

# Alkhorayef Water & Power Tech

Water Utilities: Utilities  
AWPT AB: Saudi Arabia  
23 May 2023



<b>US\$0.974bn</b>	<b>43.45%</b>	<b>US\$2.96mn</b>
<b>Market Cap</b>	<b>Free Float</b>	<b>Avg. Daily Volume</b>

**Target price** 170.00 **14% above current**  
**Current price** 149.60 **as at 23/05/2023**

Research Department  
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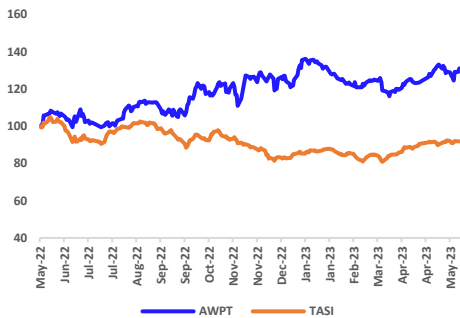
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Existing rating

**Underweight**   **Neutral**   **Overweight**

## Alkhorayef Water & Power Tech. Maintain Overweight; TP raised to SAR170/sh

### Performance (Rebased to 100)



### Earnings

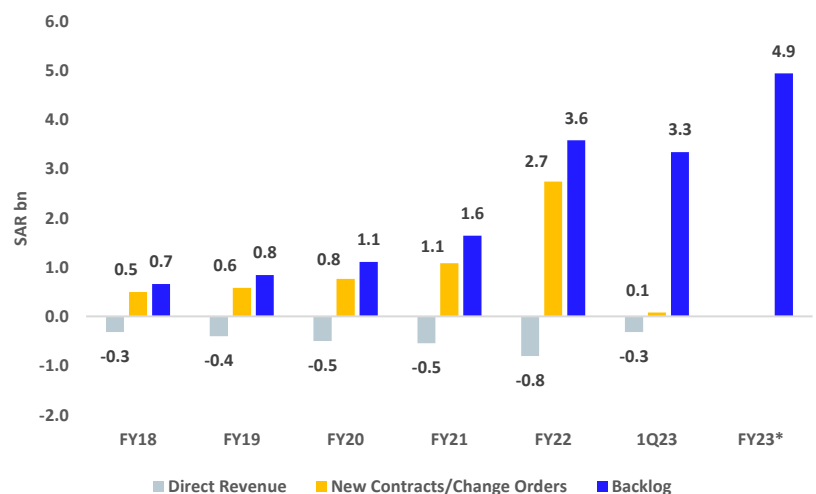
(SARmn)	2022	2023E	2024E
Revenue	822	1,683	2,215
YoY %	44.5%	104.7%	31.7%
Gross Profit	187	336	455
GM Margin %	22.8%	20.0%	20.6%
YoY %	23.5%	79.6%	35.5%
EBITDA	170	310	443
EBITDA Margin	20.7%	18.4%	20.0%
Net Income	107	188	254
Net Income Margin %	13.1%	11.2%	11.5%
YoY %	4.0%	75.4%	34.9%
EPS	4.3	7.5	10.2
DPS	3.0	5.5	7.0
Dividend payout ratio (%)	70%	73%	69%
ROE	9%	11%	11%

Source: Company data, Al Rajhi Capital.

AWPT has posted impressive numbers in 1Q23 growing its topline by 85% y-o-y. The company has managed to grow its revenues y-o-y for the last 13 quarters. The strong revenue growth can mainly be attributed to the influx of projects in the Kingdom related to the water sector. Alkhorayef being the major beneficiary, has managed to increase its backlog of projects consistently which now stands at SAR3.3bn as of 1Q23. This represents an increase of 2-3x from year-end FY20/21. In addition, the company has also been awarded an LTOM contract worth SAR1.6bn for 15 years which will provide AWPT with a stable stream of recurring earnings albeit at lower margins. We believe that the growth in AWPT backlog revenues will continue to swell, however, as the company is shifting towards more project service projects the operating margins will be lower. In our assumptions, we have increased the revenue backlog for the company while decreasing the operating margins to an average of 14% for FY23/24 from the previously assumed average of 18%. Incorporating the new assumption increases our TP by 4% to SAR170/sh, providing an upside of 14% to the last closing price. Hence, we maintain our Overweight rating.

