



US\$1.455bn Market cap
30% Free float
US\$6.56mn Avg. daily volume

Target price 136.00
Current price 109.40
24.3% above current as at 22/11/2022

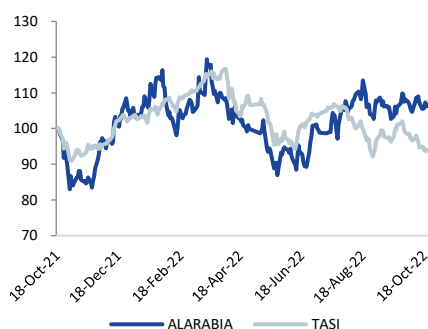
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Existing rating

Underweight Neutral **Overweight**

Performance



Earnings

(SARmn)	2021A	2022E	2023E
Revenue	720	1,185	1,347
Revenue growth	45%	65%	14%
Gross profit	330	458	533
Gross margin	46%	39%	40%
EBITDA	577	836	958
EBITDA margin	80%	71%	71%
Net profit	206	286	330
Net margin	29%	24%	25%
EPS	4.12	5.71	6.60
DPS	1.85	3.00	3.30
Payout ratio	45%	53%	50%
P/E	22.6x	19.2x	16.6x
EV/EBITDA	11.8x	9.2x	8.7x
RoE	28.2%	32.9%	32.0%

Source: Company data, Al Rajhi Capital

Arabian Contracting Services Co. Initiating coverage with a TP of SAR136/sh

We initiate coverage on Arabian Contracting Services (Al Arabia) with an "Overweight" rating and a target price of SAR136/share. Al Arabia is the market leader in outdoor advertising in the Kingdom of Saudi Arabia which has started a digital revolution within the Kingdom. The company is set to benefit from Saudi Arabia's efforts to implement economic and social reforms resulting in a gradual cultural shift amid greater spending on cultural and leisure activities. The business has moved its attention to digital billboards, which offer greater flexibility because they can be centrally managed and have more faces per billboard. For advertisers, they provide critical data related to viewer rates, impressions, and demographics. The company aims to raise their digital faces to 80% by 2025 (current: 64%) which will greatly enhance Al Arabia's revenue and gross profit margins. Al Arabia is also looking to expand its footprint in the region and has developed partnerships in Egypt, Dubai, and Qatar for the said purpose. We expect Al Arabia's revenue to grow at a 5-year CAGR of 11% driven by the digital transformation of its billboards.

Extensive billboard network provides a competitive edge: Al Arabia is the market leader in the Kingdom of Saudi Arabia's outdoor advertising sector, accounting for a solid market share above 60% of all outdoor advertising expenditures. Being the market leader comes with its perks as it allows the company to provide its client with the maximum exposure across the Kingdom of Saudi Arabia. Hence, the vast network of billboards provides a competitive edge to Al Arabia allowing it to win not only new large advertising campaign orders but assisting in the renewal of old contracts. Moreover, Al Arabia provides a one-stop solution to its client with activities ranging from printing, designing, implementation, and maintenance of billboards to feedback for advertising campaigns.

Leading the way by Digital Transformation: Al Arabia has embarked on the journey of technological advancement by converting its existing static billboards to digital. This provides the company with immense flexibility in centrally managing the advertising campaigns while boosting the company margins. Digital billboards have an average of 9.5 faces per billboard as compared with 2.0 faces per billboard for static. So, for a slight increase in cost, the company can increase revenue manifolds using digital billboards. Al Arabia aims to raise its digital faces to 80% by 2025 while few static billboards will still be necessary for far-flung areas. In 2022, so far, the company has managed to convert 211 static to digital billboards. Overall, this conversion has added 2,110 faces to take the total to 23,771.

Expanding its local footprint via acquisitions: In line with the company's strategy to maintain its market-leading position, Al Arabia is looking to expand further locally. Recently, Al Arabia announced the signing of a purchase agreement with Faden Media to acquire the company for a value of SAR1.05bn. Faden Media seems to be a perfect fit for Al Arabia, as it has an out-of-home (OOH) segment as well as a retail solutions segment. Faden's OOH segment consists of mega screens usually installed on buildings/towers. The OOH offerings directly complement Al Arabia's roadside network and are expected to add significant value to the clients. Faden's retail solutions synergize with Al Arabia's indoor advertising segment which was launched in 2019.

Exploring uncharted territories: Al Arabia is actively looking to increase its footprint outside of the Kingdom of Saudi Arabia. Expanding into new markets presents a unique opportunity as well as poses a challenge to the company. For now, the company has mainly targeted the regional market employing a simple strategy of entering these markets with a local partner. The company has established a JV with United Media Services in Egypt. Recently, the JV has been awarded a contract worth SAR9.3mn for the installation of 174 billboards on 17 sites. Moreover, Al Arabia entered into an exclusive contract with Elan Media Advertising to become the exclusive agent for advertisements in the FIFA World Cup 2022. The contract will be valid till the end of December 2022 and its financial impact will be reflected in 4Q22. Lastly, Al Arabia struck a contract with Elelevision Media to become the exclusive agent for advertisement in Dubai International Finance Center (DIFC) and affiliated areas for 7 years.

Attractive valuation: We value Al Arabia using 60-40% weight given to DCF and PE-based relative valuation. Our DCF-based target price is SAR160/sh based on 2% terminal growth and 9.6% WACC. For PE-based valuation, we have used FY23e earnings and applied a multiple of 15.1x resulting in a value of SAR98/sh. The forward multiple was calculated using Al Arabia's peers via Bloomberg. Thus, our weighted target prices stand at SAR 136/sh, providing an upside of 24.3% to the last close. The stock looks attractive at current levels on the back of a digitization push along with regional and local expansions. Hence, we initiate coverage on Al Arabia with an "Overweight" recommendation.



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Company overview

Arabian Contracting Services Company (Al Arabia) started its operation in the Kingdom 30 years ago and is the leading outdoor advertising company in the country. Al Arabia is the market leader in terms of market share and revenue when it comes to outdoor advertising. The main business activities for the company include but are not limited to setting up, operating, and maintaining outdoor advertising billboards (roadside advertising) as well as indoor advertising. The company carries its activity from the Kingdom of Saudi Arabia and through its wholly owned subsidiary in UAE, Al Arabia Out of Home Advertising Company. It also operates through its branches located in Jeddah and Riyadh.

Al Arabia is a leading outdoor advertising company in KSA, with a market share of over 60%. As of Nov. 2022, the company has about 5,619 billboards representing a total of 23,771 faces for the company. The company has a diverse set of billboards each utilizing varying technology to meet the client's needs. These billboards include static billboards, dynamic billboards, and digital billboards. Al Arabia has billboards in 28 cities across the Kingdom making it the largest company in terms of its reach across the Kingdom.

Figure 1. Total Billboards, Faces, and Revenue per Face

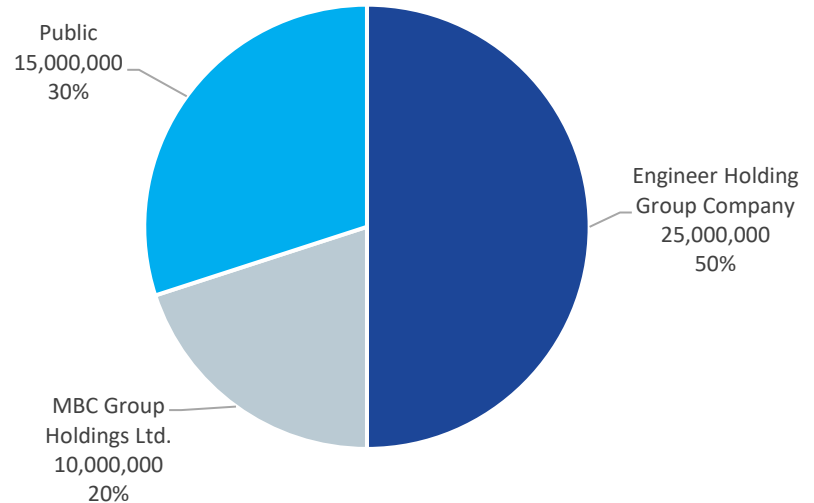
Details	2018	2019	2020	2021	2022E	2023E
Number of billboards	7,340	6,800	6,105	5,525	5,427	5,005
<i>change</i>		-7.4%	-10.2%	-9.5%	-1.8%	-7.8%
Digital	77	222	380	1,135	1,476	1,844
<i>proportion</i>	1.0%	3.3%	6.2%	20.5%	27.2%	36.8%
Static	7,263	6,578	5,725	4,390	3,951	3,161
<i>proportion</i>	99.0%	96.7%	93.8%	79.5%	72.8%	63.2%
Number of Faces	16,812	16,727	17,515	19,742	22,086	23,984
<i>change</i>		-0.5%	4.7%	12.7%	11.9%	8.6%
Digital	746	2,204	3,800	10,795	14,034	17,542
<i>proportion</i>	4.4%	13.2%	21.7%	54.7%	63.5%	73.1%
Static	16,066	14,523	13,715	8,947	8,052	6,442
<i>proportion</i>	95.6%	86.8%	78.3%	45.3%	36.5%	26.9%
<i>Revenue per face (SAR)</i>	36,903	46,177	27,618	35,794	52,912	55,481

Source: Company Filings and Al Rajhi Capital

In 2021, the company reported a turnover of SAR720 mn, and SAR809 mn for 9MFY22, with the revenue being predominantly generated from advertising, more than 95% in 2021. The revenue of the company registered a CAGR of 4% between 2017 and 2021, with the growth rates being impacted by the pandemic in 2020. For 9MFY22, the revenue of the company grew by 64% y-o-y, and we expect the company to continue to grow at a strong rate, with it registering a CAGR of 11% for the next five years (2022-27).



