Scientific and Medical Equipment House Co.

Healthcare: Industrial
EQUIPMENT AB: Saudi Arabia
28 February 2023

US$0.346bn	57.13%	US$0.73mn
Market Cap	Free Float	Avg. Daily Volume

Target price	77.00	18% above current
Current price	64.90	as at 28/02/2023

Existing rating

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

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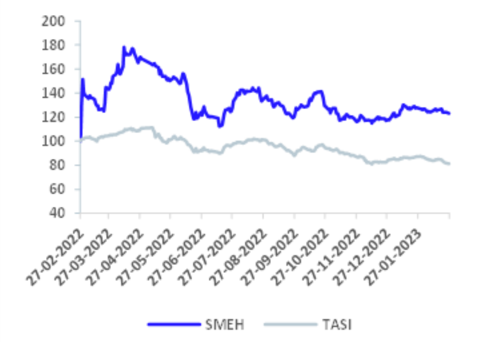
Performance



Financials

(SARmn)	2022E	2023E	2024E
Revenue	740	927	1,096
Revenue growth	6%	25%	18%
EBIT	76	96	114
EBIT growth	-9%	26%	18%
Net Income	55	65	82
Net Income growth	-29%	19%	26%
EPS	2.73	3.26	4.09
EPS growth	-29%	19%	26%
DPS	1.00	1.00	1.00
P/E	23.7	19.9	15.9
EV/EBIT	20.4	16.2	13.7
ROE	11%	13%	14%

Source: Company data, Al Rajhi Capital.
Note: Current EV used for 2023E and 2024E
EV= Equity value + Net Debt+ Pension Liabilities- Investment Properties

Equipment House

Stable business available at reasonable valuations

Equipment House's book to bill ratio of almost 3.0x (4.4x on expected orders, Source: Argaam and verbal confirmation from the management) implies a strong revenue visibility. Given that SMEH is an established player in the government healthcare services industry and the nature of the business is asset light, the business profile is defensive. SMEH's business is reliant on human resources, however, it is different from a typical recruitment company as its role is not of an intermediary. As the company executes its large order backlog, we believe the topline would grow by high double digit in the next two years. Although, in terms of margins, there could be some pressure, the healthy topline growth should be sufficient to translate into an attractive bottom-line growth. We believe the growth for 2023e would be skewed more towards H2 2023, and Q4 2022/Q1 2023 could see some margin pressure on net profit level due to higher financing costs and as well as the rise in labour costs. Moreover, from a medium-term perspective, there are sufficient catalysts such as demand for outsourcing of non-core tasks expected from the cluster model of MoH hospitals. Additionally, the company's focus on growing its relatively high margin businesses operated through subsidiaries, should offset margin pressure from O&M. We initiate the company with an overweight rating and a target price of SAR 77/share.

Strong order inflows led by established position: Equipment House has a history of four decades of operating in the non-medical O&M segment, that makes it a qualified player to participate in the bidding process. This is reflected in the strong order inflows that it has received in the recent months (SAR 1.6 bn). The company has an order backlog of SAR 2.2 bn, that is expected to touch SAR 3.3 bn in the coming months, implying a book to bill ratio of 4.4x.

Growth of subsidiaries and contracting business to be margin accretive: SMEH's construction business and subsidiaries, together account for about 15% of the revenues. Both these segments earn higher gross margins, mid to high 20's versus low 20's for the O&M. Given that the construction business has strong prospects, the growth of this business should be margin accretive. Similarly, among the four subsidiaries, Protecta Vision, that supplies specialised medical equipment/devices, has strong growth prospects on the back of rising private hospital capex.

Cluster model of MoH and private hospital capex: The transition towards cluster model for all the MoH hospitals could open up new opportunities for the outsourcing of O&M business. Given that the focus would shift to efficiencies and MoH would act just as a regulator, outsourcing of non-core tasks could grow notably. This along with the ongoing capacity expansion at the private hospitals should be supportive in terms of new order intake in the medium term. However, we are being conservative to price in the benefits of the cluster model in our estimates yet.

Valuation and risks: We value the company based on sum of the parts (SOTP) methodology, with the O&M business at an EV/EBIT multiple of 18x on 2023e/2024e EBIT. Given the volatile nature of the construction business we assign it a 12x multiple, subsidiaries and trading at 15x and low margin packaged food business at 10x multiple. Based on the SOTP method, our fair value is SAR 77/share, offering an upside of 18%. Our target price implies 2023e and 2024e P/E of 24x and 19x, respectively. Key risks: rising SAIBOR, labor costs, delay in receivables from the government.

Table of Contents

Industry overview

Healthcare staffing market:

Given that bulk of SMEH business is healthcare staffing, we are focussing on that part of the industry for this report. For other business, we are showing charts and projections from the prospectus. The key business of 'Equipment House' is providing staffing solutions to the healthcare market. The healthcare staffing market in the KSA is more skewed towards non-Saudi works. There are limited number of Saudi personnel working in the medical and nursing field, as technicians, and other related jobs. As per Bayina Partners estimates, Saudi citizens account for just one-third of the total healthcare sector workers, and the rest are expats. In terms of demand for healthcare staffing, the structural demand drivers are present such as focus from government on improving healthcare services, private hospitals expanding aggressively, rising insurance coverage and high prevalence of lifestyle disease. The ministry of health's plan to divide the government hospitals into clusters and make it more efficient, could result in outsourcing of non-core tasks and supporting the demand for healthcare staffing. Further, the focus on integrating technology in day to day operations of the hospitals would require more usage of computers and tech. products, thereby driving the demand for more technicians. As per Bayina Partners estimates, the medium-term growth potential is a CAGR of almost 4.0% between 2021e-2026e.

