alinma capital

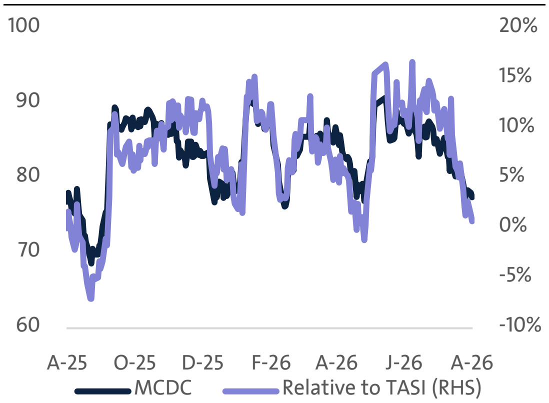
Estimates lifted on solid 1H26 earnings & clarity on renovation plan; Buy

Recommendation	BUY
Market Price	78.2
Target Price	103.0
Total Return	32%

Stock Data

Market Cap Total/FF (USDmn)	4,507/3,706
Shares Total/FF (mn)	200/165
52 Week Hi-Low(SAR)	111/69
3/6/12 M Volume Traded (mnsh)	0.36/0.3/0.2
3/6/12 M Value Traded (USDmn)	9.3/7.2/4.8
1/6/12 M Relative Performance (%)	-10/-4/-19

MCDC Stock Price Performance VS TASI



Source: AIC

Muhammad Fawad Khan, CFA
Head of Research
mfkqadri@alinmacapital.com

Alinma Capital Company
Al Anoud Tower 2, King Fahad Road,
Riyadh 11544, Kingdom of Saudi
Phone: 011 494 8899
Website: www.alinmacapital.com

MCDC: Estimates lifted; 1-month underperformance unwarranted

We lift our earnings estimates for Makkah Construction & Development Company (MCDC) by 4-7% and reiterate our Buy rating on MCDC. An 11% underperformance in the stock price in one month on the back of potential new regulation on mandatory staffing ratio is unwarranted, in our view. We continue to see a sustainable double-digit earnings growth for MCDC (4-years:11%, the impact on optimization initiatives, 8-years: 12%, optimization initiatives and start of operation in new asset). MCDC's balance sheet retains significant flexibility for determining the financing mix of the new project, capturing further available growth opportunities and lifting its current cash payout. We value MCDC on DCF-based SOTP value with a revised TP of SAR103 (TP up 6%, 32% upside).

Solid 1H performance and new details on renovation trigger estimate lift

The revision in our estimates stems from strong 1H earnings and the latest details on the company's renovation plans. MCDC targets to increase the number of keys by 3% (higher than our previous estimate) as part of ongoing renovation and complete the renovation of hotels keys in 2026 (ahead of earlier announced timeline) and suites by 2027. The estimated capex broadly remains unchanged. We remain confident of timely completion of future phases of renovation given completion of phase I without any delay and the sheer number of keys that would be under renovation in 2H26 (35% of total).

Potential impact on hotel operating cost: fears overplayed

The new regulation on the minimum of employees linked to the level of hospitality offering and rooms—currently under consultation—could result in SAR11-32mn impact on earnings (or 2-6% of 26E earnings), as per our estimates. MCDC can potentially apply for separate licenses for hotel and suites to minimize the future cost impact. We see the possibility of authorities linking the staffing ratio with the occupancy (details below).

1H2026 earnings: All three segments contributed to solid earnings delivery

MCDC delivered SAR173mn earnings in 2Q, taking 1H26 earnings to SAR335mn, up 14% YoY. Key highlights include: ADR up 9% in 1H in hospitality, with occupancy notched up by 300bps to 85%. Average available keys were down by 4%. Leasable area is up 6% in the commercial segment with the average lease rate recording 13% increase. We eye further improvement in the leasable area in 4Q26. Haj & Umrah visitors jumped 38% during the Hajj season, driving revenue growth of 40%.

MCDC: Financial Highlights (SARmn)

Year to Dec	CY24	CY25	CY26E	CY27E	CY28E	CY29E
Revenues	836	1073	1285	1518	1621	1675
Growth	14.4%	28.3%	19.8%	18.2%	6.7%	3.3%
PAT	411	474	521	664	720	727
EPS (SAR)	2.1	2.4	2.6	3.3	3.6	3.6
Growth	23%	15%	10%	27%	8%	1%
DPS (SAR)	1.5	1.5	1.6	2.0	2.2	2.2
P/E (X)	38.0	32.9	30.0	23.5	21.7	21.5
D/Y (%)	1.9%	1.9%	2.0%	2.6%	2.8%	2.8%
P/FFO (X)	27.5	22.5	27.0	21.3	19.5	18.9

Source: MCDC, AIC Estimates

1H2026 earnings: Key KPIs exhibit strong performance

MCDC delivered 1H earnings of SAR335mn, up 14% YoY with all three business lines contributing to the growth

MCDC delivered SAR173mn in 2Q, taking 1H26 earnings to SAR335mn, up 14% YoY. Overall, revenues are up 53% with all three business lines contributing to the growth.

Hospitality: MCDC recorded a 9% jump in ADR in 1H26, with occupancy increasing by 300bps to 85%. As a result, RevPar increased by a significant 13% YoY. The average available keys were down by 4% YoY mainly due to renovation and general maintenance. The increase in ADR is driven by the higher number of Umrah visitors before and after Hajj season compared to last year. Last year's visitor arrivals were affected by extended restriction on entry for permit holders and residents only. Gross margin for the segment increased by 300bps to 70% in 1H26.

