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Miahona

Initiating Coverage with a TP of SAR13.7/sh

Overweight

Price Target (SAR): 13.7

IPO Price: 11.5
Upside/Downside: 19.2% above listing

Valuation Multiples	24E	25E	26E
P/E at listing (x)	10.1	21.4	14.1
P/B at listing (x)	3.6	3.2	2.8
EV/EBITDA at listing (x)	6.7	15.3	14.7

IPO Details

Offering Type	Primary IPO
Offered shares	48.3mn
Use of proceeds	Net of expenses to be distributed to selling shareholders

Post IPO	% Ownership
Vision Invest	70.00
Public	30.00

Financial Snapshot

(SAR mn)	2023	2024E	2025E
Revenue	324	1,453	1,026
YoY %	*17.5%*	*347.9%*	*-29.4%*
Recurring Rev.	264	298	315
YoY %	*4.7%*	*13.0%*	*5.6%*
Gross Profit	109	320	139
GM Margin %	*33.7%*	*22.0%*	*13.5%*
YoY %	*26.0%*	*192.2%*	*-56.6%*
EBITDA	115	328	144
EBITDA Margin	*35.4%*	*22.6%*	*14.1%*
Recurring EBITDA	115	124	128
EBITDA Margin	*44%*	*42%*	*41%*
Net Income	57	183	87
Net Income Margin %	*17.5%*	*12.6%*	*8.4%*
YoY %	*13.2%*	*222.8%*	*-52.7%*
EPS	0.4	1.1	0.5
DPS	0.0	0.3	0.2
P/E	32.6	10.1	21.4
EV/EBITDA	19.3	6.7	15.3
ROE	14%	33%	14%

** Recurring revenues and EBITDA exclude the impact of construction, success & development fees*

We initiate coverage on Miahona with a target price of SAR13.7/sh and an "Overweight" rating, providing an upside of 19.2% to the listing price. Miahona is one of the leading players in the water and wastewater sector of the Kingdom and was the first company to develop a project under the PPP model, namely the Jeddah Industrial City Project. The business model of the company is to develop, own, operate, and optimize projects, which allows the company to maximize its returns over the project's life and achieve the target IRRs. The current portfolio of the company includes around 12 existing and completed projects, which include the recently won Al-Haer ISTP project and the Ras Tanura concession. These projects provide long-term visibility over cashflows, with an estimated current backlog standing at a whopping SAR11.3bn. Based on the existing backlog, we forecast total billing for the company to grow at a 5-year CAGR of 19%. Apart from the existing backlog, Miahona boasts a win rate of 80% and is set to capitalize on the growing water infrastructure market in the Kingdom. Currently, the Kingdom has identified a list of upcoming BOOT and Rot projects in the medium term (FY24–28) with a value north of SAR30bn and includes 24 projects with a capacity of +3.1mn m3/day. Miahona will be looking to target the upcoming projects depending on the best fit as per their technical expertise. In addition, the company would be looking to convert their existing MOM clusters to long-term concessions. To summarize, our liking for the stock emanates from the fact that the company: 1) has a de-risked business model providing clear visibility over future cash flows; 2) has a strong backlog and upselling opportunities to drive growth; 3) total billing (revenue + amortization of financial assets) to grow by 19%; and 4) is ready to benefit from the Kingdom's push towards developing water infrastructure to meet the growing demand. Hence, we initiate coverage with an "Overweight" recommendation.

A de-risked business model provides visibility over future cash flows: Miahona has a de-risked business model underpinned by long-term concessions, resulting in steady cash flow generation. The company has a defensive business model with 1) high visibility over future cash flows, 2) low operational risks, and 3) hedged cost overruns. Concessions with off-take agreements provide guaranteed cash flows. The company is now looking to capitalize on the boom in the water infrastructure market, which would result in winning quite a few new concessions given the group's proven track record. These new concessions would initially result in negative FCFF but will eventually churn positive cash flows post-COD. In addition, the company will be using EBL to finance the initial equity requirements, which would further enhance their project IRRs. The company aims to achieve an IRR of 15-20% on new projects. We believe, for now, that dividends might not be a priority for the company. But having long-term contracts and steady cash flows for the near future gives confidence in the company's ability to pay stable dividends in the long run.

Existing backlog and upselling opportunity to drive medium term growth: The company offers a unique blend of stability and growth owing to the defensive nature of existing projects as well as the upcoming potential pipeline of projects. Miahona has a very stable backlog pipeline from existing projects amounting to SAR5.9bn. The existing projects include JIC, DIC, KKIA, and LTOM Makkah. In addition, the company has the opportunity to further expand its capacity from these projects, and the upselling opportunity has been identified as worth nearly SAR1.9bn. Apart from this, Miahona has recently won two long-term concessions in 2024, namely the Al-Haer wastewater project and the Ras Tanura Industrial Wastewater Project. Including these concessions takes the backlog number to an impressive SAR11.3bn. The upcoming projects plus existing projects will see the total daily capacity increase by 36% to 912k m^3.

Revenues to jump in FY2024; total billing to increase steadily: Miahona has historically grown at a steady CAGR of 12% from FY20–23. The company will continue its upward momentum, with revenue expected to grow at a 5-year CAGR of 4%. The recurring revenue is likely to grow at a 5-year CAGR of 9%. However, the total revenue is not the appropriate yardstick to measure the CAGR, as total billing will be higher due to concession accounting. The total billing will be equal to revenue recognized in the income statement plus amortization of financial assets. This will be truly reflected in the cash flows. The total billing is set to grow at a 5-year CAGR of 19%.

In FY2024, revenue is likely to jump up by 346% thanks to construction revenues from the two new concessions amounting to SAR975mn and development/success fees to the tune of SAR174mn. Adjusting for these one-offs, revenues are likely to increase by 13% YoY.

Miahona set to benefit from the boom in water infrastructure activities: In accordance with Vision 2030, the Kingdom plans to rapidly privatize and expand the existing water infrastructure. The ambitious yet achievable Vison 2030 targets mean that the announced investment in the water infrastructure projects is ~SAR300bn. Miahona is set to capitalize on the growing market, boasting a win rate of 80%. However, the mentioned win rate might be inflated as the company only enters into projects for which they have a high probability of winning and only enters bids for projects that they identify as relevant to their existing portfolio. Currently, the Kingdom has identified a list of upcoming BOOT and Rot projects in the medium term (FY24–28) with a value north of SAR30bn and includes 24 projects with a capacity of +3.1mn m^3/day.

Valuation: We value the company using an equal mix of DCF and PE-based relative valuations. Using the above-mentioned approach, we arrive at an equal weighted target price of SAR13.7/sh. We forecast the growth pipeline separately using the win rate and IRR assumptions of 40% and 15%. Our DCF-based value of the core business is SAR12.4/sh using a cost of equity of 11.2%, resulting in a WACC of 9.4%. Our terminal growth assumption is a conservative 2%. Adding the growth pipeline value, we get a fair value for SAR14.0/sh. For relative valuation, we do not prefer using FY24 earnings as they are inflated by one-off construction revenue and success/development fees. Instead, we use discounted FY27e recurring earnings and apply a conservative P/E multiple of 18.0x, resulting in a core business valuation of SAR11.8/sh, which, after including future potential growth, increases to SAR13.4/sh.

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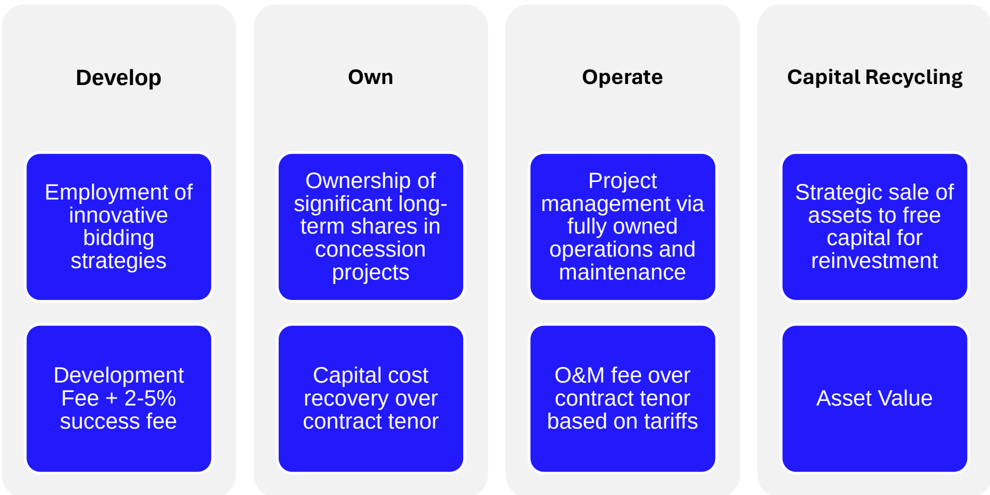
Business Model

Miahona is a leading water infrastructure developer in the Kingdom, specializing in long-term concessions and diverse projects, including the Al-Haer ISTP and Ras Tanura, focusing on BOOT, ROT, and MOM agreements to maximize returns.

Miahona is one of the leading water infrastructure development companies in the Kingdom, offering solutions across the water supply chain with a focus mainly on long-term concessions. Miahona's capabilities in concluding BOOT, ROT, and MOM agreements with the municipalities as well as the industries are well known. The model of the company is to develop, own, operate, and optimize, which allows the company to maximize its returns over the project's life and achieve the target IRRs. The company has a diverse project portfolio spread across different locations, with varying tenors and unique service offerings. The current portfolio of the company boasts around 12 existing and completed projects, which include the recently won Al-Haer ISTP project and the Ras Tanura project.

Figure 1 **Project Lifecycle**



Source: Company Data, Al Rajhi Capital

The company usually offers services through the following arrangements:

BOOT or BOT: These are greenfield concessions whereby the offtaker assigns the task of designing, building, and operating a particular facility with a clause to transfer at the end of the service. The concessions are usually long-term and are usually for 20+ years. These projects are usually done in partnerships with other expert players, and a SPV is established. The project finance debt is obtained by the SPV on a non-recourse basis.

ROOT or ROT: These are typically brownfield concessions where the company is responsible for rehabilitation, reconstruction, or upgradation of existing facilities. Again, these contracts are on a long-term basis (usually 20+ years) where ownership is transferred at the end of the contract. Similar to BOOT, a SPV is developed that is responsible for raising debt, and the loan can be either recourse or non-recourse.

O&M and MoM: These are usually short-term contracts ranging from 2 to 5 years. The O&M contracts usually involve providing operation and management services to either their own projects or to third parties. As an O&M service provider, the company does not own capital and receives compensation via agreed-upon tariffs. Under MoM, the company is responsible for providing management services for water and wastewater plants. These contracts serve as leads, which can then be converted into LTOM concessions. One such example is the conversion of the Hada & Arana O&M contract into the LTOM Makkah Project which has a tenor of 10 years.

Tariff: Generally, the tariff for BOOT/BOT and ROOT/ROT ensures that the company receives compensation for invested capital through an agreed-upon tariff. The structure of these tariffs usually includes a capacity payment component and an output payment component. The capacity payment is a fixed monthly payment that includes the cost of capital, debt service, ROE, duties and taxes, fixed operating costs, and operator fees. On the other hand, output payment covers variable costs like O&M, electricity, etc. and is linked with actual productivity. In addition, the tariffs are also indexed to annual CPIs (in some cases, cumulative CPI escalation after certain years), which ensures that most of the costs do not affect the company. However, the fuel cost is not indexed, but for Miahona, it serves as a small portion of the overall CoGs as it is used only for transportation.

For MOM O&M contracts, the company receives a fixed fee for projects that covers the fixed and variable costs. In addition, there is also a performance incentive component to managing and operating the plants.

Understanding a BOOT/ROOT concession:

Process of tendering, EPC, and operating (BOOT lifecycle): Government institutions are the major clients for the company, and the company usually participates in tenders floated by them. Initially, the government announces its intention to select a pre-qualified bid based on certain technical parameters. This is followed by the selection of a preferred bidder on the basis of bids received and their suitability for the mentioned criteria. Next, the preferred bidder and the government agree on the final project details. Thereafter, the development phase is initiated, which usually involves the completion of funding requirements for the project. Once financial close is achieved, the company receives development fees, which cover all the costs (plus a small margin) related to bidding and financial close. In addition, the company is also entitled to success fees, which usually don't have any associated costs and are usually booked when financial closure is achieved. These fees usually range from 2–5% of the project cost and completely depend on the agreed-upon terms with the government.