Figure 1: Healthcare Employee Services in the KSA, 2016G-2026G (SAR bn)

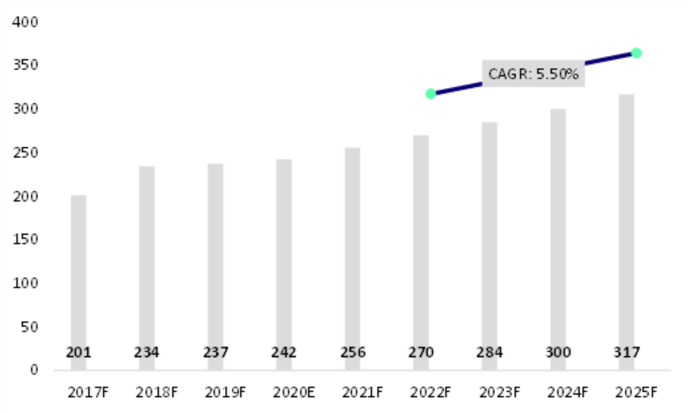
Source: Baniya Partners, Al Rajhi Capital

Figure 2: The KSA's employees working in healthcare sector,2014G-2019G(SAR '000)

Allied Health Staff	Pharmacists	Nurses	Doctors and Dentists	Year
95	22	165	82	2014G
102	24	172	87	2015G
107	25	181	90	2016G
112	28	186	98	2017G
124	29	185	105	2018G
124	32	199	113	2019G

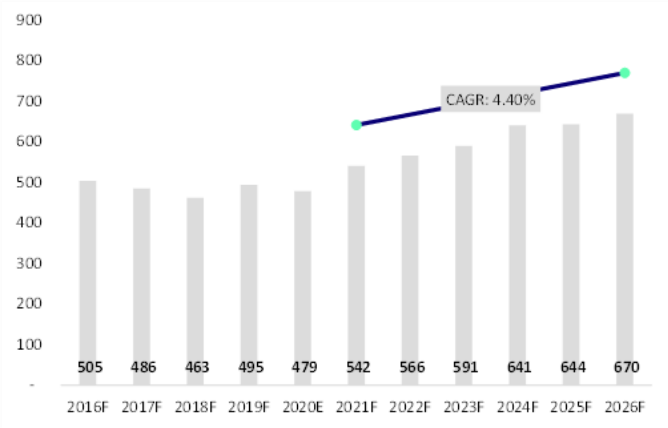
Source: Baniya Partners, Al Rajhi Capital

Figure 3: Medical Device Maintenance Market in KSA (SAR mn)



Source: Baniya Partners, Al Rajhi Capital

Figure 4: The Saudi Construction Market (SAR bn)



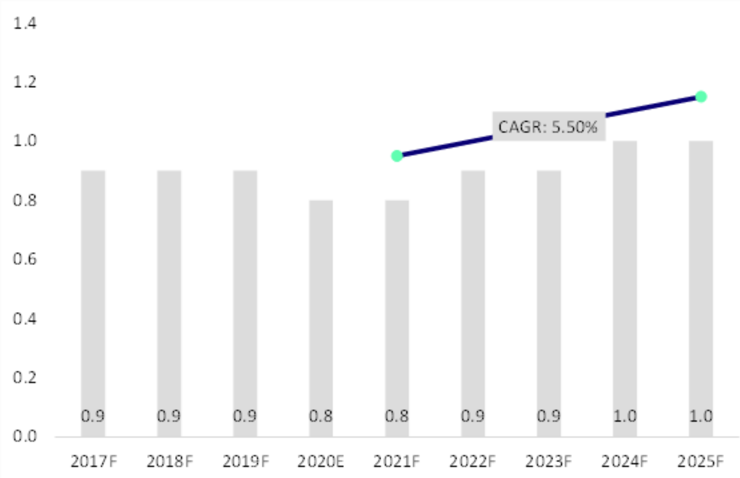
Source: Baniya Partners, Al Rajhi Capital

Figure 5: Medical and Surgical Equipment Market in the KSA by type

Medical and Surgical Equipment Market in the KSA by type in 2020G	Value (SAR bn)	Percentage of the share	CAGR (2017G-2020G)
Electro diagnostic, UV and IR devices	2.9	46.00%	8.50%
Needles and other inejction tools	1.3	21.50%	9.10%
Devices	0.7	11.40%	3.60%
Orthopedic devices and artificial limbs	0.5	8.40%	-11.20%
Other medical and surgical equipment	0.8	12.70%	15.70%
Total	**6.2**	**100.00%**	

Source: Baniya Partners, Al Rajhi Capital

Figure 6: The Saudi Healthcare Catering Services, 2017G-2025G (SAR bn)



Source: Baniya Partners, Al Rajhi Capital

Company overview and business model

Scientific Medical and Equipment House (referred to as 'The group' or 'Equipment House', or 'SMEH'), established in 1979, is into the business of providing operating and maintenance solutions mainly to healthcare and education facilities. The simpler understanding would be to see Equipment House as a facility management company wherein it enters into a 3-5 years contract to operate & maintain the facility/equipments. The non-medical is the major portion of its business (40-50% mix) and includes maintenance and cleaning of the facility (building) and also can include maintenance of elevators, fire systems, generators and other key ancillary systems. The company provides medical, administrative and technical staff such as, technicians, engineers, security guards, cleaning services staff, nurses etc. It differs from the traditional staffing company where the role of the company is just an intermediary, whereas Equipment House hire labour on their payrolls and supply them as part of the contract. Further, the group also supplies medical equipment and provides the after-sale services through its suppliers that includes key names such as Siemens Healthcare, Philips Healthcare, GE Medical Services, etc. Additionally, the group also provides catering services that includes providing cooked and uncooked food, meat, poultry and vegetables to hospitals and other facilities such as universities.