Figure 2. Al Arabia's Major Shareholders – Number of Shares & Holdings



Source: Company Filings and Al Rajhi Capital

Engineer Holding Group Company is the main shareholder of Al Arabia, with a stake of 50%. Engineer Holding was formed by the erstwhile shareholders of Al Arabia, as a vehicle to hold their investment in the company and to hold other investments. Another major strategic shareholder is the MBC Group which holds a 20% stake in the company. MBC acquired a 5% stake in Al Arabia in 2020 and acquired a further stake of 15% in 2022 from Engineer Holding by exercising its purchase option. MBC group holding is a major media player operating in the Kingdom and its stake increase in Al Arabia will likely benefit the company strategically.

Business Model

As the name suggests, outdoor advertising mainly targets consumers when they are outside their homes and includes billboards, wallsapes, posters, etc. Outdoor advertising may be divided into three categories by location 1) roadside advertising, 2) indoor advertising, and 3) transit advertising. Al Arabia currently operates in the first two segments. In addition to this, Al Arabia is also involved in silk-screen printing, offset printing, and digital printing.

Al Arabia possesses an integrated business model that covers all the aspects required for a successful outdoor advertising business. This includes billboard installation to marketing and selling spaces to clients, printing and installing advertisements on billboards to operating and maintaining them. Al Arabia does it all and in essence, provides a one-stop solution for all its clients.

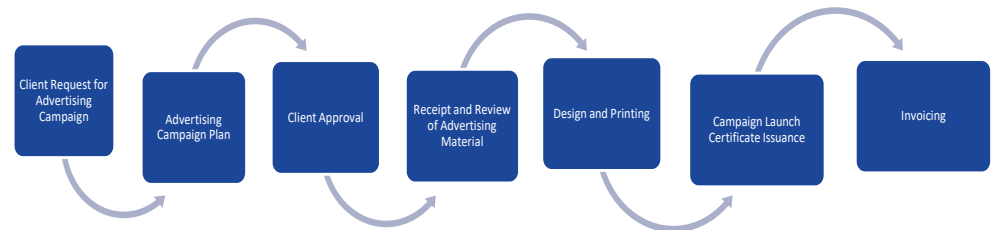
Outdoor advertising is a seasonal business

The outdoor advertising business is a cyclical one, with seasonal factors impacting the revenue throughout the year. Al Arabia is hence subject to these fluctuations where the company's most profitable quarter is the fourth quarter. The fourth quarter of the year encompasses the Riyadh season held by General Entertainment Authority (GEA) which provides clients the opportunity to increase their outdoor advertising campaigns boosting Al Arabia's revenues. In addition, the year-end sales, and discounts by companies also add to the increased advertising campaigns. The fallout of Riyadh season is also witnessed in the first quarter of the year. The second and third quarter of the company benefits from Ramadan campaigns, the Jeddah season and back-to-school season resulting in increased advertising spending by various clients. The above-mentioned quarters also witness advertising campaigns related to Saudi games and the National day.



However, on the flip side, the company is adversely affected by any dull period where no events are being held or new campaigns being launched. These periods include annual holidays, Eid vacations, and, the first two months of the new year as clients' advertising budgets are usually not finalized by the end of the first quarter. Moreover, the advertising business also stands to be impacted the most by economic cycles and government spending. However, Al Arabia, even during a downturn in the economy has never booked a loss historically.

Figure 3. Business model flow chart



Source: Company Filings and Al Rajhi Capital

To simplify, Al Arabia's business model entails securing a location for the erection of a billboard followed by selling the advertising space on these billboards to their clients for an advertising campaign. For roadside advertising, the company participates in tenders organized by government agencies, municipalities, and various secretariats across the Kingdom to lease and utilize these sites. The secretariat and municipalities determine the number of useable sites and billboards installed on these sites before tendering. All interested parties submit their bid while the highest bidder wins the award and has a one-month grace period to pay the first year's rent. These leasing terms depend on several factors including the location, size of the area, duration of contract, etc.

On the other hand, for indoor advertising, the tenders are usually floated by private parties and the terms of the contract can usually be different and can include a revenue-sharing model. Once the tender is won, the company sets up a billboard in the specified location. The billboard is tested before selling the space to the clients. The whole process of installation and testing can take from 1-3 months depending on the type of billboard being set up.

On the client's side, the client submits a request to reserve a space for the upcoming advertising campaign. The client usually provides the company with a media plan which includes the required number of billboards, required panels, regions, and locations allocated within the Kingdom as well as the budget for the campaign. In some cases, the client entrusts it to Al Arabia to decide on the aforementioned factors while remaining within the constraints of the budget.

Al Arabia then refers back to the client proposing its best plan to launch the campaign keeping in mind the availability of billboards, location, and budget. Once the final approval is obtained from the client, it issues a reservation order to confirm the request. This is followed by the transfer of advertising material from the client to the company which is then reviewed to make sure that it's in line with the general taste of the country as well as the requirements of the secretariats and the municipalities.

The company then prepares the advertising material design and transfers it to the printing department where the campaign is printed according to the client's specifications. Being an integrated advertising company, the printing segment is an essential tool to possess. Al Arabia owns two print shops one in Riyadh and the other in Jeddah. The Riyadh print shop carries out silk screen, offset, and digital printing while the Jeddah shop is limited to digital printing. A campaign launch certification is issued by Al Arabia to the client indicating the details of the campaign billboards, panels, region, etc.

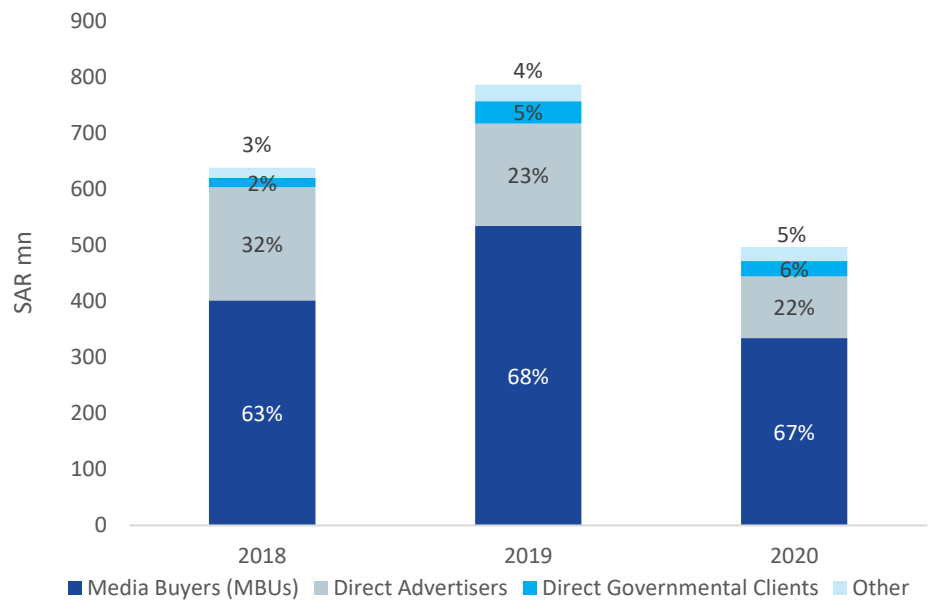
Finally, the invoicing occurs on completion of the advertising campaign. An advertising campaign can last from a few weeks to a couple of months and is usually renewed based on the upcoming seasons. The company recognizes the revenue from these campaigns on a pro-rata basis which means that for a 3-month campaign the company will record one-third of the revenue at the end of the first month.



Major Clients

The company does not have any long-term contracts with clients and purchase orders are used for business on a campaign-to-campaign basis. These clients mainly include Media Buyers (MBU), Directs Advertisers, and Direct Government clients making up 67%, 22%, and 6% of the topline in 2020. Media buyers, being marketing professionals who purchase advertising space on various media platforms (outdoor advertising, television, newspaper et.), naturally contribute the most to the company revenues historically. For roadside advertising, Orbit advertising, Universal media, and Mindshare contribute the most to the company's topline.

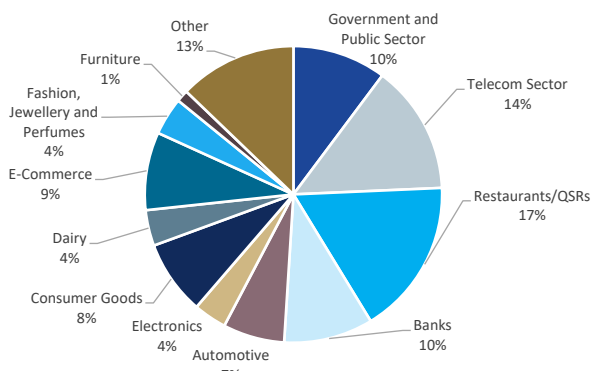
Figure 4. Revenue Divided by Client Categories



Source: Company Filings and Al Rajhi Capital

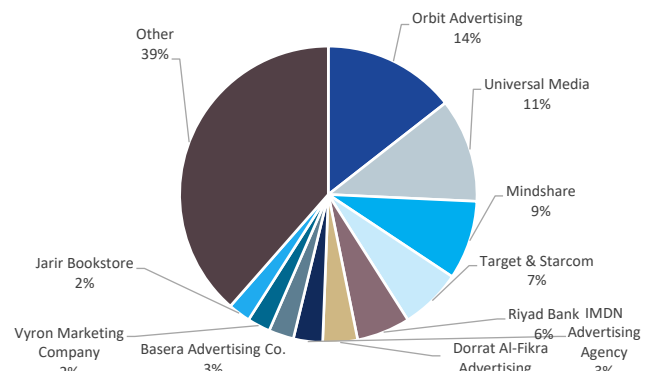
In 2019, a large portion of Al Arabia's revenue came from the government sector (21.2%) owing to Vision 2030 initiatives resulting in increased spending on public events and conferences. However, during the pandemic year, this portion was reduced to 10.2% while contribution of restaurant/QSRs to Al Arabia's revenues increased to 17.0% from 15.9% while that of telecom sector to 14.1% from 13.3%. Other significant contribution was made by Banking (9.7%), E-commerce sector (8.5%), and consumer goods (8.1%). Hence, Al Arabia is dependent on a diverse group of clientele to drive its revenue.

