Al Mawarid Manpower Co.

Investment Update

Volume driven growth ahead; margins likely to be subdued amid competitive pressure

AlMawarid Manpower Company (AlMawarid)'s Q1-25 results indicated continuation of a prevailing trend in the industry – robust topline growth at the expense of margins. However, it also indicates a very strong demand, particularly for the corporate segment workforce amid ongoing construction activities related to Mega projects, along with growing tourism and healthcare sectors. We believe AlMawarid is well placed to capitalize on rising demand and leverage its leadership position to benefit from the ongoing trend. The company's average workforce expanded by 40% in FY24 and continued to grow further in Q1-25. We expect the company to maintain its market share in the growing Saudi manpower market delivering a revenue CAGR of 15.0% during FY24-29E on the back of total workforce increase at CAGR of 13.6% during the same period. However, the company is likely to see pressure on its margin due to an increase in competition, leading to a GP margin of 8.5%-8.9% from FY25-29E. Net income is forecasted to increase at a CAGR of 16.9% during FY24-29E. We keep "Overweight" recommendation on AlMawarid with a revised TP of SAR 152/share.

Robust revenue growth backed by aggressive workforce expansion in the Corporate segment; margin pressure continues: AlMawarid posted net profit of SAR 29.9mn in Q1-25 (+13.4% Y/Y), above AJC's estimate of SAR 25.6mn primarily due to significantly higher revenue, partially offset by lower gross margin. The revenue growth was driven by strong corporate demand across various sectors, leading to 38% Y/Y growth in the segment's revenue and 32% Y/Y growth in the average corporate workforce. Moreover, the individual segment's revenue and workforce grew by 20% Y/Y and 13% Y/Y, respectively. GP margin contracted ~80bps Y/Y to 9.1% (AJC estimate: 9.9%) resulting in gross profit of SAR 53.3mn (+23.5% Y/Y). Operating profit grew 11.7% Y/Y to SAR 32.5mn (AJC estimate: SAR 29.4mn). Operating margin contracted ~110bps to 5.5%, as an impairment loss of SAR 2.3mn on advances to recruitment agents added to the pressure from lower gross margin.

An aggressive workforce expansion to cater a healthy corporate segment demand to reflect in continued revenue momentum: AlMawarid's performance in Q1-25 underscores its ability to capitalize on the surging demand for manpower in Saudi Arabia's rapidly evolving economy, particularly in the corporate segment. This demand is being largely driven by the labor-intensive needs of mega and giga projects such as NEOM, where AlMawarid plans to deploy approximately 2,000 workers by FY25. The construction sector remains the key engine of this growth, as the Kingdom accelerates infrastructure development under Vision 2030. Simultaneously, healthcare and hospitality sectors are emerging as strong demand contributors. In healthcare, structural reforms and expansion of facilities are creating a consistent need for skilled personnel. In hospitality, the rising number of tourists and upcoming global events are expected to significantly boost staffing needs. AlMawarid has already secured a strategic contract with the Ministry of Tourism to supply 5,000 Saudi employees, strengthening its positioning in this space. Additionally, the individual segment is set to benefit from socio-economic shifts such as rising female workforce participation, leading to increased demand for domestic helpers. The company's continued investments in digitalization and service diversification are also expected to enhance operational efficiency and widen its customer base, supporting robust revenue growth. As a result, AlMawarid's average workforce expanded by 40% in FY24 (Q1-25: +38% in corporate and +13% in individual segment). Thus, we expect this momentum to continue over the next few years with the company's workforce growing at CAGR of 13.6% driving a forecasted revenue CAGR of 15.0% during FY24-29E.

Recommendation	Overweight
Target Price (SAR)	152.0
Upside / (Downside)*	5.6%

Source: Tadawul *prices as of 13th of May 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	1,446.0	2,027.7	2,595.4	3,158.9
Growth %	53.1%	40.2%	28.0%	21.7%
Gross Profit	147.2	184.9	229.7	272.2
Net Income	88.8	95.4	126.7	153.5
Growth %	16.8%	7.5%	32.8%	21.1%
EPS	5.92	6.36	8.45	10.23
DPS	2.50	2.50	4.00	5.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	10.2%	9.1%	8.9%	8.6%
Net Margin	6.1%	4.7%	4.9%	4.9%
ROE	27.9%	25.7%	29.4%	30.5%
ROA	15.5%	12.4%	13.7%	14.8%
P/E (x)	21.1	16.7	17.0	14.1
P/B (x)	5.4	4.0	4.6	4.0
EV/EBITDA (x)	16.0	12.2	13.0	10.9
Dividend Yield	2.0%	2.4%	2.8%	3.5%