The company deals primarily with the government (over 84% of the total revenues in H1 2021), of which the bulk of the revenue comes from Ministry of Health and Ministry of Education (over 70% of total revenues). The group participates in several government tenders and the contracts are signed for a period of 3-5 years. The group also has some exposure to the private clients and some of the key names include Aramco, Dr. Sulaiman Al Habib, Arabian Medical and Pharma Co. etc.

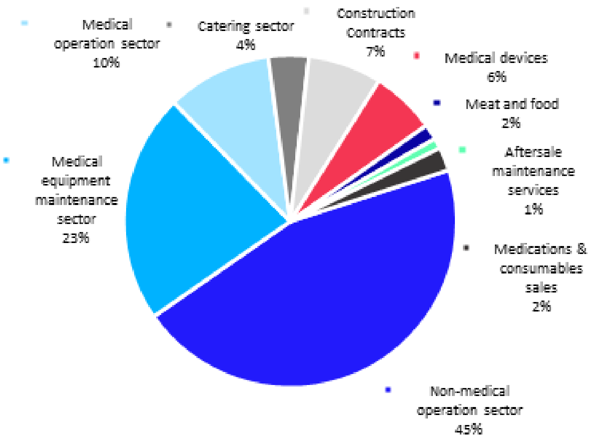
The reporting structure is divided into five major segments, operations & maintenance, trading, construction contracts, businesses done through subsidiaries. It also reports food supplies as a separate segment that sells packaged foods, whereas the cooked meals business is part of the O&M segment. The O&M is the largest segment that contributes about 80% of the total revenues. Within O&M, the business can be divided into three broad categories: non-medical O&M, medical O&M and the catering business. The non-medical operations include supplying non-medical systems and maintenance such as repair services of elevators, generators, etc. and staffing solutions such as providing technicians, cleaning staff, security guards, etc. In the medical O&M, the group provides medical equipment, consumable as well as technicians and administrative staffing solutions such as supply of doctors, nurses, consultants, etc. Although, all the sub-segments include some portion of supplying equipment, spare parts, systems and the bulk of the business is staffing solutions. Based on the available data as of 2020, over 60% of the O&M revenues came from labour invoices, indicating the nature of the business model is largely of supplying manpower.

The other businesses are relatively smaller in nature, of which construction is a major one in terms of significance. It accounts for about 7.5% of the total topline (in the past used to be over 20%). The company established the construction and contracting business in 2007 as it wanted to enter new avenues of growth. The company is deemed a first-class company in building construction, including electrical and mechanical works. In the past, the company has built hospitals, medical, military and educational facilities totalling SAR 1.0 bn.

The company has four key subsidiaries with three fully owned, Roaa Al Hymaya (Protecta Vision). Girgas Pharmaceutical Warehouse Co., and Al-Wateen Air-conditioning and refrigeration company. It has 51% stake in NABD Medical Industries. Through its subsidiaries, the company supplies medical and mechanical equipment and devices such as air purifiers, sterilizers, etc. and also engages in wholesale and retail trade in medical supplies.

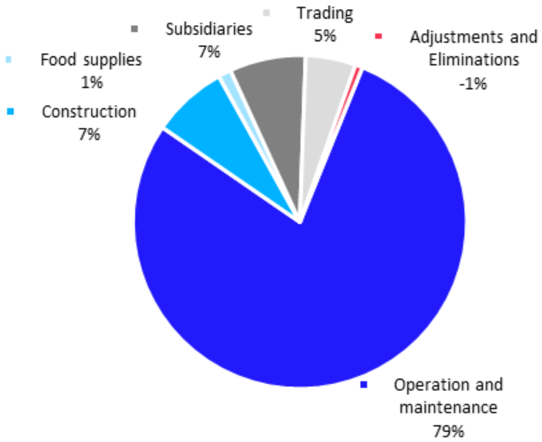
The company also reports, Trading as another segment, that includes supplying medical and non-medical equipment, not sold through subsidiaries.

Figure 7: Revenue by Business



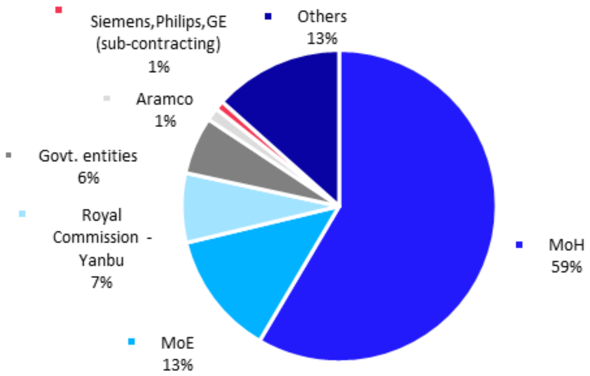
Source: Company Filings, Al Rajhi Capital

Figure 8: Reporting Structure (9M 2022)