Figure 5. Al Arabia's 2020 Revenue by Sector



Source: Company data, Al Rajhi Capital

Figure 6. Revenues from Top 10 Roadside Adv. clients in 2020



Source: Company data, Al Rajhi Capital

Company suppliers

The major cost for the company is the rental of billboards followed by purchases. The total purchases constitute mainly billboard purchases accounting for 54%, 66%, and 79% of the total purchases in FY18, FY19, and FY20. Al Arabia purchases or imports billboards depending on the requirements of the client. The Mupi and Megacom billboards are purchased through a related party Signworld. The imported billboards are usually procured from the US Daktronics Company, the Belgian Open Company, and the Chinese Egzo Wonderful Company.

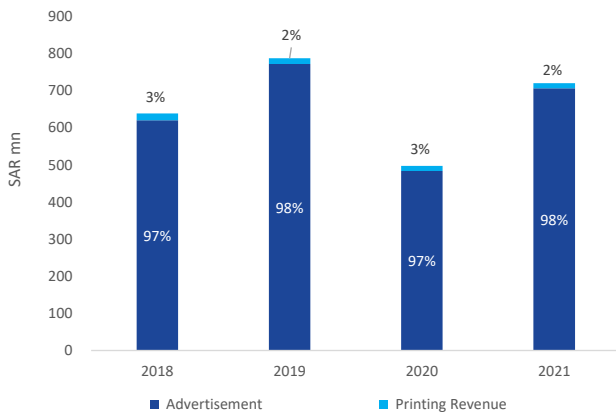


Segment Analysis

Al Arabia's operating segments include the advertising and printing sector. The company's revenues are mainly driven by the advertising sector making up 98% and 97% of the total revenue in FY21 and 9MFY22. The printing sector is a supporting segment for the company not contributing much to the top line. The advertising sector for the company can be further broken down into outdoor advertising and indoor advertising. Outdoor advertising contributed 96% to total advertising revenues in FY21. Indoor advertising is a relatively new area for the company which started its operation in FY19.

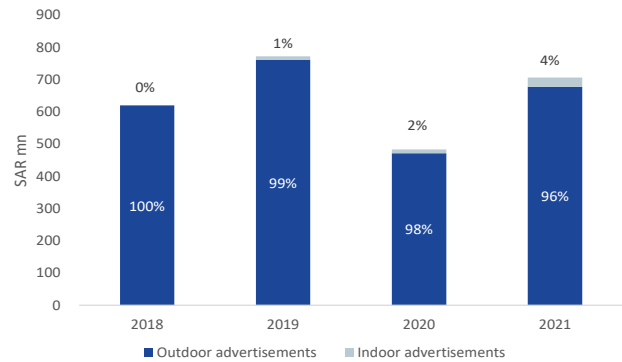
Overall, the topline for the company has grown at a decent 4-year CAGR of 4%. The company has shown impressive gross profit growth rising from SAR 176mn in 2017 to SAR 330mn in 2021 representing a 4-year CAGR of 17%. When it comes to gross profit margins, the company has witnessed a whopping increase to 45.9% in 2021 from 28.8% in 2017, up by 17.1 percentage points. The rise in GP margins can mainly be attributed to the company's shift towards digital billboards.

Figure 7. Revenue breakup – as operating segment



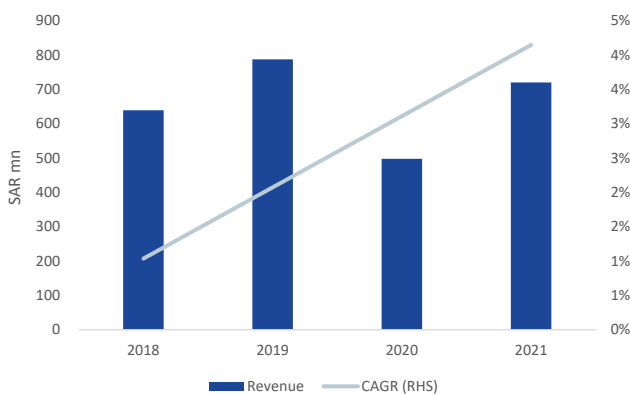
Source: Company data, Al Rajhi Capital

Figure 8. Advertisement revenue trend – Indoor and outdoor



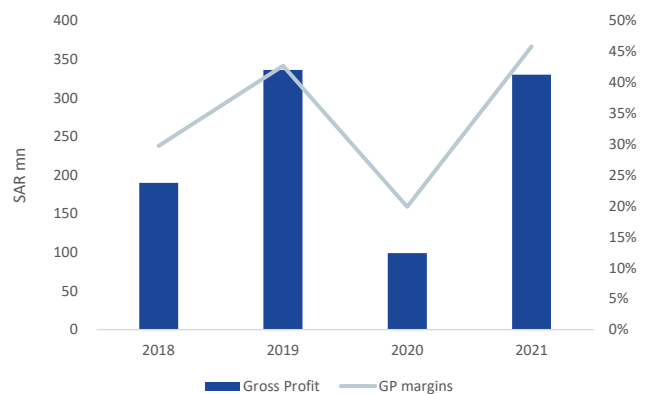
Source: Company data, Al Rajhi Capital

Figure 9. Revenues have grown at a 4-year CAGR of 4%



Source: Company data, Al Rajhi Capital

Figure 10. Gross Profit and Margins



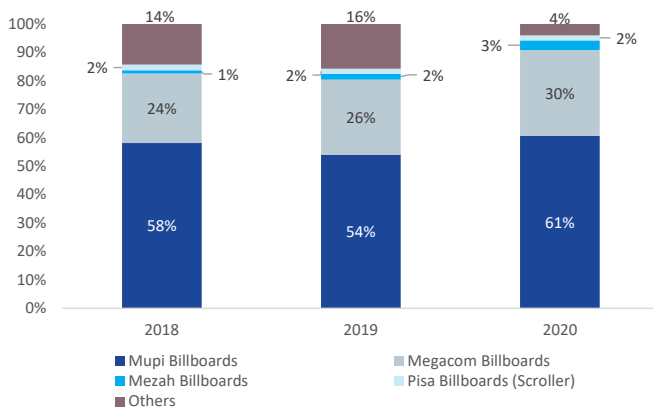
Source: Company data, Al Rajhi Capital



Outdoor advertising

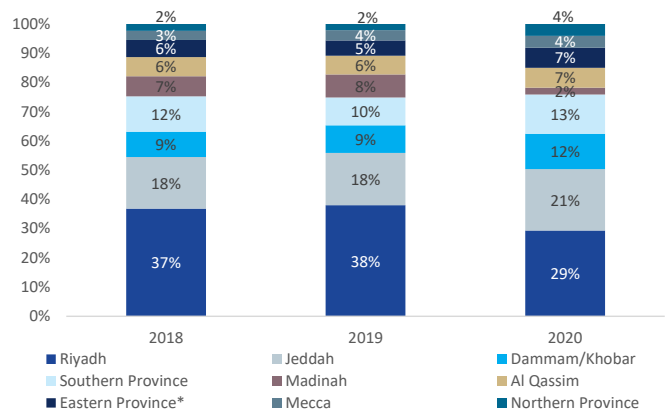
Outdoor advertising or roadside advertising is the core business of the company. The company is the largest in terms of geographical coverage and number of billboards in this sector. Several billboards are used by the company for roadside advertising with Mupi and Megacom billboards making up 61% and 30% of the total billboards. Mega, Mezah, and MUPI billboards are the primary revenue-generating billboards accounting for 85% of the total Outdoor advertising revenues in FY20.

