GIB CAPITAL جي آي بي كابيتال

Target Price: SAR8.6/share
IPO Price: SAR7.5/share
Upside: 15% (+Div. Yield: ~4.5%)
Rating: Overweight

Saudi Manpower Solutions Co. (SMASCO)

Industry leader with a great market potential

- A market leader in both corporate and individual segments, with a strong growth potential driven by the infrastructure spending and improvement in labor participation.
- Healthy earnings growth (~10% 5Y CAGR), aided by i) growth across the segments (+9% top-line CAGR), ii) industry-leading margins, and iii) operating efficiencies.
- We initiate our coverage on SMASCO with a 1Y forward TP of SAR8.6/sh. based on blended valuation using DCF and P/E (17x forward P/E on 2024e EPS) methods.

Stock data	
TASI ticker	1834
Listing MCap (SARmn)	3,000
Issue Size (mn*)	120
Offering	30%
Inst. Offering (mn*)	108
Retail Offering (mn*)	12
IPO size (SARmn)	900

Source: Company data, Tadawul

Valuation (SAR/share)	
DCF (50% weight)	8.8
P/E (50% weight)	8.4
Target Price (rounded)	**8.6**

Source: GIB Capital

Rising demand for manpower driven by Giga/Mega projects and growth in labor participation. Saudi Arabia's ambitious Mega/Giga projects (~US$884bn) and other programs under its Vision 2030 initiative should require a significant additional workforce of ~0.7mn workers (both local and expats) by 2030e across various industries such as construction, energy, hospitality, logistics, and transportation. In addition, sectors like tourism and retail are also expected to drive job creation, with 1.6mn new jobs in tourism and 1mn in retail anticipated by 2030e. Overall, the corporate manpower demand in KSA is expected to rise at a CAGR of 7% over 2022-27e. Further, a growth in labor participation, particularly the rising participation of Saudi women, is expected to drive the demand for more household support. We believe that SMASCO, being a market leader (14-16% market shares), will play a crucial role in providing these staffing solutions. Accordingly, we expect SMASCO's total manpower deployed to grow at a CAGR of 8% to reach over 55k by 2028e, from 37.3k in 2023. This, along with marginal improvement in the average revenue per headcount (1% CAGR over 2023-28e), should result in a healthy top-line CAGR of 9% during the same period.

Industry-leading margins to translate into a low double-digit earnings growth. Despite the competition, SMASCO generates industry-leading margins, aided by its client mix and relatively higher average revenue per manpower deployed in the corporate segment. Going forward, we expect a limited margin improvement (only 20bps over 2023-28e) with the corporate gross margins improving by 50bps to 13.2% by 2028e, offsetting a pricing pressure in the individual segment (Raha Mouqeemah), which is expected to witness margin contraction due to a change in nationality mix and the implementation of the price cap. Further, with a likely improvement in operating cost efficiencies, we expect SMASCO's earnings to grow at a CAGR of 10%, improving from SAR166mn in 2023 to SAR264mn by 2028e.

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e	2026e
Revenue	1,839	1,827	1,971	2,170	2,386
Revenue growth	*7%*	*-1%*	*8%*	*10%*	*10%*
Gross Profit	227	243	262	290	320
Gross profit margin	*12.3%*	*13.3%*	*13.3%*	*13.3%*	*13.4%*
Operating Profit	163	166	180	201	224
Net profit	150	166	180	200	222
Net profit margin	*8.2%*	*9.1%*	*9.1%*	*9.2%*	*9.3%*
EPS (SAR)	0.4	0.4	0.4	0.5	0.6
DPS (SAR)	0.3	0.4	0.3	0.4	0.4
P/E	20.0x	18.0x	16.7x	15.0x	13.5x

Source: Company data, GIB Capital

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Asset-light business model and healthy FCF conversion to ensure consistent payout: SMASCO operates an asset-light business model, with limited capex requirements (only maintenance and replacements capex) and a debt-free balance sheet (only a lease liability of SAR26mn as of 2023). Accordingly, we expect the company to generate robust FCF (+16% CAGR over 2023-28e) with a healthy FCF conversion of over 70%. Further, as of 2023, the company had a cash balance of SAR36mn and a Murabaha deposit of SAR200mn, implying a strong net cash position. Consequently, we expect the company to distribute 75% of net income as dividends going forward, implying a dividend yield of 4.5-5% for 2024-25e.

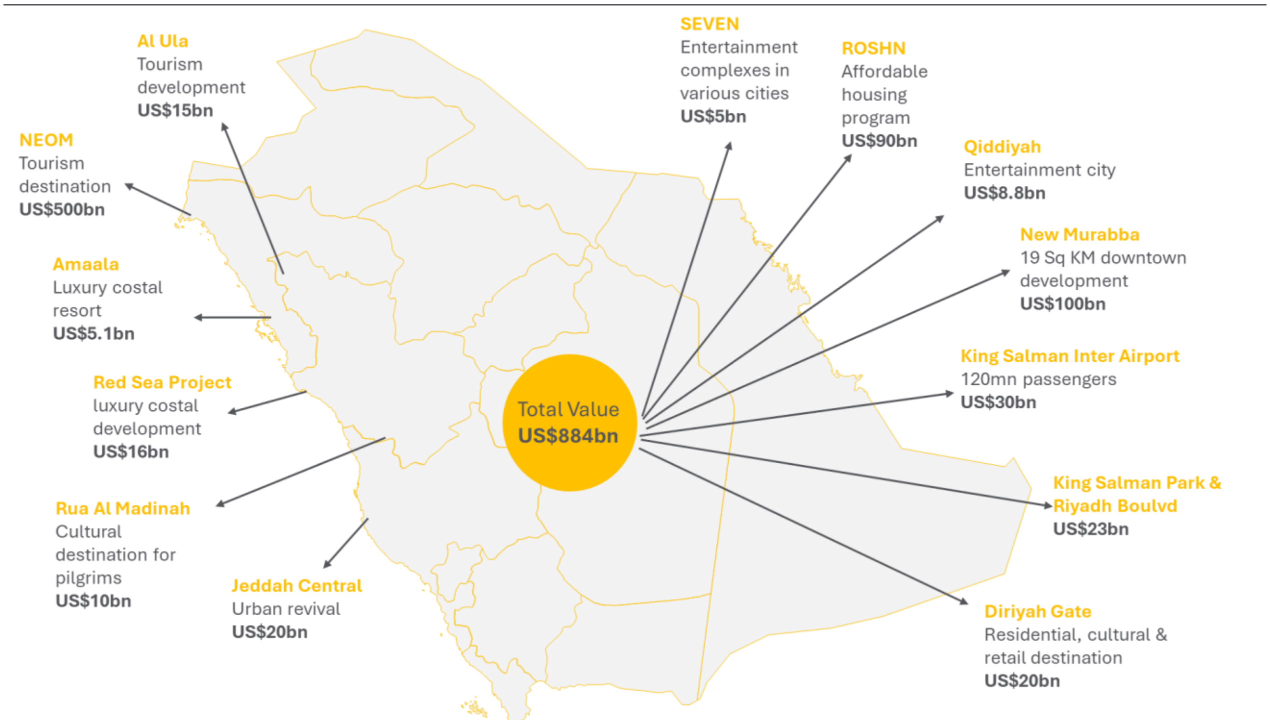
Risks: The downside risks include cyclical and competitive industry, constant regulatory changes, price capping on certain services, deterioration of diplomatic relations with sourcing countries, delay in receivable collection etc.

Investment Case

Large-scale projects to drive manpower demand…

In recent years, KSA has launched several mega and giga projects (Figure 2) as part of its Vision 2030 initiative aimed at economic diversification. These projects collectively exceed a total value of US$884bn. Notably, a few of these projects are already under construction, while others are yet to commence. Developing these mega projects and smart city clusters is labor-intensive, demanding an additional workforce of 0.7mn by 2030e (both local and expats) that includes both blue-collar and skilled workers across various industries such as construction, hospitality, logistics, and transportation. Further, the govt's National Industrial Development and Logistics program is expected to create additional job opportunities of 98k by 2030e. Among the sectors, the tourism (1.6mn new jobs by 2030e) and the retail (1mn jobs over 2016-30e) sectors are likely to be major drivers for the job creation.

Figure 2: Saudi Mega/Giga projects overview



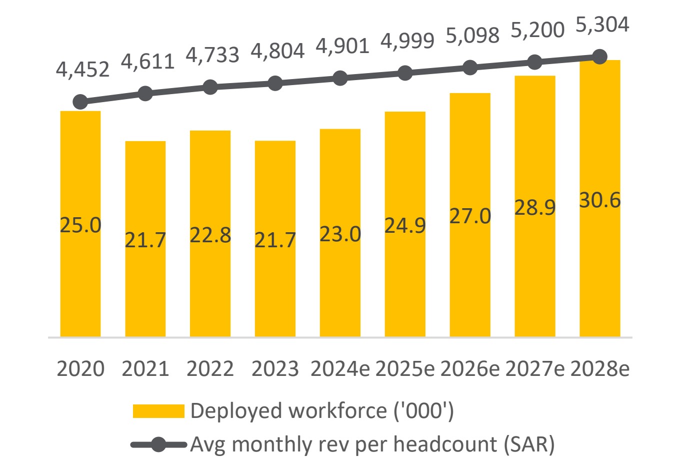
Source: Meed, GIB Capital

In addition to local events such as Riyadh Season and Jeddah Season, Saudi Arabia is also scheduled to host a series of global events such as the 2029 Asian Winter Games, Riyadh Expo 2030, and likely 2034 FIFA World Cup (almost certain in the absence of any unopposed bid). These will present robust investment opportunities across major non-oil sectors and create additional job opportunities as well. Overall, these projects are expected to push the corporate manpower demand by a CAGR of 7% from 2022-27e (Figure 53). We believe that recruitment companies like SMASCO play a crucial role in providing staffing solutions.

… supporting SMASCO corporate manpower segment

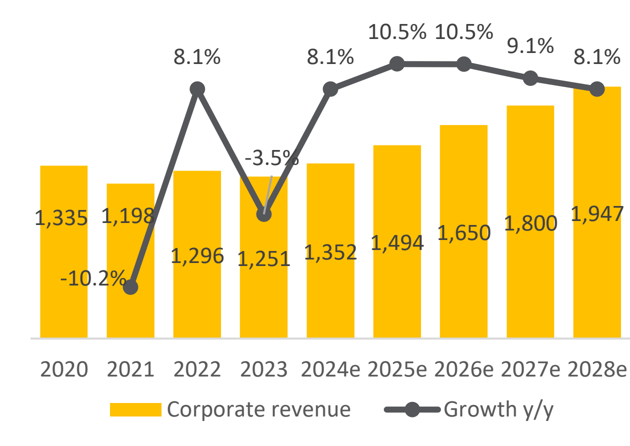
SMASCO holds the highest market share across the 46 licensed companies, with a 14% share (as of 2022) in the corporate segment, followed by Maharah (13%) and Al Mawarid (9%). The company currently serves over 3,000 corporate clients across professions. Considering these additional job opportunities, its market-leading position, a wide range of offerings, and its ability to recruit manpower from over 40 different countries (Figure 51), we anticipate SMASCO to witness a rise in its corporate segment workforce at a CAGR of 7% over 2023 to 2028e, taking the corporate headcount deployed to 30.6k by 2028e from 21.7k in 2023. This, along with a conservatively estimated 2% growth in average monthly revenue per headcount (largely in line with the inflation rate), should translate into a 9% CAGR for the corporate segment revenue with the segment top-line share remaining at ~69% (68% in 2023) over the same period.