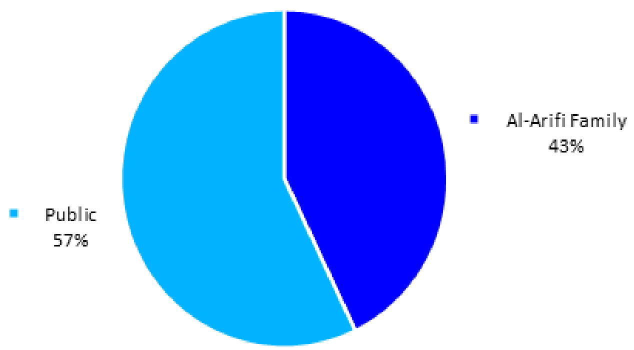
Source: Company Filings, Al Rajhi Capital

Figure 9: Revenue by Clients



Source: Company Filings, Al Rajhi Capital

Figure 10: Shareholding Pattern Post-IPO



Source: Bloomberg, Al Rajhi Capital

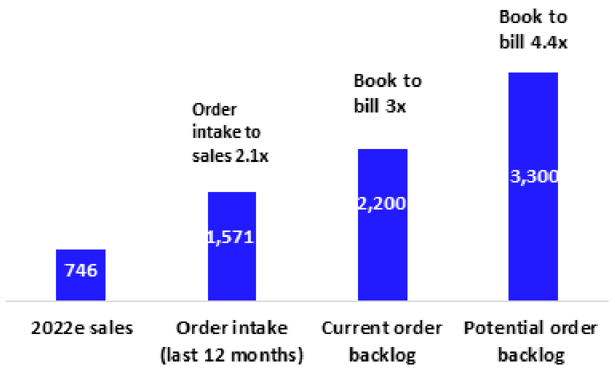
Key investment rationale and catalysts

Strong order inflows driven by established position in healthcare O&M business:

Equipment House has a history of over four decades operating in the healthcare services' O&M segment. Although, the company's strength lies in the non-medical O&M business, it also offers complementary services such as medical O&M and catering. In the non-medical O&M, the company provides a one stop solution that includes providing human resources, supplying equipment/devices, maintenance solutions, etc. Further, SMEH provides a broad range of semi-skilled to skilled labour such as security guards, house-keeping staff, technicians, engineers, etc. It also supplies hygiene materials, consumables, and spare parts, etc. Given that the contracts are won based on the past track record and not just pricing, having a strong history and a one stop solution offering is essential. This can be reflected in the significant order backlog the company has received in the recent months. Within the last one year or so, the company has received orders of almost SAR 1.6 bn in the O&M business of which more than 80% of the orders are in the non-medical O&M, 16% in catering and remaining in the medical O&M segment.

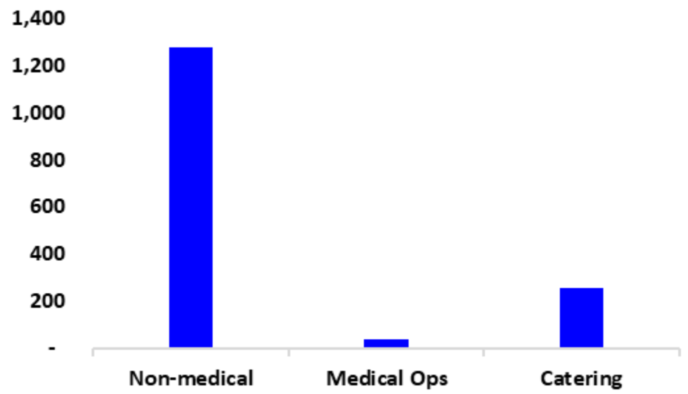
Based on our expected 2022e O&M revenues of about SAR 589 m, the order inflow to sales ratio is about 2.7x, implying a strong run rate. In terms of backlog, the company has verbally confirmed that it has notable backlog of about SAR 2.2 bn (only O&M business), implying a book to bill ratio of almost 3.0x (based on 2022e total revenues of SAR 746 m). Based on our discussions with the management and the information available in the press (Argaam), the company could maintain a strong run rate of order inflows this year and expects another SAR 1.1 bn of the orders in the coming months. Based on a SAR 3.3 bn order backlog, the book to bill ratio touches over 4.0x, implying revenue visibility for the next 4 years. Given that enough catalysts for the industry exists such as cluster model of MoH hospitals, we expect strong order inflows to continue in the near future. However, we are assuming an order inflow run rate of SAR 1.0 bn, in line with the recent trend, in 2024e and the years beyond. We are estimating revenues to touch SAR 927 m in 2023e, a growth of about 25% y-o-y and SAR 1.1 bn (+18% y-o-y) in 2024e. Thereafter, we expect the company to maintain high to mid-single digit top line growth.

Figure 11: Order Backlog (Book to Bill) (SAR mn)



Source: Company Filings, Al Rajhi Capital

Figure 12: Last 12 months order intake by Segment (SAR mn)



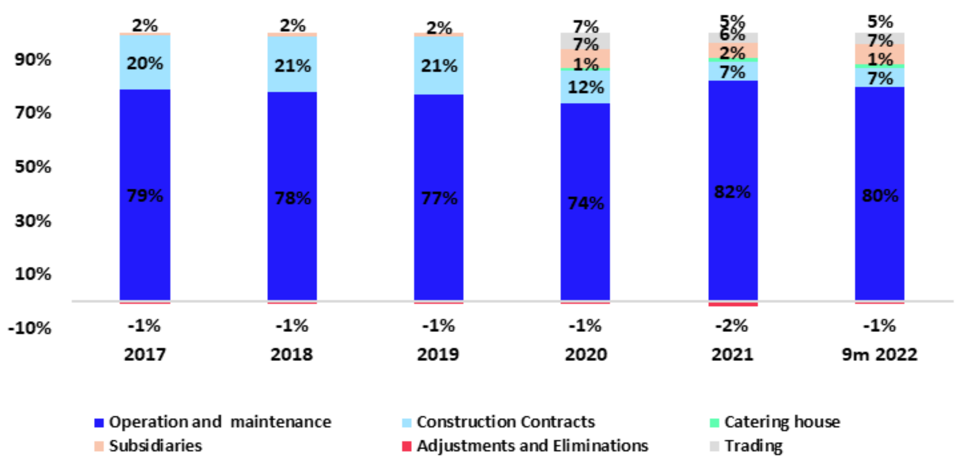
Source: Company Filings, Al Rajhi Capital