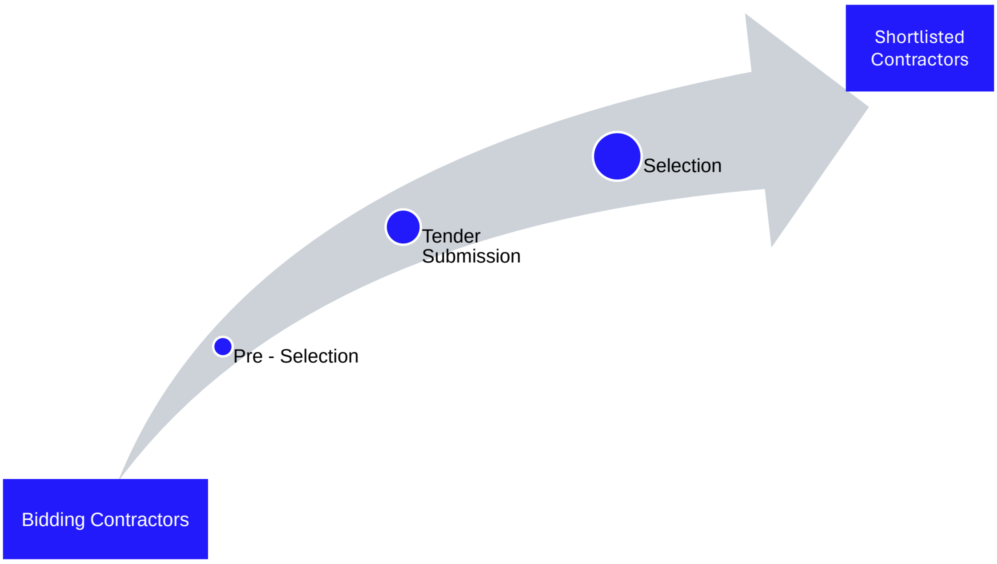
Revenue structure of concessions: The next phase is the construction phase. The company does not have in-house EPC capability and therefore outsources this to expert players in the industry. The company usually employs OEM and EPC contractors, providing turnkey solutions. Miahona's projects are usually carried out by single EPC contractors, split between multiple, or done via a consortium of EPC contractors who are now responsible for the delivery of the EPC portion of the project. This allows the company to minimize the risk of cost overruns involved in developing the project. Hence, the overall margins for the company during the construction phase are in the low single digits (3-5%); however, the risks involved with EPC are minimized.

After COD, the next phase is the operation of the project, which includes regular tariff-based payments as explained above. For any new projects, the revenue upfront will always be lumpy thanks to construction revenues and success/development fees. However, stripping the revenue for these one-offs, the company manages to earn a steady cash flow post-COD based on the utilization of the plant and fixed capacity payments. So, in essence, total billing is a combination of amortization of financial asset and revenue billed. To summarize, for a typical concession contract (following the FAM model), there are three sources of revenue: 1) development and success fees; 2) construction revenue; and 3) revenue billed to the customer. More details on the accounting of concessions can be found in the next section.

Figure 2 **Tender process**

Source: Company Prospectus, Al Rajhi Capital

Figure 3 **Selection of EPC contractor**



Source: Company Data, Al Rajhi Capital

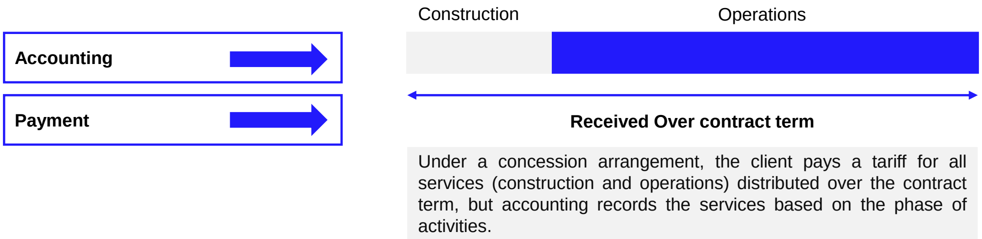
Accounting structure of concessions: Accounting for concessions varies dramatically based on the contract terms but falls under one of each category: 1) Financial Asset Model (FAM); 2) Intangible Asset Model (IAM); and 3) Leases.

FAM: This model is usually applied if the operator has the contractual right to receive cash from the grantor i.e., the off-take payment is guaranteed. Hence, there is no volume or utilization risk involved. An example of this project will be the KKIA project that the company holds, where the off-take is guaranteed to GACA. In addition, LTOM Makkah will also follow similar accounting practices. Revenues and costs related to the construction phase are recognized in the profit and loss in accordance with IAS 11. A financial asset is recorded on the book, which is reduced when payments are received over the term, and an effective interest rate is used to calculate the financial income. This financial income is recognized in the income statement. Hence, financial assets are reduced by the difference between financial income and payments received. Revenues from the operational phase are recorded in accordance with IAS 18.

IAM: Under the intangible asset model, the operator receives the right to charge users based on the use of public services. Therefore, the volume risk is with the operator. An example of this project will be the JIC/DIC concessions that the company holds where they sell directly to industrial customers. During the construction phase, the operator recognizes revenue and cost in respect of the construction activities, while the intangible asset increases by a similar amount as the grantor gives a license to the operator to charge the customers. The second stream of revenues is received by the operator by billing the customers or from the grantor based on the usage. The intangible asset is then reduced by the amortization amount over the period of the concession.

Leases Model: The final model is the leases model under IFRS 16, which differs slightly from FAM, where the end user is private rather than public and the off-take is guaranteed. No construction revenue is recognized upfront. An example of this project will be the recently won Ras Tanura concession, where Aramco is the off-taker.

Figure 4 **Selection of EPC contractor**



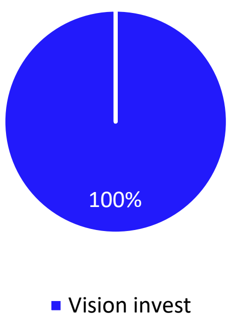
Source: Company Data, Al Rajhi Capital

Cash flow: In terms of cash flow, the company has to face a huge outflow in the initial years due to the construction CAPEX required. Some of it is cushioned by the upfront success and development fees. However, the majority is incurred as cash outflow. Hence, FCFF turns negative during the initial years while turning positive once the plant commences operation. However, for FCFE, it is a bit different, as most of this CAPEX is financed via debt. These term loans are usually long-term and on a non-recourse basis. Miahona also makes use of equity bridge loans (EBL), which help the company maximize its IRR. The holding company's risks are limited to the EBL, or equity injection into the project. EBLs are usually short-term in nature and can last 3-5 years. Hence, FCFE remains positive in the initial years while coming under pressure once the repayments start.

Company Overview

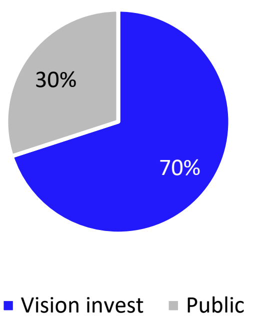
The ownership structure post IPO will be revised to only Vision Invest holding 70% of total shares while remaining 30% to become public:

Figure 5 **Pre IPO**



Source: Company Data, Al Rajhi Capital

Figure 6 **Post IPO**



Source: Company Data, Al Rajhi Capital

Figure 7 **Company ownership structure**

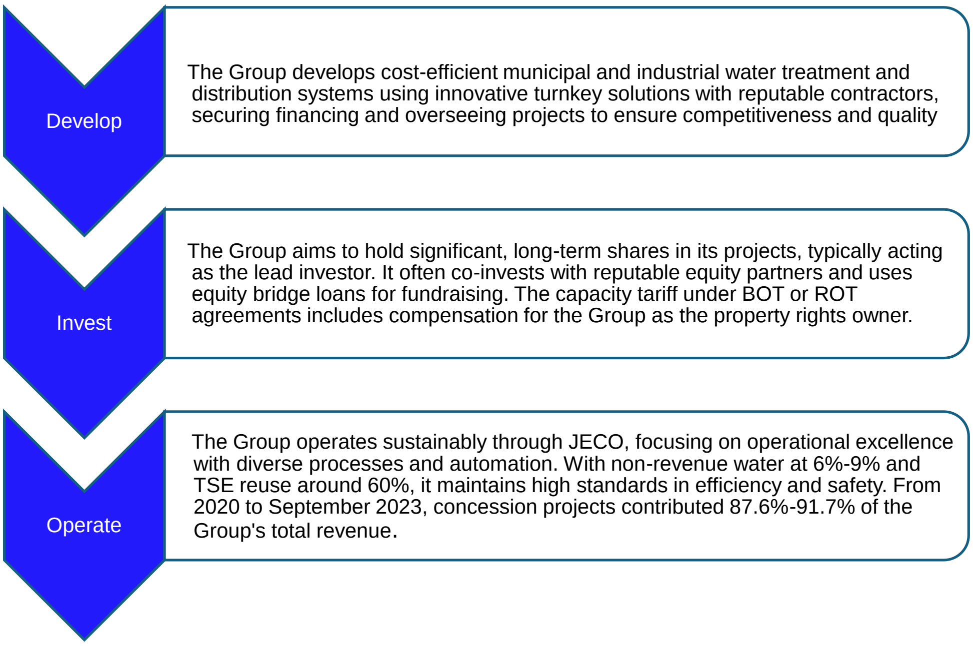
Source: Company Data, Al Rajhi Capital

Overview of the Group's Business

The Group is a pioneer in developing water and wastewater infrastructure under a PPP model in Saudi Arabia and is a leader in providing management and concession services for water and wastewater treatment utilities. It has invested over SAR1bn in these assets and serves over 8 million individuals, including eleven major industrial clients. The Group's operations span the entire water value chain, including:

- **Sources and Treatment/Production:** Water treatment plants handling groundwater, surface water, and direct well water.
- **Storage and Transportation:** Supply pipelines, storage tanks, and reservoirs.
- **Water Distribution:** Network management and meter-to-cash services.
- **Wastewater Collection:** Sewerage network management and meter-to-cash services.
- **Wastewater Treatment and Reuse:** Independent sewage treatment plants, long-term O&M, and industrial reverse osmosis polishing plants.

Figure 8 **Project Lifecycle**



Source: Company Data, Al Rajhi Capital

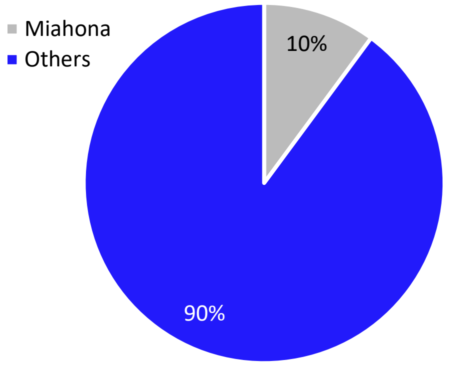
Main Service Categories

- **Water**: Development and management of water treatment systems, including potable water distribution
- **Wastewater:** Treatment process expertise, including developing, engineering, designing plants, decontaminating wastewater, recycling, and optimizing treatment plants

Controls >25% of market share in Industrial Wastewater Treatment

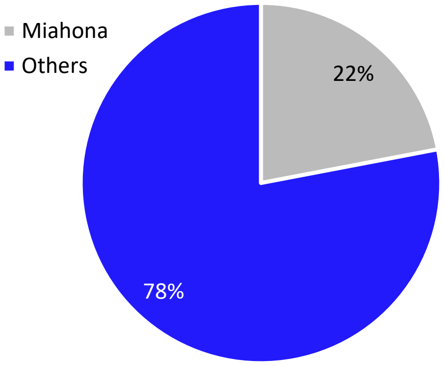
The water sector in the Kingdom is highly competitive, featuring both domestic and foreign companies engaged in PPP or concession agreements, with key players like Aqualia, Acciona, Metito, Veolia, Alkhorayef, CWC, and Tawzea. Miahona, a significant market player, holds around 10% of the non-desalination water treatment (Municipal & Industrial) market and 26% of the industrial wastewater treatment market. The company is committed to sustainability and wastewater recycling, with a market share of approximately 6% in this area. Miahona has secured two of the six MOM contracts awarded by the National Water Company, which are expected to convert into concessions within 3-5 years.