Figure 3: Deployed workforce and avg monthly revenue per headcount – corporate



Source: Company data, GIB Capital

Figure 4: Revenue – corporate (SARmn)

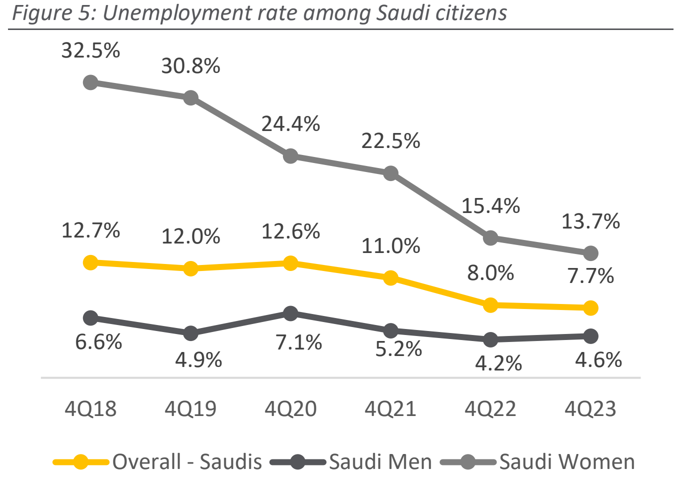


Source: Company data, GIB Capital

Improving unemployment level and rising participation of women in the workforce to boost the demand for household support

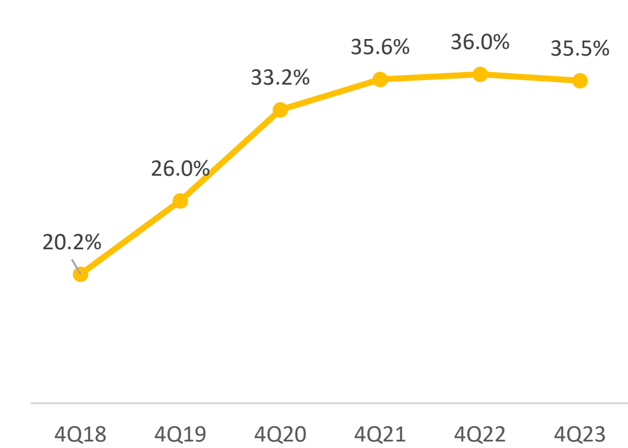
The Saudi government has implemented several initiatives such as Saudization to boost labor force participation among its citizens, particularly targeting Saudi women. This has resulted in lower unemployment rates (Figure 5) and increased female participation from 21.2% in 2017 to 35.5% by 2023 (above its target of 30% by 2025). We believe that as more women join the workforce and the rising population and higher disposable income, the demand for household support roles such as housekeepers, cooks, and nannies will rise, creating opportunities within the individual segment for manpower companies.

Figure 5: Unemployment rate among Saudi citizens



Source: GASTAT, GIB Capital

Figure 6: Saudi women's participation rate in the labor force

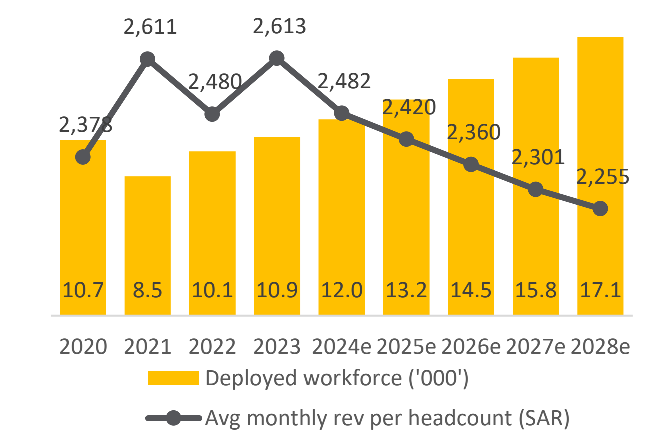


Source: GASTAT, GIB Capital

Individual (Raha Mouqeemah)

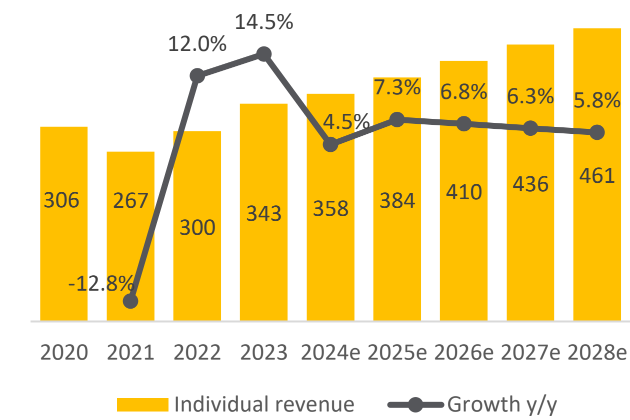
We believe that SMASCO is well placed to capture this opportunity of rising demand for household support, given its 16% market share in the individual segment. Accordingly, the average headcount deployed for the Individual (Raha Mouqeemah) segment is likely to grow from 10.9k in 2023 to ~17k by 2028e, growing at a CAGR of 9%. However, we expect the revenue per manpower deployed to remain under pressure, declining at a CAGR of 3% during the same period, mainly due to the price ceiling implemented in 2023 on certain nationalities, which allows individuals to hire workers with lower prices. Overall, we expect the top line of Raha Mouqeemah (individual sub-segment; 19% of total revenues as of 2023) to record a CAGR of 6% over 2023-28e.

Figure 7: Deployed workforce and avg monthly revenue per headcount – Individual Raha Mouqeemah



Source: Company data, GIB Capital

Figure 8: Revenue – Individual Raha Mouqeemah (SARmn)

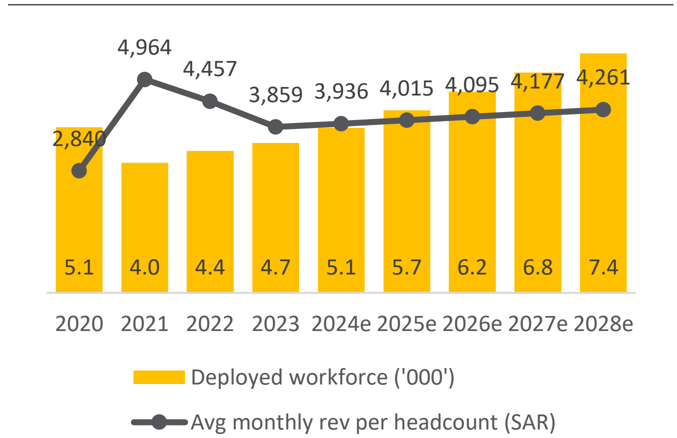


Source: Company data, GIB Capital

Individual (Raha Hourly)

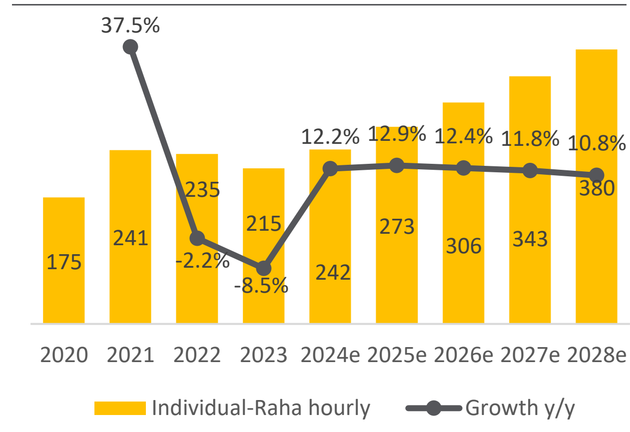
The hourly segment is relatively new for the company. However, with the increasing adoption of digitization and the growing demand for flexible work arrangements, we anticipate the individual segment revenue (12% of total revenue) to grow by a CAGR of 12% with average manpower deployed growing by a CAGR of 10% over 2023-28e (8% industry CAGR over 2022-27e). Similar to the corporate segment, we, on a conservative basis, expect the average monthly revenue per manpower deployed to rise at a CAGR of 2% during the same period.

Figure 9: Deployed workforce and avg monthly revenue per headcount – hourly



Source: Company data, GIB Capital

Figure 10: Revenue – hourly (SARmn)

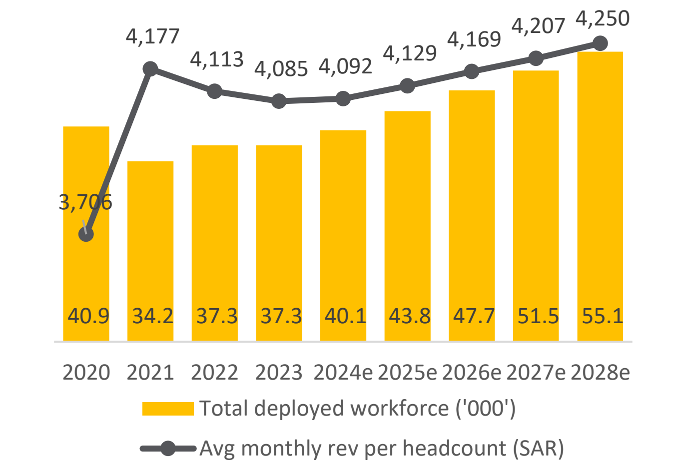


Source: Company data, GIB Capital

Healthy volume-driven top-line growth

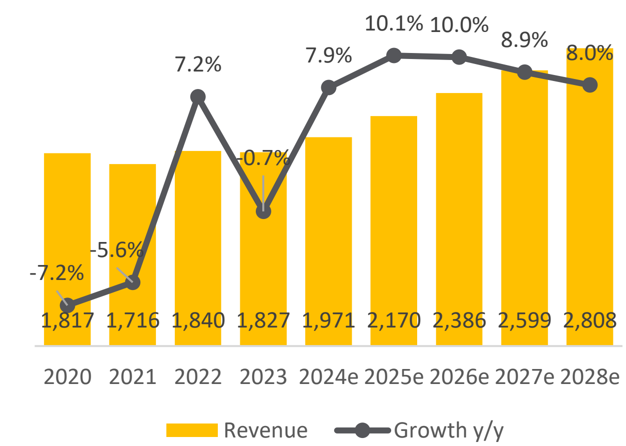
Overall, we expect revenue to grow at a CAGR of 9% from 2023-28e to SAR2.8bn by 2028e (SAR1.8bn in 2023), driven by growth across the segments with average total manpower deployed rising at a CAGR of 8% on higher demand. This growth would be further supported by marginal improvement in the average revenue per headcount (1% CAGR; Figure 11).

