US$3.2bn	30.0%	US$11.2mn
Market Cap.	Free Float	Avg. Daily Value traded

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Arabian Contracting Services Co.

TP revised to SAR280/sh; maintain OW.

Overweight

Price Target (SAR): 280.0

Current: 241.6
Upside/Downside: 16.0% above current

Valuation Multiples	23E	24E	25E
P/E (x)	36.0	28.5	19.7
P/B (x)	11.6	9.2	7.1
EV/EBITDA (x)	14.2	10.2	8.5

Major Shareholders	% Ownership
Engineer Holding Group	50.00%
MBC Group	20.00%

Price Performance	1M	3M	YTD
Absolute	14.0%	25.7%	0.2%
Relative to TASI	8.9%	10.7%	-1.0%

Earnings

(SARmn)	2023E	2024E	2025E
Revenue	1,266	2,245	2,967
Revenue growth	12.4%	77.4%	32.2%
Gross profit	569	775	998
Gross margin	44.9%	34.5%	33.7%
EBITDA	934	1,747	2,346
EBITDA margin	73.8%	77.8%	79.1%
Net profit	335	424	612
Net margin	26.5%	18.9%	20.6%
EPS	6.70	8.47	12.24
DPS	2.35	2.97	4.28
Payout ratio	35.0%	35.0%	35.0%
EV/EBITDA	14.2x	10.2x	8.5x
P/E	36.0x	28.5x	19.7x
RoE	32.3%	32.3%	35.7%

Source: Company data, Al Rajhi Capital

We reiterate our "Overweight" stance on Al Arabia with a revised TP of SAR280/sh, providing an upside of 16% to the last closing price. Since our update note (25th Sep 2023), the stock has rallied by 29% and is trading near our old TP. We are revising our investment case based on the details of the big three contracts, namely 1) Remat Al Riyadh, 2) KKIA, and 3) Eastern Province shared by the company with the bourse. The Remat Al-Riyadh contract is based on a minimum payment of SAR1.5bn for which there will be concessions of 50% and 25% in the first two years. We believe that the company is likely to make the first payment within the first half of FY24e, which will put pressure on margins. Hence, we revised down our FY24e estimates by 16% to SAR8.5/sh while keeping our FY25e earnings estimate unchanged. From FY26e onwards, the company will start reaping the benefits of the recently won contracts, with the Riyadh contract taking center stage as the city will witness new sites coming online rapidly, including sites for landmarks, luxury collections and digital zones. Our workings suggest that the company can grow its topline by a 5-year CAGR of 28% given its dominance in the Riyadh region and the airport. Hence, we revise our TP upwards by 19% to SAR280/sh and maintain our "Overweight" rating.

What has changed for Al Arabia and the Key assumptions:

- At the time of our last report, KKIA and Eastern Province contracts had been announced, and we were awaiting the official signing of these contracts while the company was in contention to win the Riyadh contract. Hence, we had built in the billboard's growth for the big three contracts, using our assumptions.
- As of now, all three contracts have been signed, and the details are also available. The payment terms are now clearer, and we have assumed minimum guaranteed payments of SAR750/1,125/1,275mn for the Riyadh contract for the years FY24/25/26e. It is important to note that the total agreed upon the minimum payment is SAR1.5bn; however, the company will be able to avail a concession in the first few years.
- For the KKIA contracts, we have assumed a revenue sharing model while assuming an increase in pricing for BBs at the airport.
- As per the recent announcement, the Faaden Media's financials will be consolidated in 4Q23, and we have included the increased revenue as well as the debt and financing costs associated with the acquisition from FY24 onwards.
- Overall, we have increased our revenue forecast for the next three years by an average of 29% while decreasing the gross profit margins by 12 percentage points. The fixed nature of payments is likely to keep margins under pressure, which will be more than offset by rising revenue.

An update on new contracts:

- **Remat Al-Riyadh Dev. Co. (Riyadh):** The Riyadh contract mirrors the KKIA arrangement, adopting a revenue-sharing model with a minimum annual guarantee of SAR1.5bn. Alarabia successfully negotiated a 50% discount on the minimum guarantee for the initial year, followed by a 25% discount for the second year of the contract, respectively. The stipulated minimum guarantee payments are scheduled to be settled in two equal instalments annually. The ten-year contract covers nearly 3,000 advertising sites.
- **King Khalid International Airport (KKIA):** The agreement for King Khalid International Airport (KKIA) is structured on a revenue-sharing model, encompassing a minimum guarantee of SAR1.8bn. During the initial year, Alarabia enjoys an exemption from the minimum guarantee, but thereafter, it is anticipated to adhere to this commitment from the second year until the conclusion of the ten-year contract.
- **Eastern Province (Dammam, Khobar, and Dhahran):** The contract for the Eastern Province differs from the others as it follows a conventional leasing model, distinct from a revenue-sharing structure. Consequently, the group anticipates a rise in Right of Use (ROU) assets and a corresponding increase in liabilities due to the incorporation of approximately 412 new billboards.
- **Faden Media Acquisition:** Al Arabia has completed the acquisition of Faden Media for SAR1bn on 31st October 2023. The group is expected to consolidate Faden Media's financials from 4Q23 onward. The acquisition is funded via debt.