Figure 9 **Water Sourcing - Municipal & Industrial**



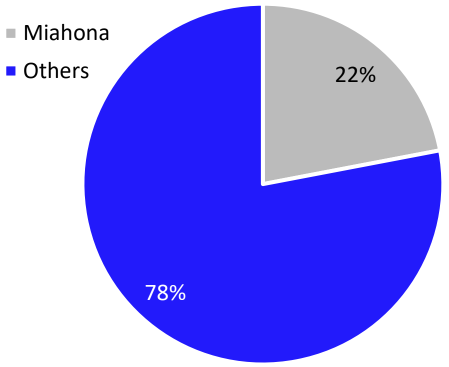
Source: Company Data, Al Rajhi Capital

Figure 10 **NWC MOM Contracts**



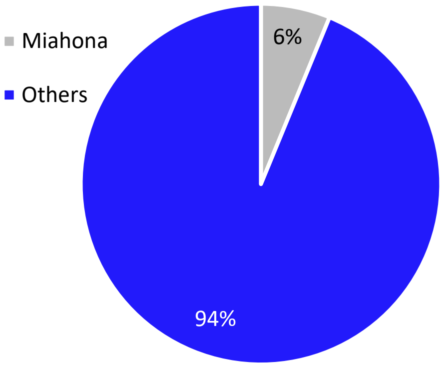
Source: Company Data, Al Rajhi Capital

Figure 11 **Recycling - Municipal & Industrial**



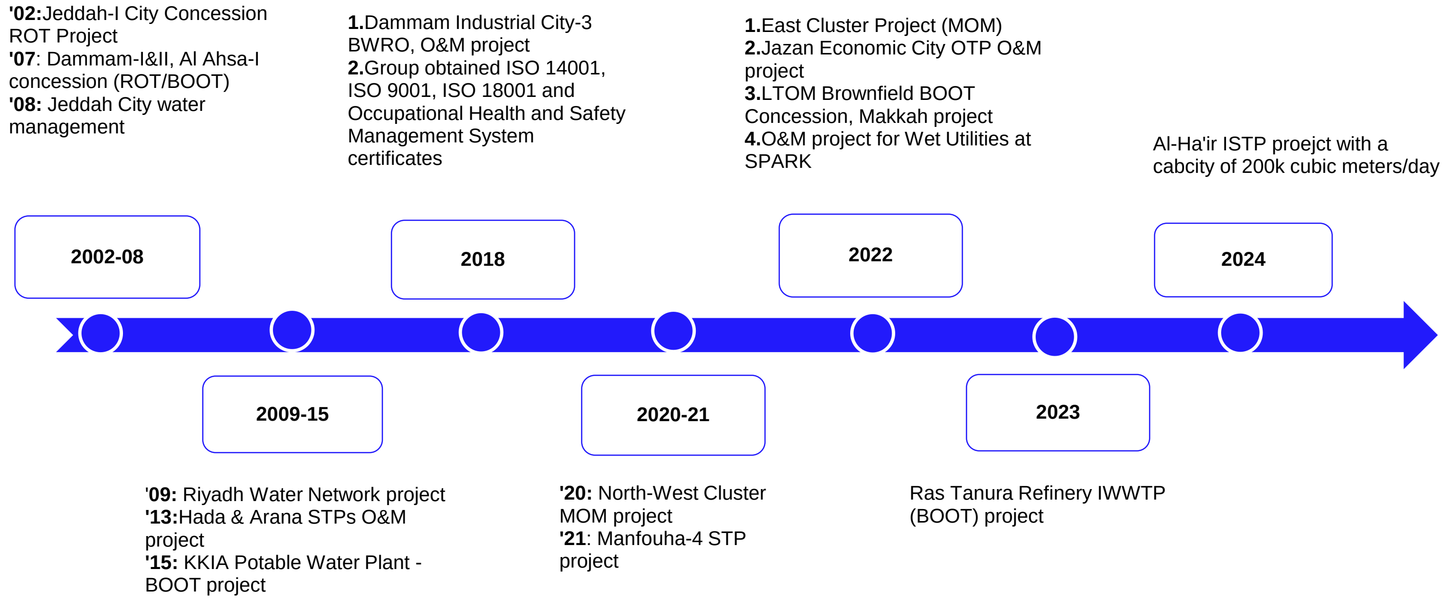
Source: Company Data, Al Rajhi Capital

Figure 12 **Wastewater Treatment (Industrial)**



Source: Company Data, Al Rajhi Capital

Figure 13 **Timeline of awarding of projects**



Source: Company Data, Al Rajhi Capital

Figure 14 **An overview of existing and new projects**

Ongoing Projects	Capacity (m^3/day)	Contract Value (SARmn)	Start Date	Current status	Term (years)
Water Services (potable)					
Dammam I and II	45,400	4,822	Jan-08	Ongoing	30
Al Ahsa Industrial City	2,400		Jan-08	Ongoing	30
Total	**47,800**				
Water recycling					
Jeddah Industrial city	9,000	918	Mar-05	Ongoing	20
Dammam I and II	15,000	4,822	Jan-08	Ongoing	30
Total	**24,000**				
Sewage treatment					
Jeddah Industrial city	25,000	918	Mar-05	Ongoing	20
Dammam I and II	40,000	4,822	Jan-08	Ongoing	30
Al Ahsa Industrial City	1,500		Jan-08	Ongoing	30
Total	**66,500**				
O&M (water services)					
KKIA	25,000	2,170	Jun-19	Ongoing	28
Dammam III City	6,000	21	Feb-19	Ongoing	2
Total	**31,000**				
O&M (waste water)					
Manfouha-4	200,000	23	Sep-21	Ongoing	2.5
Jazan Economic City	40,000	60	Nov-21	Ongoing	3
Total	**240,000**				
New projects					
LTOM Makkah (Hada and Arana)	500,000	313	May-23	Ongoing	10
Ras Taruna	20,000	1,701	Jun-26	To be started	25
Al Haer	200,000	3,667	Dec-26	To be started	25
Potable + recycle	**102,800**				
Wastewater/sewage	**306,500**				

Source: Company Data, Al Rajhi Capital

Jeddah Industrial: The Jeddah Industrial City Project, operated by ICDOC under a 20-year concession agreement with MODON from March 2005 to March 2025, manages a sewage treatment plant with a capacity of 25,000 m³/day and supplies 9,000 m³/day of recycled water. The project, entirely owned by the Company, also includes a total network area of 136 km. Customers are billed based on actual usage with tariffs adjusted annually according to the consumer price index and other cost parameters.

Dammam Industrial Cities Project: The Dammam Industrial Cities Project, operated by ICDOC, took over the potable and wastewater systems in Dammam Industrial Cities I, II, III, and Al-Ahsa Industrial City. The project aims to rehabilitate and operate these systems, upgrade the Dammam Industrial City II wastewater plant to 20,000 m³/day, and invest in reverse osmosis and ultrafiltration plants. The 30-year concession for Dammam I, II, and Al-Ahsa began in January 2008, and the potable water plant in Dammam III has a renewable contract from March 2019. The network spans over 214 km for potable water and 121 km for recycled water, serving over 1,900 factories. The Group expanded the Dammam II wastewater plant capacity to 40,000 m³/day and potable water capacity to 15,000 m³/day, with further enhancements expected. Tariffs, subject to five-year CPI adjustments, were last increased in December 2020. The Group owns 100% of the project, with O&M services provided by JECO.

The KKIA Project: The KKIA BOOT Project, awarded to the Group in September 2015 for 30 years, began operations in June 2019 and will be completed in June 2047. The Group has exclusive rights to supply potable water to KKIA using a BWRO plant with a capacity of 25,000 m³/day, sourced from seven deep wells and supported by extensive reservoir and network infrastructure. The Group can expand capacity by 5,000 m³/day if needed and sell surplus water with consent. Tariffs are reviewed annually and indexed to the CPI and cost changes. The Group holds 100% interest in the project, with O&M services provided by JECO.

LTOM Makkah (Hada and Arana): The Company, along with Thabat Construction Company, signed a ten-year O&M agreement with NWC for the Makkah Project (Hada and Arana) in September 2022. This agreement involves managing wastewater treatment plants and facilities in Hada and Arana, Makkah, as part of NWC's Rehabilitation Program. The project, which commenced commercial operations in May 2023 (earlier contract had just concluded in April 2023), includes upgrading treatment capacity and covers rehabilitation, financing, testing, and handover of two sewage plants in Makkah. The ROT tariff comprises fixed capacity and CPI-linked output tariffs. The Company holds a 70% interest in the project, with Thabat Construction Company owning the remaining 30%, and JECO provides O&M services.

Ras Tanura Project: The Group was awarded a BOOT agreement by Saudi Aramco for the Ras Tanura Project, entailing design, construction, ownership, and operation of an IWWTP for 25 years, extendable for 5 additional years. The project includes a 20,000 m³ IWWTP and wet air oxidation plant, with pipelines connecting to the refinery, costing approximately SAR536mn. Financing of SAR526mn has been secured, with commercial operations expected by June 2026. The Group holds a 70% stake in the project, with Thabat Construction Company owning the remaining 30%, and JECO provides O&M services.

Al Haer Project: The Al Haer Project, awarded to a consortium including the Company and N.V. BESIX S.A., involves developing an independent wastewater treatment plant with a capacity of up to 200,000 cubic meters per day. The project, under a BOOT framework with SWPC as the sole off-taker, aims for commercial operations by July 2026. Located 95 km south of KKIA in Riyadh, it will serve residential areas in Manfouha and Al Heet. The project's scope includes design, construction, operation, and maintenance, with an estimated cost of SAR1.5bn, primarily funded through project finance debt. The Company holds an 80% stake, while N.V. BESIX S.A. owns the remaining 20%.

Figure 15 **Project Snapshot**

Jeddah Industrial City (JIC)		Dammam I, II & Al Ahsa		King Khalid International Airport (KKIA)	
Agreement to treat wastewater and supply recycled water for industrial units in JIC		Rehabilitate, own, and operate ("ROT") contract for potable and wastewater sewage systems in Dammam and Al-Ahsa Industrial Clusters		Exclusive right to supply potable water to the airport from a groundwell source	
Contract Type	ROT	Contract Type	ROT	Contract Type	BOOT
Tenor	20 Years	Tenor	30 Years	Tenor	28 Years
COD	Mar - 05	COD	Jan - 08	COD	Jun - 19
Miahona Ownership	100%	Miahona Ownership	100%	Miahona Ownership	100%
Capacity (m3/day)	W: 9k; WW:25k	Capacity (m3/day)	W: 63k; WW: 42k	Capacity (m3/day)	W:25k
Tariff Structure	Consumption	Tariff Structure	Consumption	Tariff Structure	Off-take
Treatment	W & WW	Treatment	W & WW	Treatment	W

LTOM Makkah		Ras Tanura (SWESC)		Al Haer	
Long term operation and maintenance ("LTOM") of the sewage treatment plant ("STP") in Makkah		BOT arrangement of an IWWTP for the Ras Tanura refinery owned by Saudi Aramco		Wastewater treatment plant serving various parts of Manfouha and Al Haer	
Contract Type	ROT	Contract Type	BOOT	Contract Type	BOOT
Tenor	10 Years	Tenor	25 Years	Tenor	25 Years
COD	May - 23	COD	Jul - 26	COD	Oct - 26
Miahona Ownership	70%	Miahona Ownership	70%	Miahona Ownership	80%
Capacity (m3/day)	WW:500k	Capacity (m3/day)	WW:20k	Capacity (m3/day)	WW:200k
Tariff Structure	Off-take	Tariff Structure	Off-take	Tariff Structure	Off-take
Treatment	WW	Treatment	WW	Treatment	WW

Source: Company Data, Al Rajhi Capital

The O&M projects:

SPARK: The SPARK O&M Project involves fixed-price, performance-based O&M and facility management services for wet utilities in Dammam, including purified water, irrigation water, and wastewater networks, with a total network length of 91.5 km, 46 km, and 58 km respectively, commencing on June 1, 2023, for a term of three years, extendable for two additional years.