Figure 11: Total workforce deployed and avg monthly revenue per headcount



Source: Company data, GIB Capital

Figure 12: Total revenue (SARmn)

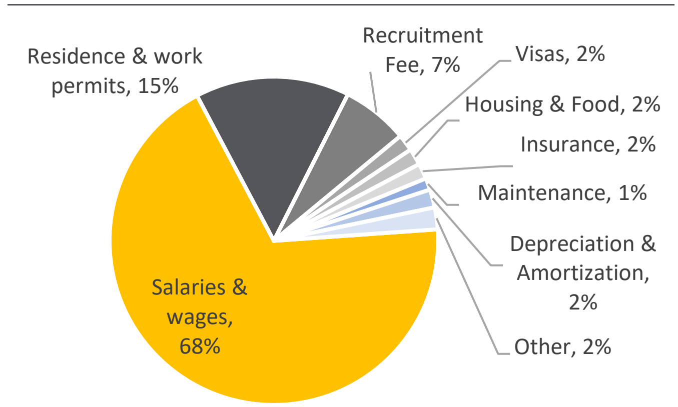


Source: Company data, GIB Capital

Wages and salaries continue to account for a major part of costs

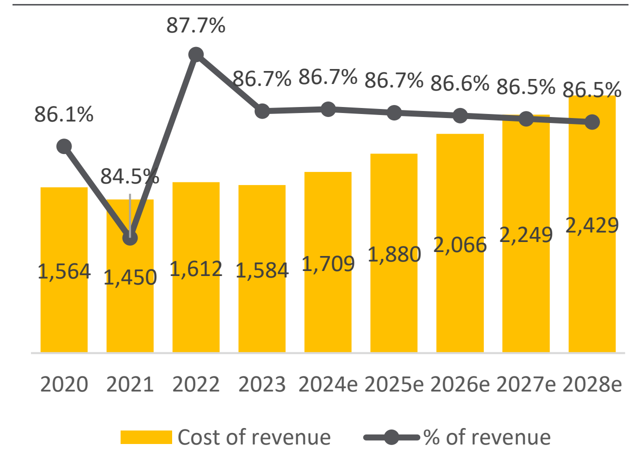
Cost of revenue (COR) mainly consists of salaries, wages, and other benefits (68%), followed by Residence fees and government work permits (15%), recruitment fees (7%), depreciation & amortization (2%), and others (8%). In 2023, the COR stood at ~87% of the total revenue compared to ~88% in 2022, largely due to lower Residence fees and government work permits. Given the competition, we expect the COR to remain mostly stable at ~87% in the coming years with salaries, wages, and other benefits continuing to drive the overall cost base.

Figure 13: Cost of revenue breakup - 2023



Source: Company data, GIB Capital

Figure 14: Cost of revenue (SARmn)

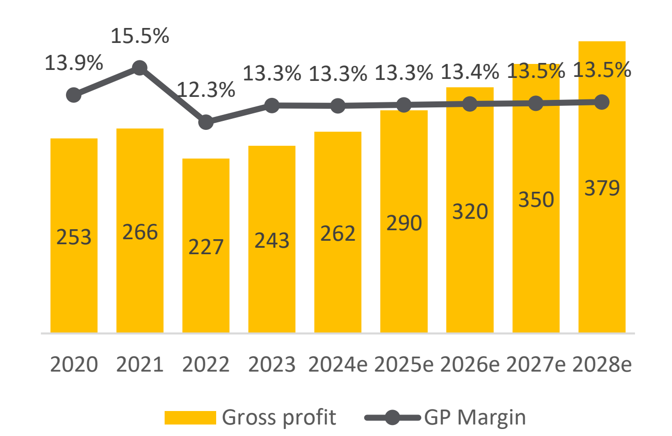


Source: Company data, GIB Capital

Industry-leading margins with limited scope for expansion

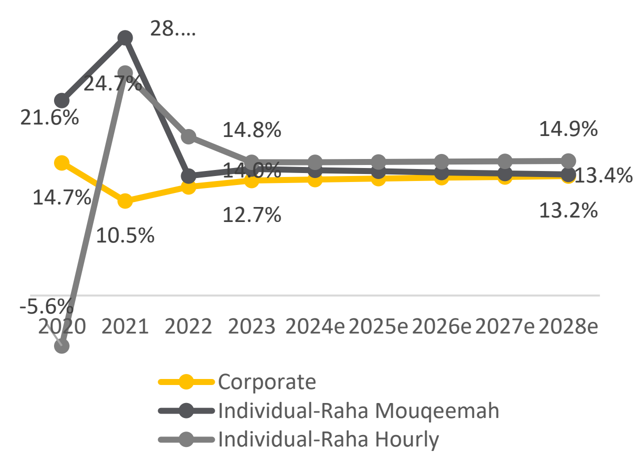
Despite the manpower industry being highly competitive, with little differentiation in service offerings and large clients having strong bargaining power to negotiate better deals, SMASCO continues to generate industry-leading margins, aided by its client mix and relatively higher average revenue per manpower deployed in the corporate segment. Going forward, we expect the corporate segment gross margin to gradually expand from 12.7% in 2023 to 13.2% by 2028e, driven by increased deployed headcount and better pricing. However, the individual segment (Raha Mouqeemah), which experienced pressure on margins over the recent years due to a change in nationality mix and the implementation of the price cap (effective from Aug 2023), is expected to continue to witness a margin contraction. Consequently, we expect the individual segment (Raha Mouqeemah)'s gross margin to reach 13.4% by 2028e compared to ~14% in 2023. Further, for the hourly segment (a relatively new business area for the company), we expect the gross margins to remain broadly stable. Overall, we expect the group-level gross margin to improve slightly by 20bps to reach 13.5% by 2028e.

Figure 15: Gross profit trend (SARmn) and margins



Source: Company data, GIB Capital

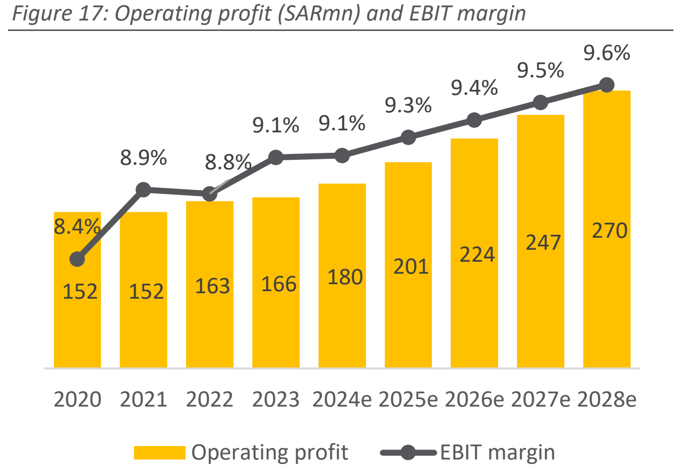
Figure 16: Segmental gross profit margin



Source: Company data, GIB Capital

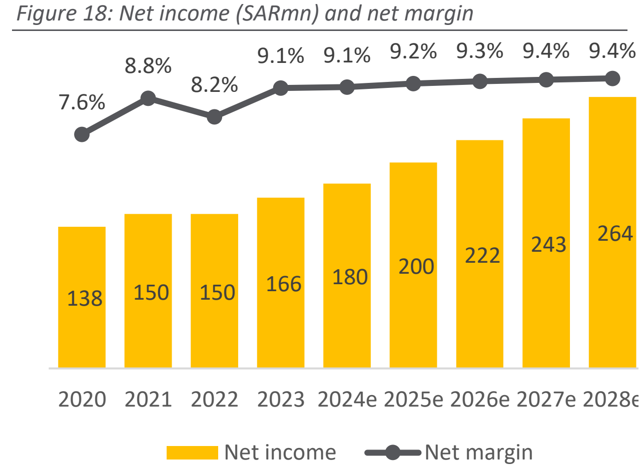
Further, we expect the company to benefit from operating leverage, resulting in an operating margin expansion of 50bps to 9.6% over 2023-28e. This will further flow down to net level as well with the net margin expanding by 30bps during the same period. Overall, we expect net profit to grow at a CAGR of 10%, improving from SAR166mn in 2023 to SAR264mn by 2028e.

Figure 17: Operating profit (SARmn) and EBIT margin



Source: Company data, GIB Capital

Figure 18: Net income (SARmn) and net margin

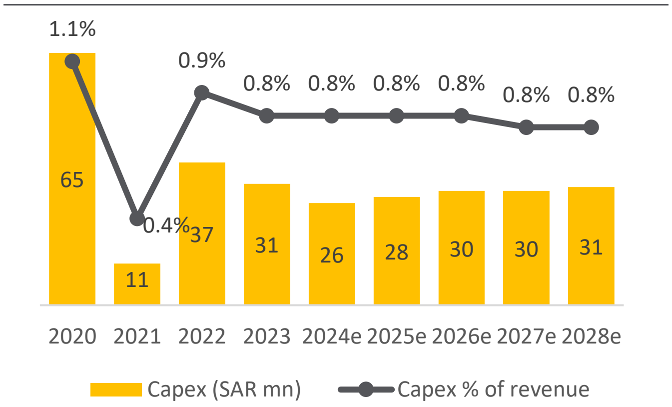


Source: Company data, GIB Capital

An Asset light business model and debt-free balance sheet

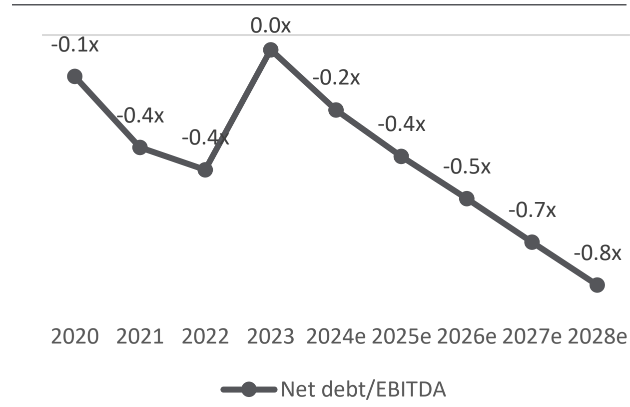
The company employs a capital-light business model, minimizing the need for substantial investments in PP&E. Most of its operational infrastructure, including worker accommodation, distribution centers, and sales branches, is leased. The notable exception is the Aridh housing complex, a strategically developed prototype for future accommodations. Historically, the company's capex averaged 0.9% of the overall revenue during 2019-23 (excluding capital expenditure related to Aridh housing complex). Going forward, we expect the capex (maintenance and replacement) to remain 0.8% of the top line over the forecast period of 2024e-28e. Further, SMASCO also has a debt-free balance sheet with total lease liabilities of SAR26mn. The company had a cash balance of SAR36mn and Murabaha deposits of SAR200mn at the end of 2023, implying a strong net cash position.

Figure 19: Capex



Source: Company data, GIB Capital

*Figure 20: Leverage trend**

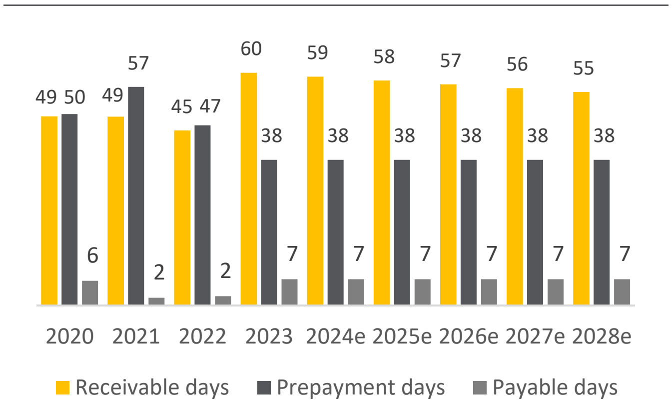


*Source: Company data, GIB Capital, *Net debt ex Murabaha deposit*

Working capital management to normalize gradually

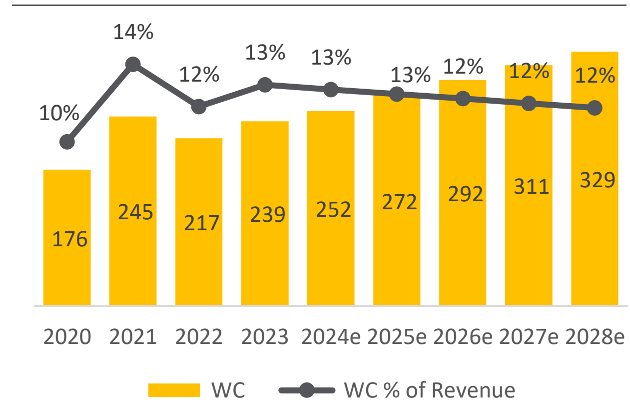
Despite being in the manpower industry, which requires high working capital, the company maintained its average working capital requirement at 12% of revenue from 2020-2022 through effective control of receivable collection days (45-49 days). However, in 2023, receivable days increased to 60 days, largely due to higher revenue from certain corporate clients, which have longer payment cycles than the Individual (Raha Mouqeemah) segment, resulting in a higher working capital requirement at ~13% of revenues. Going forward, we expect an improvement in the collection cycle, mainly due to the improving contribution of the Individual (Raha Hourly) segment (100% advance payment). Accordingly, we expect an improvement in the working capital requirements, gradually declining to 11.7% with receivable days reaching 55 by 2028e.

