

**Anticipated momentum in new project awards to deliver strong topline growth but margins to be under pressure; revise TP slightly downward amid lower margins**

Alkhorayef Water & Power Technologies (AWPT) is set to benefit from the strong project inflow in Saudi Water and Wastewater treatment sector backed by huge capital investment planned by government entities such as NWC, SWPC and WTTCO. AWPT is very well placed to capitalize on this opportunity due to its strong track record and technical know-how. We forecast a gross addition SAR 3.6bn to backlog in FY25E compared to SAR 2.8bn in FY24. With anticipated sustained momentum in new contracts over the next five years, we expect revenue to expand at a CAGR of 13.8% during FY24-29E. However, margins have taken a hit due to higher cost of raw material and increased diesel prices. Considering the recent trend of margins in the new projects and the existing pressure of input costs, we revise our margin assumptions downward. We estimate gross margin to decline to 18.5% in FY25E from 19.7% in FY24. Going forward we see a gradual improvement in profitability with the gross margin reaching 20.5% by FY29E, while net margin expansion (to 13.8% in FY29E from 11.8% FY24) is likely to be further supported by lower finance expenses. As a result, we project net income CAGR of 17.6% during FY24-29E. Based on our revised estimates we cut our TP on AWPT to **SAR 163.8/share** (from SAR 166.0/per share) but keep the "Neutral" recommendation.

**Robust revenue growth in Q4-24 backed by new projects; gross margin remains tight:** AWPT's net profit surged 135.3% Y/Y in Q4-24 to SAR 70mn but missed our estimate of SAR 85mn. The lower-than-expected net profit, despite better revenue, was mainly due to the lower-than-expected gross margin. Gross revenue (before provision for expected penalties) grew 39.1% Y/Y to SAR 699mn, while net revenue was up 28.9% Y/Y to SAR 610mn, beating our estimate of SAR 528mn. The topline was driven by healthy revenue recognition from new projects. The gross margin of 16.8% expanded from 15.7% in Q4-23 but was significantly below our estimate of 24.8%. The operating margin improved to 12.9% in Q4-24 from 9.8% due to higher G&A expenses in Q4-23, partially offset by higher impairment losses on receivables in Q4-24.

**New project inflow to continue driven by huge project pipeline in the sector:** Saudi Arabia is making significant strides in enhancing its water and wastewater treatment. The National Water Company (NWC) has earmarked ~SAR 280bn for its 5-year projects portfolio. NWC has announced the second phase of LTOM program which includes 10 packages, aimed at privatization of the wastewater sector. Furthermore, Saudi Water Partnership Company (SWPC), responsible for Public-Private Partnerships (PPP) in the sector, has a pipeline of 32 BOT projects. Water Transmission & Technologies Co. (WTTCO) also boasts a robust portfolio of 392 EPC projects, with a total allocated budget of SAR 154bn (USD 41bn). For AWPT, these developments signify ample opportunities in the future.

**Healthy win rate and unmatched ability to execute complex projects to help capitalize on opportunities in the sector, enabling a revenue CAGR of 13.8% during FY24-29E:** AWPT has seen a significant surge in new contracts since FY22 with gross addition to backlog exceeding SAR 10bn over the past three years. The company has bid for contracts worth ~SAR 5bn since September 2024 and expects to win awards worth SAR 2bn, indicating a good win rate of 40%. AWPT is the sole bidder in a large value Jazan Small Sewage Treatment Plant, underlining its edge over competitors due to its technical know-how and ability to execute complex projects. Moreover, the company has a track record of winning BOT projects such as Rayis-Rabigh IWTP and securing 3 out of 8 projects in phase one of LTOM program along with qualification for all 10 packages in phase two. Thus, there is a good chance of AWPT maintaining its healthy win rate and continuing to add new projects. We forecast a gross addition SAR 3.6bn to backlog in FY25E compared to SAR 2.8bn in FY24. With anticipated sustained momentum in new contracts over the next five years, we expect revenue to expand at CAGR of 13.8% during FY24-29E.