Figure 11. Billboards based on type



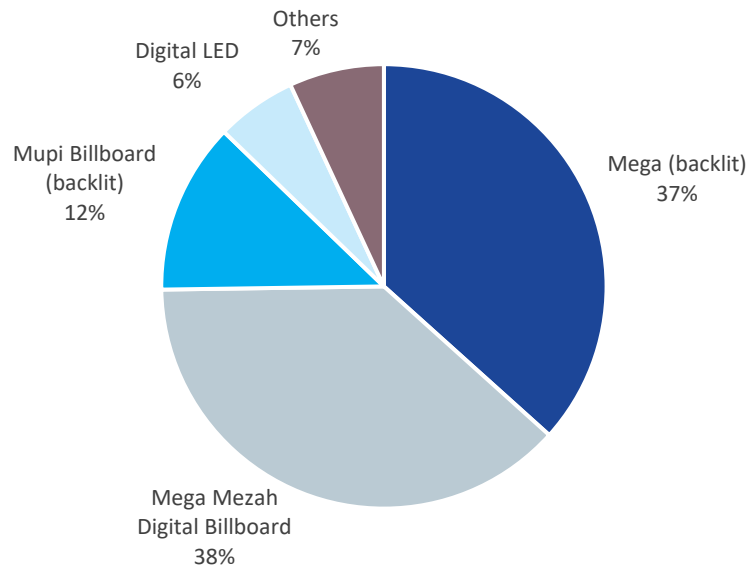
Source: Company data, Al Rajhi Capital

Figure 12. Number of Billboards by Region



Source: Company data, Al Rajhi Capital

Figure 13. Outdoor Advertising Revenue breakup by billboards



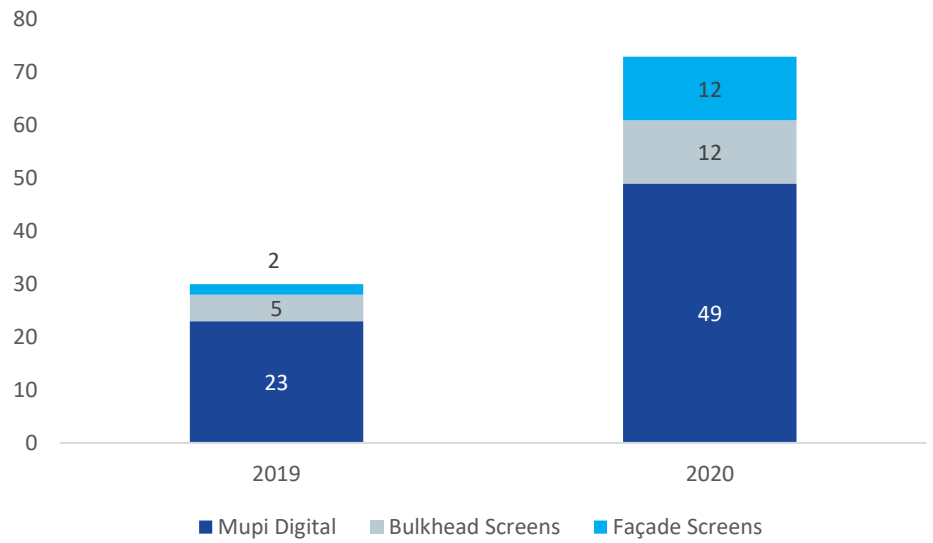
Source: Company Filings and Al Rajhi Capital

Indoor adv

Indoor advertising is a recent addition to the company's business, starting its operations in FY19. The company soon entered into several exclusive contracts with the Diplomatic Quarter General Authority, and owners of commercial centers in the Riyadh Front project, Riyadh Park, The Zone, and many more. As of year-end 2020, the company has a total of 73 billboards and 730 advertising faces under these contracts. Of these 73 billboards, 67% were Mupi Digital while the rest were Bulkhead and Façade screens.



Figure 14. Number of Indoor Billboards



Source: Company Filings and Al Rajhi Capital

Investment Case

Extensive billboard network provides a competitive edge

Al Arabia is the market leader in the outdoor advertising segment in the Kingdom of Saudi Arabia, having a healthy market share of above 60% (2019: 65.8%, 2020: 62.3%) of the total spending on outdoor advertising. The next best player is Saudi Signs having a market share of 18.8%. The company, locally and regionally, also is the market leader in terms of revenue as well as outstanding outdoor advertising infrastructure. Every year Al Arabia's sites have increased except for in 2020 when the growth was disrupted due to the pandemic.

By the year-end 2020, Al Arabia had 6,105 billboards in 9 main regions of the Kingdom. Since the pandemic, the company's billboards decreased to 5,619, down -8%. However, the total number of faces has risen by 36% during the same period to 23,771 faces as against 17,515 faces thanks to the transformation of static billboards to digital. The large advertising network provides the company a competitive advantage increasing barriers to entry as building such a network poses a significant challenge and requires a long time as well as CAPEX. Being the market leader comes with its perks as it allows the company to provide its client with the maximum exposure across the Kingdom of Saudi Arabia. Hence, Al Arabia is the first choice for many clients allowing it to renew orders from its client with ease. In addition to this, Al Arabia provides a one-stop solution to its client with activities ranging from printing, designing, implementation, and maintenance of billboards to feedback for advertising campaigns.

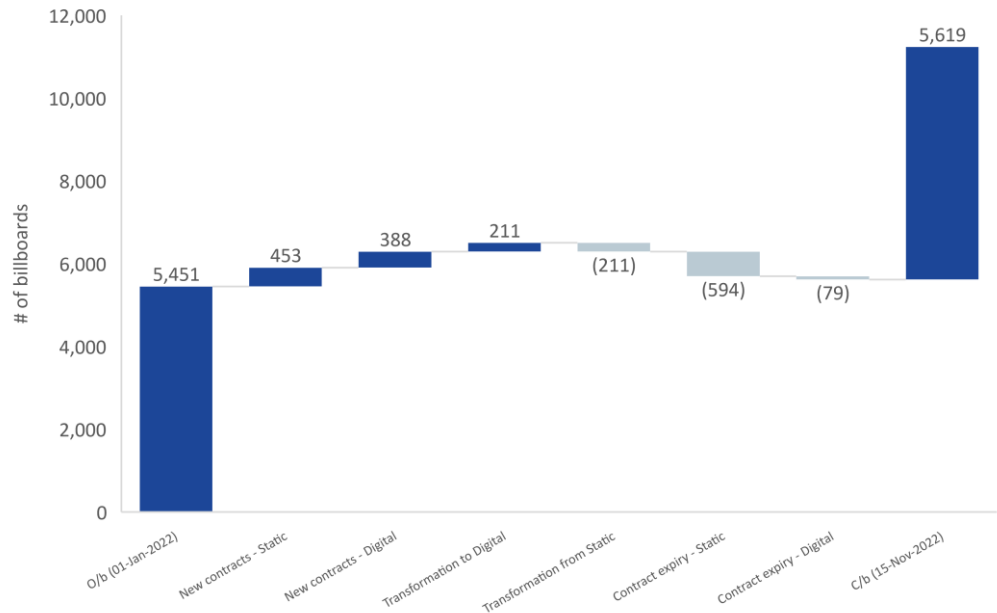
Leading the way by Digital Transformation

Al Arabia has embarked on the journey of technological advancement by converting its existing static billboards to digital providing the advertisers with immense flexibility and a boost in revenue as well as margins of the company. The process began at the end of 2018, whereby Al Arabia was the first company to install and operate digital billboards (Mezah) in the Kingdom of Saudi Arabia. Digital Billboards are capable of displaying a greater number of advertising panels and the advertisements displayed can be changed from Al Arabia's main control center facilitating the implementation of the advertising campaign. For clients, they add immense value by collecting all data related to advertisements such as viewing rates, impression and demographics. This data is essential for clients as it allows them to better plan for their target market.

Digital billboards have an average of 9.5 faces per billboard as compared with 2.0 faces per billboard for static. This leads to increase in revenue by manifolds while the cost spike is marginal resulting in margin accretion for the company. Al Arabia aims to raise its digital faces to 80% by 2025 while few static billboards will still be necessary for far-flung areas. The cost of converting a static billboard to digital may range from SAR400k to SAR700k. We have increased gross margins gradually by 4.6 percentage points during the same period. We expect the company's revenue to grow at a 5-year CAGR of 11% mainly due to the digitization drive the company has undertaken. As of Nov 2022, Al Arabia's 28% of billboards are digital i.e. 1,566 billboards while 4,053 are static as against 1% of digital billboards in 2018. In 2022, so far, the company has managed to convert 211 static billboards to digital. Overall, this conversion has added 2,110 faces to take the total to 23,771 vs 19,742 at year-end 2021, a jump of 20%.



Figure 15. Movement in Billboards



Source: Company Filings and Al Rajhi Capital

As part of its ongoing innovation strategy, the Company launched the Streach platform, which was created by a third party namely Seventh Decimal FZ. The Streach platform, which can gather data on customer behaviour and competitor analysis, is the first smart platform of its sort in the Kingdom of Saudi Arabia. It uses intellectual property by utilizing the routes and location data from mobile smart devices, which have a high user density. With the help of this platform, marketers will be able to run advertising campaigns whose success can be evaluated by information gathered about viewers' traits and actions. Al Arabia refers its clients to Streach statistics to gain further insights into consumer behaviour. For every then, Al Arabia gets a commission for every deal closed between Streach and their referred client.