Figure 21: Working capital cycle



Source: Company data, GIB Capital

Figure 22: Working capital (WC) requirement (SARmn)

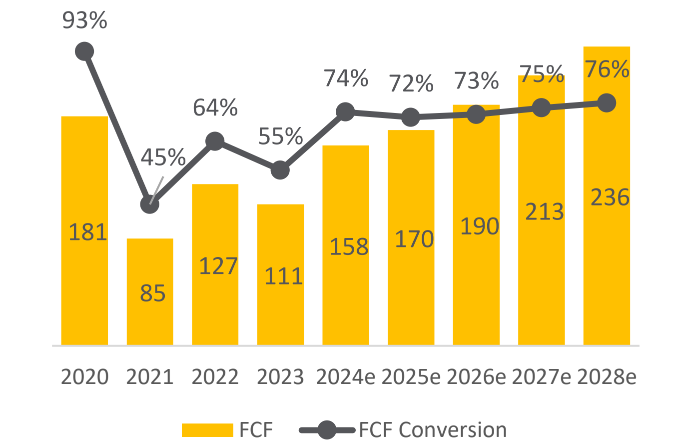


Source: Company data, GIB Capital

Strong cashflow generation to ensure healthy and consistent dividend payout

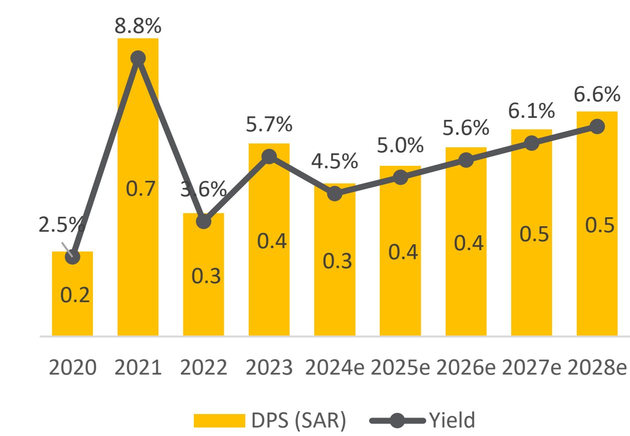
As discussed above, SMASCO follows an asset-light business model requiring minimal Capex, enabling the company to generate robust FCF over the past years. Going forward, we expect the FCF to grow at a CAGR of 16% over 2023-28e, with an FCF yield of 5-8% and FCF conversion of over 70% (Figure 23). With the net cash position and strong cash flows, we expect the company to distribute 75% of net income as dividends going forward, implying a dividend yield of 4.5-5% for 2024-25e.

*Figure 23: FCF (SARmn) and FCF conversion**



*Source: Company data, GIB Capital. * FCF divided by EBITDA*

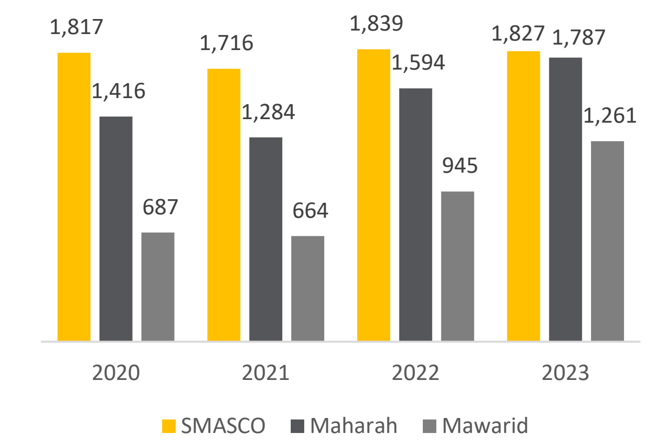
Figure 24: DPS and Dividend yield %



Source: Company data, GIB Capital

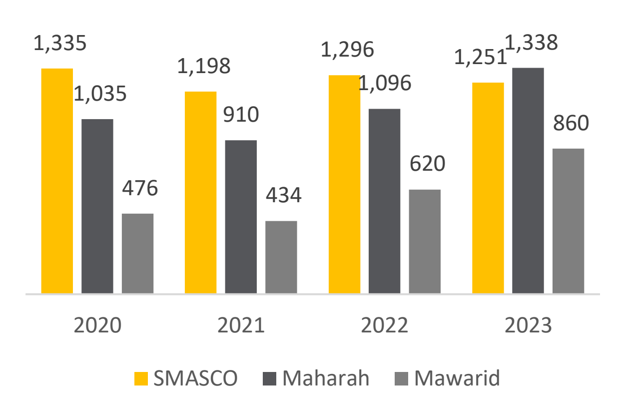
Peer analysis in charts

Figure 25: Total revenue (SARmn)



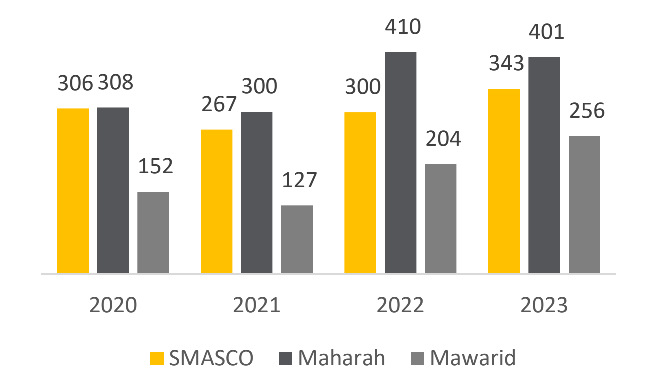
Source: Company data, GIB Capital

Figure 26: Corporate revenue (SARmn)



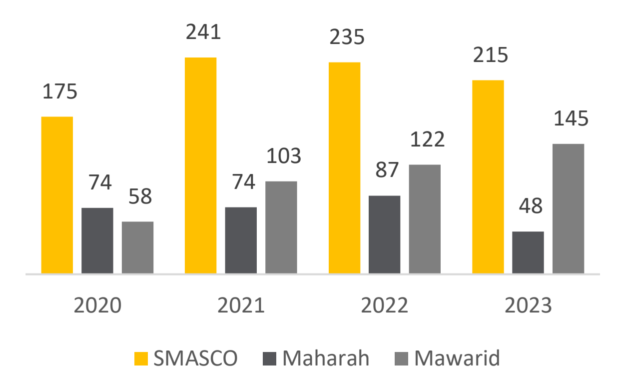
Source: Company data, GIB Capital

Figure 27: Individual revenue – Full time (SARmn)



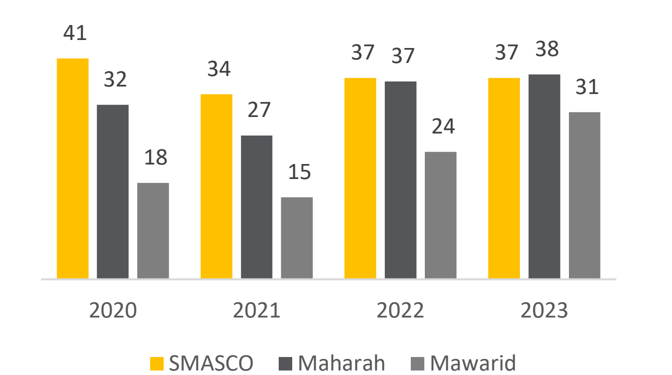
Source: Company data, GIB Capital

Figure 28: Hourly revenue (SARmn)



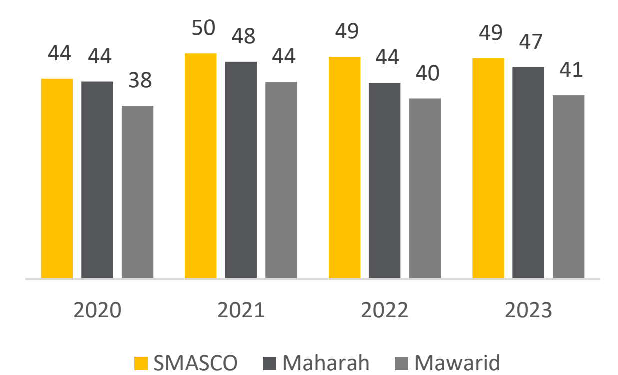
Source: Company data, GIB Capital

Figure 29: Avg workforce deployed ('000')



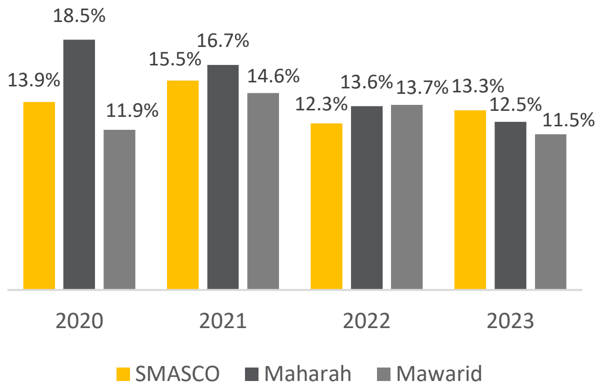
Source: Company data, GIB Capital

Figure 30: Average revenue per worker deployed (SAR '000')