Manfouha-4: The Mafouha-4 STP O&M Project, located in Riyadh, involves providing O&M services for a sewage treatment plant with a capacity of 200,000m³ per day. JECO entered an agreement with Thabat Construction Company for these services on June 15, 2021, with the project commencing on September 15, 2021. The agreement lasts for 36 months from the date of operation, excluding the period from plant delivery to operation, ending on June 15, 2024.

Jazan: The MOM North-West Cluster Project manages, operates, maintains, and improves water distribution services in the Madinah and Tabuk region, covering 15,000 km networks, fifty potable water plants, ten treatment plants, and 622 boreholes, starting on April 1, 2021, for a seven-year term with a contract value of SAR198mn excluding performance incentives.

MOM Eastern Cluster: The MOM Eastern Cluster Project manages, operates, and improves water distribution services in Dammam, Al Ahsa, and Hafar Al-Batin regions, covering 27 km networks, 66 potable water plants, 27 treatment plants, and 1,192 boreholes, starting in April 2022 for a seven-year term with a contract value of SAR221mn excluding performance incentives.

Investment Thesis

A de-risked business model provides visibility over future cash flows: Miahona has a de-risked business model underpinned by long-term concessions, resulting in steady cash flow generation. The company has a defensive business model with 1) high visibility over future cash flows, 2) low operational risks, and 3) hedged cost overruns. In addition, concessions with off-take agreements provide guaranteed cash flows. Historically, the JIC and DIC contracts have been their bread and butter, contributing 72% and 46% to revenues and EBITDA in 9M23. The company is now looking to capitalize on the boom in the water infrastructure market, which would result in winning quite a few new concessions given the group’s proven track record of expertise. These new concessions would initially result in negative FCFF but will eventually churn positive cash flows post-COD. In addition, the company will be using EBL to finance the initial equity requirements, which would further enhance their project IRRs. The company aims to achieve an IRR of 15-20% on new projects. In addition, the company also has the opportunity to recycle capital by selling stakes in its projects to unlock further capacity to invest in future projects. Lastly, the company will also look to focus on dividends once the new project cycle cools down. We believe, for now, that dividends might not be a priority for the company. But having long-term contracts and steady cash flows for the near future gives confidence in the company's ability to pay stable dividends in the long run.

Figure 16 **Concession vs O&M**

Concessions – 92% of total revenue	O&M – 8% of total revenues
• 6 concession contracts • 20-30 years	• 6 O&M contracts • 3 years

Source: Company Data, Al Rajhi Capital

Figure 17 **Plans to bid for SAR30bn+ worth of projects**

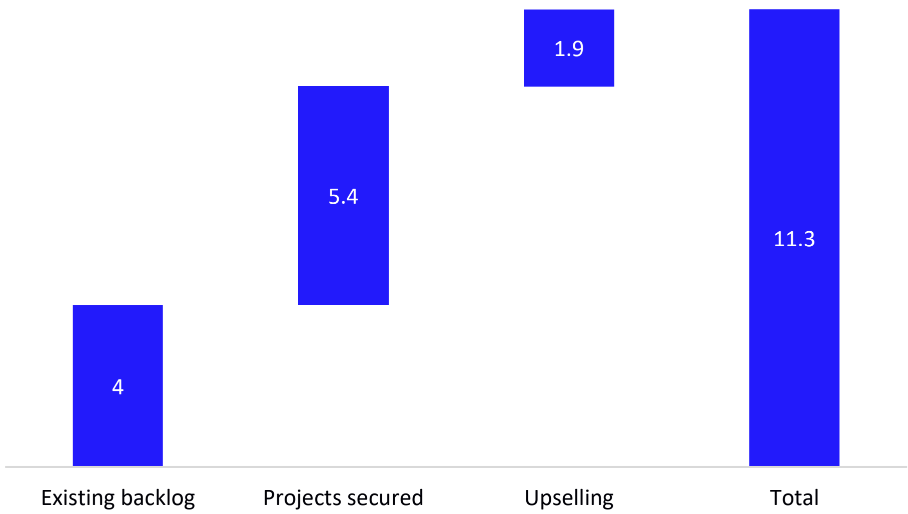
	Project name	Capacity (m^3/day)	Project Cost (SARmn)	Annoucement date	Closing date	COD	Term (Years)
	BOOT Projects						
2024	Riyadh East	500,000	2,362	Q3 2023	2024	2026	25
	Arana	250,000	1,620	Q4 2023	2024	2026	25
	Jazan cluster	74,700	2,069	-	2024	2026	25
2025	NW cluster	49,000	2,120	Q4 2024	2025	2027	25
	Central cluster	91,000	3,562	Q4 2026	2025	2027	25
2026	Eastern cluster	81,000	1,502	Q3 2024	2026	2028	25
	Northern cluster	81,000	3,099	Q4 2024	2026	2028	25
	Hadda	250,000	1,620	Q4 2023	2026	2028	25
	Western Cluster	91,000	2,069	Q3 2024	2026	2028	25
	North Riyadh	120,000	1,234	Q3 2023	2026	2028	25
	Abu Arish	50,000	884	Q4 2023	2026	2028	25
2027	South Najran	50,000	884	Q1 2024	2027	2029	25
	Oranah	250,000	1,620	Q4 2023	2027	2029	25
	North Jeddah 1	50,000	884	Q2 2024	2027	2029	25
	Al Kharj 3	25,000	755	Q3 2024	2027	2029	25
	South Cluster	50,000	1,863	Q1 2027	2027	2029	25
	SA Qurrayah	50,000	524	-	2027	2029	25
2028	Hafr Al Batin	50,000	884	Q3 2024	2028	2030	25
	Arar	41,000	833	Q1 2025	2028	2030	25
	Rabigh 5	100,000	1,188	Q1 2026	2028	2030	25
	ROT Projects						
	LTOM 3	44,000	150		Q3 2024		15
	Northwestern Cluster (Madinah)	534,000	565		Q2 2025		15
	Northwestern Cluster (Tabuk)	144,000	360		Q3 2025		15
	Northern Cluster (Qassim)	249,000	405		Q4 2025		15
	Northern Cluster (Hail, Jouf & NB	244,800	620		Q1 2026		15
	South Cluster (Jazan)	105,200	415		Q3 2026		15
	South Cluster (Najran, Asir & Bah	550,900	1140		Q4 2026		15
	Total	**4,175,600**	**35,231**				

Source: Company Presentation, Al Rajhi Capital

Miahona combines stability and growth through its solid SAR11.3bn project backlog, including significant expansion and upselling opportunities, positioning it for steady income.

Existing backlog and upselling opprtunity to drive medium term growth: The company offers a unique blend of stability and growth owing to the defensive nature of existing projects as well as the upcoming potential pipeline of projects. Miahona has a very stable backlog pipeline from existing projects amounting to SAR5.9bn. The existing projects include JIC, DIC, KKIA, and LTOM Makkah. In addition, the company has the opportunity to further expand its capacity from these projects, and the upselling opportunity has been identified as worth nearly SAR1.9bn. Apart from this, Miahona has recently won two long-term concessions in 2024, namely the Al-Haer wastewater project and the Ras Tanura Industrial Waste Water Project, with a combined project cost of SAR5.4bn. Including these concessions takes the backlog number to an impressive SAR11.3bn. This pipeline indicates that the company has a stable source of income for the foreseeable future, which will eventually allow the company to pay regular dividends post-COD of the new concessions. The upcoming projects plus existing projects will see the total daily capacity increase by 36% to 912k m^3.

Figure 18 **Backlog evolution (SARbn) - upselling**



Source: Company Data, Al Rajhi Capital

Further details of the new concessions are as follows:

__Al-Haer:__ Miahona and N.V.BESIX own 80% of the SAR1.79bn Al-Haer ISTP project, with operations starting in FY26 and targeting an IRR above 20%. The 25-year project will treat wastewater from Manfouha for residential areas under a sewage treatment agreement with SWPC.

Al-Haer: Al-Haer ISTP was awarded to the company and N.V.BESIX, with Miahona owning 80%. The total project cost is SAR1.79bn and the tenure is 25 years. SWPC is the sole off-taker under the sewage treatment agreement. The ISTP is expected to commence operation in FY26; however, we have built it into our estimates from FY26. The project will treat wastewater collected and delivered from various parts of Manfouha and will serve mostly residential areas. The tariff structure is based on an off-take agreement, and the company aims to earn an IRR, north of 20% on the project.

__Ras Tanura:__ Miahona, owning 70% of the SAR644mn Ras Tanura IWWTP project awarded by ARAMCO, will design, build, own, and operate the plant starting in FY26, aiming for an IRR above 20%. The 25-year BOOT project has a 100% O&M contract with JECO, based on an off-take agreement.

Ras Tanura: The company was awarded by ARAMCO the contract to design, build, own, and operate IWWTP for the Ras Tanura refinery. The BOOT arrangement is for 25 years, with the project cost amounting to ~SAR644mn. The project is expected to commence operations in FY26, where we have assumed COD in FY26. Miahona owns 70% of the IWWTP through SWCES, while the rest is owned by Thabat Construction. Similar to LTOM Makkah, the O&M contract portion of the contract is 100% with the company provided through JECO. The tariff structure is based on an off-take agreement, and the company aims to earn an IRR, north of 20% on the project.

Figure 19 **New projects**

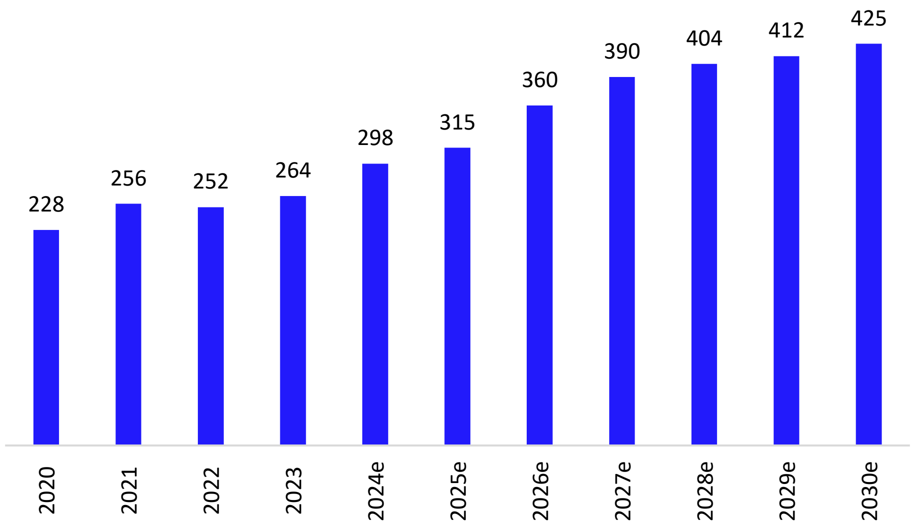
	Ras Tanura	Al Haer
Contract Type	BOOT	BOOT
Tenor	25 Years	25 Years
Commencement Date	Jul-26	Oct-26
Capacity (m^3/day)	20,000	200,000
Signed	✓	✓
Construction Commence	✓	Post Financial Close
Offtake Agreement	✓	✓

Source: Company Data, Al Rajhi Capital

Revenues to jump in FY2024; total billing to increase steadily: Miahona has historically grown at a steady CAGR of 12% from FY20–23. The company will continue its upward momentum, with revenue expected to grow at a 5-year CAGR of 4% owing to the upselling of existing capacities and upcoming new concessions. This forecast does not assume any new projects that the company might win. However, the total revenue is not the appropriate yardstick to measure the CAGR, as total billing will be higher due to concession accounting. The total billing will be equal to revenue recognized in the income statement plus amortization of financial assets. This will be truly reflected in the cash flows.

In FY2024, revenue is likely to jump up by 346% thanks to construction revenues from the two new concessions amounting to SAR975mn and development/success fees to the tune of SAR174mn. Adjusting for these one-offs, revenues are likely to increase by 13% YoY, and recurring revenue is likely to grow at a 5-year CAGR of 9%.