<b>Recommendation</b>	<b>Neutral</b>
<b>Target Price (SAR)</b>	<b>163.8</b>
<b>Upside / (Downside)*</b>	<b>8.2%</b>

Source: Tadawul \*prices as of 9<sup>th</sup> of April 2025

### Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	1,680	1,952	2,537	3,050
Growth %	104.3%	16.2%	29.9%	20.2%
Gross Profit	264	384	468	591
Net Income	140	230	269	359
Growth %	30.3%	64.3%	16.7%	33.8%
EPS	4.00	6.57	7.67	10.26
DPS	0.00	1.50	3.00	4.00

Source: Company reports, Aljazira Capital Research

### Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	15.7%	19.7%	18.5%	19.4%
Net Margin	8.3%	11.8%	10.6%	11.8%
ROE	29.9%	35.0%	31.3%	34.2%
ROA	9.7%	11.3%	10.0%	11.3%
P/E (x)	34.6	22.8	19.7	14.8
P/B (x)	9.0	6.8	5.6	4.6
EV/EBITDA (x)	21.2	15.9	13.9	11.3
Dividend Yield	0.0%	1.0%	2.0%	2.6%

Source: Company reports, Aljazira Capital Research

### Key Market Data

Market Cap (SAR bn)	5.3
YTD%	<b>0.9%</b>
52 weeks (High)/(Low)	199.0/138.6
Share Outstanding (bn)	35.0

Source: Company reports, Aljazira Capital Research

### Price Performance



Source: Tadawul, Aljazira Capital Research

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**Margin pressure is likely to continue with expected gradual improvement in future:** AWPT's gross margins have been impacted severely due to an increase in cost of raw materials, falling from the average of 25.3% during FY18-22 to an average of 17.7% in FY23-24. With increase in diesel and prices and elevated raw material costs, we believe margin pressure to continue. We believe FY24 margin were likely to have benefited to some extent from lower consumption of material due to completion of existing projects and delay in start of new projects. However, a drop in Q4-24's gross margin (vs. 9M-24) when the company recognized the major chunk of revenue from new projects is indicative of levels going forward, in our view. Thus, with a downward revision we estimate gross margin to decline to 18.5% in FY25E from 19.7% in FY24. Going forward we see a gradual improvement in profitability as the topline expands. We expect the gross margin to reach 20.5% by FY29E from 19.7% in FY24, while operating margins will expand to 16.2% in FY29E from 15.3% in FY24. Net margin expansion (to 13.8% from 11.8%) is likely to be further supported by lower finance expenses. As a result, we project net income CAGR of 17.6% during FY24-29E.

**Earnings growth to support cash flow generation; limited CAPEX provides room for higher dividend payout in future:** AWPT's double-digit revenue growth and expected gradual expansion margins would support operating cash flow grow 2x by FY29E, while limited CAPEX requirement roughly in the range of SAR 80-90mn would help healthy FCF. Thus, we believe there is a scope for higher dividend payout in future, increasing from 22.8% in FY24 to 54.2% in FY29E.

**AJC view and valuation:** AWPT is well-positioned to benefit from strong project inflows in Saudi Arabia's water and wastewater sector, driven by major government investments (NWC, SWPC, WTTCO). Leveraging its strong track record and existing pipeline of submitted bids, gross addition to backlog is projected at SAR 3.6bn in FY25E (vs. SAR 2.8bn in FY24). With the same momentum expected in the next five years, revenues are expected to grow at a 13.8% CAGR over FY24-29E. However, elevated raw material and diesel costs are pressuring margins. New projects seem to exhibit lower gross margins. Hence, with a downward revision, gross margin is estimated to decline to 18.5% in FY25E (from 19.7% in FY24), before recovering to 20.5% by FY29E. Net margin is forecast to improve from 11.8% in FY24 to 13.8% by FY29E, aided by lower finance costs, driving a 17.6% net income CAGR. We value AWPT assigning 50% weight to DCF (2.5% terminal growth and 7.8% WACC), while we assign 50% weight to P/E (22.0x) based on FY25E EPS. We cut our TP on AWPT to **SAR 163.8/share** (from SAR 166.0/per share) but keep the "Neutral" recommendation.