MCDC has finalized the renovation plans for its hospitality assets. As per new plans, the company has brought forward the completion of hotel keys to 2026 or early 2027 while maintaining the timeline for completion of the renovation of suites in 2027. MCDC plans to take the opportunity to make changes in the designs of floors and split big-sized rooms into standard rooms to better manage the occupancy and optimize revenues.

Commercial Asset: MCDC has delivered a strong performance in the commercial segment too. The company recorded a 13% increase in GLA, a 6% jump in leased area and a 0.3% improvement in occupancy. The segment recorded a 31% jump in gross income in 1H26. The lease rate came well ahead of management guidance. The gross margin for commercial assets further improved by 500bps YoY to 85% in 1H26.

MCDC targets to complete a further addition in the lease area by splitting the 4th floor into two and creating an additional leasable area of 4700sqm. MCDC plans to dedicate the additional area to the F&B segment. The lease rate on the additional area is likely to be lower than the average lease rate. Our current estimate incorporates a weighted average lease rate of SAR18000/sqm vs management guidance of 17700.

Hajj & Umrah Business: MCDC delivered a notable 38% jump in Haj & Umrah visitors to 88k via its travel management arm dedicated to Hajj & Umrah. The margin on the travel management arm came in at 4% in 1H26 vs 5% in 1H25 and the management guidance of 5-6%. MCDC targets to lower its dependence on the subcontractors by selectively investing in areas with low-payback period across travel, accommodation or catering services required for pilgrims.

Operating expenses are up 19% YoY in 1H26: The G&A cost is up 19% YoY in 1H26 in line with the increase in occupancy and the company's requirement for additional resources to support ongoing projects for optimization and growth.

MCDC-1H2026 Results Review						
	1Q26	2Q26	QoQ	1H25	1H26	YoY
Revenues	251	701	179%	624	952	53%
Hospitality	172	141	-18%	290	314	8%
Commercial	79	89	13%	136	167	23%
Hajj & Umrah*	0	471		197	471	139%
Cost of Revenues	65	510	689%	311	575	85%
Gross Profit	187	191	2%	313	378	21%
Hospitality	122	97	-20%	195	219	12%
Commercial	65	77	17%	108	142	31%
Hajj & Umrah	0	17		9	17	77%
Operating Expenses	30	29	-4%	49	58	19%
Operating Income	**157**	**162**	**3%**	**264**	**319**	**21%**
Profit After Tax	162	173	6%	294	335	14%
EPS	0.81	0.86	6%	1.5	1.7	14%
Gross Margin						
Hospitality	71%	69%	-2%	67%	70%	3%
Commercial	83%	86%	3%	79%	85%	5%
Hajj & Umrah	-126%	4%	NM	5%	4%	-1%
Key KPI						
Hospitality						
Total RevPAR (SAR)	1,337	1,188	-11%	1,122	1262	13%
ADR (SAR)	1,314.8	1,202.8	-9%	1,154	1261	9%
Occupancy	88%	78%	-10%	82%	85%	3%
Commercial Center						
Lease Rate	19,174	20,429	7%	17,000	19222	13%
Occupancy	99%	100%	1%	99%	99%	0%

Source: Company Announcement, AIC

Potential impact on hotel operating cost: fears overplayed

The new regulation on the minimum number of employees linked to the level of hospitality offering and rooms–currently under consultation—could result in SAR11-140mn impact on earnings, as per our estimates. Our estimate takes into account MCDC's existing number of employees (1065 as per the 2025 report), assumptions regarding staffing for the hospitality segment, and the required staffing ratio (four employees for every five room) under the assumption of MCDC is categorized as a five-star hospitality facility. In case of MCDC categorization as a luxury hospitality facility, the estimated impact will increase to SAR28-32mn, assuming staffing ratio of one employee per room.

MCDC can potentially take future steps to minimize the impact on the company's cost and earnings, which may include;

(i) Separate licensing for hotel and suites offerings as inherently the required staffing requirement for the two offerings vary widely, and
(ii) Bring more efficiency within other business lines (commercial, hajj) to reduce the overhead cost.

That said, we see the possibility of authorities linking the number of employees with occupancy levels of hospitality assets instead of basing it on the number of rooms at a hospitality facility to account for seasonality in occupancy levels.

Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA** the author/s of this report, hereby certify that that: (i) views expressed in this report reflect the Research Analyst's personal views about all of the securities and (ii) no part of any of compensation of the author/s was, is, or will be directly or indirectly related to the specific recommendations or views expressed by in this report.

Rating Methodology

Alinma Capital Company (AIC) follow a three-tier rating system based on total return methodology as per following details

>+15% Total Return: Stocks with +15% expected total return (including dividend yield) over the next 12-months are classified as Buy.

5-15%: Stocks with total return between 5-15% can be classified as Buy or Neutral.

>-5%<+5% total return: Stocks with total return between -5+5% can be classified as Neutral or Underperform

Underperform-Stocks which are expected to have <-5% total return

Not Covered: AIC has not assigned any rating on the stock

Coverage Suspended: AIC has temporarily suspended the coverage of the stock either in compliance with local regulation or other considerations

Price data for the listed securities is based on 19 August, 2026.

Disclaimer

The published reports are for general information purposes to present a view on the company/economic sector/economic subject under research, and should not be considered a recommendation to buy/sell/hold for any security or any other assets. This report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of securities, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Alinma Capital company from sources believed to be reliable, but Alinma Capital company has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Alinma Capital company shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Alinma Capital company, and they might be holding positions directly in any securities and mutual funds contained in this report during the time of publication of this report, This report has been produced independently and separately by the Research Division at Alinma Capital company and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Alinma Capital company. Funds managed by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document. Funds managed by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Funds managed by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Funds managed by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document.

Alinma Capital, a Saudi closed joint stock company under CR No. 1010269764 and the Capital Market Authority License No.37-09134.