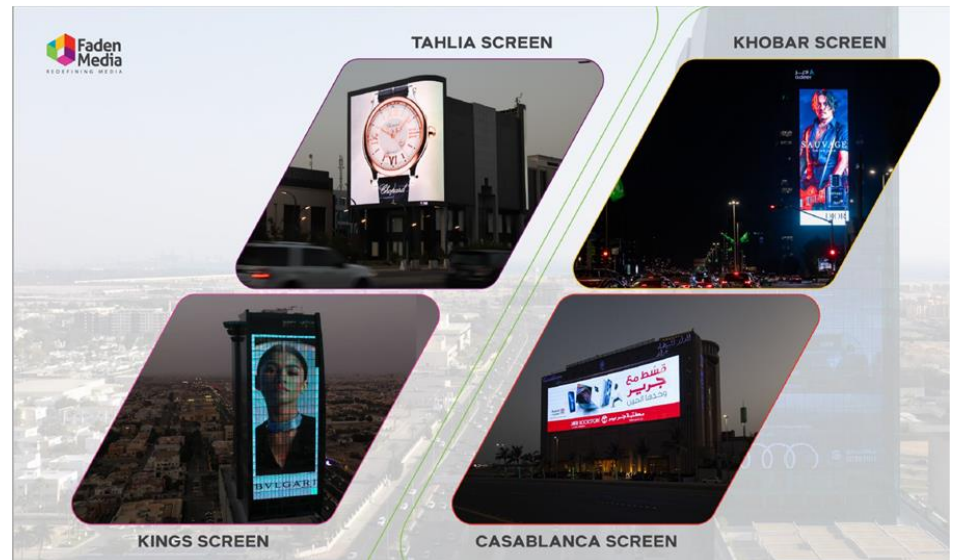
Expanding its local footprint via acquisitions

In line with the company's strategy to maintain its market-leading position, Al Arabia is looking to expand further locally. In a recent notice on the bourse, Al Arabia announced the signing of a purchase agreement with Faden Media to acquire the company for a value of SAR1.05bn. Faden Media seems to be a perfect fit for Al Arabia, as Faden has an out-of-home (OOH) segment as well as a retail solutions segment.

Faden's OOH segment constitutes mega screens usually installed on buildings/towers. The company has a total of 20 screens having a reach of 14mn+. An example of their mega screens includes Kings Screen on King's Road Tower located in Jeddah's King Abdul Aziz Road. Hence, their OOH offerings directly complement Al Arabia's roadside network and are expected to add significant value to clients. On the other hand, their retail solutions synergize with Al Arabia's indoor advertising segment. Al Arabia is a relatively new player in the said segment and Faden's technical know-how and support in the area will help grow the segment more quickly. Faden's retail partners include Panda, Abdullah AlOthaim markets, Lulu market, Farm superstores, and Manuel market.



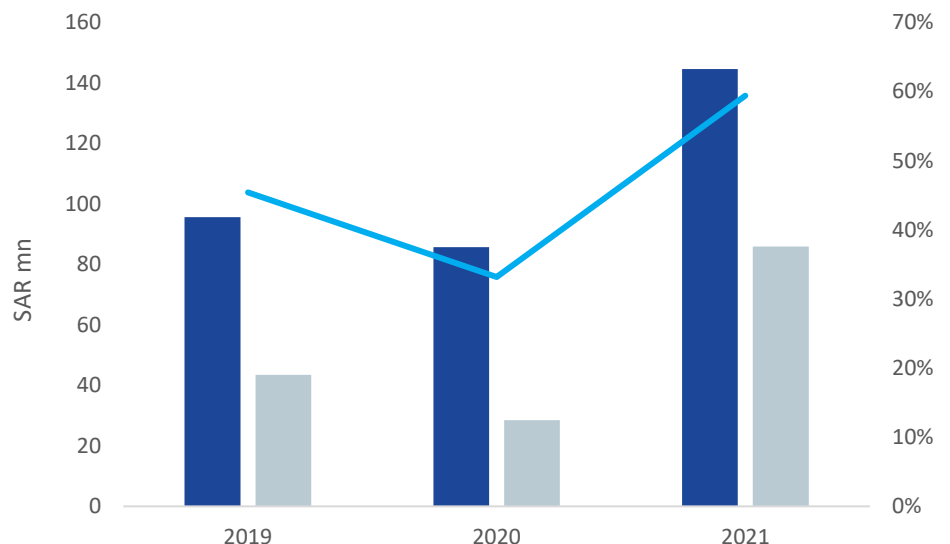
Figure 16. Faden Portfolio



Source: Faden Media Presentation and Al Rajhi Capital

As per Al Arabia’s notice, Faden recorded revenues of SAR144.6mn, up 69% YoY. The net income for the company was SAR85.9mn in 2021 implying hefty NP margins of 59%. We believe that the deal will largely be financed via debt and have as such included its net of debt acquisition value in our target price amounting to SAR4/share. We have refrained from including the impact on earnings as Al Arabia currently waits for the approvals from relevant authorities for the acquisition. The finalization of the deal can take a few months, and once done will be included in our earnings estimates.

Figure 17. Faden Financials and Net Margins



Source: Company Filings and Al Rajhi Capital

Exploring uncharted territories

Al Arabia is actively looking to increase its footprint outside of the Kingdom. The new markets present a unique opportunity as well as pose a challenge to the company. For now, the company has mainly targeted the regional markets with a simple strategy. Al Arabia is trading carefully

and relying on partnerships with local companies to provide it with the expertise to safely navigate through these uncharted territories.

Egypt: On 12th Dec 2021, the company announced a 25-year partnership with the United Media Services Company to establish an Egyptian joint stock company. The JV will look to install and operate at least 120 digital screens. The partnership also specifies that Al Arabia will supervise, manage, and operate all stages of the advertising process to reach their targeted customers in Egypt.

In Aug 2022, Al Arabia announced a contract award through its subsidiary Arabiya United for Advertising Service to rent sites for the installation of billboards in the North Coast, City of Alamein in Egypt. The contract specifies a coverage of 89% of the bridge's sites in the above-mentioned location. The value of the contract is SAR9.3mn with a duration of one year. The contract mentions 17 sites for the installation of 174 billboards of which 11 will be roadside locations while 6 sites for digital billboards are on bridges. The expected date of contract signing is by the end of 4QFY22. The development of Alamein City in Egypt presents a huge opportunity for the company, and an increase in traffic can be witnessed once the city is fully functional. This presents an upside to our investment case.

Qatar: Al Arabia entered into an exclusive contract with Elan Media Advertising to become the exclusive agent for advertisements in the FIFA World Cup 2022. Elan Media is the leading media group in Qatar that owns and operates various indoor and outdoor platforms. The contract will be valid till the end of December 2022 and its financial impact will be reflected in 4QFY22. The agreement is on a revenue-share model as the income from the operations resulting from the agreement will be shared between the parties based on the agreed-upon percentage. To simplify, the company will look to reign in new clients while Elan Media's infrastructure will be used for advertising. Al Arabia will manage to get exposure in a new market, while the world's biggest sporting event is happening, without having to incur significant expenditure.

Dubai: A similar contract was struck by Al Arabia with Elelevision Media to become the exclusive agent for advertisement in Dubai International Finance Center (DIFC) and affiliated areas for 7 years. The agreement is again a revenue-share model with the percentages not being disclosed. The financial impact is likely to be incurred in 4QFY22. The company has been appointed as an exclusive representative of Elelevision Media in the outdoor advertising portfolio and is responsible for attracting new customers and businesses.

Although the revenue-share contracts may not be that significant for the company's bottom line but they provide Al Arabia with a great opportunity to expand its business internationally while developing its connections and building brand equity. Any significant developments with regard to these contracts provide an upside to our investment case.



Industry Overview

Advertising expenditure took a hit during COVID

Total global advertising expenditure between 2013 and 2020 has grown at a CAGR of 3%, despite the impact of COVID, and was driven mainly by the exponential growth in digital media. All the other forms of advertisement saw a fall in demand, including outdoor advertising, which on average fell by 1%, for the same period. However, the fall in outdoor advertising has been relatively low, compared to most of the other forms of traditional advertising. In line with this, the market share of all forms of advertisements has fallen, except digital media. The market share of digital media to total advertisement expenditure has increased from 22% in 2013 to 50% in 2020. The market share of outdoor advertising on the other hand fell below 5% in 2020, compared to c.6% between 2013 to 2020. Travel restrictions due to the pandemic, and lower advertisement expenditure in most sectors, especially automotive trade, retail trade, travel, and tourism, impacted demand. However, it has been estimated that the market share of outdoor advertising will recover in 2021 and will continue to grow thereafter.

Figure 18. Global Advertising Expenditure

Advertising Media (SAR mn)	2013	2014	2015	2016	2017	2018	2019	2020
Television	738,667	759,484	760,121	786,108	781,192	779,819	774,828	674,875
Newspapers	270,807	256,647	235,731	214,334	194,891	179,642	159,486	120,795
Magazines	147,120	142,195	134,362	132,064	122,403	112,707	101,324	79,350
Radio	125,609	129,061	128,513	134,121	135,195	139,481	138,728	118,077
Cinema	9,092	10,857	11,549	12,773	13,671	14,537	15,909	6,354
Outdoor Advertising	115,740	113,102	123,696	126,979	129,045	135,891	139,723	104,150
Digital Media	385,531	464,911	555,433	650,363	755,608	869,065	1,032,101	1,088,248
Total Advertising Expenditure	1,792,566	1,876,257	1,949,405	2,056,742	2,132,005	2,231,142	2,362,099	2,191,849