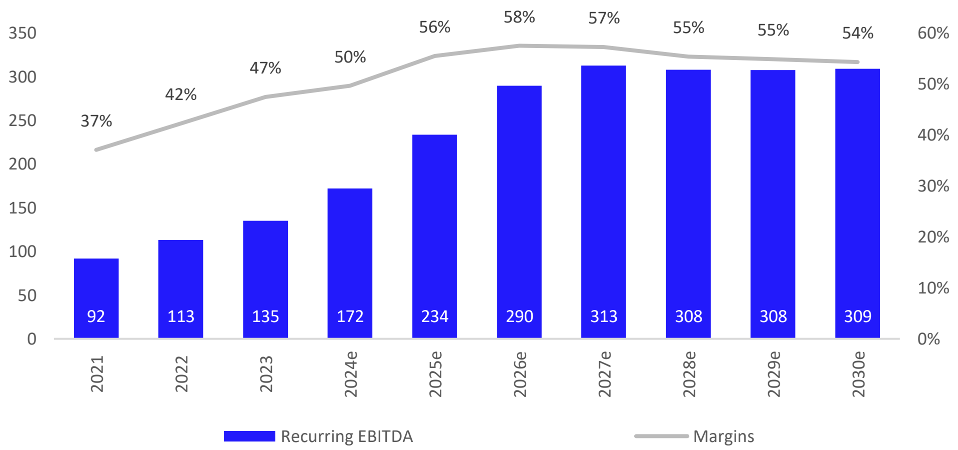
Figure 20 **Recurring Revenue (SARmn)**



Source: Company Data, Al Rajhi Capital

EBITDA for the company has grown at a historic CAGR of 17% from FY20–23. Excluding construction revenues, this CAGR comes out to be 16%. Going forward, we expect better utilization from existing projects and upcoming concessions to drive EBITDA growth. In FY2024, EBITDA margins are likely to drop because of low-margin construction business contributions. Adjusting for that, EBITDA margins are likely to normalize at an average level of 55%. Note that finance income is included in EBITDA calculations and added to revenues as well to calculate recurring EBITDA margins, while any one-off fees, including construction revenues and success/development fees, are adjusted for.

Figure 21 **Sustained EBITDA and margins**



Source: Company Data, Al Rajhi Capital

Aligned with Vision 2030, the Kingdom aims to invest ~SAR300bn to privatize and expand water infrastructure, addressing demographic and economic needs with around 1,000 new projects, emphasizing private sector participation.

Miahona set to benefit from the boom in water infrastructure activites: In accordance with Vision 2030, the Kingdom plans to rapidly privatize and expand the existing water infrastructure. The ambitious yet achievable Vison 2030 targets mean that the announced investment in the water infrastructure projects is ~SAR300bn. The overall macro-targets, including demographics and economics, warrant the expansion and rehabilitation of existing water infrastructure. In addition, the upcoming mega and giga projects will continue to push water demand upward. The overall national strategy initiatives include 10 key initiatives, with four directly revolving around private sector participation. In order to achieve the set targets, the government has identified the gaps along the value chain, which could entail a total of nearly 1k new projects.

Figure 22 **National Water Strategy**

National Targets aligned with Vision 2030			
Reuse Rate of Treated Wastewater	23%	→	**70%**
Water Services Coverage	87%	→	**100%**
Daily Water Consumption Per Capita	308 Litres	→	**258 Litres**
Sanitation Services Coverage to Population	60%	→	**95%**

Source: Company Data, Al Rajhi Capital

Figure 23 **Gaps in water supply chain**

	Production	Transmission	Storage	Distribution	Collection	Treatement	Reuse
	Desalination & Surface/Ground water	Transmission Lines	Strategic storage	Distribution Tanks and networks	Wastewater Network	STPs and Facilities	Agricultural Industrial
Current Capacity (nm m³/d)	15.0	12.1	23.3	9.9	5.8	6.4	1.4
Planned Capacity (nm m³/d)	16.6	16.6	137.7	16.6	9.1	10.7	9.6
Gap (nm m³/d)	1.6	4.5	114.4	6.7	3.3	4.3	8.3
No. of Potential Projects	356	60	14	610	228	46	109

Source: Company Data, Al Rajhi Capital

Miahona is set to capitalize on the growing market, boasting a win rate of 80%. However, the mentioned win rate might be inflated as the company only enters into projects for which they have a high probability of winning and only enters bids for projects that they identify as relevant to their existing portfolio. In other words, historically, the company has won 80% of the times it has bid on an identified project. Currently, the Kingdom has identified a list of upcoming BOOT and Rot projects in the medium term (FY24–28) with a value north of SAR30bn and includes 24 projects with a capacity of +3.1mn m3/day. Miahona will be looking to target the upcoming projects depending on the best fit as per their technical expertise. In addition, the company would be looking to convert their existing MOM clusters, i.e., the Northwestern and Eastern Clusters, to concessions worth SAR6bn. This conversion is anticipated post-FY27. Lastly, the short-term O&M market is also growing, which Miahona would look to capture, but this will depend on when the respective water infrastructure comes online.

Valuation

Miahona follows a unique business model that combines defensive play with a growth strategy. We value the company using an equal mix of DCF and PE-based relative valuations. Using the above-mentioned approach, we arrive at an equal weighted target price of SAR13.7/sh.

Figure 24 **Valuation Summary**

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted Value per share	Upside
DCF	14	50%	7	25%
P/E	13	50%	7	14%
Fair Value (SAR)			**13.7**	
Listing Price (SAR)			11.5	
Upside/(Downside)			**19.2%**	

Source: Al Rajhi Capital estimates

DCF: For DCF, we prefer FCFF, even though they are negative in the initial years but turn positive post-COD because of the recently won concessions. We forecast the cash flow until the concession life and assume renewal of contracts or project replacement. Our DCF-based value of the core business is SAR11.4/sh using a cost of equity of 11.2%, resulting in a WACC of 9.4%. Our terminal growth assumption is a conservative 2%. Adding the growth pipeline value, we get a fair value for SAR14.4/sh.

Figure 25 **DCF Sensitivity to WACC and terminal growth**

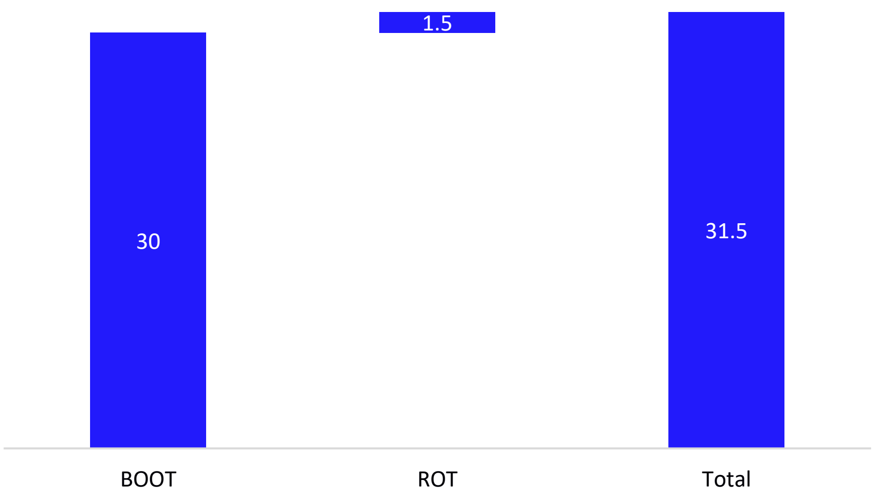
		Terminal growth				
		1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
WACC	**8.9%**	14.4	15.4	16.4	17.6	19.1
	9.2%	13.6	14.4	15.4	16.5	17.8
	9.4%	12.7	13.5	**14.4**	15.4	16.6
	9.7%	11.9	12.7	13.5	14.4	15.4
	9.9%	11.2	11.9	12.6	13.4	14.4

Source: Al Rajhi Capital estimates

Relative Valuation: For relative valuation, we do not prefer using FY24 earnings because they are inflated by one-off construction revenue and success/development fees. We focus on the recurring stream of earnings, which starts in FY27e. Our confidence stems from the fact that there is high visibility of tariff-based cash flows. We discount back FY27e earnings of SAR0.91/sh and apply a conservative P/E multiple of 18.0x, resulting in a core business valuation of SAR11.8/sh. A conservative multiple is used, as we use our own separate assumptions to forecast the growth pipeline. Adding this equity value of future pipeline results in the current valuation of SAR13.4/sh.

Growth pipeline and assumptions: As discussed above in detail, the mammoth water infrastructure pipeline is estimated at SAR300bn and Miahona is looking to actively target the upcoming projects. In the medium term (FY24-28e see in business model), identified projects amounting to SAR30bn are ready to be tendered and include BOOT, ROT, O&M, MOM, and LTOM projects. Miahona historically has boasted a win rate of 80%; however, this might be an inflated number as the company only enters bids that it is certain of winning. Consequently, we use a win rate of 40% for the identified project, Miahona's ownership at only 55%, and a conservative IRR of 15% to value the future pipeline. This results in the equity value addition of SAR256mn or SAR1.6/sh. Given the massive pipeline, we realize that our assumptions might be conservative; however, we prefer to revisit them once tenders for the new projects start flowing. Below, we also share the sensitivity of the IRR assumption and the win rate to our target price.

Figure 26 **Pipeline announced by the KSA government**



Source: Al Rajhi Capital estimates

Figure 27 **TP sensitivity to IRR and Win rate assumptions**

		Internal Rate of Return (IRR)			
		12.5%	**15.0%**	**17.5%**	**20.0%**
Win rate	**20.0%**	12.4	13.0	13.5	14.0
	40.0%	12.7	13.8	14.8	15.8
	60.0%	13.0	14.5	16.1	17.6
	80.0%	13.3	15.3	17.4	19.5

Source: Al Rajhi Capital estimates

Key Risks

1. **Financing risk:** The group uses debt to fund its projects. The company is currently highly leveraged. Interest rate fluctuations and inability to service debt poses a risk to the group.

2. **Client concentration risk:** More than 95% of group's revenue are dependent upon the government which poses a risk.

3. **Contract Assets:** Certain government contracts require client approval before invoicing, causing delays in revenue recognition and collection. As of recent financial periods, significant contract assets remain pending approval; failure to obtain this approval could lead to revenue adjustments and a negative impact on the Group's profits and financial position.

4. **License/permit risks:** The Group's business depends on various permits and licenses, some of which are currently expired and in the process of renewal. Failure to renew these licenses could lead to penalties, fines, or suspension of operations, adversely impacting the Group's business, financial position, and prospects.

5. **Sub-contractor risk:** The Group relies heavily on suppliers and subcontractors for materials and services, with significant purchases from the top ten accounting for 14%-17% of expenses in recent years. Disruptions in the supply chain or subcontractor performance issues could adversely impact the Group's operations, financial position, and reputation.

6. **Competition:** The Group faces intense competition in the water and wastewater sectors, with rivals potentially offering lower prices and superior services, posing significant risks to the Group's market position and financial health.

7. **Input prices risk:** The Group faces rising costs for essential construction materials and energy due to local shortages, import fees, and government policy changes, which could significantly increase project expenses and impact financial viability.

8. **Employee costs risks:** The Kingdom's labor reforms, including increased fees for non-Saudi employees and their families, have raised the Group's costs and could reduce its ability to attract and retain foreign workers, impacting business operations. Additionally, new policies allowing easier employee transfers without employer approval may lead to difficulties in retaining non-Saudi staff, further affecting the Group's operations and financial stability.

9. **Inability to keep with market changes:** The SWPC's shift towards desalination over ground and surface water treatment could negatively impact Miahona's business, as the company does not operate in the desalination sector

Financial Analysis

Revenue analysis: The group achieved revenue growth between FY20 and FY23 at a compound annual growth rate (CAGR) of 12%. The Water and Wastewater services is anticipated to be the largest contributor to the group's growth. This growth is largely driven by the group's long-term concession projects, supported by operations and maintenance (O&M) activities. We anticipate a 4% CAGR in the next five years for the total revenues.