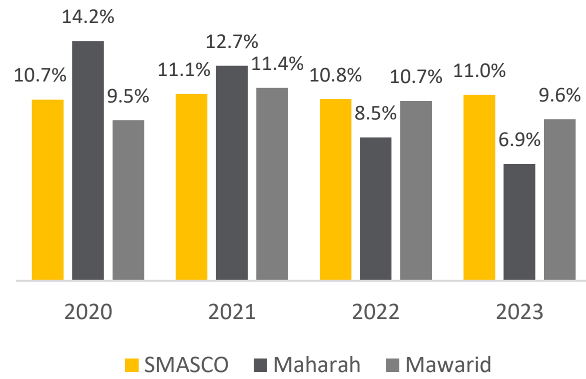
Source: Company data, GIB Capital

Figure 31: Gross profit margin



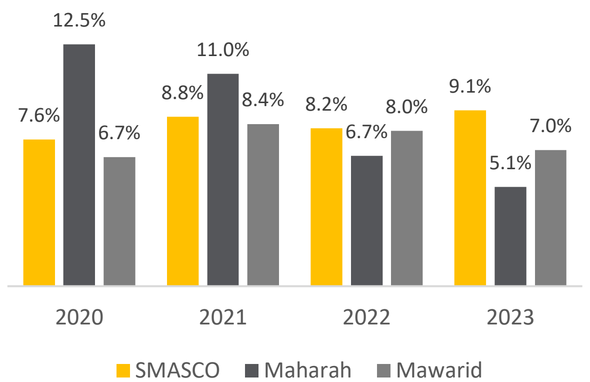
Source: Company data, GIB Capital

Figure 32: EBITDA margin



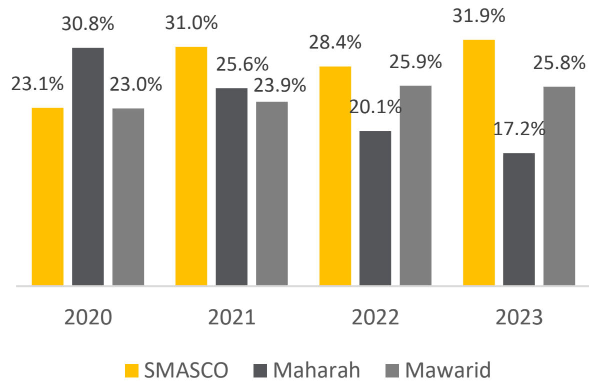
Source: Company data, GIB Capital

Figure 33: Net profit margin



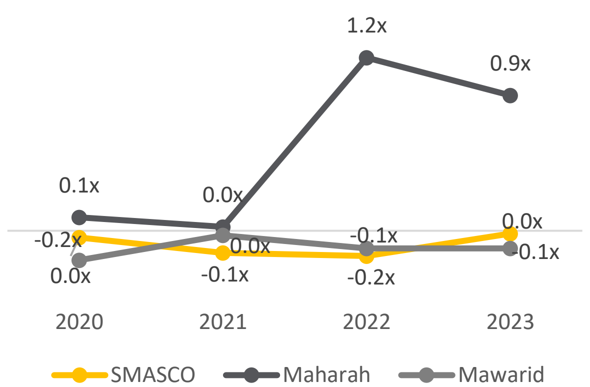
Source: Company data, GIB Capital

Figure 34: ROE



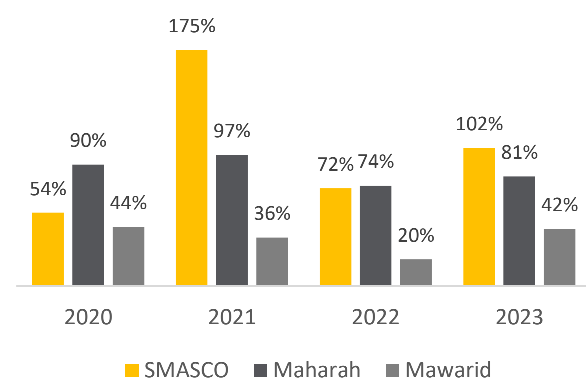
Source: Company data, GIB Capital

Figure 35: Net debt to equity



Source: Company data, GIB Capital

Figure 36: Dividend payout



Source: Company data, GIB Capital

Valuation and risk

We use an equal mix of DCF and P/E multiple valuation approaches for valuing the company. For relative valuations, we use a 17x multiple on 2024e EPS to arrive at a P/E-based target price (1 year forward) of SA8.4/share. As for DCF, based on a WACC of 10.5%, we derive SAR8.8/share as the DCF-based 1 year forward target price. We arrive at an equal weightage average 1 year forward target price of SA8.6/share, implying an upside of 15% from the IPO price. We initiate on SMASCO with an Overweight rating.

Figure 37: DCF Valuation

SARmn	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e
EBIT	166	180	201	224	247	270	294	320
Zakat	(16)	(17)	(19)	(21)	(23)	(25)	(27)	(29)
EBIT minus taxes	**151**	**163**	**182**	**203**	**224**	**246**	**267**	**291**
(+) Depreciation & amortization	35	34	35	37	37	38	39	40
(+/-) Change in working capital	(43)	(13)	(20)	(21)	(19)	(17)	(14)	(17)
(-) Capex	(31)	(26)	(28)	(30)	(30)	(31)	(29)	(31)
Free Cash Flow to Firm	**111**	**158**	**170**	**190**	**213**	**236**	**263**	**283**
Terminal value								**3,891**

PV of FCF (explicit period)	1,039
PV terminal	2,023
EV	**3,062**
(-) Debt, incl. lease liabilities	(26)
(+) Cash	36
(-) Minority	0
(-) Pension/other liabilities	(96)
Equity value	**3,177**
Number of Shares	400
Equity value per share	8
Target price (one year forward)	**8.8***
Cost of Equity	10.5%
Cost of debt	0.0%
Target D/A	0.0%
WACC	10.5%

*Source: GIB Capital, *Rounded off to one decimal and time value adjusted 1 year forward, using 3.0% terminal growth rate*

DCF sensitivity analysis (Per share value in SAR)

Figure 38: Sensitivity of terminal growth rate and WACC

		Terminal growth				
	8.8	**2.0%**	**2.5%**	**3.0%**	**3.5%**	**4.0%**
WACC	**9.5%**	9.2	9.6	10.1	10.7	11.4
	10.0%	8.6	9.0	9.4	9.9	10.5
	10.5%	8.1	8.4	**8.8**	9.2	9.7
	11.0%	7.6	7.9	8.2	8.6	9.0
	11.5%	7.2	7.5	7.7	8.1	8.4

Source: GIB Capital

P/E based valuation: The global recruitment companies are currently trading at an average of 16x P/E on 2024e EPS. Mawarid (2024e P/E: ~17x) and Maharah are the closest peers in the local market, as they operate in a similar market dynamic. Given the industry-leading domestic market shares and margins, we use a 17x multiple (above the global average but in line with Mawarid) on 2024e EPS to derive the 1Y Forward TP of SAR8.4 per share.

Figure 39: Peer valuations – local and global peers

Company name	Country	Mkt Cap (USDmn)	P/E Ratio (TTM)	2024e P/E	2025e P/E	EV/T12M EBITDA	2024e EV/EBITDA	2025e EV/EBITDA	2024e Dividend Yield	P/B
Almawarid Manpow	KSA	478	20.2x	16.9x	15.4x	13.5x	6.0x	5.7x	5.6%	5.2x
Maharah Human Re	KSA	756	24.3x	N.A.	N.A.	24.9x	N.A.	N.A.	N.A.	4.9x
Groupe Crit	France	857	10.8x	10.0x	8.8x	3.3x	3.0x	2.7x	3.0%	1.1x
Insperity Inc	USA	3,655	23.7x	26.6x	24.3x	13.7x	12.2x	11.7x	2.1%	26.1x
Randstad Nv	Netherlands	9,122	15.3x	13.5x	11.3x	7.4x	8.1x	7.1x	5.4%	2.0x
Adecco Group Ag	Switzerland	6,212	18.6x	11.5x	9.5x	9.8x	9.1x	7.9x	7.4%	1.6x
Synergie Sa	France	946	11.3x	11.9x	10.7x	3.8x	4.0x	3.7x	2.4%	1.3x
Kelly Services-A	USA	770	11.7x	11.1x	8.6x	6.7x	5.0x	4.3x	N.A.	0.6x
Hays Plc	Britain	2,137	20.2x	23.6x	18.0x	7.6x	9.6x	8.1x	2.7%	2.8x
Robert Walters	Britain	385	20.8x	21.0x	12.4x	5.9x	6.4x	4.8x	5.8%	1.7x
Persol Holdings	Japan	3,320	16.9x	14.3x	12.2x	5.9x	5.9x	5.4x	4.0%	2.7x
Average			**17.6x**	**16.0x**	**13.1x**	**9.3x**	**6.9x**	**6.1x**	**4.2%**	**4.5x**
Median			**18.6x**	**13.9x**	**11.7x**	**7.4x**	**6.2x**	**5.5x**	**4.0%**	**2.0x**

Source: Bloomberg, GIB Capital. As of 10th June 2024

Figure 40: Relative valuations and Average valuations

P/E based valuation	
P/E	17
EPS 2024	0.45
1yr fwd P/E-based price	**8.4**

Blended Valuation	
PE price (50% weight)	8.4
DCF price (50% weight)	8.8
1yr fwd avg. TP (SAR)	**8.6**

Source: GIB Capital

Risks

Cyclical and competitive industry: Historically, the manpower industry has been cyclical, with demand closely linked to infrastructure activities in the country. Any economic downturn or dip in government spending directly impacts the manpower industry. Furthermore, the industry is highly competitive due to minimal differentiation in service offerings. Large clients have strong bargaining power, enabling them to negotiate better deals and switch between competitors easily due to low switching costs.

Sudden regulatory changes: The manpower industry is subject to continuous changes in regulatory requirements, including contractual agreements between employers and employees and other mandates. For instance, in 2023, the Ministry of Human Resources and Social Development (MHRSD) mandated that manpower companies allocate 30% of their workforce to the individual segment. Failure to adapt to such policy changes may adversely affect a company’s operations.

Price regulation: MHRSD constantly monitors the manpower industry in KSA and imposes various restrictions in terms of pricing and minimum wage requirements for certain nationalities. For example, in Feb 2023, MHRSD set a higher ceiling for the hourly prices of domestic workers and sponsorship transfer fees. Furthermore, an agreement was signed between KSA and the Philippine government for a minimum wage of SAR1,500 per month for Filipino domestic workers.

Deterioration of relationship with sourcing countries: Poor agency and diplomatic relationships with sourcing countries could hinder the supply of manpower, directly impacting the company’s operations.

Receivable collection: As of 2023, SMASCO has provisioned SAR36mn out of a total of ~SAR46mn overdue by more than 9 months (SAR7mn overdue for 9-12 months and SAR38mn overdue for over a year). Additionally, any invoicing disputes can exacerbate the collection risk.

Manpower moving to another employer: Since hiring and deploying resources involve various costs such as recruitment fees, airline tickets, and visa fees, if the resource does not complete the initial contract period (usually two years), the manpower company incurs losses, impacting profitability.

Increase in Saudization requirement: If the government further restricts certain industries to Saudi nationals only through changes in Saudisation policies, demand for the group’s manpower services may decline. For instance, manpower services for several clients in the retail industry have already decreased due to increasing Saudisation requirements in the sector.

