

Mekdam Holding Group (MKDM)

Recommendation	Accumulate	Risk Rating	R-3
Share Price	QR3.590	Target Price	QR4.029
Implied Upside	12.2%		

4Q2024 Below Estimate on Higher Depreciation; Bonus Shares Announced; Maintain Accumulate

Mekdam's (MKDM) 4Q2024 bottom-line of QR13.2mn (-1.1% YoY/+60.0% QoQ) was slightly below our estimate of QR13.5mn (variation of -2.3%) due to higher depreciation and amortization costs, even as G&A expenses came in lower than estimated. The Board of Directors have recommended for FY2024 the distribution of bonus shares in the ratio of 5 shares for every 27 shares (equivalent to about 0.185 bonus shares for each share held). MKDM had for FY2023 distributed bonus shares in the ratio of 6 shares for every 21 shares (equivalent to about 0.2857 bonus shares for each share held). Overall sequential revenue growth of 13.1% for 4Q2024 came in mainly from other services (Steel) which contributed an additional QR8.0mn for the quarter and technology services which provided an increased QR7.6mn during 4Q2024. Further, G&A expenses declined substantially in 4Q2024 due to a large probable reversal/reimbursement in the other expenses category. Pressure on the bottom-line came from a significant rise in amortization and depreciation costs for the fourth quarter. However, Mekdam was able to produce a high 60.0% sequential growth in earnings for 4Q2024. Consequently, overall revenue for FY2024 increased by 6.3% to reach QR558.9mn, from QR526.0mn achieved in FY2023. Revenue growth in FY2024 was mainly driven by comprehensive maintenance services provided for gas recycling stations. Earnings for FY2024 went up by 7.3% to reach QR38.9mn, compared to QR36.3mn in FY2023. **The FY2024 EPS was at QR0.29 compared to QR0.34 in FY2023.** Mekdam (MKDM) has consistently exceeded its annual targets with an industry-leading contract win ratio between 20-30%. The group signed new contracts valued at QR861.0mn in 2024, with the value of ongoing contracts amounting to QR2.6bn and value of work remaining under these contracts estimated at QR1.5bn. MKDM's strong customer base and retention rates (90%), coupled with around QR3.0bn in submitted bids, provide for solid earnings growth in the years ahead. **Therefore, we maintain our recent initiation rating of Accumulate and a price target of QR4.029.**

Highlights

- Revenue/earnings to grow by 6.3%/7.3% in FY2024 and we see the bottom-line growing by a CAGR of 9.7% between 2023 and 2026, driven by a strong sales pipeline and improving net margins. Revenue growth was driven by an 89.2% increase in Other Services (Steel), 4.4% growth from Manpower Supply Services and 3.0% gain from Technology Services in FY2024. We see overall revenue growth between 2023 and 2026 averaging around 4.7% as continued strong growth from Technology Services and Manpower Supply Services support the top-line, while we forecast earnings CAGR of 9.7% in the same period.
- Increased operating cash flows has provided for a big reduction in bank loans/external financing in 2024. Mekdam reduced its reliance on bank financing substantially by 46.3% as at year-end 2024 to QR34.3mn, from QR63.9mn as at year-end 2023. As a result interest expenses declined by 56.6% in FY2024.
- Mekdam has a very strong client base consisting of government, semi-government and premier/top-tier companies. It has, over the years, built solid partnerships with leading global brands, which has resulted in a high customer retention rate of around 90%. Government contracts, as a percentage of revenue, has increased from 27% in 2021 to 60% in 2023, with new contracts coming mainly from the business segment Manpower Supply Services. Mekdam has acquired and maintained a steady client base, from the both public and private sectors, which in turn generates repeated business opportunities for the company.
- Increased operating cash flows has provided for a big reduction in bank loans/external financing in 2024. Even with downside pressures on cash flows, Mekdam eked out positive cash flows in 2024. In future, cash flows are expected to improve with strong earnings pushing up cash generated from operating activities, while project financing will simultaneously provide for additional financing needs for business expansion.

Catalysts

- Catalysts:** (1) Private and public sectors' rapid movement towards digital transformation (2) LNG expansion and other Q-companies' maintenance requirements (3) Announcement of new contracts (from submitted bids) (4) Margin expansion (5) Global companies selecting MKDM as a local partner (6) Regulations providing for Mandatory CAMS adoption from all private sectors and institutions (7) Entry into new business lines (8) AI opportunities gathering pace (9) Government spending.

Recommendation, Valuation and Risks

- Recommendation and Valuation:** We maintain our recent Accumulate rating and a 12-month TP of QR4.029 implying an 12.2% upside. Our TP is based on the DCF valuation model. Our primary thesis is that MKDM has more than sufficient contracts of around QR2.6bn on hand and even more in submitted bids, coupled with a high contract win/retention ratio, which provide a strong platform for revenue/earnings growth. Mekdam has a strong client base of mainly government, semi-government and top-tier companies, among others, with a high customer retention rate of around 90%. Government contracts, as a percentage of total revenue, currently stands at around 60%.
- Risks:** (1) Execution risk (2) Interest rate risk (3) High capex (4) Customer concentration risk (5) Cyber-attacks (6) Seasonality (7) Geopolitics.

Key Financial Data and Estimates

	FY2023	FY2024	FY2025E	FY2026E	FY2027E	FY2028E
EPS (QR)	0.27	0.29	0.31	0.32	0.32	0.33
P/E (x)	13.36	12.46	11.58	11.37	11.17	11.03
EV/EBITDA (x)	12.92	10.76	9.92	9.75	9.18	9.01
DPS (QR)	-	-	0.16	0.16	0.16	0.16
DY (%)	-	-	4.3%	4.4%	4.5%	4.5%

Source: Company data, QNBFS Research; Note: All data based on current number of shares

Key Data

Current Market Price	QR3.590
Dividend Yield (%)	N/A
Bloomberg Ticker	MKDM QD
ADR/GDR Ticker	N/A
Reuters Ticker	MKDM.QA
ISIN	QA000BDOVCK4
Sector*	Consumer Goods
52wk High/Low (QR)	4.299/3.266
3-m Average Vol.	120,900
Mkt. Cap. (\$ bn/QR bn)	0.1/0.5
EV (\$ bn/QR bn)	0.1/0.5
Shares O/S (mn)	135.0
FO Limit* (%)	77.8
FO (Institutional)* (%)	0.1
12-Month Total Return (%)	(7.6)
Fiscal Year-End	December 31

Source: Bloomberg (as of January 23, 2025), *Qatar Exchange (as of January 23, 2025); Note: FO is foreign ownership

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Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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