**Revenue backlog outlook:** The company has managed to consistently grow its backlog of revenues in the recent past which has jumped from SAR1.1bn in FY20 to SAR3.3mn as of 1Q23. If we add the LTOM project worth SAR1.6bn, the total backlog stands at SAR4.9bn. The company expects the backlog revenue to clock in at SAR5.0bn+ by 2023 and a long-term estimate of SAR10-15bn. We believe that the growth in backlog will continue to persist due to the upcoming stream of projects from the NWC, SWPC, and WTTCO.

Figure 1 **AWPT Backlog**



Source: Company data, Al Rajhi Capital. Note:

\*includes LTOM contract of SAR 1.6bn; the company expects backlog of SAR5.0bn+ by FY23 end

**The LTOM contract:** As per the recent announcement on the bourse, AWPT has been awarded long-term O&M contracts for Sewage Treatment Plant Manfouha Package 5. The contract is for 15 years and has a value of SAR 1.6 billion. We can expect a sizeable chunk of the contract to be attributed to rehabilitation works, which will be completed in the first 36 months. The company had bid for three packages and has managed to win one of them, implying a win rate of 33%. We would like to highlight that AWPT stands a high chance of winning upcoming LTOM packages as well, given its strong track record.

In our model, we have assumed 25% of the contract value to be associated with rehabilitation works which will be booked in 3 years. We assume the assumption related to rehabilitation works to stand at 10/20/70% in FY23/24/25e respectively. Thereafter, we have taken an equal revenue flow of the remaining contract value. For the whole contract life, we have assumed low double-digit gross margins, but we highlight that for rehabilitation works the margins might differ. Any further update, regarding the project, might result in a change in our assumptions.

**1QFY23 results:** AWPT posted a solid revenue growth of 85% y-o-y to SAR322mn while the gross profit increased by 30% y-o-y to SAR57mn. The GP margins took a hit and were down by 7 percentage points to 18% in 1Q2023. The expense nature of most of the new projects is front-loaded. We believe that rising cost pressure on the back of increased projects coupled with an increase in project service projects has resulted in a sharp decline in margins. The bottom line for the company grew at 29% y-o-y to SAR33mn despite a hefty rise in finance cost by 61x. Overall, the company has managed to carefully navigate in an inflationary and high finance cost environment so far.

Figure 2 **AWPT Q1 2023 Results**

(SAR mn)	1Q 2023	1Q 2022	Y-o-Y	4Q 2022	Q-o-Q	ARC est
Revenue	322	174	85%	271	19%	304
Gross profit	57	44	30%	53	6%	67
Gross margin	18%	25%		20%		22%
Operating profit	46	30	52%	37	22%	49
Operating margin	14%	17%		14%		16%
Net profit	33	25	29%	28	18%	36
Net margin	10%	15%		10%		12%

Source: Company data, Al Rajhi Capital.

**Valuations:** Going forward, we have built in the updated revenue guidance, however, we have reduced our operating margin assumption to average around 14% for FY23 and FY24e as against the previous average of 18%. This has resulted in a slight decline of 9% in our FY23e earnings to SAR7.5/sh while our FY24 earnings have increased by 2% to SAR10.2/sh. Overall, we revise up our TP by 4% to SAR170/sh. We value AWPT using 60-40% weight given to DCF and PE-based relative valuation. Our DCF-based target price is SAR187/sh based on 1.5% terminal growth and 9.9% WACC. For PE-based valuation, we have used average discounted FY23e and FY24e earnings and applied a multiple of 18.2x resulting in a value of SAR144/sh. Thus, our weighted target prices stand at SAR 170/sh, providing an upside of 14% to the last close.

Figure 3 **Valuations**

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)	Upside/Downside
DCF	187	60%	112	25%
Relative Valuation (PE)	144	40%	58	-4%
<b>Fair Value (SAR)</b>		<b>100%</b>	<b>170</b>	
CMP (as on 23rd May 2023)			150	
Upside/(Downside)				14%

Source: Company data, Al Rajhi Capital

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"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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