IPO Details

Figure 41: IPO details

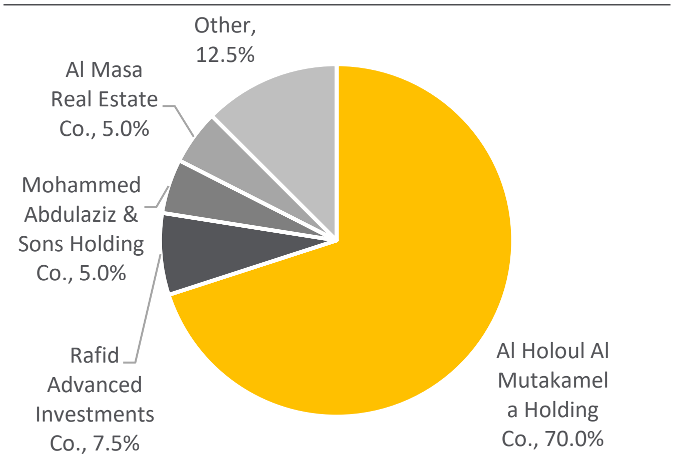
IPO Overview	
Offering	120mn shares
Float (%)	30%
Institutional Offering & Book-Building	May 8-May 14
Retail Offering	May 26-May 27
Final Allocation	June 3
Listing Date	June 12
Retail offering coverage	13x
Institutional offering coverage	128x
Listing market	Tadawul (The main market of Saudi exchange)
Shareholder Lock-up period	Six months
Selling shareholders	Al Holoul Al Mutakamela Holding Co., Rafid Advanced Investments Co., Mohammed Abdulaziz & Sons Holding Co., Al Masa Real Estate Co., others
IPO proceeds	Net offering proceeds will be distributed to the selling shareholders

Source: Company data, GIB Capital

Ownership structure

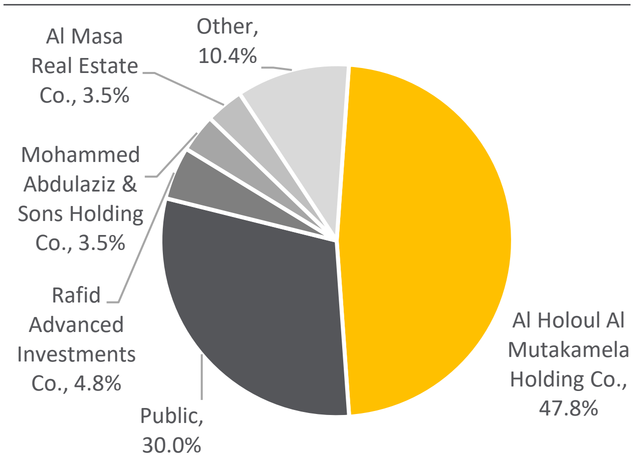
Major shareholders are expected to offload a combined 30% proportionately. As a result, the public shareholding will stand at 30% of the total shares after the offering.

Figure 42: Ownership structure – pre-IPO



Source: Company data, GIB Capital

Figure 43: Ownership structure – post-IPO



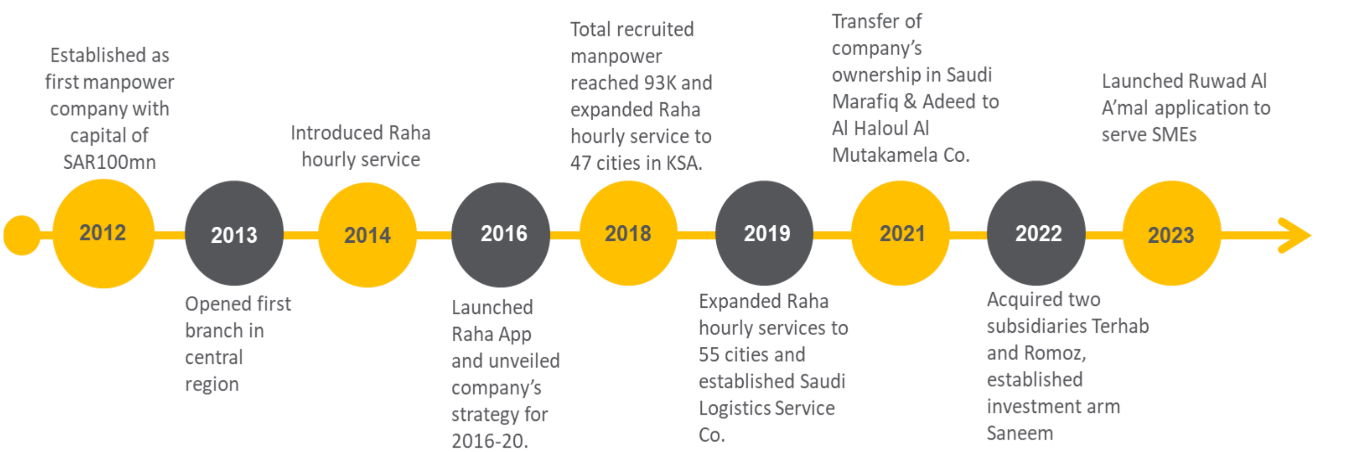
Source: Company data, GIB Capital

Company Profile

Saudi Manpower Solutions Company (SMASCO), established in 2012 in Riyadh, is a leading provider of manpower solutions in Saudi Arabia. The company sources manpower internally and supplies it to business and individual clients on a contractual basis across 55 cities in the Kingdom. As of 2022, SMASCO holds the highest market share of 14-16% (corporate/individual), closely followed by Maharah and Mawarid in KSA's manpower market.

Figure 44: SMASCO's journey over the years.

Company evolution over the years



Source: Company data, GIB Capital

Business Segments

SMASCO primarily serves the following business segments:

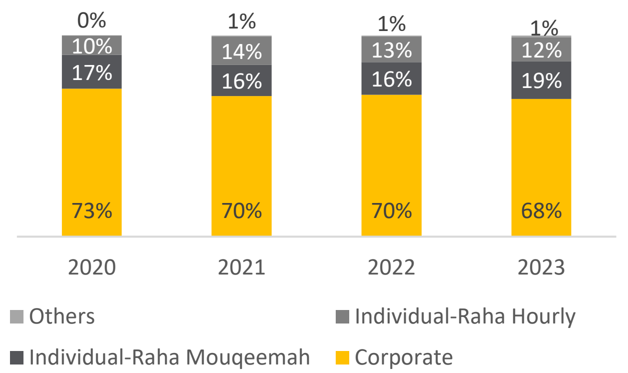
Corporate or business: This segment mainly pertains to providing manpower services to a variety of industries with both professional and unskilled labor. The segment accounts for ~68% of SMASCO's total revenue as of 2023. The company serves key industries such as oil and gas, petrochemical, retail, construction, industrial operations, healthcare, and hospitality through its diverse service offerings, including Musanadeh for basic manpower needs, Mutakamelah for employee management, Shamelah for complete HR solutions, Mawsemiah for peak season demands, and Jahez for immediate manpower requirements.

Individual – Raha Mouqeemah: This sub-segment contributes to the Group's revenue through contracts established with individual customers. The primary services catered in this segment include those related to domestic workers, cleaners, private drivers, and personal assistants, with accommodation provided by the customers. Generally, the invoices for these services are settled monthly or in advance. The sub-segment contributed ~19% of total revenue as of 2023.

Individual – Raha Hourly: This sub-segment generates revenue through services billed on an hourly basis to individual customers, largely focusing on domestic workers and cleaners. The sub-segment represents 12% of the group's topline as of 2023.

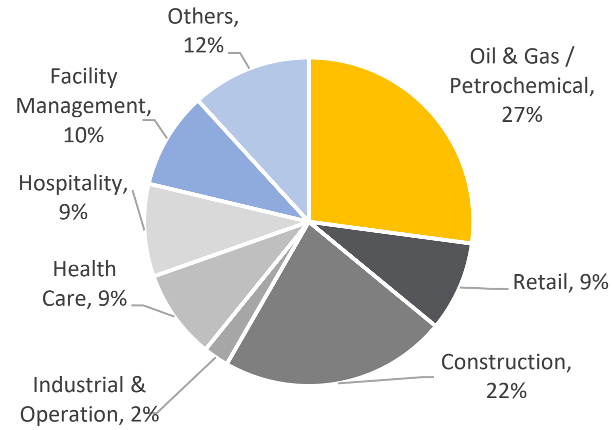
Other: The "other" segment mainly represents the revenue generated by subsidiaries (mainly Saudi Logistics and Terhab) from external clients. These subsidiaries altogether generated ~0.5% and 1% of the total revenue in 2022 and 2023, respectively.

Figure 45: Revenue by segment



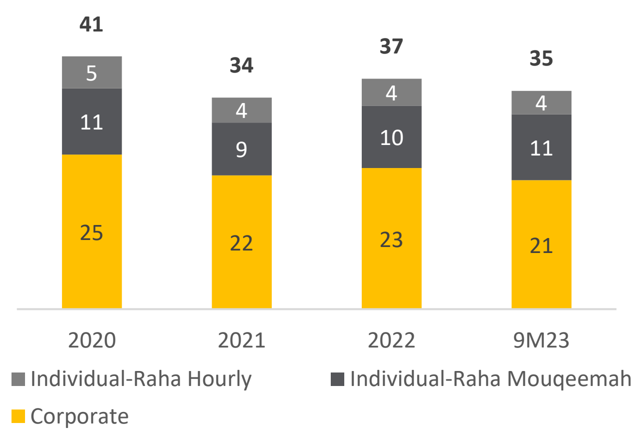
Source: Company data, GIB Capital

Figure 46: Corporate revenue by industry (9M23)



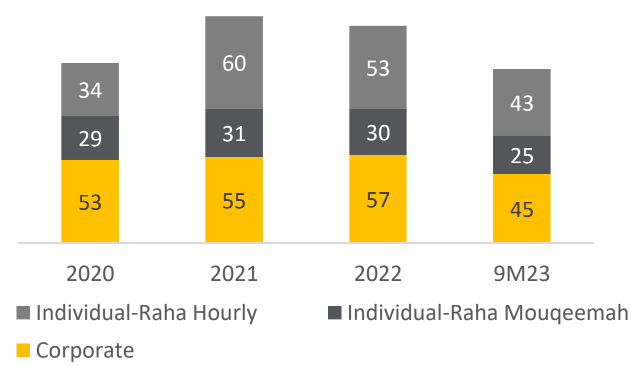
Source: Company data, GIB Capital

Figure 47: Avg number of manpower deployed ('000')



Source: Company data, GIB Capital

Figure 48: Avg revenue per manpower deployed (SAR '000')



Source: Company data, GIB Capital

Subsidiaries

The company has the following three wholly owned subsidiaries:

Saudi Logistic Services Company: This is the main subsidiary of the company, serving as a logistic arm of SMASCO. The subsidiary provides catering, accommodation, and transportation services to the group's workers and contributed ~5.7% and 4.3% of the group's topline for 2022 and 9M23, respectively.

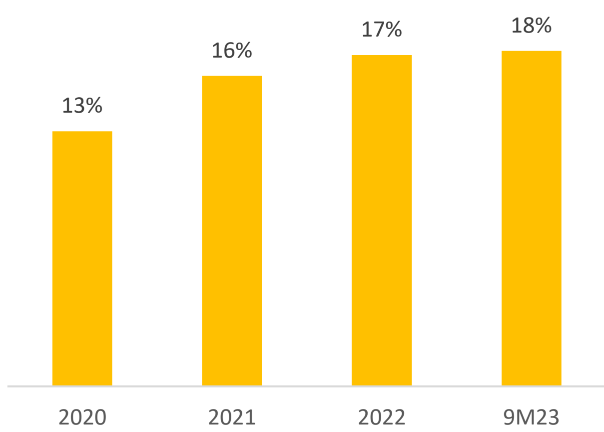
Terhab Customer Experience Limited Company: Terhab is a customer service platform that serves as a troubleshooting arm for clients and personnel by receiving their calls and resolving their requests and complaints using the latest technologies. It represented ~1% of the group's revenue in 2023 and 9M23.

Saneem Investment Company: Saneem was established in 2022 to handle SMASCO's investment activities. Its main activities include investing the funds of companies affiliated with holding companies and investment activities for the account of the relevant units, including venture capital companies.

Customers/clients

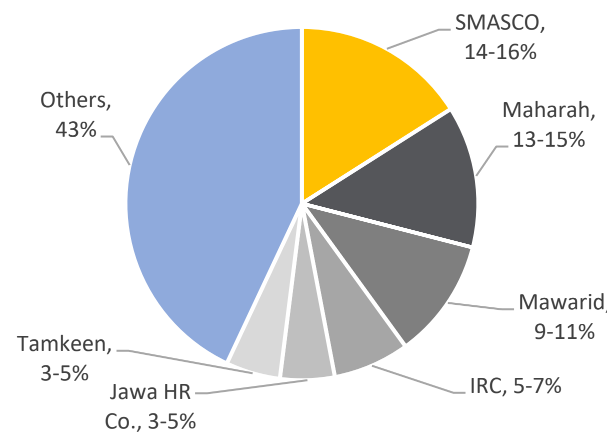
The company caters to two types of customers: individuals such as households, and corporate clients such as companies operating in various industries.