- **Water and Wastewater (sewage) services:** This is the group's core business, which includes activities such as water recycling, wastewater treatment, and water supply to industrial and municipal sectors. Detailed information about these business activities can be found in the Company Overview section. The key performance indicators (KPIs) for this sector are volumes and tariff prices.
    - The group's growth trajectory is evident from its processing volumes, which increased from 35.3 million cubic meters of water, sewage, and recycled materials in FY20 to over 39 million cubic meters in FY23, based on annualized 9M23 figures. Additionally, the group has the flexibility to increase tariffs based on a regulatory formula that accounts for Consumer Price Index (CPI) inflation. This is particularly advantageous for sewage treatment plants, where the group can charge clients according to the quality of the wastewater treated. The wastewater tariff has risen by 16% between FY20 and 9M23.
    - The core segment witnessed a CAGR of 4% between FY20-23 and accounted for 73% of group's total FY23 revenues. Thus, the growth is driven by a combination of increased processing volumes and higher tariffs.
    - We believe the newer projects may come on-line by FY27 and shall contribute nearly SAR214mn in revenues in FY27. This shall drive growth for the segment which we expect to grow at a five year CAGR of 11%.
- **Construction:** This segment was the second-largest contributor to the group's revenues in FY23. Construction revenue, which is income earned by the group from building new concession projects, is typically realized within 2-3 years of starting the projects.
    - Despite being the second-largest contributor to the group's revenue, construction revenue should not be considered core business revenue. Furthermore, the construction segment has thin margins, ranging between 2-5%, and these margins are often capped by clients.
    - We believe the construction revenue may reach nearly SAR1bn during FY24 as the group undertakes the Ras Taruna and Al Haer projects. This elevated level of construction revenue is expected to gradually decline over three years. We expect the construction revenues to decline from nearly SAR975mn in FY24e to nil by FY28e.
- **Operations and Maintenance (O&M):** The activities of this segment are like the group's core segment of water and wastewater services. However, in this segment, the group is not involved in construction and ownership. Instead, it is only responsible for operations and maintenance (O&M) and any necessary rehabilitation during the contract period. These contracts typically range from 3 to 5 years, in contrast to the core segment where the group's concessions usually extend for more than 15 years.
    - The segment witnessed a growth of 1% between FY20-23, which we believe could be due to group's strategy of focusing on long-term concessions as compared to short term O&M projects. We are expecting a gradual decline in O&M revenues as we believe the group will focus on sustained revenue

streams from concession contracts which are long-term in nature.

- **Management and engineering services:** This segment is largely driven by consulting related other projects and accounted for nearly 1% of group's FY23 revenues.
- **Connection revenue:** The group relies on its network of 415kms of pipeline intended for collecting wastewater while 164km network for water supply. The group uses its existing infrastructure to generate connection revenues, we believe as the urbanisation and industrialisation increases the network shall grow resulting increasing revenues from the segment.

Recurring revenue: At the onset of new projects, the group invests heavily in the construction of the plant. Consequently, the group recognizes a substantial amount of construction revenue, as discussed in the construction segment earlier. The construction phase typically lasts between 2-3 years. Additionally, the construction of projects generates extra revenue in the form of development and success fees, which the group earns upon the successful completion of the project's construction. These fees collectively amount to nearly 1% of construction costs. Therefore, revenues are significantly higher in years when construction is in full swing. To accurately compare recurring revenue, we exclude the impact of construction fees and other related fees.

  - The recurring revenue grew at a CAGR of 8.4% between FY20-23. Since recurring revenue depends primarily on the volumes processed in each category, it declined in FY20 due to the pandemic but has been recovering since then. We anticipate that recurring revenues will increase substantially at a CAGR of 9% in the next five years. The growth shall be driven by higher utilisation of current projects as well as addition of new capacity.

Cost and gross margin analysis: The COGS grew at a CAGR of 1% FY19-23 compared to a 5% growth in revenues, thus implying a margin expansion as the capacity utilisation increases across the group's projects.

- **Salary Costs:** Salary and employee-related costs grew by 5% between FY19 and FY23, accounting for nearly 26% of the total cost of goods sold (COGS) and making it the largest contributor to COGS in FY23. We anticipate that these costs may remain elevated as the group expands into new projects. However, once the new projects are online and operating at high utilization rates, these costs are expected to normalize gradually, leading to increased gross margins.
- **D&A Costs:** Depreciation and Amortization (D&A) is the second-largest cost component within COGS, accounting for nearly 20% of the cost of goods sold in FY23. The majority of D&A expenses stem from the amortization of intangible assets arising from service concessions. We believe these costs may remain stable, as the new projects the group has recently signed are based on leasing arrangements. Consequently, there may not be additional service concession assets that would increase amortization costs.
- **Construction cost:** These costs arise when the group initiates new projects and builds capacity. Over the past five years, the costs have varied between 9% and 20% of the total revenues. We anticipate that these costs may increase substantially in the next three years as the group constructs two new plants for Ras Tanura and Al Haer. We have forecasted revenue costs to shoot up to SAR975mn on account of two new projects and gradually decline to nil by FY28e marking the end of construction of the aforementioned projects.
- **Other costs:** The remaining costs range between 30-40% of the total COGS, with the majority being closely related to the total volume of water and wastewater treated by the company. Major cost components include royalties, electricity, chemicals, and sludge

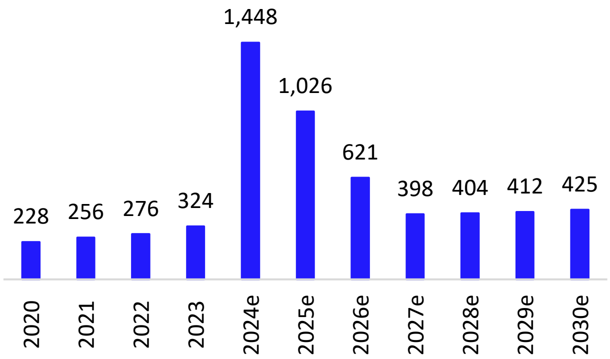
transportation. We believe these costs may remain at similar levels relative to total sales, as they are highly correlated to the volume treated. However, royalty costs as a percentage of sales may decline as newer projects come online, which do not have a royalty clause in their agreements.

SG&A: SG&A costs have increased by 12% between FY20 and FY23, primarily driven by business development expenses, which have grown at a CAGR of 12% during the same period. The second-largest contributor to SG&A is salaries and employee-related expenses. We expect these costs to be rationalized over time growing by a meagre 5% CAGR for next five years, potentially contributing to margin expansion.

Debt and finance costs: While the group's debt-to-equity ratio has decreased to 113% in FY23 from nearly 200% in FY19, we believe the leverage will increase again from FY24 onwards and will only start to decline from FY26 onwards. This is largely due to the nature of the business. Similar levels of leveraging were observed with the group's closest peer, AWPT, which had a debt-to-equity ratio exceeding 100% in FY23. The group typically uses non-recourse financing to fund its new projects and begins paying interest only once the projects are operational. The group's loans are usually tied to SAIBOR (plus a margin), and we believe any potential rate cuts may offset some increases in financing costs in the upcoming years.

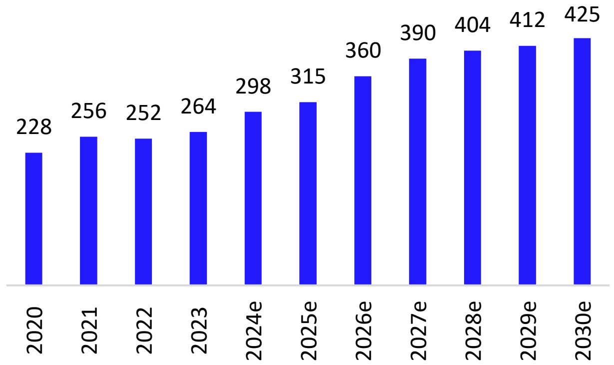
CCC: The group has a negative working capital cycle, with payable days exceeding both receivable and inventory days. The group's receivable days significantly dropped to 76 days in FY23, which we believe could be the new sustainable level. As a result, a negative cash conversion cycle is expected to continue.

Figure 28 **Total revenue trend (SARmn)**



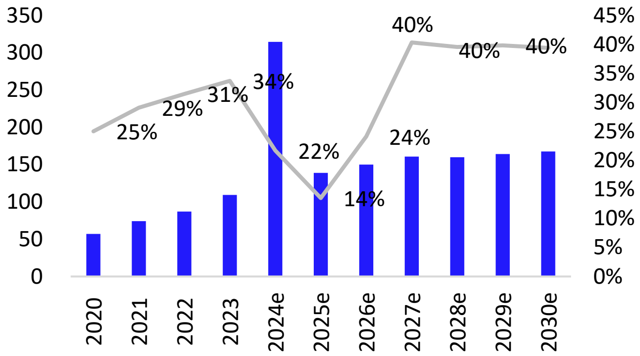
Source: Company Data, Al Rajhi Capital Estimates

Figure 29 **Recurring revenue by segment (SARmn)**



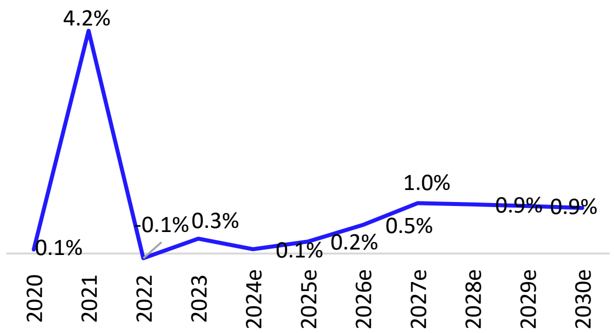
Source: Company Data, Al Rajhi Capital Estimates

Figure 30 **Gross margin evolution**



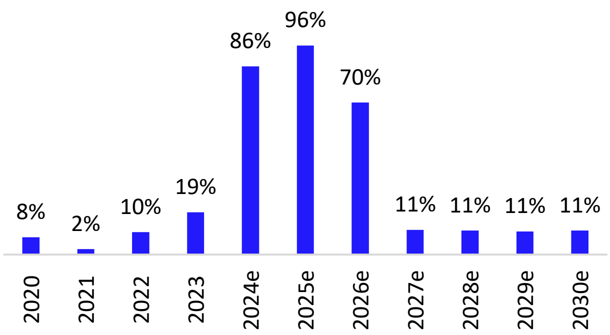
Source: Company Data, Al Rajhi Capital Estimates

Figure 31 **ECL as % of revenues**



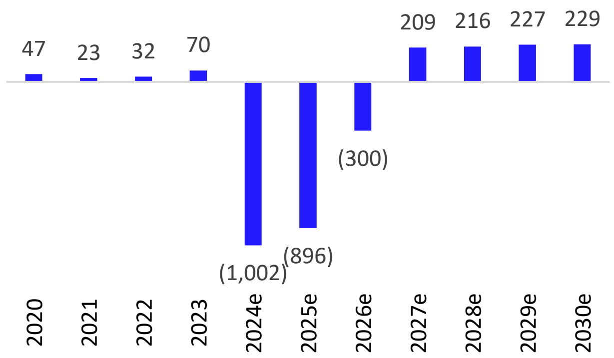
Source: Company Data, Al Rajhi Capital Estimates

Figure 32 **Capex as % of sales**



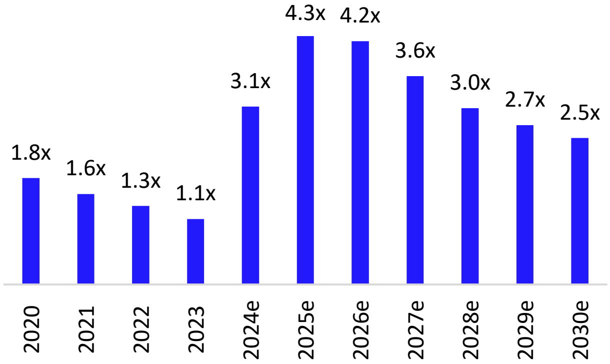
Source: Company Data, Al Rajhi Capital Estimates