Margin accretive subsidiaries and contracting could complement O&M growth:

Equipment House also has construction business, that accounts for over 7% of the revenues currently (9M 2022). In the past, the revenue contribution was on the higher side, about 21% in 2018 and 2019. The company established the construction and contracting business in 2007 as it wanted to enter new avenues of growth. The company is deemed a first-class company in building construction, including electrical and mechanical works. In the past, the company has built hospitals, medical, military and educational facilities totalling SAR 1.0 bn. Based on the information available in the prospectus, we understand that the company takes up some portion of the building construction projects such as such as building sulphur tanks for Aramco, taking up electrical and some mechanical works such as fire extinguishing systems, security systems and others. Its notable projects are college of dentistry – Jouf University and a restaurant complex for a real estate company in Riyadh. We would view the company as more of a subcontractor (that wins some portion of a large project) rather than a full-fledged end to end construction company. Nevertheless, it is a relatively higher margin business, gross margins of 25% to 30% versus 23-24% for the group. Given that the construction activity in the KSA has strong growth potential across the sectors including healthcare and education, we believe the company can benefit from the same. We are estimating construction revenues to improve going forward; however, we are considering meaningful growth in 2024e than 2023e due to company's focus on executing the large O&M orders in the near term.

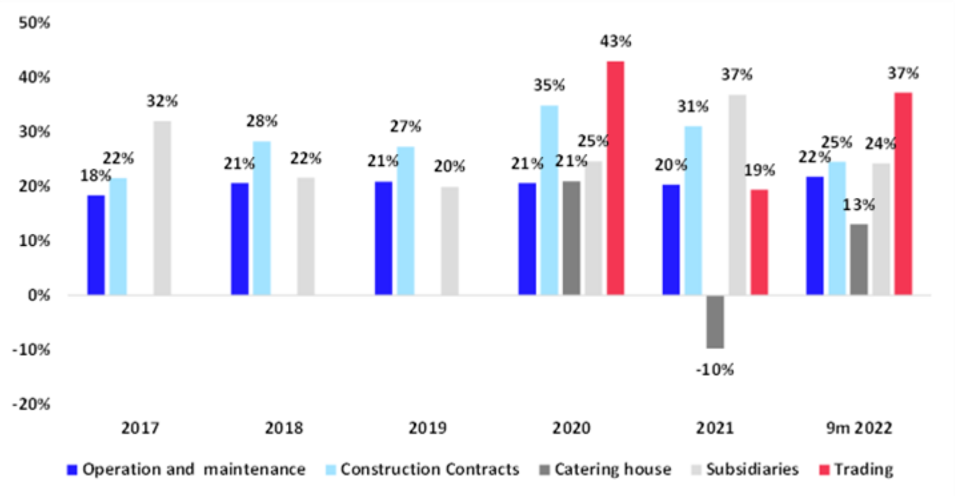
Another key catalyst could be the subsidiaries, in our view. The company has four key subsidiaries with three fully owned, Roaa Al Hymaya (Protecta Vision). Girgas Pharmaceutical Warehouse Co., and Al-Wateen Air-conditioning and refrigeration company. It has 51% stake in NABD Medical Industries. Of the four, we believe Protecta Vision is the key for future growth, given that it is into the business of supplying specialized medical equipment and after sale maintenance services. Over the recent years, the subsidiaries contribution to the group topline has improved from just over 2% in 2017 to 7.5% in 9M 2022. The company has not disclosed breakdown of subsidiaries for 2021 and 2022, based on the data available till 2020, Protecta Vision drove the revenues of subsidiaries, when the mix in topline grew to 6.8% in 2020. Out of the total revenues of SAR 42 m from subsidiaries in 2020, 79% came from Protecta Vision. As many private hospitals are expanding aggressively, the demand for specialized medical equipment and after sale maintenance services would be high in the future, there are strong growth prospects for Protecta Vision as well as other subsidiaries. Given that the gross margins for subsidiaries are in the range of 24-30% (24% in 9M 2022), slightly higher than the O&M business, the rising mix of subsidiaries would be margin accretive. Thus, overall, the rising mix of subsidiaries as well as contracting business should offset the margin pressure on the O&M business seen due to rise in labor cost as well as financing cost.