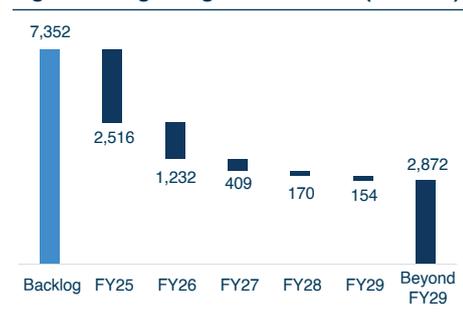
**Risks to valuation:** Significant addition to backlog due to securing large value long-term contracts, reduction in raw material costs and higher than expected win rate are key upside risks. On the other hand, the lower-than-expected win rate, delay in capital investment plans by government entities and entry of global competitors impacting AWPT's market share are major downside risks.

**Blended Valuation**

Valuation Summary	Fair Value	Weight	Weighted Average
DCF	158.8	50%	79.4
P/E (22.0x FY25E EPS)	168.8	50%	84.4
<b>Weighted average 12-month TP</b>			<b>163.8</b>
Current market price (SAR /share)			151.4
<b>Expected Capital Gain</b>			<b>8.2%</b>

Source: Aljazira Capital Research

**Fig.1 Backlog recognition timeline (SAR mn)**



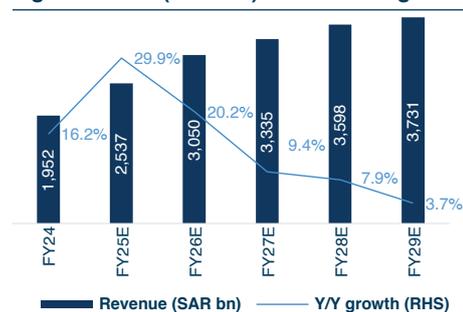
Source: Company reports, Aljazira Capital Research