Figure 49: Revenue contribution by top 5 corporate client



Source: Company data, GIB Capital

Figure 50: Market share by headcount (2022)

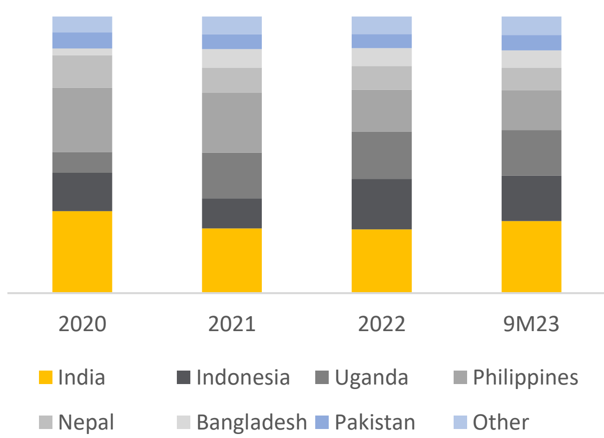


Source: Company data, GIB Capital

Sourcing countries and recruitment agencies

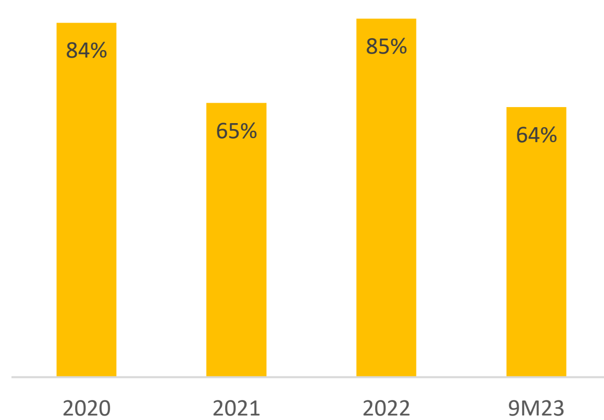
Recruitment agencies are the primary source for the company's diverse manpower needs. These agencies systematically search for and select qualified foreign personnel for both corporate and individual segments. As of 3Q23, the group's overseas recruitment relied on a robust network of over 150 active agencies across more than 40 countries.

Figure 51: Manpower resources by nationality



Source: Company data, GIB Capital

Figure 52: Top 5 recruitment agencies as a % of total purchase



Source: Company data, GIB Capital

Manpower industry in KSA

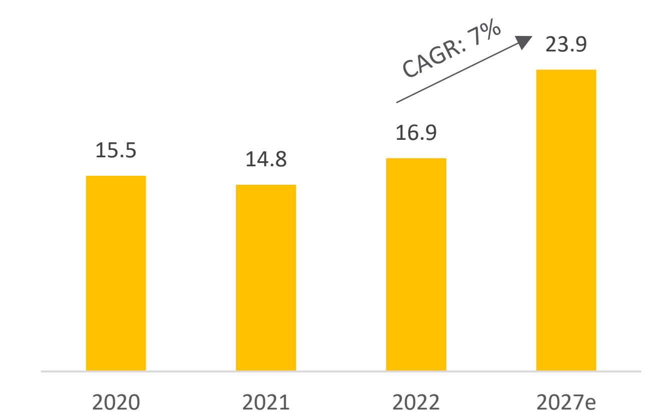
The manpower services market in the Kingdom is primarily driven by two segments: Corporate and Individual. The Corporate segment, which accounts for around 70% of the market, provides manpower services to companies across various industries, offering a wide range of blue-collar (core offering) and white-collar jobs. The Individual segment, catering to households and individuals, comprises the remaining 30% of the market.

Corporate segment

As of 2022, the total realizable market size for outsourced manpower stands at SAR16.9bn in revenue and 0.4mn full-time employees (FTEs) in terms of headcount. In 2022, the business services segment in the KSA generated SAR9.1bn in revenue and employed 0.17mn FTEs, reflecting a market adoption rate of nearly 50% of the potential revenue and around 40% of the potential headcount. The unrealized market potential is due to the relatively nascent stage of the manpower services industry and limited adoption among organizations, indicating significant growth opportunities in the sector.

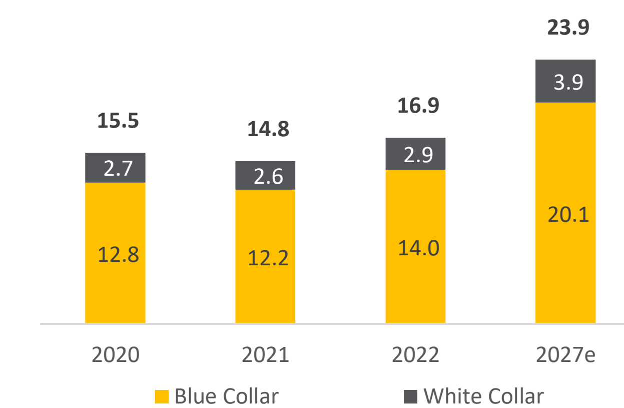
Given the robust oil and non-oil economic activities driven by Vision2030 in KSA, the market size is expected to grow at a CAGR of 7%, reaching SAR23.9bn in revenue and 0.56mn FTEs in terms of headcount by 2027e.

Figure 53: Market size of outsourced manpower (SARbn)



Source: GASTAT, Company IPO Prospectus, GIB Capital

Figure 54: Market size breakup by job type (SARbn)

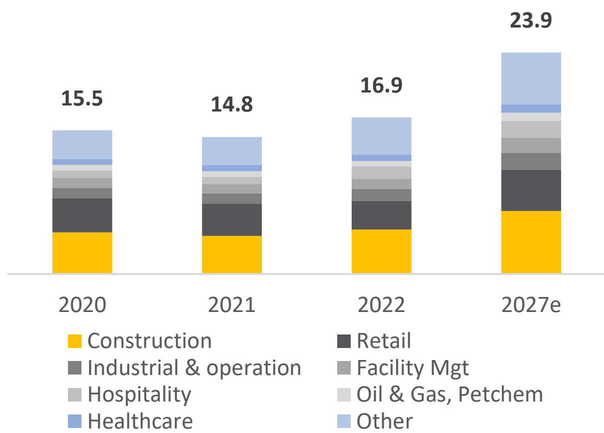


Source: GASTAT, Company IPO Prospectus, GIB Capital

Notably, construction and retail are the largest industries, requiring significant blue-collar workers/labor. These industries are expected to grow at a 7% CAGR during 2022-27e, driven by Vision 2030's ambitious goals and large-scale projects like NEOM and Qiddiya.

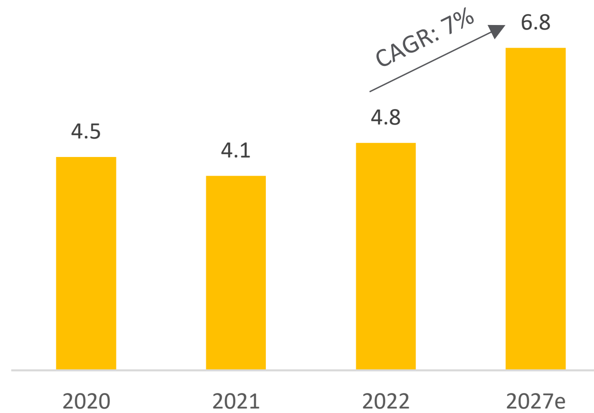
Although the oil and gas industry currently account for a relatively small share compared to other industries but is forecast to grow at a faster pace with an 8% CAGR during 2022-27e, driven by steady investment in the industry by the KSA government. Similarly, the healthcare industry is expected to grow at a healthy rate of 5% CAGR over the same period, driven by a shortage in medical staff and historical reliance on expatriate staff for the delivery of healthcare services.

Figure 55: Market size breakup by industry (SARbn)



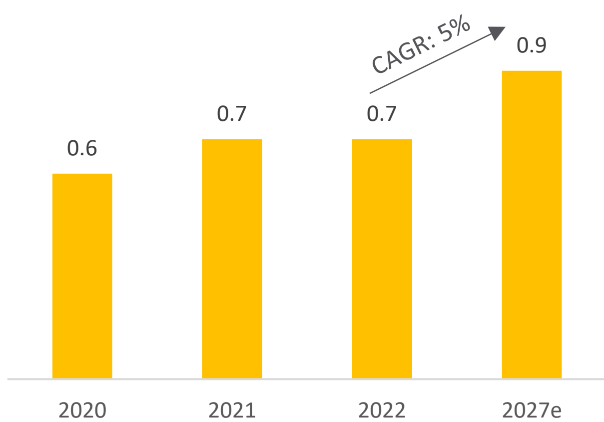
Source: GASTAT, GIB Capital

Figure 56: Manpower demand from construction (SARbn)



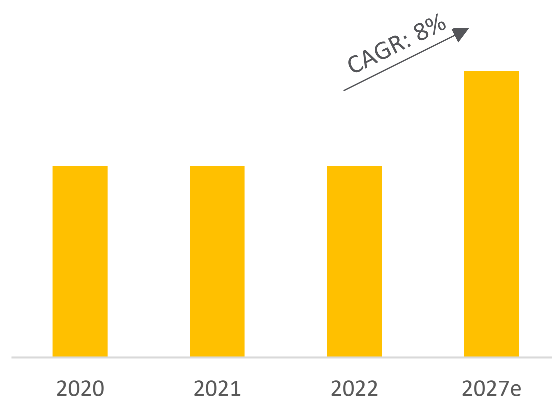
Source: GASTAT, GIB Capital

Figure 57: Manpower demand from Healthcare (SARbn)



Source: GASTAT, GIB Capital

Figure 58: Manpower demand from Oil, Gas & Petchem (SARbn)



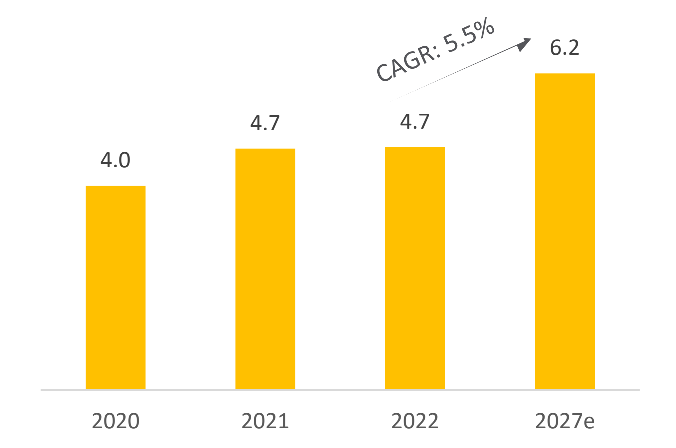
Source: GASTAT, GIB Capital

Individual – Full time

The near-term realizable market size for the full-time individual segment services in KSA is estimated at SAR4.7bn in revenue and 0.19mn FTEs in 2022. Currently, the market is around SAR2bn in revenue and 0.07mn FTEs, indicating an adoption rate of about 40% for revenue and 35% for headcount. This suggests significant growth potential. Additionally, the government's requirement for 30% of manpower to come from the individual segment will further drive growth in parallel with the corporate segment.