Figure 13: Revenue by business mix



Source: Company Data, Al Rajhi Capital

Figure 14: Gross Margins of each Business



Source: Company Data, Al Rajhi Capital

Figure 15: Key Contracts entered into by the Company to provide contracting services

Facility	Entity
Construction of College of Dentistry- Jouf University	Ministry of Education
Operation and maintenance of cadastral environment in the municipalities and departments of the Municipality of Riyadh Province	Municipality of Riyadh Province
Construction of sulfur tanks	Saudi Aramco
Construction of a luxury world-class restaurant complex- Al Takhassusi Street	Deerah Al Ammar Real Estate Company (Private)

Source: Company Data, Al Rajhi Capital

Figure 16: Contract Classification Certificate

Classification Area	Grade
Maintenance of medical facilties	1
Maintenance and operation of electronic business	1
Catering for medical centers	1
Catering services	1
Buildings	1
Roads	4
Water and wastewater works	4
Mechanical works	4
Electronic business	5
City cleanliness and waste disposal	5

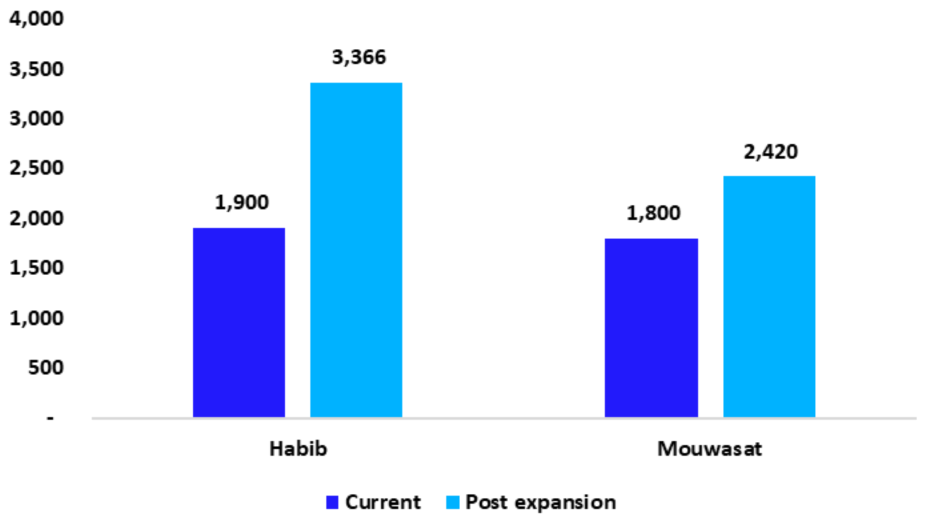
Source: Company Data, Al Rajhi Capital

New markets- cluster model of government hospitals and private hospital capex:

One of the major developments in the KSA's healthcare market is that the ministry of health is transitioning towards a new system where a new entity, called as Health Holding Co. would be managing all the MoH hospitals. The hospitals in the country would be classified based on clusters and each cluster would be having its own budget and would look after its day to day operations. On the other hand, MoH would only act as a regulator. This would bring efficiencies in the system and government hospitals would become more self-sufficient. We believe this development could open new opportunities for the healthcare services outsourcing industry. In our view, most of the non-core tasks would be outsourced and we see Equipment House as one of the major beneficiaries of this. We see notable opportunity in the non-medical O&M and catering segments. Although, it is too early to quantify the impact and at the moment we are not assuming any sharp jump in order inflows due to this. Nevertheless, it could become a major catalyst in terms of demand creation.

Another important growth catalyst is the ongoing private capex in the hospital sector. Currently, Equipment House has relatively very low exposure to the private sector, about 10%. Given that the private hospitals are aggressively spending on growth capex, the demand for medical equipment as well as O&M should be significantly high. Based on our discussion with the company, its private clientele includes Aramco, mainly for the construction business, and hospitals such as Habib and Mouwasat. We believe the exposure to private hospitals is currently on the non-medical O&M business. Whereas the lucrative commercial sales of medical devices and after sales maintenance is low. Based on our discussion with the management, the company plans to focus on this segment and this could be an additional source of growth opportunity.

Figure 17: Bed capacity expansion of Habib, Mouwasat



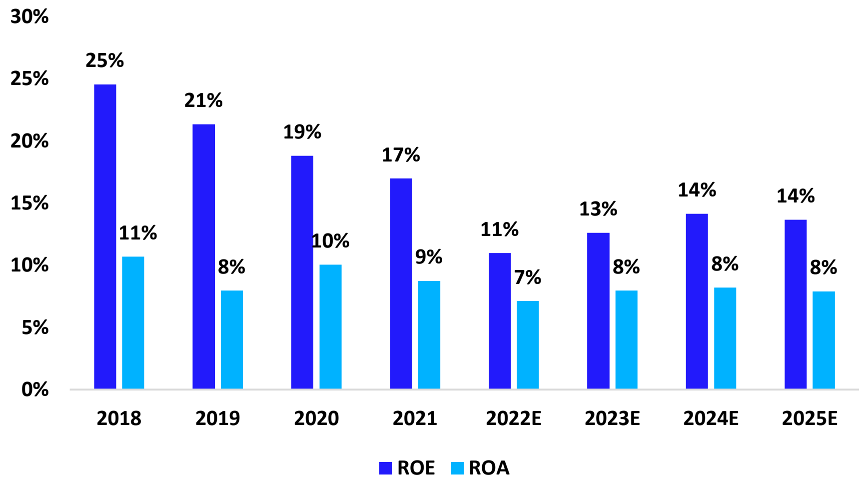
Source: Company Data, Al Rajhi Capital

Contractual and funding secured by government receivables support return ratios:

The company's O&M business, which is about 80% of the revenues, is contractual in nature. The tenure ranges from 3 to 5 years and the government is the counterparty, mainly ministry of health, ministry of interior, ministry of education, etc. The company does not have any major fixed assets and bulk of its assets include receivables and contract assets (about 66% of the total assets). The key assets for the company are its labor force that is deployed to perform the O&M business. Given that there is sufficient time lag between contracts signed and executed, the company has the leeway to operate the asset light model as it will hire labor only when it has the need and enough revenue visibility. Thus, from an operational point of view, the business model is not capex intensive and risky in nature, thus it can consistently earn decent return on equity in the range of 12-14%. In the past, the ROE level was on the higher side, average 20% during 2017-2021 mainly due to low equity base and the company dependence on working capital financing. As the operating margins have taken a hit and financing costs increased in 2022e, the ROE has dipped to 11%. We believe the ROE to improve in 2023e and 2024e and range around 13-14%. As the company can lock their margins due to the contractual nature of the business, this level of ROE is sustainable. Further, in years beyond 2023e if the interest rates decline, the company will benefit notably.