Source: Frost & Sullivan, Company Filings, and Al Rajhi Capital

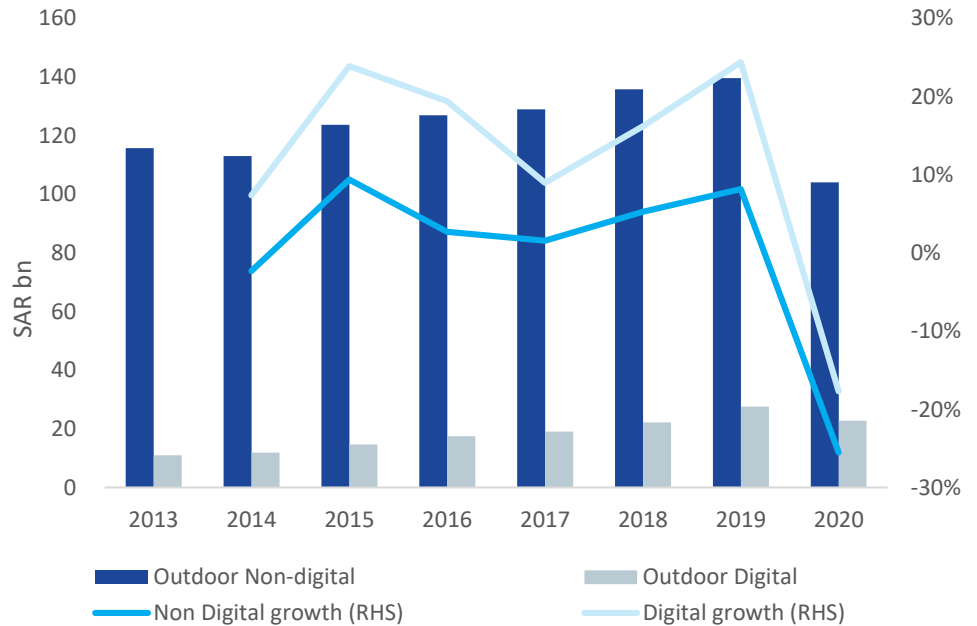
Between 2013 and 2019 (pre-COVID) outdoor advertising grew steadily at c.3%, only digital media and cinema grew at a faster pace, despite the general trend of exponential growth in new forms of advertisement. Strong adaptation of the latest technology and digitization were some of the main reasons for this steady growth, and going forward, the outlay in this segment is expected to recover in 2021 and continue to grow at a steady rate.

Digital outdoor advertisement to drive future growth

There has been an increasing trend in the past few years of advertisers preferring digital billboards, compared to static billboards., resulting in the former recording strong growth, compared to the latter. As per estimates, in certain advanced markets, like the UK and Australia, digital billboards account for more than 40% of outdoor advertising. As per expectations, digital billboards are expected to grow at 2-3x the growth of static billboards. The fall in the cost of digital screens, the development of automated advertisement software, and the possibility of integrating newer technologies, including the internet of things are driving the growth of digital billboards. Added to this, digital billboards allow better evaluation of an advertisement campaign by providing information relating to the number of people passing by the billboard, traffic patterns, changes in time of day, weather, special occasions, and an overall measure of the ROI. Some of these digital billboards also contain smart technologies and integrated software which helps in displaying selected advertisements based on the location's demographics, and other factors, helping to improve the overall effectiveness of the campaign.



Figure 19. Global Expenditure on Outdoor Advertising and Digital Outdoor Advertising

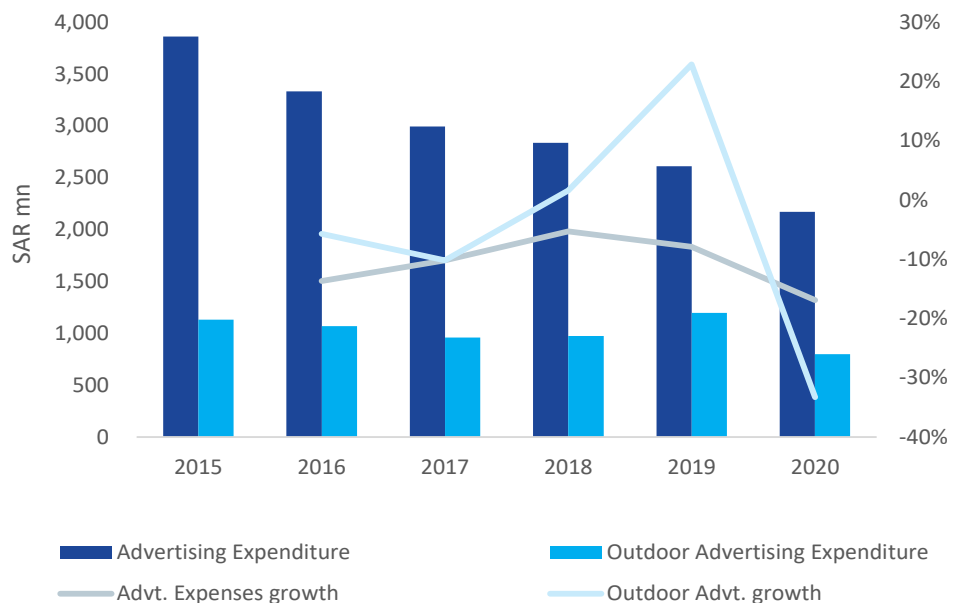


Source: Frost & Sullivan, Company Filings, and Al Rajhi Capital

Given the above, expenditure in digital outdoor advertising has grown at a CAGR of 17% between 2013 and 2019 (pre-Covid growth), compared to 3% of non-digital outdoor advertising. As a result of this, the market share of digital has doubled from 9% in 2013 to 18% in 2020. Given that advanced markets have a much higher digital market share, we can expect further growth in this form of advertising.

Outdoor advertisement in the KSA market has been volatile but is expected to grow with the uptrend in the overall economic cycle

Figure 20. Advertising and Outdoor Advertising Expenditure in KSA



Source: Frost & Sullivan, Company Filings, and Al Rajhi Capital



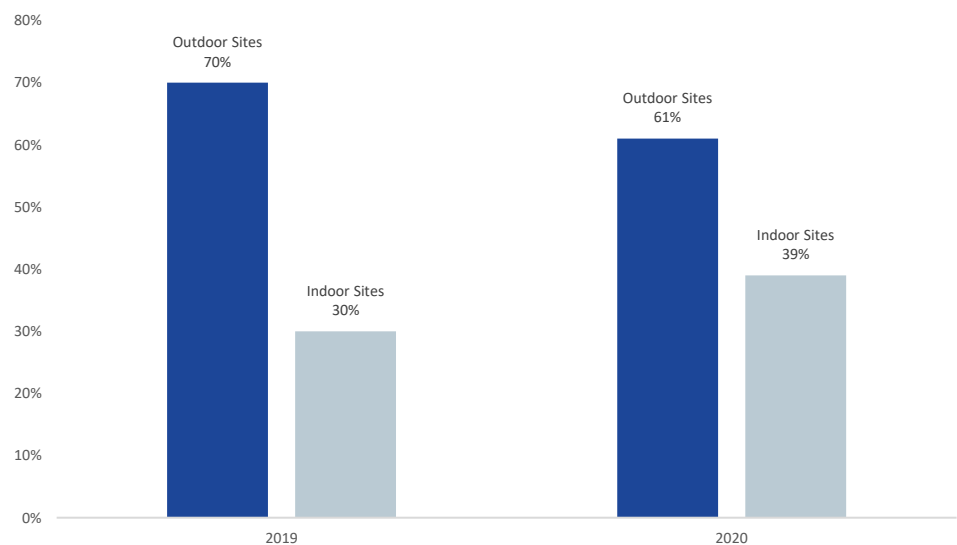
Outdoor advertising spending in KSA grew at a CAGR of 1% between 2015 and 2019, even as the overall advertising expenditure fell by 9% for the same period. The performance of the segment was weak in 2016 and 2017, though it recovered in 2017 and registered a strong 23% y-o-y growth in 2019. However, the growth was impacted in 2020 due to the pandemic. The market share of outdoor advertising to total advertising increased from 29% in 2015 to 37% in 2020, though it was lower than the peak levels of 46% in 2019 (pre-COVID) levels.

We feel that this trend is in line with the overall performance of the KSA economy and given the current scenario of high oil prices and overall positive industrial performance, we expect the growth in outdoor expenditure to pick up in the medium term.

Industry trending towards indoor advertising and digital billboards

As per estimates, there are 12,002 outdoor advertisement sites in the Kingdom, representing 38,053 advertising faces. Of this, outdoor advertising faces are estimated at 20,548, accounting covering 61% of the total sites, in 2020, compared to 17,505 indoor advertising faces, covering 39% of the total sites. The proportion of indoor sites has grown at a faster rate, given that it has increased from 30% in 2019. In terms of technology used, digital billboards are gaining more prominence, both in indoor and outdoor sites, as the proportion of digital billboards has increased to 36% in 2020, compared to 30% in 2019 for outdoor. This transition has been faster for indoor sites, as digital billboards accounted for 95% in 2020, compared to 85% in 2019. We expect this process of digitization will continue, given that the digital billboard is a more efficient and cost-effective form of advertisement.