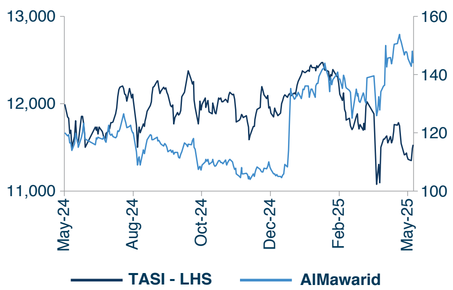
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (bn)	2.2
YTD%	36.6%
52 weeks (High)/(Low)	157.60/103.20
Share Outstanding (mn)	15.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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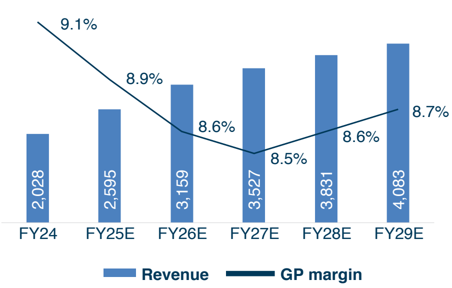
Margin pressure is inevitable given the industry dynamics: While AlMawarid is well positioned to capture growth across multiple demand verticals, the company's profitability is likely to remain under pressure due to intensifying competition in the Saudi manpower services industry. The pricing pressure is expected to mount, especially for large contracts in the corporate segment where cost efficiency is a key differentiator. In a bid to maintain its leadership position and preserve market share, AlMawarid may need to make pricing concessions or increase investments in recruitment and training, which could weigh on gross margins. Additionally, with labor supply costs on the rise and client expectations evolving towards more specialized, value-added services, the cost-of-service delivery is expected to increase. These dynamics are projected to compress gross profit margins to the range of 8.5%-8.9% between FY25 and FY29, compared to historically higher levels. Nonetheless, the company's strategic focus on scaling operations, leveraging technology to improve cost efficiency, and targeting high-growth sectors may help partially offset the margin pressure and sustain earnings growth, with net income expected to rise at a CAGR of 16.9% over the same forecast period.

Debt free balance sheet, low CAPEX requirements and healthy FCF conversion make a strong case for higher dividends: AlMawarid does not have any debt on the balance sheet except for lease liabilities. Moreover, the workforce solutioning business requires minimal CAPEX, enabling healthy FCF conversion rate. We expect the company's FCF conversion rate to average above 70% over the next five years, improving from 51.5% in FY24. Thus, we see room for AlMawarid to pay higher dividend after keeping it flat over the last two years. We project a higher DPS of SAR 4.0 per share this year, implying a 2.8% dividend yield at the current market price.

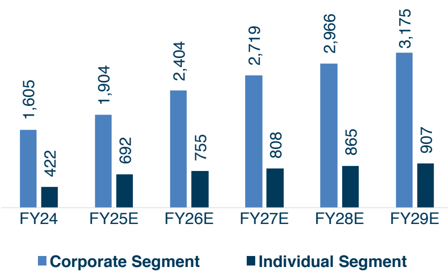
AJC View and Valuation: AlMawarid is well-positioned to benefit from strong demand across key sectors such as construction, healthcare, and hospitality, driven by Saudi Arabia's ongoing mega projects and Vision 2030 initiatives. The company's aggressive workforce expansion and strategic contracts, like those with NEOM and the Ministry of Tourism, support its robust revenue growth outlook. However, maintaining market share in a highly competitive environment is expected to come at the cost of margin compression. Despite this, AlMawarid's scale, sectoral exposure, and operational initiatives should enable it to deliver solid earnings growth over the medium term. We valued AlMawarid with 50% weightage to DCF (WACC = 10.5% and terminal growth = 2.5%) and 50% weightage to P/E multiple (18.0x) based on FY25E EPS to arrive at a blended TP of **SAR 152/share**. We maintain our "**Overweight**" recommendation on the stock.

Revenue (SAR mn) and gross margin (%)



Source: Company, AlJazira Capital research

Revenue by segment (SAR mn)



Source: Company, AlJazira Capital research

FCF conversion rate (%)

Source: Company, AlJazira Capital research

Blended valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	152.6	50%	76.3
P/E	152.1	50%	76.0
Blended TP			**152.0**
Up/Downside (%)			**5.6%**