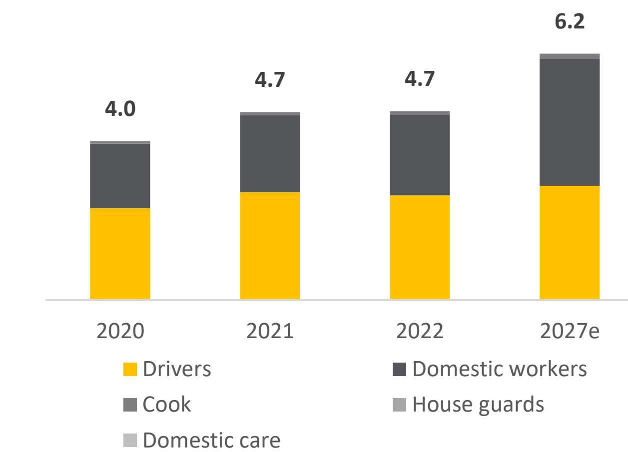
The demand in the segment will be primarily driven by population growth and the increasing number of women entering the labor force, leading to higher demand for household helps. The market size of the segment is expected to increase from SAR4.7bn in 2022 to SAR6.2bn by 2027e, rising at a CAGR of 5.5%.

Figure 59: Market size for FT employee (SARbn)



Source: GASTAT, GIB Capital

Figure 60: Market size for FT employee by occupation (SARbn)



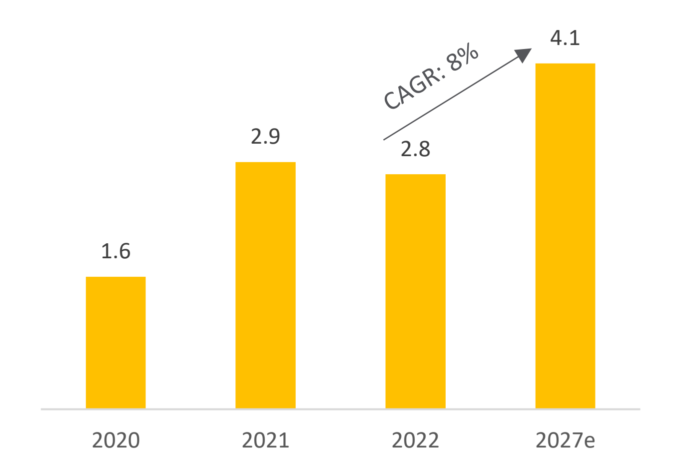
Source: GASTAT, GIB Capital

Individual – hourly

The realizable market size for the hourly individual segment in 2022 is estimated at SAR2.8bn in revenue and 0.06mn FTEs. Currently, the market captures around SAR1.5bn in revenue and 0.03mn FTEs, indicating a penetration rate of 55% in revenue and 50% in headcount.

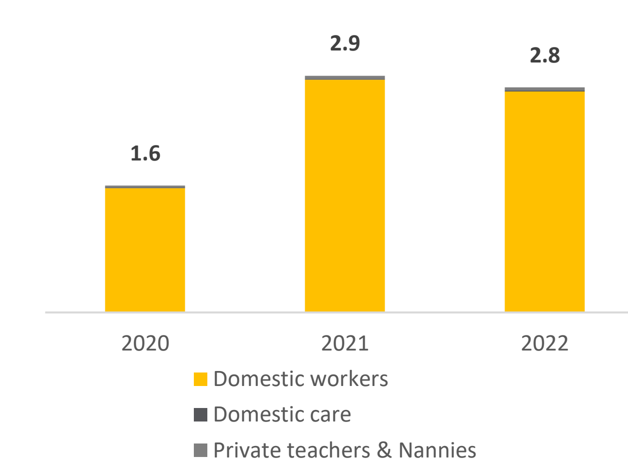
Given the rising demand for flexible and customized services, along with increasing technology adoption by the Saudi population, the growth in the hourly home-segment is expected to exceed that of the full-time segment. This market is projected to grow from SAR2.8bn in 2022 to SAR 4.1bn by 2027e, reflecting a CAGR of 8% over 2022-27e.

Figure 61: Market size - hourly (SARbn)



Source: GASTAT, GIB Capital

Figure 62: Market size by occupation - hourly (SARbn)



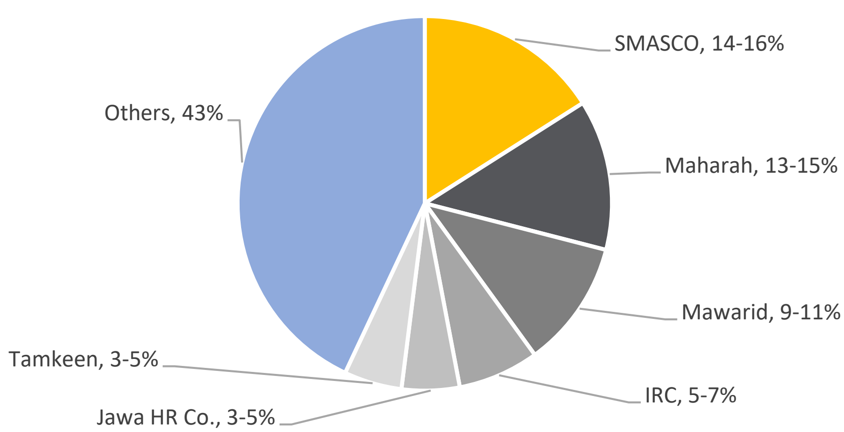
Source: GASTAT, GIB Capital

Competitive landscape of outsourced manpower in KSA

There are 46 licensed manpower services companies in KSA. The market is highly consolidated, with the top 6 players accounting for 50-60% of the total realized market. SMASCO leads with a market share of 14-16% in 2022. Among the top players, the market is highly competitive due to minimal differentiation in service offerings. Large clients have strong bargaining power, enabling them to negotiate better deals and switch between competitors easily due to low switching costs.

Further consolidation in the manpower industry is expected, driven by possible regulatory changes by the government, such as the recent mandate requiring manpower companies to allocate 30% of their total workforce to the individual segment, which is more complex and carries higher legal and reputational risks. This requirement means that growth will need higher capital, as both business and individual segments must expand simultaneously, benefiting larger players with strong financial capabilities. Additionally, the SAR100mn capital requirement to enter the market deters potential new entrants.

Figure 63: Market share by headcount (2022)



Source: Company data, GIB Capital

Summary of Financials

Figure 64: Summarized basic financial statements (SARmn)

Income statement	2022a	2023a	2024e	2025e	2026e	2027e	2028e
Revenue	**1,839**	**1,827**	**1,971**	**2,170**	**2,386**	**2,599**	**2,808**
revenue y/y	*7%*	*-1%*	*8%*	*10%*	*10%*	*9%*	*8%*
COGS	1,612	1,584	1,709	1,880	2,066	2,249	2,429
Gross Profit	**227**	**243**	**262**	**290**	**320**	**350**	**379**
Gross Profit margin	*12.3%*	*13.3%*	*13.3%*	*13.3%*	*13.4%*	*13.5%*	*13.5%*
Selling and distribution expenses	22	21	22	24	26	28	30
General and administrative expenses	44	53	57	61	66	71	75
ECL	(1)	3	3	3	4	4	4
Operating profit	**163**	**166**	**180**	**201**	**224**	**247**	**270**
Operating margin	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*	*10%*
Other income	11	20	21	22	22	22	22
Finance costs	2	5	5	4	3	3	3
PBT	**171**	**182**	**196**	**219**	**243**	**266**	**289**
Zakat/tax	12	16	17	19	21	23	25
Loss/(Profit) from discon. operations	9	0	0	0	0	0	0
Net income	**150**	**166**	**180**	**200**	**222**	**243**	**264**
Net margin	*8%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*
y/y	*0%*	*11%*	*8%*	*11%*	*11%*	*10%*	*9%*
EPS	**0.4**	**0.4**	**0.4**	**0.5**	**0.6**	**0.6**	**0.7**
DPS	0.3	0.4	0.3	0.4	0.4	0.5	0.5
Payout	72%	102%	75%	75%	75%	75%	75%
EBITDA	**198**	**201**	**214**	**236**	**261**	**284**	**308**

Balance Sheet	2022a	2023a	2024e	2025e	2026e	2027e	2028e
Trade receivables	229	302	320	346	374	401	425
Prepayments and other current assets	235	189	204	224	247	269	290
Cash and cash equivalents	115	36	76	116	160	212	272
Other current assets	204	246	250	256	261	267	273
Total Current Assets	**783**	**773**	**850**	**942**	**1,042**	**1,149**	**1,260**
Property and equipment	139	133	128	124	119	113	107
Right-of-use assets	31	29	26	23	21	19	17
Murabaha term deposit	10	10	10	10	10	10	10
Other current assets	47	68	68	68	68	68	68
Total Non-Current Assets	**226**	**240**	**232**	**225**	**217**	**209**	**202**
Total Assets	**1,009**	**1,012**	**1,082**	**1,167**	**1,260**	**1,358**	**1,462**
Current Liabilities	323	324	346	378	413	447	481
Non-current Liabilities	158	167	169	172	175	178	182
Equity	528	522	567	617	672	733	799
Total Equity and Liabilities	**1,009**	**1,012**	**1,082**	**1,167**	**1,260**	**1,358**	**1,462**
BVPS	1.3	1.3	1.4	1.5	1.7	1.8	2.0

Cashflow	2022a	2023a	2024e	2025e	2026e	2027e	2028e
Cashflow from Operations	198	182	209	224	246	269	292
Cashflow from Investing	(67)	(77)	(26)	(28)	(30)	(30)	(31)
Cashflow from Financing	(123)	(185)	(142)	(156)	(172)	(187)	(202)
Total Cashflows	**8**	**(80)**	**41**	**39**	**44**	**52**	**59**

Source: Company, GIB Capital

Figure 65: Key ratios

Key ratios	2022a	2023a	2024e	2025e	2026e	2027e	2028e
Profitability ratios							
RoA	15%	16%	17%	17%	18%	18%	18%
RoE	28%	32%	32%	32%	33%	33%	33%
Sales/Assets	182%	180%	182%	186%	189%	191%	192%
Net margin	8%	9%	9%	9%	9%	9%	9%
Liquidity ratios							
Currrent Assets/ Current Liabilities	2.4	2.4	2.5	2.5	2.5	2.6	2.6
Receivable Days	45	60	59	58	57	56	55
Payable days	2	7	7	7	7	7	7
Cash conversion cycle	43	53	52	51	50	49	48
Debt ratios							
Net Debt/EBITDA (w/ IFRS liab.)	-0.45	-0.05	-0.25	-0.40	-0.54	-0.69	-0.83
Debt/Assets (w/o IFRS liab.)	0.03	0.03	0.02	0.02	0.01	0.01	0.01
Net Debt/Equity (w/ IFRS liab.)	-0.17	-0.02	-0.09	-0.15	-0.21	-0.27	-0.32
Valuation ratios							
P/E	20.0	18.0	16.7	15.0	13.5	12.3	11.4
P/B	5.7	5.8	5.3	4.9	4.5	4.1	3.8
EV/EBITDA	14.6	14.3	13.5	12.2	11.1	10.2	9.4
FCF Yield	4.9%	3.7%	5.3%	5.7%	6.3%	7.1%	7.9%
Dividend Yield	3.6%	5.7%	4.5%	5.0%	5.6%	6.1%	6.6%

Source: Company, GIB Capital

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