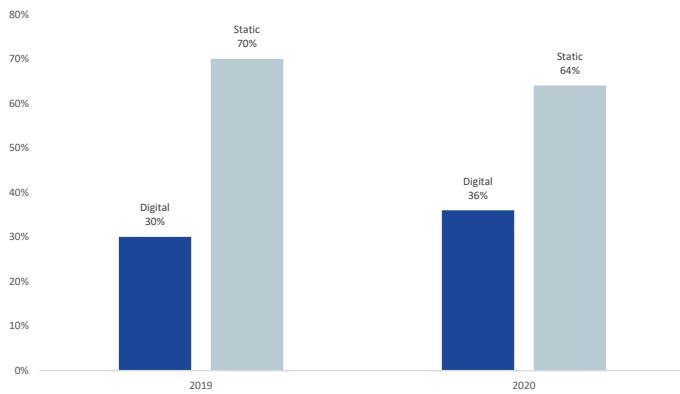
Figure 21. Distribution of Outdoor and Indoor Sites in the KSA



Source: Frost & Sullivan, Company Filings, and Al Rajhi Capital

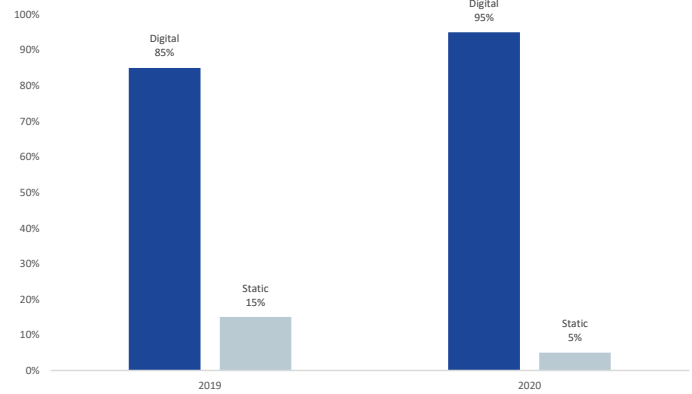


Figure 22. Outdoor: Digital Vs Static



Source: Frost & Sullivan, Company Filings, and Al Rajhi Capital

Figure 23. Indoor: Digital Vs Static

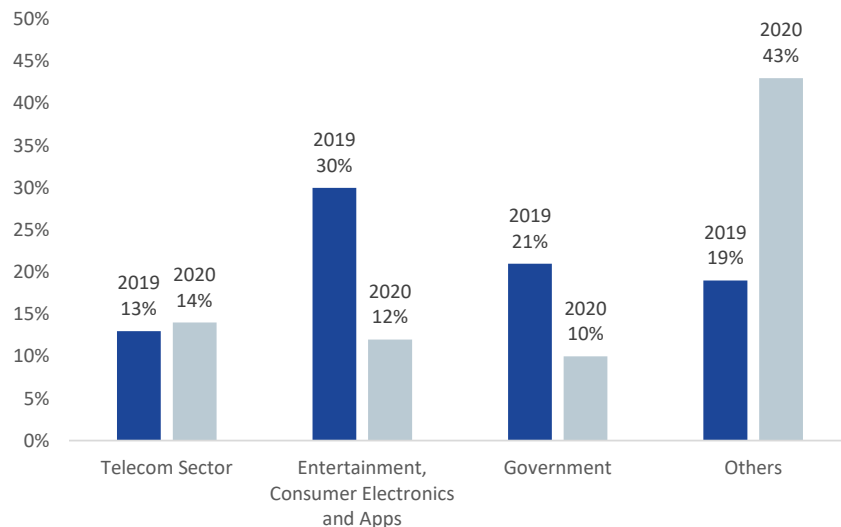


Source: Frost & Sullivan, Company Filings, and Al Rajhi Capital

Entertainment, restaurants, and other recreational spending to drive growth

2020, saw the growth in the outdoor advertisement from consumer goods, and restaurants increasing as it contributed to 21% of total advertisements compared to 17% in 2019. Growth in online delivery, due to the pandemic, appears to be the main driver for this increase. We expect this segment will continue to provide opportunity going forward, given the relatively young demographic of KSA. The Telecom industry at 14% of total spending in 2020, held its position steady at 2019 levels. However, this has been a drop from historical levels. Given that the economy of KSA is diversifying, and new opportunities coming up, we expect this trend to continue. Entertainment, consumer electronics, and apps were the most impacted due to the pandemic, as their proportion fell from 30% in 2019 to 12% in 2020. However, we expect this trend to be temporary, as we expect the performance of this segment will recover aided by the demographic in the Kingdom. The proportion of Government spending too fell to 10% in 2020 compared to 21% in 2019 and was impacted by lower tourism activity in the Kingdom due to the pandemic. Again, we expect this trend to reverse in 2021, as traveling eases and the government concentrates to improve its tourism activities in line with its vision for 2030.

Figure 24. Major Advertisers in KSA



Source: Frost & Sullivan, Company Filings, and Al Rajhi Capital

The other segment is made up of banking and financial services (10% in 2020), food delivery (15% in 2020), e-commerce (8% in 2020), and others have seen a tremendous improvement to 43% from 19%. We expect demand from this segment to continue to remain strong. The automotive sector was a key sector in 2020, accounting for 7% of spending, though its proportion is expected to come down going forward, especially in the current scenario, of high commodity prices and increasing interest rates. Other sectors, like perfume and cosmetics, offer strong potential for growth in the outdoor advertisement market, especially luxury brands, given that these segments are likely to benefit more from outdoor advertisements.

Al Arabia operates in the largest and one of the most attractive markets in the MENA region, with a population growth of 1.4% between 2020 and 2024. Of this, the proportion of the younger population (29 years and younger) was estimated at 47% in 2019. Added to this, 84% of KSA's population is residing in cities, based on 2019 data, while the growth rate of high-income families is expected to average c.40% between 2020 and 2024. Further government measures, including, Saudi vision 2030, improving infrastructure, Mega & Giga projects being undertaken, increasing participation of women in the labor force, etc. augurs well for the overall growth of the country's economy.

Al Arabia's competitive position improving

Figure 25. Major Global Players (SAR mn)

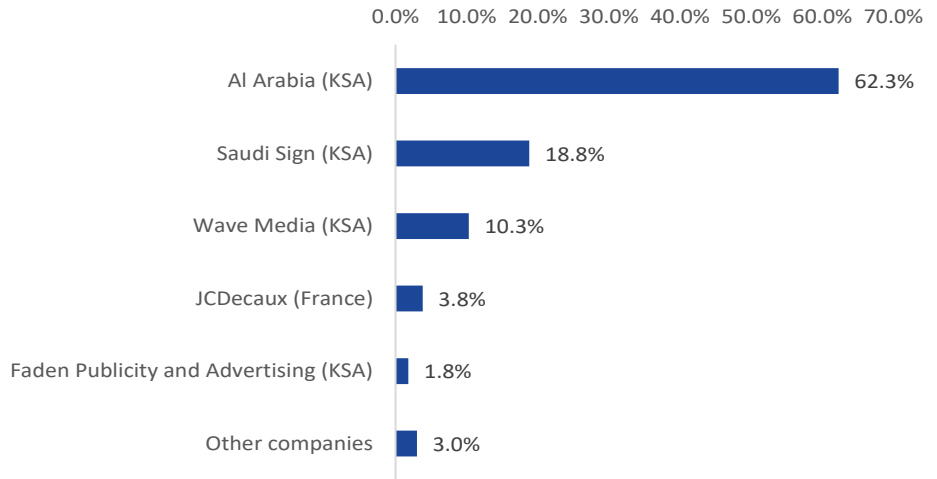
Name	Country	Revenue	
		2020	2021
Jdcaux	France	8,997	11,191
Clear Channel	United States	6,960	8,406
Outfront Media	United States	4,640	5,491
Stroeer Se & Co	Germany	6,179	7,220
Focus Media In	China	6,587	8,629
Lamar	United States	5,888	6,704
Ooh!Media Ltd	Australia	1,106	1,420
ALArabia	Saudi Arabia	498	720
Asiaray Media	Hong Kong	753	1,103

Source: Bloomberg, and Al Rajhi Capital

As per the data provided by Frost & Sullivan and Company filings, Al Arabia's market position improved from 14th globally in 2018 to 12th in 2019. The company also had a dominant position in the KSA market, with a market share of 62.3% in 2020, though it has fallen from 65.8% in 2019. Since 2017, the company had been improving its market share in the Kingdom, till 2020, when it fell marginally. Despite this, the company had a very strong competitive position, given that the second largest player had a market share of only 18.8% (Saudi Sign).



Figure 26. Market Share of Players Operating in KSA (2020)



Source: Frost & Sullivan, Company Filings, and Al Rajhi Capital

Attractive valuation

We value Al Arabia using 60-40% weight given to DCF and PE-based relative valuation. Our DCF-based target price is SAR160/sh based on 2% terminal growth and 9.6% WACC. For PE-based valuation, we have used FY23e earnings and applied a multiple of 15.1x resulting in a value of SAR98/sh. The forward multiple was calculated using Al Arabia's peers via Bloomberg. Thus, our weighted target prices stand at SAR 136/sh, providing an upside of 24.3% to the last close. The stock looks attractive at current levels on the back of a digitization push along with regional and local expansions. Hence, we initiate coverage on Al Arabia with an "Overweight" recommendation.