Figure 33 **FCF (SARbn)**



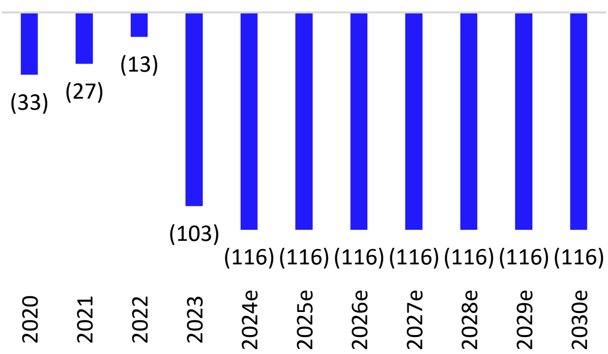
Source: Company Data, Al Rajhi Capital Estimates

Figure 34 **Debt to Equity ratio**



Source: Company Data, Al Rajhi Capital Estimates

Figure 35 **Cash Conversion cycle**



Source: Company Data, Al Rajhi Capital Estimates

Miahona vs AWPT

Figure 36 **Miahona and AWPT business comparison**

	Miahona	AWPT	Remarks
Key activities	water services Wastewater/Sewage	water services Wastewater/Sewage	Offerings of both the companies are largely same
# of projects	10	85	Majority of miahona's projects are long term concessions as opposed to AWPT's projects which are usually shorter O&M contracts
2023 Backlog (SARbn)	11.3	8.86	
Average duration of projects	15+ years	6+ years*	Majority of Miahona projects are long term concession while AWPT are O&M
O&M revenue share (FY23)	7%	NA	AWPT's majority revenues are expected from O&M
LT concession revenue share (FY23)	73%	NA	
Construction	yes	no	AWPT is largely into O&M as opposed to BOT, BOOT and other model where Miahona is required to construct a plant
Management & Engineering Services	yes	no	

Source: Company Presentation, Al Rajhi Capital

Miahona's closest competitor in the listed space is Alkhorayef Water and Power Technologies. AWPT's focus historically has been the O&M market, but in recent years, a shift in strategy has been seen towards project services. Hence, the business models for both companies are quite different; AWPT used to have 3-5-year O&M contracts, while Miahona focused on long-term concessions. Having said that, the recent increase in the water infrastructure pipeline has allowed AWPT to win some long-term contracts as well. These include Rayis-Rabigh IWTP on a BOT model as well as LTOM contracts, namely Manfouha Package 5, Riyadh Sewage Treatment Plant Package 6, and Al Ahsa Sewage Treatment Plant Package 7.

Figure 37 **Miahona and AWPT business comparison**

	FY23 financials comparison		
	Miahona	AWPT	Remarks
FY23 revenue (SARmn)	324	1,709	AWPT witnessed exceptionally high order booking in FY23
Gross Margin	34%	15%	Miahona's superior margins are likely due to its dependence upon long term contracts vs O&M contracts for AWPT
Operating Margin	22%	11%	Superior gross margins of Miahona are reflected at operating level as well
Net margin	18%	8%	
Dividends (SARmn)	0	75	2022 dividends
Debt (SARmn)	443	543	Both group's have high level of debt due to nature of the business
Debt/Equity	113%	102%	
Concession Assets (SARmn)	346	None	Miahona has high level of concession assets as it mostly deals in long term concessions which are amortised throughout the duration of the concession

Source: Company Presentation, Al Rajhi Capital

Market Overview

A SAR9bn market opportunity

Miahona's addressable market is projected to reach approximately **SAR9bn** by 2027, growing at a **CAGR of 6%** from 2023 to 2027, according to market research. The largest segment is expected to be wastewater treatment, which is anticipated to increase from SAR4.8bn in 2022 to nearly SAR6bn.

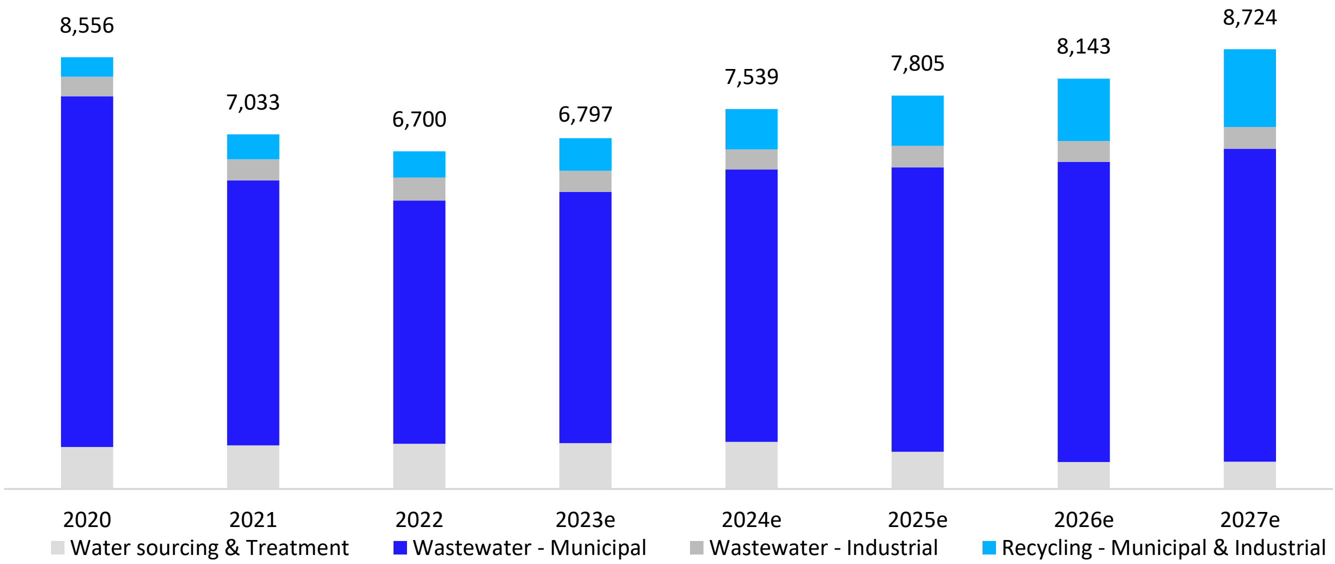
Wastewater (Sewage) treatment – the largest segment: This segment covers only municipal sewage treatment and collection, representing the largest portion of the Group's total addressable market. It is expected to grow at a CAGR of 6% during 2023-27, accounting for nearly 70% of the Group's total addressable market by 2027. The dominance of this segment is likely due to rapid urbanization, which increases the need for municipal wastewater treatment.

Recycling– the fastest growing segment: This segment includes both municipal and industrial water recycling and is expected to grow at a CAGR of 24%, becoming the second-largest segment in the addressable market by 2027, accounting for nearly 18%.

Industrial Wastewater treatment – the smallest segment: The industrial wastewater treatment is expected to be the smallest segment accounting for 5% of total addressable market by 2027 with a meagre CAGR of 1% between 2023-27e.

Water Sourcing & Treatment to decline – declining segment: This segment encompasses both municipal and industrial water sourcing and treatment through ground and surface purification plants as well as direct wells. It is expected to decline at a CAGR of 12% from 2023 to 2027, contributing only 6% to the Group's total addressable market by 2027.

Figure 38 **Total market by segments (SARmn)**



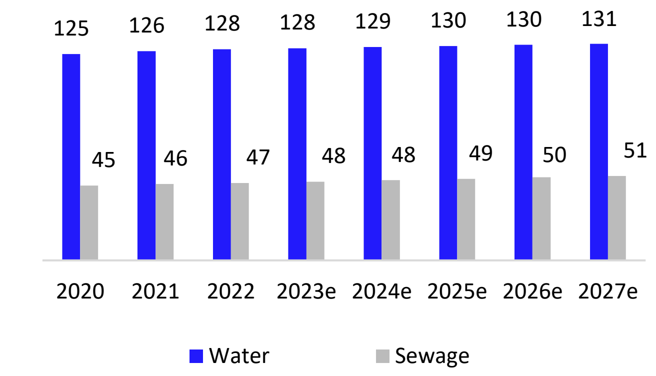
Source: Company IPO prospectus, Al Rajhi Capital

Municipal Water Distribution and Wastewater (Sewage) Collection & Treatment

The municipal water distribution and sewage treatment market's expansion hinges on the continual growth of water distribution networks and sewage treatment plant capacities. This growth trajectory is fueled by a multifaceted approach involving Operations and Maintenance

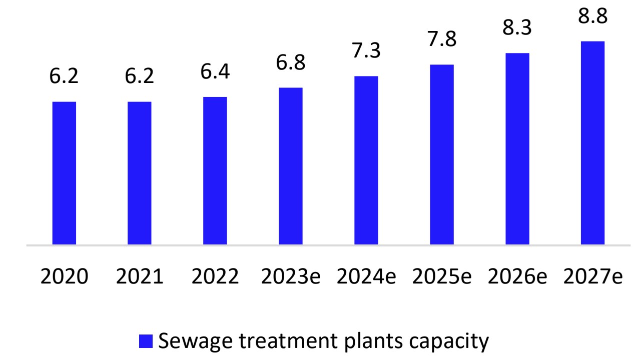
(O&M) contracts, Development initiatives such as Build Own Operate Transfer/Build Operate Transfer (BOOT/BOT), and Engineering, Procurement, and Construction (EPC) contracts.

Figure 39 **Water/Sewage collection network (000s km)**



Source: Company prospectus (based on national water strategy)

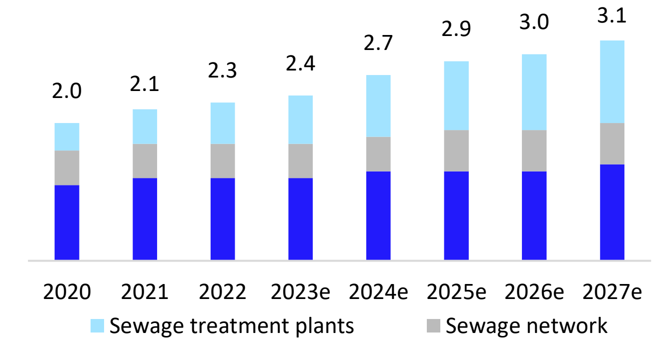
Figure 40 **Sewage capacity (million cubic meters)**



Source: SWPC data, company prospectus

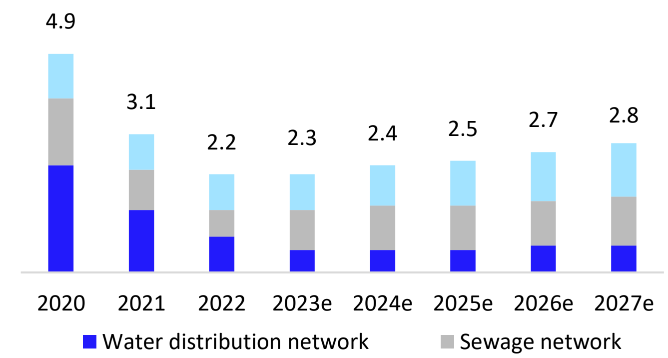
O&M contracts play a pivotal role in generating consistent revenue streams by ensuring the ongoing maintenance and efficient operation of critical municipal infrastructure. Simultaneously, the Development component, through large-scale projects, revitalizes aging municipal assets and expands infrastructure to meet the demands of burgeoning populations. This integrated strategy not only establishes a foundation of stability through ongoing maintenance but also propels comprehensive and sustained market expansion, addressing both immediate needs and contributing to long-term infrastructure resilience and development.

Figure 41 **O&M – Municipal / sewage market size (SARbn)**



Source: NWC, company prospectus

Figure 42 **Development: Municipal/sewage market (SARbn)**



Source: NWC, company prospectus

Forecasts indicate significant growth, with the O&M market expected to reach SAR 3.1 billion and the Development component anticipated to reach SAR 2.8 billion by 2027, culminating in a total market size of SAR 5.9 billion. As part of a broader privatization initiative, the National Water Company has embarked on a strategy dividing the Kingdom of Saudi Arabia into six clusters, engaging private consortium companies to manage the municipal water distribution and treatment value chain for the next seven years under MOM contracts. These contracts focus on management responsibilities without requiring capital or operational expenditures from the consortiums.

