

### Robust topline growth as revenue starts flowing in from new projects; GP margins are squeezed further partly offset by lower non-OPEX

Alkhorayef Water & Power Technologies (AWPT)'s net profit surged 35.0% Y/Y to SAR 58mn in Q1-25, slightly below our estimate of SAR 62mn. The deviation from our estimate came from a lower GP margin, which was partially compensated by higher revenue and lower OPEX. The net profit growth was backed by strong revenue growth on account of new projects. Revenue grew 38.9% Y/Y to SAR 636mn, slightly higher than our estimate of SAR 599mn. GP margin contracted ~130 bps to 15.9% (AJC estimate: 18.4%). On the Q/Q basis, net profit declined 16.8% despite revenue growth, as the previous quarter included the completion of the initial Phase of several projects which may have supported the earnings. We retain our TP of SAR 163.8/share on AWPT and keep the "Neutral" recommendation.

- AWPT's net profit surged 35.0% Y/Y in Q1-25 to SAR 58mn but came marginally lower than our estimate of SAR 62mn. The lower-than-expected net profit, despite better revenue, was mainly due to the lower-than-expected gross margin. The net profit growth was backed by strong revenue growth on account of new projects. Moreover, lower non-operating expenses (net) aided the earnings growth partially mitigating the impact of lower GP and operating margins. On the Q/Q basis, net profit declined 16.8% despite revenue growth, as the previous quarter included the completion of the initial Phase of several projects which may have supported the earnings.
- Revenue grew 38.9% Y/Y to SAR 636mn, slightly higher than our estimate of SAR 599mn, driven by contribution from new projects. The Wastewater segment led the topline growth with an increase of 282.0% Y/Y, while the Integrated Water Solutions segment posted a 14.7% Y/Y rise in revenue.
- Gross profit increased 28.3% Y/Y to SAR 101mn (AJC estimate: SAR 110mn). The gross margin of 15.9% fell ~130 bps Y/Y from 17.2% in Q1-24 and fell short of our estimate of 18.4%, indicating the pressure from higher diesel prices as well as higher other direct costs. The gross margin in Q1-25 fell further from 16.8% in the previous quarter, perhaps indicating lower margins in new projects amid higher direct costs.
- The operating profit rose 25.9% Y/Y to SAR 77mn (AJC estimate: SAR 83mn) with contraction of operating margin to 12.0% from 13.3% in Q1-24 and 12.9% in Q4-24. However, OPEX-to-sales ratio remained stable at 3.9% (Q1-24: 4.0%; Q4-24: 3.9%).

**AJC view and valuation:** AWPT's Q1-25 performance was slightly weaker than our expectations, though revenue came marginally higher. The start of new projects and expected backlog recognition of SAR 2.5bn is likely to support strong revenue growth this year. Additionally, building on its solid track record and current pipeline of submitted bids, the momentum for new contract wins and its subsequent translation into revenue is expected to continue over the next few years. We project AWPT's gross backlog additions at SAR 3.6bn in FY25E (vs. SAR 2.8bn in FY24). However, the pressure on margins from higher diesel prices and other raw material costs continues to increase with the company recording the lowest GP margin in the past 6 quarters. AWPT is currently trading at P/E and EV/EBITDA of 19.4x and 13.6x based on our FY25E estimates, respectively. FY25E dividend yield stands at 2.0%. We maintain our target price of **SAR 163.8 per share** for AWPT and reiterate our "Neutral" rating.

SAR mn	Q1-24	Q4-24	Q1-25	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	458	610	636	38.9%	4.4%	6.2%
Gross Profit	79	102	101	28.3%	-1.3%	-8.3%
Gross Margin	17.2%	16.8%	15.9%	-	-	-
EBIT	61	79	77	25.9%	-2.8%	-7.7%
Net Profit	43	70	58	35.0%	-16.8%	-5.8%
EPS	1.72	2.00	1.66	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	Neutral
Target Price (SAR)	163.8
Upside / (Downside)*	10.2%

Source: Tadawul \*prices as of 14<sup>th</sup> of May 2025

#### Key Financials

SARmn (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	1,680	1,952	2,537	3,050
Growth %	104.3%	16.2%	29.9%	20.2%
Gross Profit	264	384	468	591
Net Income	140	230	269	359
Growth %	30.3%	64.3%	16.7%	33.8%
EPS	4.00	6.57	7.67	10.26
DPS	0.00	1.50	3.00	4.00

Source: Company reports, AlJazira Capital

#### Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	15.7%	19.7%	18.5%	19.4%
Net Margin	8.3%	11.8%	10.6%	11.8%
ROE	29.9%	35.0%	31.3%	34.2%
ROA	9.7%	11.3%	10.0%	11.3%
P/E (x)	34.6	22.8	19.4	14.5
P/B (x)	9.0	6.8	5.5	4.5
EV/EBITDA (x)	21.2	15.9	13.6	11.1
Dividend Yield	0.0%	1.0%	2.0%	2.7%

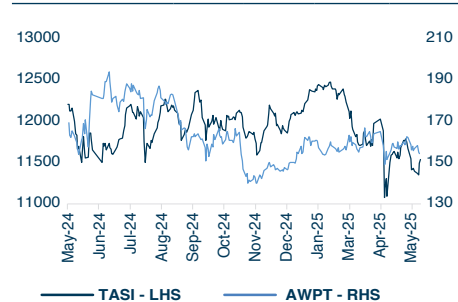
Source: Company reports, AlJazira Capital

#### Key Market Data

Market Cap(bn)	5.2
YTD%	-0.9%
52 week (High)/(Low)	199.0/138.6
Share Outstanding (mn)	35.0

Source: Company reports, AlJazira Capital

#### Price Performance



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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.

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