Figure 27. Market Share of Players Operating in KSA (SAR/sh)

Terminal Growth	WACC				
	7.6%	8.6%	9.6%	10.6%	11.6%
1.0%	210	172	143	120	101
1.5%	226	183	151	126	106
2.0%	245	196	160	132	111
2.5%	267	211	170	140	116
3.0%	295	228	182	148	123

Source: Bloomberg, and Al Rajhi Capital



Key financials

Figure 28. Income Statement

Income Statement (SAR mn)	2021	2022E	2023E	2024E	2025E	2026E
Sales	720	1,185	1,347	1,498	1,678	1,846
<i>y-o-y growth</i>	44.8%	64.5%	13.7%	11.2%	12.0%	10.0%
Cost of Sales	(390)	(727)	(814)	(892)	(984)	(1,066)
<i>y-o-y growth</i>	-2.1%	86.5%	12.0%	9.5%	10.3%	8.4%
Gross Profit	330	458	533	606	694	779
<i>y-o-y growth</i>	233.5%	38.6%	16.4%	13.6%	14.6%	12.3%
Operating expenses	(69)	(116)	(131)	(145)	(161)	(177)
Operating Income	261	342	402	461	533	603
<i>y-o-y growth</i>	408.3%	30.7%	17.6%	14.6%	15.6%	13.2%
Financing Expense	(33)	(41)	(54)	(56)	(51)	(44)
Other income net	(11)	0	0	0	0	0
Net income before tax	218	301	347	405	482	559
Zakat & Tax	(11)	(12)	(14)	(16)	(19)	(22)
Net Profit Before Minority Interest	206	289	334	389	462	536
<i>y-o-y growth</i>	718.4%	39.9%	15.6%	16.6%	18.9%	16.0%
Minority interest	0	(3)	(3)	(4)	(5)	(5)
Net Profit	206	286	330	385	458	531
<i>y-o-y growth</i>	718.4%	38.5%	15.6%	16.6%	18.9%	16.0%
EPS	4.12	5.71	6.60	7.70	9.16	10.62
DPS	1.85	3.00	3.30	3.85	4.50	5.30
Dividend Payout	44.8%	52.5%	50.0%	50.0%	49.1%	49.9%

Source: Company Data, Al Rajhi Capital



Figure 29. Balance Sheet

(SAR mn)	2021	2022E	2023E	2024E	2025E	2026E
Assets						
Non-Current Assets						
Property And Equipment, Net	193	214	236	258	282	307
Right Of Use	2,027	1,771	2,453	2,883	3,054	2,971
Intangible assets	0	0	0	0	0	0
Total Non-Current Assets	2,220	1,985	2,688	3,142	3,337	3,278
Current Assets						
Inventory, Net	15	28	31	34	38	41
Trade Receivables, Net	419	664	755	839	940	1,034
Due From Related Parties	0	0	0	0	0	0
Prepayments And Other Debit Balances	396	651	740	822	921	1,014
Cash And Cash Equivalents	190	50	50	50	68	231
Total Current Assets	1,020	1,392	1,576	1,745	1,966	2,319
Total Assets	3,240	3,377	4,264	4,887	5,303	5,597
Liabilities						
Non-Current Liabilities						
Long term debt	0	0	0	0	0	0
Employees Defined Benefits Obligation	15	25	28	31	35	38
Lease Liabilities	1,587	1,361	2,052	2,505	2,752	2,800
Total Non-Current Liabilities	1,602	1,386	2,081	2,536	2,787	2,838
Current Liabilities						
Lease Liabilities - Current Portion	314	452	539	583	592	592
Short-Term Loans	448	413	321	222	111	56
Due to Related Parties	0	0	0	0	0	0
Suppliers	5	5	5	5	5	5
Accrued Expenses And Other Credit Balances	129	240	269	295	325	352
Zakat Provision	11	11	11	11	11	11
Total Current Liabilities	907	1,121	1,145	1,116	1,044	1,015
Total Liabilities	2,509	2,507	3,226	3,653	3,831	3,854
Shareholders' Equity						
Capital	500	500	500	500	500	500
Statutory Reserve	46	46	46	46	46	46
Retained Earnings	186	321	487	679	912	1,178
Minority interest	0	3	6	10	15	20
Total Equity	731	870	1,038	1,235	1,472	1,743
Total Equity and Liabilities	3,240	3,377	4,264	4,887	5,303	5,597

Source: Company Data, Al Rajhi Capital

Figure 30. Cash Flow Statement

(SAR mn)	2021	2022E	2023E	2024E	2025E	2026E
Cash from operations	208	433	793	916	1,023	1,162
Capex	(78)	(52)	(59)	(66)	(74)	(81)
Free cash flow	130	381	733	850	949	1,080
Cash flow from financing	33	(521)	(733)	(850)	(931)	(917)
Net cash from change	163	(140)	0	0	18	163

Source: Company Data, Al Rajhi Capital

Figure 31. Key Ratios

	2021	2022E	2023E	2024E	2025E	2026E
ROA	6.4%	8.5%	7.8%	8.0%	8.7%	9.6%
ROE	28.2%	32.9%	32.0%	31.4%	31.4%	30.8%
Cash Conversion Cycle (Days)	106	98	98	98	98	98
Debt-Equity Ratio	3.2x	2.6x	2.8x	2.7x	2.3x	2.0x
Debt to Capital	76.3%	71.9%	73.7%	72.8%	70.1%	66.4%
Interest coverage ratio (x)	8.0x	8.3x	7.4x	8.3x	10.5x	13.6x

Source: Company Data, Al Rajhi Capital

Key challenges and risks

Concentration in advertising site lease agreements with government and quasi-government entities: A majority of the company's site lease agreement is with government and quasi-government entities and c.95% of the company's revenue is derived from these sites.

Revenue stream substantially dependent on outdoor advertising: Outdoor advertisement accounted for nearly 95% of the revenue of Al Arabia in 2021. While the company is expanding into the indoor advertisement, the proportion of this stream is relatively low. In the medium term, we expect outdoor revenue will continue to remain the main revenue driver for the company.

Client concentration: The top ten clients accounted for more than 60% of the company's revenue in 2020, with the top two clients accounting for 14% and 11%. Any impact on the operating or financial position of these companies will have a direct impact on the revenue and profitability of Al Arabia.

Billboard exposure to the external environment: Due to the nature of business, most of the billboards of the company are exposed to the external environment including, sandstorms, extreme heat, rain, traffic, accidents, etc.

Lower than expected growth: Our financial estimates and valuation depend on the company's ability to execute its business plans and effectively deploy its assets and grow its revenue. The inability of the company to deploy its assets effectively will impact the performance of Al Arabia.

Increase in leverage: Increase in working capital requirement and new lease contracts entered for the deployment of billboards have resulted in the proportion of short-term debt increasing to SAR448mn in 2021 from SAR132mn in 2020. We expect the debt levels to remain elevated, before falling to normal levels. In an increasing interest rate scenario, this could put pressure on the financial position and performance of the company.

Reduction in oil prices and a slowdown in KSA's economy: Any fall in the oil prices or a slowdown in the government's spending could have an adverse impact on the country's economy, which in turn could have an adverse impact on the financial performance of the company, given that the predominant portion of the company's revenue is derived from the Kingdom.

Increase in competition: The entry of new players, including established foreign players could impact the performance of the company. This could result in pressure on rental rates of the company's billboards and could also impact the effective deployment of its assets.

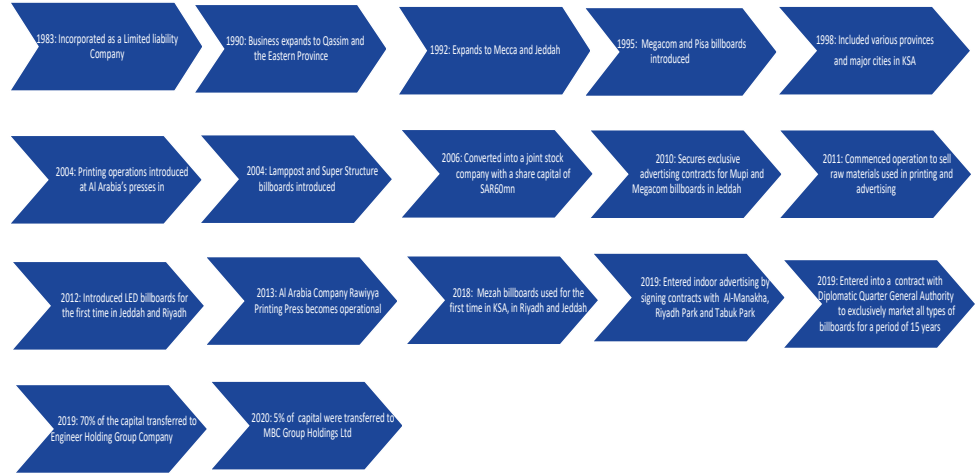
Revenue impacted by seasonality: The performance of the company is impacted by seasonal factors; the business usually drops during summer season in KSA and during the beginning of the year, since the clients will be undertaking budgeting activity.



Appendix

Al Arabia's Evolution

Figure 32. Al Arabia's Evolution



Source: Company Filings and Al Rajhi Capital

Types of outdoor billboards

Figure 33. Green Muji Billboards



Source: Company Filings and Al Rajhi Capital

Figure 34. Muji Billboards



Source: Company Filings and Al Rajhi Capital

Figure 35. Megacom Billboards



Source: Company Filings and Al Rajhi Capital

Figure 36. Mezah Billboards



Source: Company Filings and Al Rajhi Capital

Figure 37. Pisa Billboards (Scroller)



Source: Company Filings and Al Rajhi Capital

Figure 38. Portrait Billboards



Source: Company Filings and Al Rajhi Capital



Figure 39. LED Screens



Source: Company Filings and Al Rajhi Capital

Figure 40. Super Structures



Source: Company Filings and Al Rajhi Capital

Figure 41. Walking Bridge Billboards



Source: Company Filings and Al Rajhi Capital

Figure 42. Tower 6 Billboards



Source: Company Filings and Al Rajhi Capital

Figure 43. Tower 6 Digital Billboards



Source: Company Filings and Al Rajhi Capital

Figure 44. Mupi Scroller Billboards



Source: Company Filings and Al Rajhi Capital

Figure 45. Tower 6 Billboards



Source: Company Filings and Al Rajhi Capital



Types of indoor billboards

Figure 46. Mupi Digital



Source: Company Filings and Al Rajhi Capital

Figure 47. Bulkhead Screens



Source: Company Filings and Al Rajhi Capital

Figure 48. Façade Screens



Source: Company Filings and Al Rajhi Capital



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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.

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