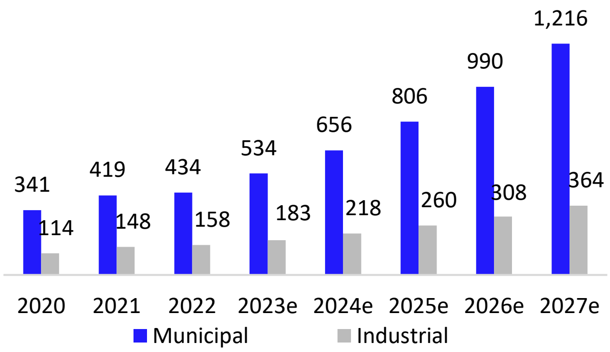
It is anticipated that successful achievement of predefined Key Performance Indicators (KPIs) during the MOM contract period may lead to the transition of these contracts into concessions, with the possibility of changing concession holders. While the precise details of the concession mechanism are still under development by the National Water Company, the transition of MOM contracts into concessions is expected to further expand the market as the private sector assumes responsibility for customer management. Present estimations of the market size do not account for this potential expansion, as the terms and conditions of future concessions have yet to be finalized.

Municipal and Industrial Sector Recycling – the fastest growing segement

In recent years, the wastewater recycling market in Saudi Arabia has experienced notable expansion, driven by a growing recognition of water scarcity and the imperative for sustainable water management practices. The upward trajectory is underscored by a demonstrable increase in the wastewater reuse rate, which has climbed from 17% in 2017 to the current level of 22.5% in 2022. Aligned with the overarching goals outlined in Vision 2030 and the National Water Strategy, the government is poised to continue its proactive stance in promoting the reuse of treated wastewater for agricultural and industrial purposes. This strategic direction aims to realize the ambitious target of achieving a 70% wastewater reuse rate by 2030, as envisaged by the National Water Strategy

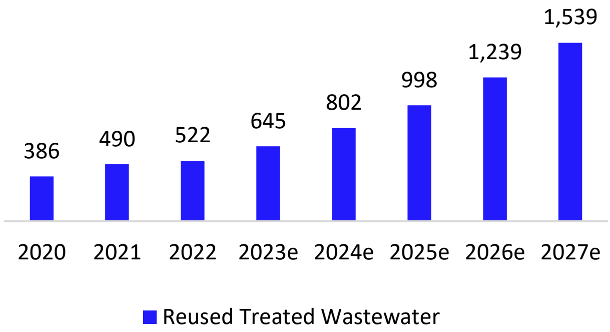
Anticipating this growth trajectory, investments and developments are underway to bolster sewage and industrial wastewater treatment capacities, as indicated by projected capacity expansions outlined in relevant tables. Correspondingly, the volume of reused treated wastewater is expected to witness a substantial surge, escalating from 455 million cubic meters in 2020 to an estimated 1,580 million cubic meters by 2027. Such robust growth not only underscores the strategic imperatives of sustainable water management but also reflects the government's commitment to meeting ambitious targets set forth in its water management strategies.

Figure 43 **O&M: Municipal/sewage treatment market (SARbn)**



Source: NWC, company prospectus

Figure 44 **Development: Municipal/sewage market (SARbn)**



Source: NWC, company prospectus

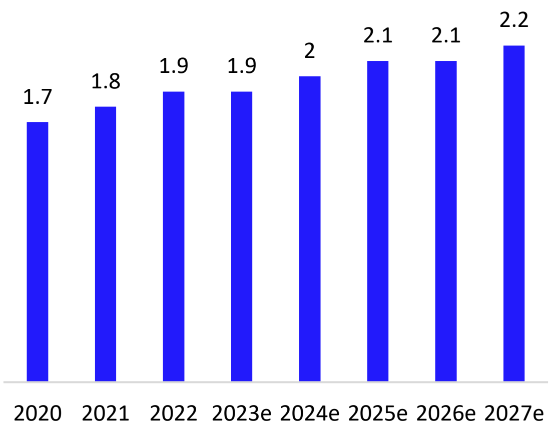
Moreover, the financial dynamics of the wastewater reuse market reveal a symbiotic relationship between asset owners and wastewater treatment plant operators. Revenue generated from the resale of recycled wastewater accrues to the owners of the respective assets. Simultaneously, wastewater treatment plant operators receive a share of these revenues, typically stipulated in contractual agreements between operators and asset owners. This revenue-sharing arrangement, assumed to be around 30% for the purposes of the current study, underscores the collaborative nature of the market ecosystem, wherein both stakeholders stand to benefit from the burgeoning wastewater reuse market.

Given these projections and dynamics, the wastewater reuse market for private operators is poised for substantial expansion, with revenues expected to ascend from SAR 386 million in 2020 to SAR 1,539 million by 2027. This anticipated growth trajectory reflects not only the increasing volume of reused treated wastewater but also the lucrative opportunities for private sector involvement in this critical sector.

Industrial Wastewater Treatment

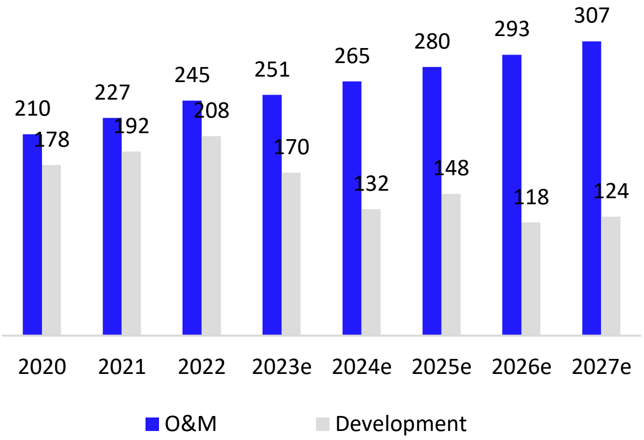
The industrial wastewater treatment market is intricately linked to water consumption levels. Projections indicate that industrial wastewater treatment capacities are slated to increase to 2.2 million cubic meters per day by 2027e. Consequently, market growth estimates for Operations and Maintenance (O&M) and Development components have been derived (in company prospectus). The overall market size is anticipated to reach SAR431mn by 2027e. While the O&M sector is poised for continued YoY growth, the Development component's trajectory is contingent upon the volume of new capacities required annually. Forecasts suggest that significant investments in new capacity development may not materialize, leading to a projected decline in this market segment. Notably, the current estimation does not encompass water transmission and distribution for the industrial segment, primarily due to insufficient transparency regarding relevant projects.

Figure 45 **Industrial wastewater treatment capacity**



Source: NWC, company prospectus

Figure 46 **Industrial wastewater treatment market size**



Source: Company Prospectus, Al Rajhi Capital

Municipal & Industrial Water Sourcing & Treatment (ground and surface purification plants and direct wells)

Saudi Arabia's water treatment sector is shifting from reliance on groundwater to desalination to meet the growing water demands of its expanding population while conserving groundwater resources. The SWPC 7-year plan aims to operationalize significant desalination capacities by 2026, reducing dependence on non-renewable water sources. Consequently, the market size for non-desalination water treatment is projected to decrease from SAR894mn in 2022 to SAR541mn by 2027, reflecting this strategic transformation.

National Water Strategy

The National Water Strategy was introduced by the Ministry of Environment, Water, and Agriculture (MEWA) in 2017. It aims to fulfil the fowling targets:

Figure 47 **National Water Strategy**

National Targets aligned with Vision 2030			
Reuse Rate of Treated Wastewater	23%	➔	**70%**
Water Services Coverage	87%	➔	**100%**
Daily Water Consumption Per Capita	308 Litres	➔	**258 Litres**
Sanitation Services Coverage to Population	60%	➔	**95%**

Source: Company Data, Al Rajhi Capital

Key Financials

Figure 48 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E
Revenue	**324**	**1,453**	**1,026**	**624**	**397**
y-o-y growth	*17.5%*	*347.9%*	*-29.4%*	*-39.2%*	*-36.4%*
Cost of Sales	(215)	(1,134)	(888)	(471)	(238)
Gross Profit	**109**	**320**	**139**	**153**	**159**
y-o-y growth	*26.0%*	*192.2%*	*-56.6%*	*10.4%*	*4.1%*
margins	*33.7%*	*22.0%*	*13.5%*	*24.5%*	*40.1%*
SG&A	(39)	(36)	(39)	(44)	(48)
ECL	(1)	(1)	(2)	(3)	(4)
ECL & Other expenses	0	1	2	3	3
Operating Profit	**70**	**283**	**98**	**106**	**108**
y-o-y growth	*24.1%*	*302.2%*	*-65.3%*	*8.1%*	*1.8%*
margins	*21.7%*	*19.4%*	*9.6%*	*17.0%*	*27.2%*
Interest income	20	48	105	144	156
Interest expenses	(34)	(100)	(110)	(110)	(115)
Other	6	7	7	7	7
Pre-Tax Income	**63**	**238**	**101**	**148**	**157**
Zakat	(6)	(20)	(9)	(13)	(13)
Net Income before minority	**57**	**218**	**92**	**135**	**144**
Minority	0	35	5	1	3
Net Income	**57**	**183**	**87**	**134**	**141**
y-o-y growth	*13.2%*	*222.8%*	*-52.7%*	*55.2%*	*4.9%*
margins	*17.5%*	*12.6%*	*8.4%*	*21.5%*	*35.5%*
EPS	0.4	1.1	0.5	0.8	0.9

Source: Company Data, Al Rajhi Capital

Figure 49 **Key Ratios**

	2023	2024E	2025E	2026E	2027E
ROA (%)	5.7%	7.9%	2.6%	3.6%	3.8%
ROE (%)	14.4%	35.1%	14.9%	19.9%	18.6%
P/E	32.6x	10.1x	21.4x	13.8x	13.1x
EV/EBITDA	19.3x	6.7x	15.3x	14.4x	14.1x
Receiveable days	93	80	80	80	80
Payable days	209	209	209	209	209

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Source: Company Data, Al Rajhi Capital

Figure 50 **Balance Sheet**

SAR mn	2023	2024E	2025E	2026E	2027E
Property and equipment	8	9	9	9	10
Intangible assets(concession arrangements)	346	311	277	245	205
Right-of-use assets	12	13	14	16	17
Investment in associates	13	21	28	36	43
Concession contract receivables	270	1,250	1,971	2,146	2,083
Financial Lease Asset	0	0	25	51	51
Prepayments and advances	14	15	16	17	18
Non-current Assets	**663**	**1,620**	**2,339**	**2,520**	**2,427**
Concession contract receivables	35	35	70	183	183
Financial Lease Asset	0	268	509	627	611
Inventories	6	7	7	8	8
Prepayments and advances	26	29	31	35	37
Derivative financial instruments	2	2	2	2	2
Trade and other receivables	63	64	66	73	78
Contract assets	38	43	45	52	56
Due from related parties	5	5	5	6	7
Term deposits	16	32	51	39	49
Cash and cash equivalents	136	216	166	205	295
Current Assets	**326**	**701**	**953**	**1,230**	**1,326**
Total Assets	**989**	**2,321**	**3,292**	**3,750**	**3,753**
Loans and borrowings	401	1,554	2,349	2,614	2,484
Lease liabilities	10	10	10	11	12
Defined employee benefits obligation	22	28	35	41	48
Deferred revenue and contract liability	13	13	13	13	13
Non-current Liabilities	**446**	**1,606**	**2,408**	**2,680**	**2,558**
Loans and borrowings	42	38	135	211	240
Lease liabilities	2	2	2	2	2
Trade and other payables	95	107	113	128	136
Other liabilities	6	6	6	6	6
Zakat payable	6	6	6	6	6
Current Liabilities	**150**	**158**	**262**	**352**	**390**
SHAREHOLDERS EQUITY	**393**	**521**	**582**	**676**	**760**
TOTAL LIABILITIES	**989**	**2,321**	**3,292**	**3,750**	**3,753**

Source: Company Data, Al Rajhi Capital

Figure 51 **Cash Flow**

SAR mn	2023	2024E	2025E	2026E	2027E
Cash flow from Operations	133	253	89	136	253
Cash flow from Investing	(42)	(1,268)	(1,005)	(398)	(5)
Cash flow from Financing	(23)	1,094	867	301	(157)
Change in cash	68	80	(50)	38	90

Source: Company Data, Al Rajhi Capital

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

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

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