

Target Price: SAR160/share
Current Price: SAR139.8/share
Upside: 14% (+Div. Yield: 3.5%)
Rating: Overweight

Arabian Contracting Company (AlArabia)

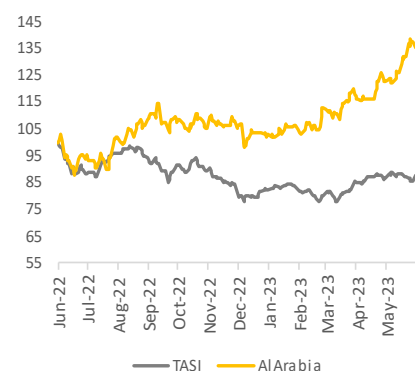
Multiple levers in place. Raise TP to 160/share.

Stock data

TASI ticker	4071
Mcap (SARmn)	6,990
Avg. Trd. Val (3m) (SARmn)	19.2
Free float	30.0%
QFI holding	7.9%
TASI FF weight	0.18%

Source: Bloomberg

TASI vs AlArabia indexed to 100



Source: Bloomberg

- AlArabia's share price recently touched our prior target price of SAR140/sh. after winning the Airport deal along with better-than-expected 1Q23 numbers.
- We believe three levers are in place for the stock to move up further: a) Airport deal details b) 1-Riyadh contract win c) Faden acquisition approval.
- We raise our target price to SAR160/sh. post factoring for these developments conservatively + better than expected 1Q23 results and maintain our Overweight rating.

Multiple Levers: AlArabia reported strong 1Q23 results, with revenue up 9% y/y (despite higher base), operating profit up 42% y/y and net profit up 39% (12% above our estimate). This was after the company had reported above IPO guidance for 2022 previously. The next leg of growth is to come from 3 developments (2 of which were not factored in our valuation previously).

- Airport deal:** The company won the Riyadh airport deal (~80 billboards) which was prev. with JCDecaux in Riyadh. Other regions' airport wins would have further upside. The contract for 10 years may not be active before 1Q24 with size yet to be announced but we assume this to contribute to a minimum of 5% of revenues (before consolidating Faden). Ad pricing and accordingly margins are likely to be higher as per our view.
- We also expect all the Riyadh municipality contracts to be now with a single player - AlArabia. Out of 9 contracts, with 7 already with AlArabia this could contribute to another atleast 10%. The submission for tenders were done to Remat in May and the result is expected in a few weeks. The contract would begin depending on when the existing contracts with current parties expire, so this would come gradually over 2 years in our view if the company were to win it. We believe there could be a revenue sharing model but there could be a minimum guarantee, i.e., unless the revenues exceed a threshold there would not be revenue sharing agreement.
- Faden acquisition is another factor which is not included in financials but is included in our valuations separately as in our last note. It is awaiting regulatory approvals.

It is important to note that - the core business as such would not see much increase in the number of billboards. We factor a decline of 150 static billboards to be replaced by 200 digital

Figure 1: Key financial metrics [Core business excluding Faden or new project wins]

SARmn	2022a	2023e	2024e	2025e
Revenue	1,126	1,213	1,301	1,371
Revenue growth	56%	8%	7%	5%
Gross Profit	487	566	629	686
Gross Profit margin	43%	47%	48%	50%
Op. income	384	449	504	554
Op. Profit margin	34%	37%	39%	40%
Net profit	275	326	389	440
Net profit margin	24.4%	27%	30%	32%
EPS (SAR)	5.5	6.5	7.8	8.8
DPS (SAR)	3.8	4.2	5.4	6.6
P/E	21.6x	18.2x	15.3x	13.5x

Source: Company, GIB Capital

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billboards. Any increase in revenue would be mainly related to pricing which depends on demand environment, and marketing spends of clients.

Investment thesis stays intact: Overall 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 (71% now to reach 80% by year end) 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 SAR160/share is based on an average of DCF and P/E (17x) methods for AlArabia giving us SAR140/share. To this we add SAR5/share for Faden and add another SAR15/share (conservatively, assuming project wins) for the new project wins thus giving us a valuation of SAR160/share. While the company has not won the 1 Riyadh project yet, we believe it could be mostly likely won by the company. **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.

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