The ROA ratios are a bit on the lower side primarily due to the high current assets (over 90% of total assets) as the company has high debtor days of about 6-9 months. To fund the receivables, the company discounts the invoices from the bank and since the receivables are secured by the government, the funding is not a major constraint and the company secures the working capital financing at a decent spread of 150-200 bps over SAIBOR (as per the discussion with the management), which is in line with the corporate sector.

Figure 18: ROE and ROA ratios



Source: Company Data, Al Rajhi Capital

Financial projections, Valuations and Risks:

Revenue and margin assumptions:

SMEH has grown its topline by mid-single digit over the last 5 years (2018-2022e) supported by steady contribution from its O&M business, while the decline in the construction business was partly offset by the subsidiaries. For the projections, we are basing our assumptions on the SAR 2.2 bn order backlog confirmed by the management (not using SAR 3.3 bn based on the expected order intake in the coming months). Although, the company has garnered about SAR 1.6 bn orders in the last 12 months or so, we are assuming yearly order intake run rate of SAR 1.0 bn.

Based on our discussion with the management, the company is ramping up its hired labour force notably to execute the current backlog within the next 3-5 years. Thus, we believe revenues would grow notably in the next three years with 2023e and 2024e witnessing topline growth of 25% y-o-y and 18% y-o-y touching SAR 927 m and SAR 1.1 bn, respectively. Beyond 2024e, we expect high single topline growth in 2025e followed by a mid-single digit growth. In terms of segments, we estimate the topline to be driven mainly by O&M (a growth of 30% and 20% in 2023e and 2024e, resp.), construction (6% and 10%) and subsidiaries (15% in each year).

On the margin front, we remain conservative given the cost pressure on the labour. Further, another concern is the expected increase in financing cost that would impact the net profit margins. We estimate operating margins to be around 10% and net profit margins to be around 7-7.5% in both 2023e and 2024e. On the back of strong topline growth and stable margins, we believe net income to grow by a 15% CAGR over the next four years during 2022-2026e.

However, we believe the growth for 2023e would be skewed more towards H2 2023, we believe Q4 2022 and Q1 2023 could see some margin pressure on net profit level due to higher financing costs and the old orders would not have priced in the higher SAIBOR as well as the labour costs.

Valuations and risks:

We have valued the company based on sum of the parts methodology. We value the O&M business at an EV/EBIT multiple of 18x on average EBIT for 2023e/2024e, when the company's results would be reflecting the execution of the current order backlog. Given that the O&M business is more stable in nature and offer sufficient visibility, we assign a multiple of 18x (the highest among its segments). We have used National Medical Care's current one year forward EV/EBIT multiple as well as Maharah's historical average multiple to arrive at the target multiple for SMEH. In our view, Equipment House's business is exposed to both healthcare demand in the region as well as dynamics related to human resources' business. Further, as the company is exposed to the government sector largely, the growth characteristics as well as working capital needs (high receivables) are similar to the National Medical Care, the hospital operator.

Currently, Care is trading at a 2023e EV/EBIT of about 18x, while its historical average has been around 20x (9 years average). On the other hand, Maharah's valuation multiple has been very volatile, further not much history is available. Currently, Maharah, based on Bloomberg estimates, is trading at 2023e EV/EBIT of 12x. Since its listing on an average Maharah has traded around 16x, the recent correction in the multiple appears due to the acquisitions and high debt it has taken on. Thus, we are using historical average multiple of Maharah not the current one.

In our view, SMEH's EV/EBIT multiple should be between 16-18x. We are assigning the higher end of the range (18x) due to the strong order backlog, revenue visibility and the expected growth in earnings in the near future. The other important businesses are construction and the subsidiaries. Given the volatile nature of the construction business, we assign it a 12x multiple, while the subsidiaries and the trading business are valued on 15x. The catering business operates at thin margins; thus, we are valuing it on just 10x multiple. Based on the SOTP method, our fair value is SAR 77/share, offering an upside of 18%. Our target price implies 2023e and 2024e P/E of 24x and 19x, respectively.

Figure 19: Valuation Table (Figures in SAR mn)

SOTP	Operating profit 2023/2024e	EV/EBIT multiple (x)	EV	Comment
O&M	82.4	18.0	1482	Stable business, visibility due to contractual nature
Construction	7.9	12.0	95	Volatile but relatively high margin
Food supply	0.5	10.0	5	Low margin business
Subsidiaries	8.5	15.0	127	High margin business
Trading	5.8	15.0	87	High margin business
Enterprise value			**1,797**	
Less: Net debt (2022e)			231	
Less: Pension liab. (2022e)			62	
Add: Investment properties (2022e)			32	
Total equity value			1,535	
Shares O/S			20	
Fair value per share			77	
CMP			65	
Upside/(downside)			18%	

Source: Company Data, Al Rajhi Capital
Note: Operating profit for each segment is allocated based on their mix in gross profits.