Valuations: We value Al Arabia using equal weights for DCF and PE-based relative valuation, resulting in a price target of SAR280/sh. For relative valuation, we have used a PE multiple of 30x applied to average FY24–25e earnings. This signifies an upside of 16% to the last closing price, and hence we maintain our overweight rating.

Key Risks: We see the following risks: 1) near term pressure on gross margins, 2) inability to rapidly bring new site online; 3) increased leverage to finance Faden Acquisition; 4) increased working capital requirements due to rapid expansion; 5) increased lease payments; and 6) longer than expected high interest rates.

Key Financials

Figure 1 **Income Statement**

Income Statement (SARmn)	2023E	2024E	2025E
Sales	1,266	2,245	2,967
y-o-y growth	*12.4%*	*77.4%*	*32.2%*
Cost of Sales	(697)	(1,470)	(1,968)
y-o-y growth	*9.0%*	*110.9%*	*33.9%*
Gross Income	**569**	**775**	**998**
y-o-y growth	*16.8%*	*36.2%*	*28.9%*
margins	*44.9%*	*34.5%*	*33.7%*
Selling and marketing expenses	(56)	(56)	(71)
Impairment of receivables	(8)	(17)	(23)
G&A expenses	(57)	(79)	(105)
Operating Income	**448**	**606**	**778**
y-o-y growth	*16.7%*	*35.2%*	*28.5%*
margins	*35.4%*	*27.0%*	*26.2%*
Financing Expense	(88)	(156)	(129)
Net income before tax	**360**	**450**	**650**
Zakat & Tax	(18)	(22)	(32)
tax rate	*4.9%*	*4.9%*	*4.9%*
Net Profit Before Minority Interest	**341**	**428**	**618**
Minority Interest (loss)/profit	6	(4)	(6)
Net Income	**335**	**424**	**612**
y-o-y growth	*22.0%*	*26.4%*	*44.4%*
margins	*27.1%*	*19.1%*	*20.8%*
EPS	6.7	8.5	12.2
DPS	2.3	3.0	4.3

Source: Al Rajhi Capital estimates

Figure 3 **Cash Flow Statement**

Cash Flow Statement (SARmn)	2023E	2024E	2025E
Net Cash Flows from Operating Activities	751	1,410	1,948
Cash Flows from Investing Activities	(56)	(91)	(121)
Cash Flows from Financing Activities	(564)	(1,285)	(1,689)
Net Change in cash & cash equivalents	**131**	**34**	**138**

Source: Al Rajhi Capital estimates

Figure 2 **Balance sheet**

Balance Sheet (SARmn)	2023E	2024E	2025E
Cash & Cash Equivalents	247	281	419
Receivables, Net	795	1,161	1,545
Prepaid expenses and other assets	260	426	568
Inventory	19	38	51
Total Current Assets	**1,321**	**1,906**	**2,583**
Property and equipment	221	266	330
Right of Use Assets	1,186	5,712	7,836
Total Non-Current Assets	**1,407**	**5,979**	**8,167**
Total Assets	2,728	7,885	10,749
Liabilities and Equity			
Short-term Debt & Leases	392	1,126	1,470
Others	22	22	22
Accrued expenses and other liab.	238	470	634
Total Current Liabilities	**652**	**1,618**	**2,126**
Long-Term Debt & Leases	1,003	4,826	6,708
Others	28	30	39
Total Non-Current Liabilities	**1,031**	**4,857**	**6,748**
Total Liabilities	**1,683**	**6,475**	**8,874**
Total Equity	**1,040**	**1,409**	**1,881**
Minority Interest	**(5)**	**(1)**	**6**
Total Owners Equity	**1,045**	**1,410**	**1,876**
Total liabilities and equity	**2,728**	**7,885**	**10,749**

Source: Al Rajhi Capital estimates

Figure 4 **Key Ratios**

Ratios	2023E	2024E	2025E
ROE	32%	32%	36%
Receivables Turnover	56%	56%	56%
P/E	36.0x	28.5x	19.7x
EV/EBITDA	14.2x	10.2x	8.5x
P/BV	11.6x	9.2x	7.1x
Dividend yield	1.0%	1.2%	1.8%

Source: Al Rajhi Capital estimates

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"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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