14.3)	(17.5)	37.1	23.1	8.9	5.4	5.2
Revenue (SARmn)	958	1,181	1,168	1,345	1,512	1,416	1,284	1,684	2,146	2,395	2,593	2,795
Growth y-o-y (%)	125.0	23.4	(1.1)	15.2	12.4	(6.3)	(9.3)	31.1	27.5	11.6	8.2	7.8
Gross margin (%)	27.0	28.5	26.0	22.4	25.4	19.3	17.1	15.0	16.3	16.8	17.9	18.1
GP per resource (SAR)	10,526	10,910	9,647	10,334	10,211	8,474	8,485	6,828	7,788	8,245	8,987	9,337

Source: Company data, CI Capital estimates

Note: (1) Corporate segment includes ESNAD and facility management numbers (2) Only 2014-17 and 2021-22 are actual numbers for the company's resources, the remaining years represent our estimates

Financial statements

SARmn FY end: Dec	2021a	2022a	2023e	2024e	2025e
Income statement					
Revenue	1,319	1,684	2,146	2,395	2,593
CoGS	(1,093)	(1,431)	(1,797)	(1,992)	(2,129)
Gross profit	226	253	350	403	464
SG&A	(71)	(107)	(129)	(145)	(157)
EBITDA	155	146	221	259	307
D&A	(13)	(29)	(33)	(36)	(40)
EBIT	142	117	188	223	266
Net interest income/(expense)	1.7	(7)	(39)	(33)	(30)
Income from associates	(2)	57	59	61	63
Other income/(expense)	17	0.7	(0.2)	(0.8)	(2.1)
PBT	159	166	208	250	298
Zakat	(15)	(15)	(18)	(20)	(22)
Reported net income	144	152	190	230	275
Minority	(1)	(2)	(1)	(2)	(2)
Net income after minority	145	154	192	232	277

Balance sheet

Cash & equivalents	89	84	71	126	153
Time deposits	50	-	-	-	-
Net receivables	251	348	441	459	497
Inventory	29	25	31	35	37
Current assets	669	676	836	955	1,056
Net fixed assets	125	126	118	112	107
Investments and intangibles	159	864	929	994	1,060
Non-current assets	367	1,073	1,133	1,195	1,261
Total assets	1,036	1,749	1,970	2,151	2,317
Short-term debt & CPLTD	-	-	-	-	-
Accounts payable	256	347	456	518	550
Other current liabilities	120	126	153	169	181
Current liabilities	376	473	609	687	731
Long-term debt	14	594	594	594	594
Other non-current liabilities	75	84	84	84	84
Total liabilities	465	1,151	1,286	1,365	1,408
Shareholders' equity	571	598	683	786	909

Cash flow summary

EBIT before WC change	157	142	203	238	282
Change in WC	(129)	52	(37)	15	(30)
Cash flow from operations	27	194	166	253	252
Capex	(12)	(14)	(14)	(18)	(21)
Movements in Murabaha	211	51	-	-	-
Other Investment cash flow	(2)	(660)	(20)	(19)	(21)
Cash flow from investing	157	(623)	(35)	(37)	(42)
Cash flow from financing	(152)	423	(144)	(160)	(183)
Total cash flow	32	(6)	(13)	56	27

Source: Company data, CI Capital estimates

Closing price as of 02 April 2023

	2021a	2022a	2023e	2024e	2025e
Basic data (SAR)					
Market cap (mn)	2,250	2,250	2,250	2,250	2,250
Enterprise value (mn)	1,997	2,688	2,714	2,603	2,549
Net debt/(cash)	(115)	521	534	479	452
EPS	3.9	4.1	5.1	6.2	7.4
DPS	3.8	2.3	2.8	3.4	4.1
BVPS	15.2	16.0	18.2	21.0	24.2
FCF-to-firm	(0.1)	4.3	3.9	6.1	5.9
FCF-to-equity	14.9	4.3	3.9	6.1	5.9

Valuation

P/E (x)	15.5	14.6	11.7	9.7	8.1
P/BV (x)	3.9	3.8	3.3	2.9	2.5
FCF to equity yield (%)	24.9	7.1	6.4	10.1	9.9
Dividend yield (%)	6.3	3.8	4.7	5.7	6.8
EV/revenue (x)	1.5	1.6	1.3	1.1	1.0
EV/EBITDA (x)	12.9	18.5	12.3	10.1	8.3

Growth (% y-o-y)

Revenue	(6.9)	27.7	27.5	11.6	8.2
EBITDA	(24.9)	(6.3)	51.7	17.2	18.4
EBIT	(26.4)	(18.0)	61.2	18.5	19.7
EPS	(18.3)	6.3	24.3	21.1	19.6
DPS	(31.2)	(40.0)	24.9	21.1	19.6

Profitability (%)

RoE	25.4	25.8	28.0	29.5	30.5
RoA	14.0	8.8	9.7	10.8	12.0
RoIC	28.2	9.5	14.1	16.2	18.1
Gross margin	17.1	15.0	16.3	16.8	17.9
EBITDA margin	11.8	8.6	10.3	10.8	11.8
Net margin	10.9	9.0	8.9	9.6	10.6

Liquidity (x)

EBITDA/net interest	86.3	13.8	5.7	7.9	10.1
ND/equity	(0.2)	0.9	0.8	0.6	0.5
ND/assets	(0.1)	0.3	0.3	0.2	0.2
ND/EBITDA	(0.7)	3.6	2.4	1.8	1.5
Current ratio	1.8	1.4	1.4	1.4	1.4
Quick ratio	0.7	0.8	0.8	0.7	0.7

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