Key risks:

1) The company is highly dependent on invoice discounting to manage its working capital, thus notable increase in SAIBOR is detrimental.
2) The sharp rise in SAIBOR or labour costs could hurt margins and any renegotiations with the counterparty for the contractual term could take time given that the company deals with the government for most of its contracts.
3) Pricing pressure in the industry to win orders should be watched out in the current inflationary environment.
4) Sharp decline in oil prices can hurt the government budget, which in turn can delay payments

Key Financials

Figure 20: Income Statement

SARmn	2021	2022E	2023E	2024E	2025E
Revenue	**699**	**740**	**927**	**1,096**	**1,198**
y-o-y growth	*13.3%*	*5.8%*	*25.3%*	*18.1%*	*9.3%*
Cost of sales	-546	-578	-724	-856	-938
Gross Profit	**153**	**162**	**204**	**240**	**260**
y-o-y growth	*1.4%*	*5.9%*	*25.8%*	*17.6%*	*8.5%*
margins	*21.9%*	*21.9%*	*22.0%*	*21.9%*	*21.7%*
Selling and marketing expenses	-10	-13	-17	-20	-22
General and admin. Expenses	-55	-72	-91	-106	-115
Others	-4	0	0	0	0
Operating profit	**83**	**76**	**96**	**114**	**124**
y-o-y growth	*-5.3%*	*-8.5%*	*26.3%*	*18.1%*	*8.6%*
margins	*11.9%*	*10.3%*	*10.4%*	*10.4%*	*10.3%*
Finance cost	-14	-22	-29	-28	-28
Pre-Tax Income	**85**	**64**	**78**	**96**	**104**
Zakat	-8	-11	-12	-14	-16
Net Income/Net Profit (Losses)	**78**	**55**	**65**	**82**	**88**
y-o-y growth	*3.7%*	*-29.4%*	*19.2%*	*25.6%*	*7.6%*
margins	*11.1%*	*7.4%*	*7.0%*	*7.5%*	*7.3%*
EPS	3.9	2.7	3.3	4.1	4.4
DPS	1.0	1.0	1.0	1.0	1.0

Source: Company Data, Al Rajhi Capital

Figure 21: Cash Flow Statement

SARmn	2021	2022E	2023E	2024E	2025E
Cash flow from Operations	-72	26	12	-28	-28
Cash flow from Investing	5	-16	-19	-22	-24
Cash flow from Financing	24	46	39	37	42
Change in cash	-43	56	32	-13	-10
Cash and Cash Equivalents at the end of the year	45	101	133	120	110

Source: Company Data, Al Rajhi Capital

Figure 22: Key Ratios

SARmn	2021	2022E	2023E	2024E	2025E
ROA	8.7%	7.1%	8.0%	8.2%	7.9%
ROE	17.0%	11.0%	12.6%	14.1%	13.7%
Current Ratio (x)	2.0x	1.9x	1.9x	1.9x	1.9x
Asset turnover ratio (x)	0.7x	0.7x	0.8x	0.9x	0.9x
Inventory turnover ratio (x)	6.0x	5.7x	6.1x	5.9x	5.7x
Receivables turnover ratio (x)	1.6x	1.4x	1.5x	1.5x	1.4x
Payable turnover ratio (x)	9.6x	8.4x	8.2x	8.0x	7.7x
Cash Conversion Cycle (Days)	251	281	253	252	270
Debt-Equity Ratio (x)	0.5x	0.6x	0.7x	0.7x	0.7x
BVPS	23.7	25.1	27.4	30.5	33.9
P/E	16.7	23.7	19.9	15.9	14.7
P/B	2.7	2.6	2.4	2.1	1.9

Source: Company Data, Al Rajhi Capital

Figure 23: Balance Sheet

SARmn	2021	2022E	2023E	2024E	2025E
Non-current Assets					
Property, plant and equipment	34	33	33	35	35
Right of use of assets	10	11	11	12	11
Investment properties	32	32	32	32	32
Intangible assets	0	1	1	1	0
Total non-current assets	**76**	**77**	**78**	**79**	**79**
Current Assets					
Cash and cash equivalents	45	101	133	120	110
Trade receivables	501	555	649	767	899
Contract assets	209	185	185	219	240
Inventories	97	106	132	157	172
Prepaid expenses and other debt balanc	73	80	101	119	131
Deferred expenses	12	12	12	12	12
Dues from Related Parties	4	4	4	4	4
Total current assets	**942**	**1,044**	**1,217**	**1,398**	**1,567**
Total Assets	**1,018**	**1,121**	**1,295**	**1,478**	**1,646**
Current Liabilities					
Short-term loans	233	296	352	406	466
Trade creditors	60	78	98	116	127
Payable expenses and other creditor ba	143	133	166	197	216
Provision for Legal Zakat	7	7	7	7	7
Other Current Liabilities	31	27	27	27	28
Total current liabilities	**474**	**540**	**650**	**753**	**843**
Non-current liabilities					
Long-term loan	7	10	10	10	10
Employee Defined Benefit Liabilities	57	62	78	92	101
Lease liabilities	6	7	10	13	14
Total Non-current liabilities	**70**	**79**	**98**	**115**	**125**
Total liabilities	**544**	**620**	**747**	**868**	**968**
Share capital	200	200	200	200	200
Statutory reserve	35	35	35	35	35
Retained earnings	239	268	313	375	443
Total Shareholders' Equity	**473**	**503**	**548**	**610**	**678**
Non-controlling equity	0	-1	0	0	0
Total liabilities and equity	**1,018**	**1,121**	**1,295**	**1,478**	**1,646**

Source: Company Data, Al Rajhi Capital

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