**Fig.2 Backlog projection (SAR bn)**



Source: Company reports, Aljazira Capital Research

**Fig.3 Revenue (SAR mn) and Y/Y change**



Source: Company reports, Aljazira Capital Research

**Fig.4 AWPT profitability evolution**



Source: Company reports, Aljazira Capital Research

### Key Financial Data

Amount in USD mn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
<b>Income statement</b>							
Revenues	1,680	1,952	2,537	3,050	3,335	3,598	3,731
<b>Y/Y</b>	<b>104.3%</b>	<b>16.2%</b>	<b>29.9%</b>	<b>20.2%</b>	<b>9.4%</b>	<b>7.9%</b>	<b>3.7%</b>
Cost	-1,416	-1,568	-2,068	-2,459	-2,669	-2,866	-2,965
<b>Gross profit</b>	<b>264</b>	<b>384</b>	<b>468</b>	<b>591</b>	<b>665</b>	<b>732</b>	<b>766</b>
GPM (%)	15.7%	19.7%	18.5%	19.4%	20.0%	20.3%	20.5%
<b>Operating Expenses</b>							
Selling and distribution expenses	-1	-6	-8	-9	-10	-11	-11
General and administrative expenses	-67	-76	-93	-109	-117	-124	-129
<b>Other income/expenses</b>	<b>8</b>	<b>16</b>	<b>12</b>	<b>11</b>	<b>10</b>	<b>9</b>	<b>8</b>
<b>Operating profit</b>	<b>202</b>	<b>298</b>	<b>361</b>	<b>460</b>	<b>522</b>	<b>578</b>	<b>605</b>
Financing Expense (net)	-41	-48	-61	-66	-56	-43	-41
Income before zakat	155	247	292	390	463	532	561
<b>Zakat</b>	<b>-15</b>	<b>-17</b>	<b>-23</b>	<b>-31</b>	<b>-37</b>	<b>-43</b>	<b>-45</b>
Net income	140	230	268	359	426	489	516
<b>Y/Y</b>	<b>30.3%</b>	<b>64.3%</b>	<b>16.7%</b>	<b>33.8%</b>	<b>18.6%</b>	<b>14.9%</b>	<b>5.6%</b>
<b>EPS</b>	<b>4.00</b>	<b>6.57</b>	<b>7.67</b>	<b>10.26</b>	<b>12.16</b>	<b>13.97</b>	<b>14.75</b>
<b>DPS</b>	<b>0.00</b>	<b>1.50</b>	<b>3.00</b>	<b>4.00</b>	<b>5.50</b>	<b>7.00</b>	<b>8.00</b>
<b>Balance sheet</b>							
<b>Assets</b>							
<b>Cash and bank balances</b>	<b>69</b>	<b>322</b>	<b>479</b>	<b>523</b>	<b>482</b>	<b>552</b>	<b>566</b>
Inventories	129	123	170	202	219	236	244
Prepayments and other assets	125	179	209	250	274	295	306
Contract assets	611	564	788	944	1,125	1,212	1,361
Trade and other receivables	437	462	585	692	747	795	814
Property and equipment	308	341	367	390	413	433	453
Total assets	1,702	2,380	2,988	3,390	3,648	3,912	4,133
<b>Liabilities &amp; owners' equity</b>							
<b>Total current liabilities</b>	<b>961</b>	<b>1,376</b>	<b>1,770</b>	<b>1,903</b>	<b>1,953</b>	<b>1,998</b>	<b>2,008</b>
Total non-current liabilities	204	228	278	328	303	278	253
Share capital	250	350	350	350	350	350	350
Reserves	282	412	576	795	1,028	1,272	1,509
Retained earnings	236	366	529	748	982	1,226	1,462
Total owners' equity	538	776	940	1,159	1,392	1,636	1,873
<b>Total equity &amp; liabilities</b>	<b>1,702</b>	<b>2,380</b>	<b>2,988</b>	<b>3,390</b>	<b>3,648</b>	<b>3,912</b>	<b>4,133</b>
<b>Cashflow statement</b>							
<b>Operating activities</b>	<b>4</b>	<b>195</b>	<b>2</b>	<b>170</b>	<b>285</b>	<b>445</b>	<b>424</b>
Investing activities	-56	-98	-90	-86	-83	-80	-80
Financing activities	37	155	245	-40	-243	-295	-330
Change in cash	-15	253	157	44	-41	71	14
<b>Ending cash balance</b>	<b>69</b>	<b>322</b>	<b>479</b>	<b>523</b>	<b>482</b>	<b>552</b>	<b>566</b>
<b>Key fundamental ratios</b>							
<b>Liquidity ratios</b>							
<b>Current ratio (x)</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>
Quick ratio (x)	1.3	1.2	1.2	1.3	1.4	1.5	1.6
<b>Profitability ratios</b>							
<b>Gross profit margin</b>	15.7%	19.7%	18.5%	19.4%	20.0%	20.3%	20.5%
Operating margin	12.0%	15.3%	14.2%	15.1%	15.7%	16.1%	16.2%
EBITDA margin	14.9%	18.2%	16.7%	17.2%	17.5%	17.7%	17.8%
Net profit margin	8.3%	11.8%	10.6%	11.8%	12.8%	13.6%	13.8%
Return on assets	9.7%	11.3%	10.0%	11.3%	12.1%	12.9%	12.8%
Return on equity	29.9%	35.0%	31.3%	34.2%	33.4%	32.3%	29.4%
<b>Leverage ratio</b>							
<b>Debt / equity (x)</b>	1.0	0.9	1.1	1.0	0.8	0.6	0.5
<b>Market/valuation ratios</b>							
<b>EV/EBITDA (x)</b>	21.2	15.9	13.9	11.3	10.2	9.1	8.6
EPS (SAR)	4.00	6.57	7.67	10.26	12.16	13.97	14.75
BVPS (SAR)	15.36	22.18	26.85	33.11	39.77	46.75	53.50
DPS (SAR)	0.00	1.50	3.00	4.00	5.50	7.00	8.00
Market price (SAR)*	138.3	150.0	151.4	151.4	151.4	151.4	151.4
Market-Cap (SAR mn)	4,840	5,250	5,299	5,299	5,299	5,299	5,299
P/E ratio (x)	34.6	22.8	19.7	14.8	12.4	10.8	10.3
P/BV ratio (x)	9.0	6.8	5.6	4.6	3.8	3.2	2.8
Dividend yield	0.0%	1.0%	2.0%	2.6%	3.6%	4.6%	5.3%

Sources: AlJazira Capital, Company Financials \* Prices As of 8<sup>th</sup> April 2025



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