Source: AlJazira Capital research

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement									
Revenues	664	945	1,446	2,028	2,595	3,159	3,527	3,831	4,083
Y/Y	**-3.3%**	**42.3%**	**53.1%**	**40.2%**	**28.0%**	**21.7%**	**11.7%**	**8.6%**	**6.6%**
Cost	(567)	(817)	(1,116)	(1,843)	(2,366)	(2,887)	(3,227)	(3,501)	(3,727)
Gross profit	**97**	**128**	**147**	**185**	**230**	**272**	**300**	**330**	**356**
Gross margin	**14.6%**	**13.5%**	**10.2%**	**9.1%**	**8.9%**	**8.6%**	**8.5%**	**8.6%**	**8.7%**
Sales and distribution expenses	(7)	(13)	(12)	(18)	(22)	(27)	(30)	(33)	(35)
General and administrative expenses	(23)	(30)	(33)	(39)	(48)	(57)	(63)	(69)	(73)
Operating profit	**62**	**84**	**99**	**111**	**143**	**172**	**191**	**212**	**232**
Operating margin	**9.4%**	**8.9%**	**6.8%**	**5.5%**	**5.5%**	**5.4%**	**5.4%**	**5.5%**	**5.7%**
Y/Y	**18.9%**	**34.9%**	**17.2%**	**12.2%**	**29.0%**	**20.3%**	**10.9%**	**11.4%**	**9.0%**
Finance expense	-	-	(2)	(6)	(4)	(4)	(3)	(3)	(3)
Income before zakat	**62**	**84**	**96**	**105**	**139**	**168**	**188**	**209**	**229**
Zakat	(7)	(8)	(10)	(9)	(12)	(15)	(17)	(19)	(20)
Net income	**56**	**76**	**89**	**95**	**127**	**154**	**171**	**191**	**208**
Y/Y	**21.4%**	**36.5%**	**16.8%**	**7.5%**	**32.8%**	**21.1%**	**11.4%**	**11.7%**	**9.2%**
Net margin	**8.4%**	**8.0%**	**6.1%**	**4.7%**	**4.9%**	**4.9%**	**4.8%**	**5.0%**	**5.1%**
EPS (SAR)	**5.57**	**5.07**	**5.92**	**6.36**	**8.45**	**10.23**	**11.40**	**12.73**	**13.89**
DPS (SAR)	**2.00**	**1.33**	**2.50**	**2.50**	**4.00**	**5.00**	**6.00**	**7.00**	**7.00**
Balance sheet									
Assets									
Cash & equivalent	27	55	81	104	143	176	238	315	428
Other current assets	303	365	419	614	646	781	879	967	1,046
Total current assets	330	420	500	718	789	957	1,117	1,282	1,474
Property plant & equipment	12	13	15	17	18	18	19	21	22
Other non-current assets	64	71	126	159	151	144	137	131	124
Total assets	**405**	**504**	**642**	**894**	**959**	**1,121**	**1,275**	**1,434**	**1,621**
Liabilities & owners' equity									
Total current liabilities	136	174	204	371	359	421	463	497	529
Total non-current liabilities	36	37	94	125	135	157	187	228	279
Paid -up capital	100	150	150	150	150	150	150	150	150
Statutory reserves	28	35	44	45	58	68	68	68	68
Retained earnings	85	108	150	203	257	326	407	492	596
Total owners' equity	233	293	344	398	465	543	624	710	813
Total equity & liabilities	**405**	**504**	**642**	**894**	**959**	**1,121**	**1,275**	**1,435**	**1,621**
Cashflow statement									
Operating activities	(19)	40	86	79	132	132	172	202	238
Investing activities	13	23	(5)	(3)	(5)	(5)	(5)	(6)	(6)
Financing activities	(31)	(34)	(55)	(53)	(88)	(94)	(105)	(119)	(119)
Change in cash	(37)	29	26	23	38	34	62	77	113
Ending cash balance	**27**	**55**	**81**	**104**	**143**	**176**	**238**	**315**	**428**
Key fundamental ratios									
Liquidity ratios									
Current ratio (x)	2.4	2.4	2.5	1.9	2.2	2.3	2.4	2.6	2.8
Quick ratio (x)	2.0	2.4	2.5	1.9	2.2	2.3	2.4	2.6	2.8
Profitability ratios									
Gross profit margin	14.6%	13.5%	10.2%	9.1%	8.9%	8.6%	8.5%	8.6%	8.7%
Operating margin	9.4%	8.9%	6.8%	5.5%	5.5%	5.4%	5.4%	5.5%	5.7%
EBITDA margin	11.4%	10.5%	8.2%	6.6%	6.4%	6.2%	6.2%	6.3%	6.4%
Net profit margin	8.4%	8.0%	6.1%	4.7%	4.9%	4.9%	4.8%	5.0%	5.1%
Return on assets	14.4%	16.7%	15.5%	12.4%	13.7%	14.8%	14.3%	14.1%	13.6%
Return on equity	25.7%	28.9%	27.9%	25.7%	29.4%	30.5%	29.3%	28.6%	27.4%
Market/valuation ratios									
EV/sales (x)	NM	NM	1.3	0.8	0.8	0.7	0.6	0.5	0.5
EV/EBITDA (x)	NM	NM	16.0	12.2	13.0	10.9	9.8	8.7	7.7
EPS (SAR)	5.57	5.07	5.92	6.36	8.45	10.23	11.40	12.73	13.89
BVPS (SAR)	23.3	19.5	22.9	26.5	31.0	36.2	41.6	47.3	54.2
DPS (SAR)	2.00	1.33	2.50	2.50	4.00	5.00	6.00	7.00	7.00
Market price (SAR)*	NM	NM	125	105	144	144	144	144	144
Market-Cap (SAR mn)	NM	NM	1,872	1,581	2,160	2,160	2,160	2,160	2,160
P/E ratio (x)	NM	NM	21.1	16.6	17.0	14.1	12.6	11.3	10.4
P/BV ratio (x)	NM	NM	5.4	4.0	4.6	4.0	3.5	3.0	2.7
Dividend yield	NM	NM	2.0%	2.4%	2.8%	3.5%	4.2%	4.9%	4.9%

Source: Company reports, Aljazira Capital Research

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer