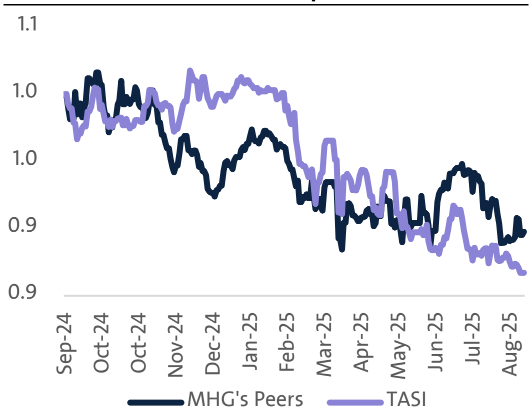
MHG: A retailer with a solid track record of growth & superior margin

Recommendation	Neutral
Market Price	85.0
Target Price	86.0
Upside/Downside	1%

12M Performance of MHG's peers* vs TASI



TASI-listed, Source: Bloomberg, AC

MHG: A unique addition in retail universe: Initiate with Neutral (TP:SAR86)

We initiate coverage on Marketing Home Group (MHG), a leading retailer in building materials, with Neutral rating. While MHG promises to be a unique addition to the listed retail universe with significant opportunities for growth and an extensive track record of successful execution, we believe MHG's valuations at the listing price of SAR85 adequately reflect the growth potential the company offers and as such leave limited room for upside to our TP of SAR86/sh. Initiate with Neutral.

Strategy in place to capture industry growth; leverage distinct advantages

The expected uptrend in construction spending to +SAR0.7trn by 2028, up from SAR0.5bn in 2024, primarily supporting the two key objectives of the Vision 2030, will likely sustain the growth momentum in demand for construction products. MHG has already embarked on its next phase of strategy aimed at capturing industry growth opportunities, leveraging its key distinct advantages and sustainably delivering above-average margins (2024 EBITDA margin of 24% vs peers' average of 10%).

Key areas of upside

Our estimates for sales/GP margin/EBITDA margin are respectively 200/100/300bps below management guidance. Three key upside areas are (i) a sharp drop in the mortgage rate and subsequent pickup in mortgage activity, (ii)customer response to new product launches, and (iii) better-than-expected margins in B2C segment.

Key areas of downside

Significant investment in inventory & the risk of impairment, (ii) risk associated with new business initiatives, (iii) reliance on imported supplies, and (iv) risk to margins from new players and change in channel mix are the key areas of downside.

MHG- DCF-based TP of SAR86/sh

We have valued MHG at SAR1370mn based on DCF (FCFE) which forms the basis for our TP. Based on our TP, MHG's P/E and EV/EBITDA of 18.5x and 12.3x are 7% and 10% premium to its peers on 2026E estimates. MHG offers D/Y of 6.4% in 2025 (which includes the announced dividend for 2024E) and 3% in 2026.

MHG: Financial Highlights (SARmn)

Year to Dec	CY23	CY24	CY25E	CY26E	CY27E	CY28E
Revenues	365	390	429	486	553	604
Growth	13.4%	6.7%	10.0%	13.2%	13.8%	9.2%
PAT	61	57	67	76	89	99
EPS (SAR)	3.7	3.5	4.1	4.6	5.4	6.0
Growth	-14%	-7%	18%	13%	18%	11%
DPS (SAR)	2.3	2.9	2.5	2.8	3.2	3.6
P/E (X)	22.7	24.5	21.0	18.5	15.7	14.1
D/Y (%)	2.6%	3.4%	2.9%	3.2%	3.8%	4.3%
EV/EBITDA(X)	15.1	15.3	13.7	12.6	11.3	10.4
P/BV (X)	4.6	4.3	4.0	3.7	3.4	3.1

Source: MHG, AC Estimates

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MHG promises to be a unique addition to existing listed retail companies at Tadawul

Marketing Home Group (MHG)-Investment Case

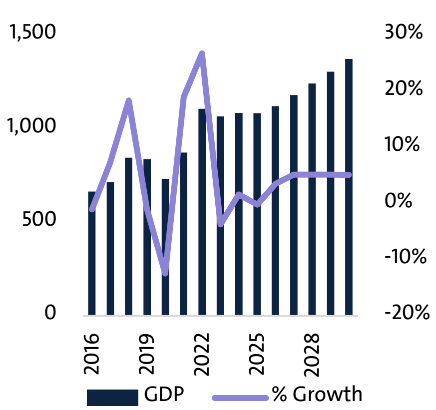
Marketing Home Group (MHG), a leading retailer in building materials with pan-GCC presence, is seeking listing via 30% or 3.6mn offering of existing shares at Tadawul's main market. MHG promises to be a unique addition to existing listed retail companies at Tadawul. MHG stands out from its peers as it enjoys significant growth opportunities, maintains diverse, profitable business lines with significant contributions from company-owned brands, maintains an impressive track record of successful execution of developing new revenue verticals, and promises to deliver superior and sustainable margin. That said, we believe MHG's valuations at the listing price of SAR85 adequately reflect the growth potential the company offers and as such leave limited room for upside to our TP of SAR86/sh. Initiate with Neutral.

The following details MHG's industry backdrop MHG enjoys, the company's strategy to capture the growth opportunities, MHG's key advantages, a snapshot of the company's financial position, and key upside and downside risks to our Neutral rating on the stock.

1-Growth-Supportive backdrop driven by the Vision 2030

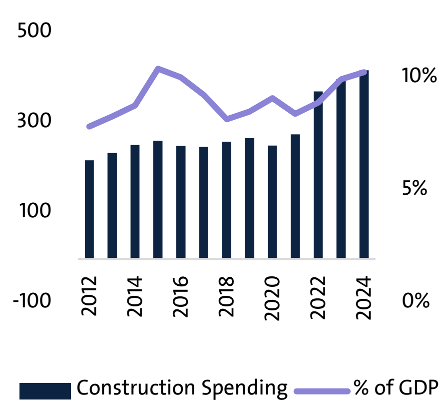
An estimated US$1.2trn projected spending by 2030 under the Vision 2030*, particularly aligned with two key objectives- economic diversification via promotion of tourism and industrial activity, and enhancing Saudi home ownership-has spurred an unprecedented boom in the Saudi construction industry. The entire construction value chain stands to benefit from a sustainable boom in spending. Real estate projects

KSA GDP (Real,SARbn)



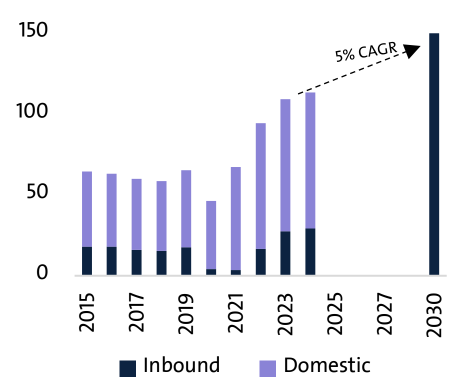
Source: IMF, AC

Construction spending (SARbn)

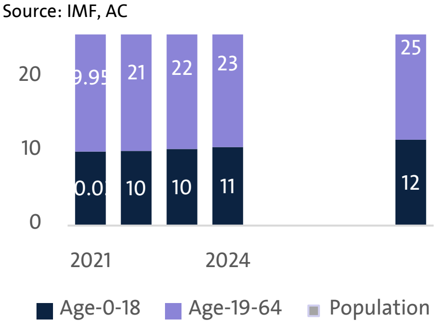


Source: General Authority of Statistics, AC

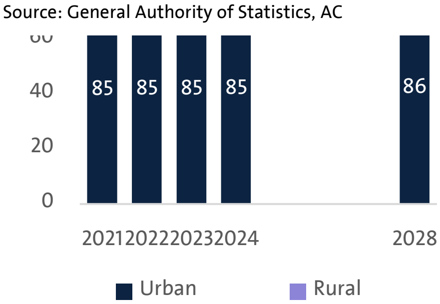
Tourist arrivals (mn)



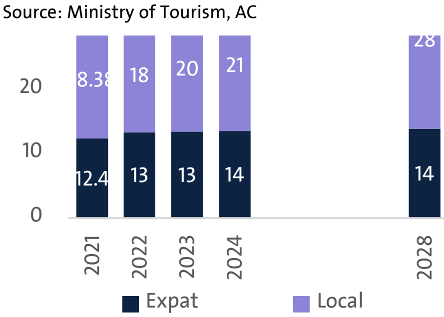
Source: Ministry of Tourism, AC



Source: Market Report



Source: Market Report



Source: Market Report

(residential, hospitality, industrial, and commercial) are at the heart of many of the mega projects. MHG, with its focus on high-income household and design conscious developers for building and construction materials, is gearing up to leverage its advantages to seize a bigger chunk of future opportunity.

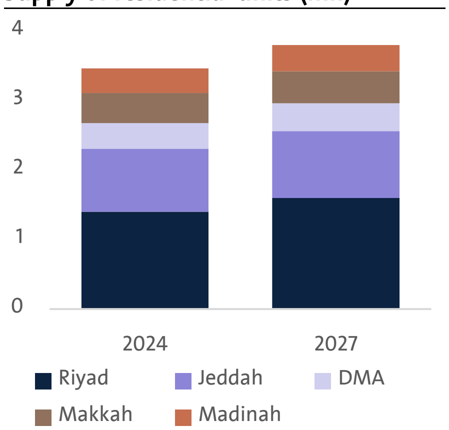
Growing tourism and deepening industrialization are considered as two major drivers to achieve the Kingdom's aspirations of achieving economic diversification

Economy Diversification: Growing tourism (religious and non-religious) and deepening industrialization are considered as two major drivers, among others, to achieve the Kingdom's aspirations of achieving economic diversification and becoming a hub of economic activity in the world. The programs (attracting Regional Headquarter, industrialization, various sporting and entertainment events among others) and the projects (pls refer to Appendix I for a high-level summary) to realize the aspirations will have direct or indirect impact on supply and/or demand of various real estate assets (commercial, hospitality, industrial). As per a report of Knight Frank, a real estate consultant, an additional supply of 5mn sqm of commercial real estate (+90% from 2023), 99k keys (+40% from 2023) of hospitality and 0.9mn new housing units (~+45% from 2023) keys are projected by the end of 2030.

Home ownership among Saudi nationals & residents: Saudi home ownership has improved significantly from below 40% in 2016 to current ~64% (2024) due to several government's initiatives targeting financing, mortgage terms, and real estate supply. As a result, the number of housing units in the Kingdom increased by a CAGR of 6% during the same period. Looking ahead, the Vision 2030's target of 70% home ownership, expected population growth, and current and future demographics entails demand for an estimated 1-1.1mn new units by 2030.

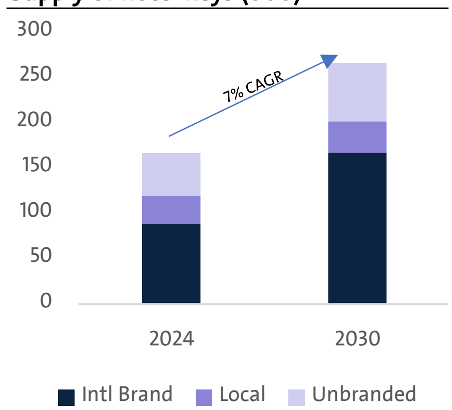
On a related note, home ownership among residents stands at a paltry 2-3% and remains a major potential driver for future demand growth. Introduction of new resident-focused home financing products by banks and changes in regulation (recent introduction of premium residency and possible real estate ownership in the holy cities) will likely accelerate home ownership among residents. To address the projected demand, a supply of 1.1xmn new housing units is expected from both public and private projects.

Supply of residential units (mn)



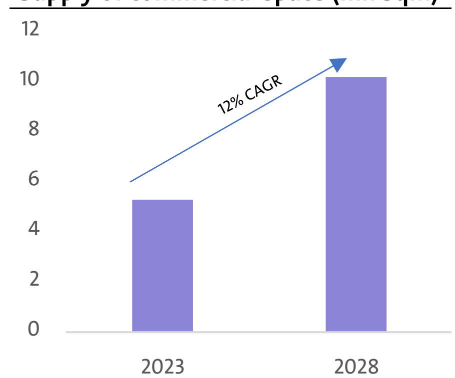
Source: ACC, Knight Frank

Supply of hotel keys (000)



Source: ACC, Knight Frank

Supply of commercial space (mn Sqm)



Source: ACC, Knight Frank

The following provides a summary of growth opportunities in MHG's current future product lines.

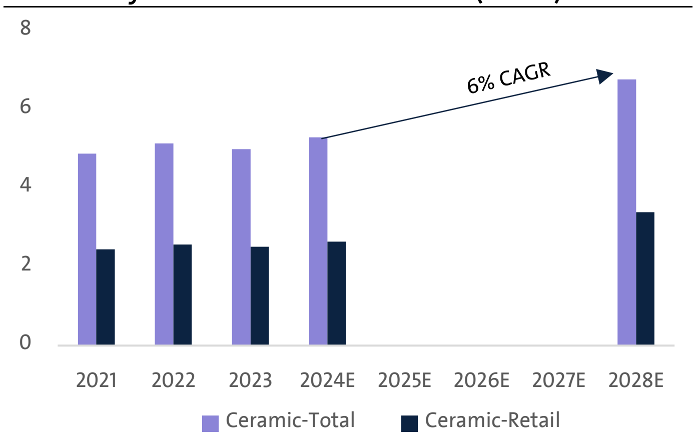
Walls & Floor Coverings[1]

The demand growth for products of Walls & Floor Coverings is expected to undergo a CAGR of 6% between 2024-2028

The demand growth for products of Walls & Floor Coverings is expected to sustain, driven by a boom in construction spending, and buoyant demand for housing units. The total market[2] of products under Walls & Floor Coverings is expected to undergo a CAGR of 6% between 2024-2028 to reach SAR6.7bn as per Industry Market Report. The retail segment is likely to outgrow the total market. Government's initiative to promote Saudi home ownership under Sakani program and development of significant infrastructure and luxury projects will likely play a pivotal role in driving the local demand growth of ceramic products. With total estimated consumption of 271mn sqm in 2022 as per a Ceramic World Review Report 2023. Saudi Arabia is the world's 8th largest and the largest player in the In Middle East & African region respectively for the ceramic products.

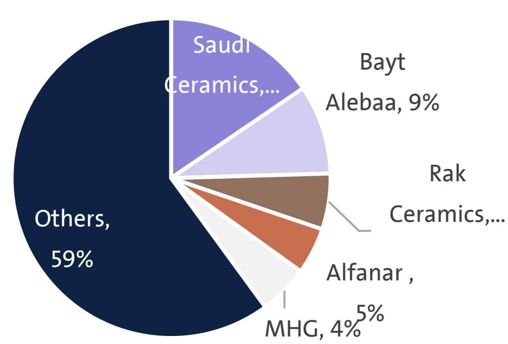
MHG commands market share of ~4% and 2.4% in the retail and total addressable market, respectively, despite a very competitive nature of the Saudi Ceramic market. The local production of ceramic products has increased significantly under the government's industrialization policy. Imposition of duty, including anti-dumping duty for products originating from China or India, alongside other initiatives, has attracted investment for new capacity from local and international players. However, the imported products still account for a significant 35% share of demand, primarily stemming from the middle-high-income segment due to demand for unique designs, extended durability and unconventional SKUs.

Ceramic: 4-year demand CAGR of 6% seen (SARbn)*



*Total Addressable market Source: Company Presentation, Industry Market Report, AC

Ceramic: MHG commands 4% M/S in retail segment



M/S=Market Share: Company Presentation, Industry Market Report, AC

[1] Also referred as Ceramic

[2] Refers to addressable market in this report

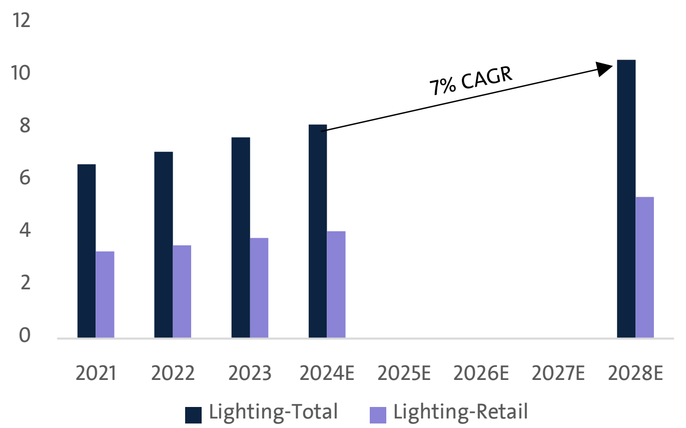
The total value of lighting products in Saudi Arabia is expected to undergo a CAGR of 6.8% over 2024-2028

Lighting

The total value of the addressable market of lighting products in Saudi Arabia is estimated at SAR7.7bn in 2023, up from SAR6.6bn in 2021 (+15%). The demand for lighting products is expected to undergo a CAGR of 6.8% over 2024-2028. Growing spending for the development of real estate assets in the hospitality sector, residential and commercial segments, the focus on energy efficient sources of lighting, particularly LED, and the growing trends towards smart lighting solutions will likely support future growth of lighting products.

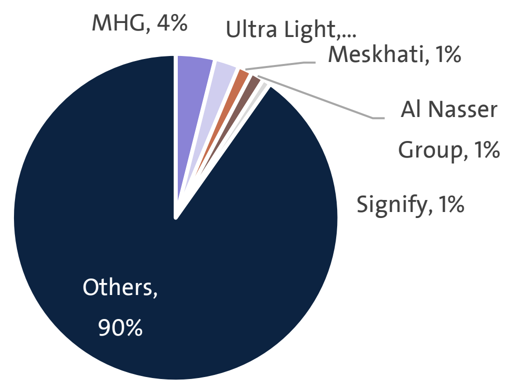
The retail segment of the lighting products is valued at SAR3.8bn. The segment is dominated by MHG with a market share of ~4% in 2023, followed by Ultra-Light (2.4%) as per the market report. A major chunk of demand for lighting products is met via imports, primarily from China, the global producer of lighting products.

Lighting: 4-year CAGR of 7%* expected (SARbn)



Total Addressable market Source: Company Presentation, Industry Market Report

Lighting: MHG commands 4% M/S in the retail segment



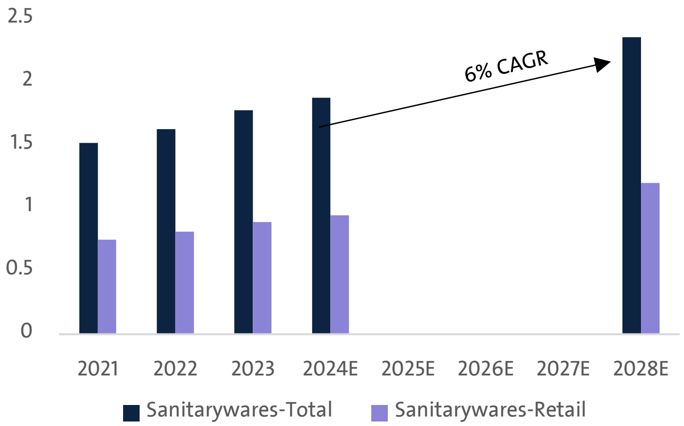
M/S=Market Share: Company Presentation, Industry Market Report

The market value of KSA's sanitary ware products is expected to sustain its growth momentum with a projected CAGR of 6% through 2028

Sanitary Ware & Water Solution

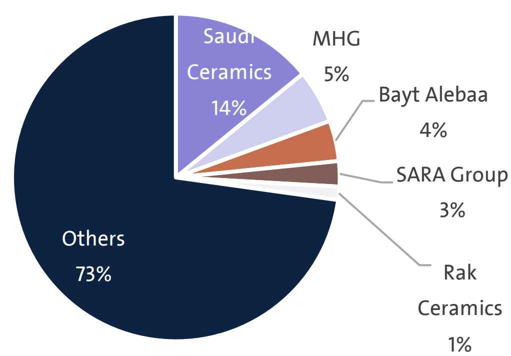
The market value of KSA's sanitary ware products has jumped to SAR1.8bn in 2023 following a growth spurt of 19% since 2021. The market is expected to sustain its growth momentum with a projected CAGR of 6% through 2028. Focus on the latest technology of touchless and self-cleaning products, innovative space-saving designs catering to growing consumer preference for hygiene and comfort, and smart designs are key considerations for the retailers of sanitary ware products. KSA's retail segment of sanitaryware products is quite segmented. MHG commands 5.3% market share in 2023, only second to mass market players, Saudi Ceramic's 14%. The threat from local production of sanitary ware is not considered significant due to differences in product offerings of local producers and imported products.

Sanitary ware: 4-year CAGR of 6% expected (SARbn)



Total Addressable market Source: Company Presentation, Industry Market Report

Sanitary ware:MHG commands 14% M/S in the retail segment



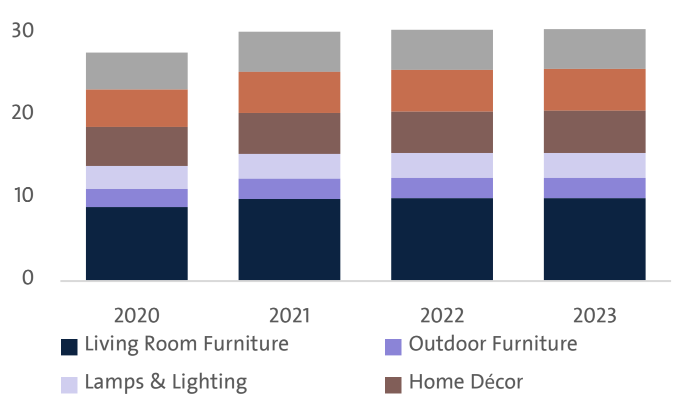
M/S=Market Share: Company Presentation, Industry Market Report

Furniture

KSA's furniture market ranks as the 17th largest market by value as per the market report.

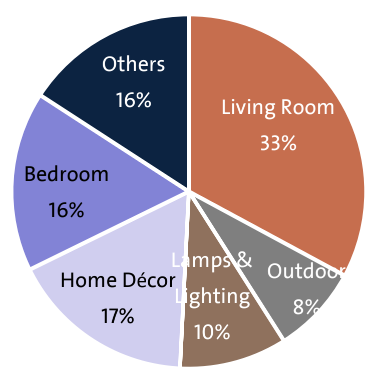
KSA's furniture market ranks as the 17th largest market by value as per the market report. The total market value of furniture products is estimated at SAR30bn. Living rooms, bedroom and home décor are the three largest categories in the furniture market in KSA. The overall furniture market in KSA has grown at a steady pace of 3% on average in the past three years. The furniture market is poised to sustain its steady growth. Given the changing consumer preferences and latest growth trends, living rooms, home décor and dining categories are expected to outperform the headline market growth. Ikea, Home Center, and local chains are the major players in the furniture market.

Furniture: A steady growth in the market seen (SARbn)



Source: Company Presentation, Industry Market Report

Furniture: Major categories in furniture segment



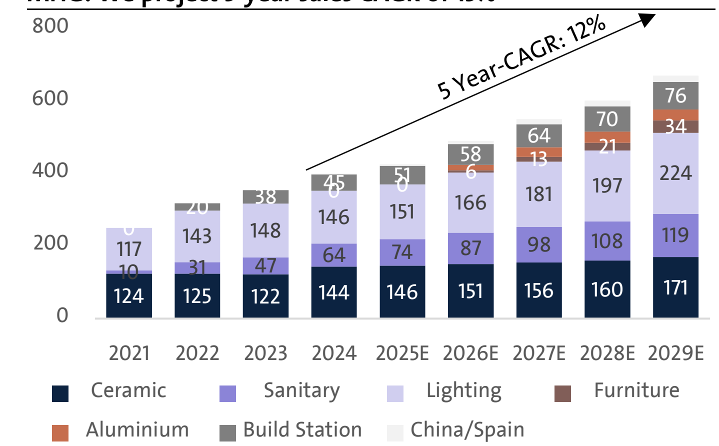
Source: Company Presentation, Industry Market Report

2: MHG seeks to build on its track record to benefit from market opportunity

MHG is in an ideal position to benefit from future market growth

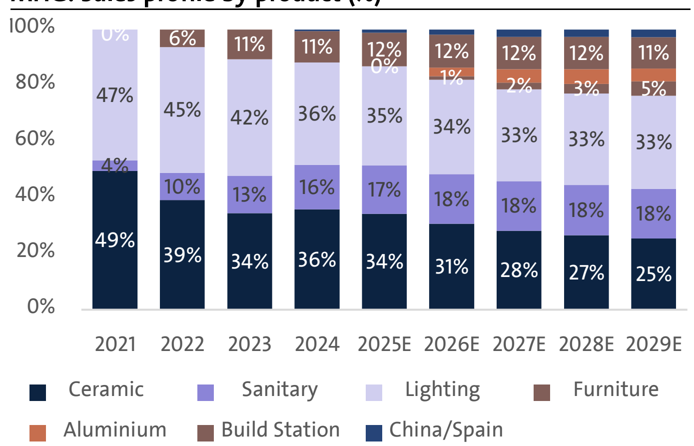
MHG is in an ideal position to benefit from future market growth given MHG's growth-oriented strategy, and the focus on premium solutions in existing and future product lines. In fact, MHG has already embarked on its next phase of growth strategy, which targets developing new business verticals broadly drawing from the company's preference of existing trade-based business model, deepening its presence in relatively underexplored sales channel in its core products, and geographical expansion to increase its footprint in the GCC markets. MHG's growth push came at a time when many already announced major projects are expected to graduate from pre-construction to vertical construction and finishing phase and may trigger additional demand for building materials marketed by MHG.

MHG: We project 5-year sales CAGR of 13%



Source: Company Presentation, Industry Market Report

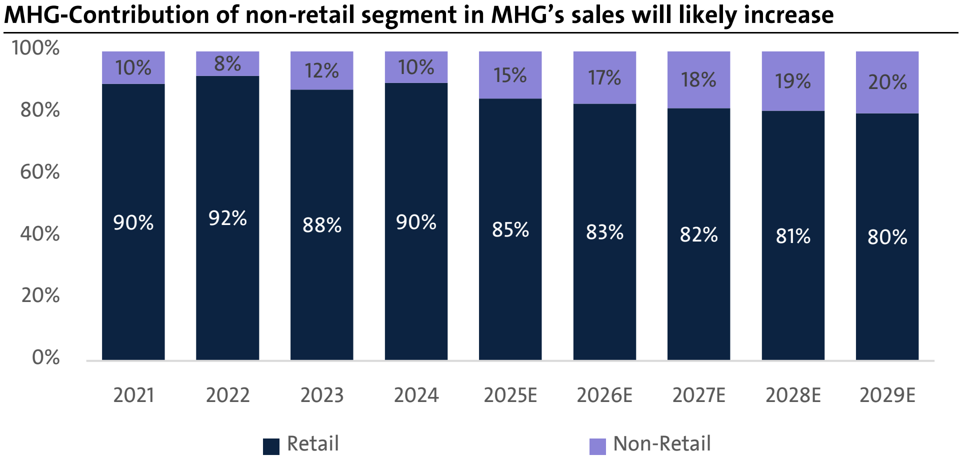
MHG: Sales profile by product (%)



Build Station=Build Station-UAE, Source: Company Presentation Industry

MHG future strategy should enable the company to deliver a solid 12% sales CAGR over 2024A-2029E, in our view, outpacing the expected retail growth of 6% in the KSA and the growth in the construction industry. The existing verticals will likely account for

MHG-Contribution of non-retail segment in MHG's sales will likely increase



Source: Company Presentation, AC.

>70% of future growth as per our estimates. New business lines, furniture and aluminum, are expected to contribute ~10% of total sales by 2029. In terms of sales channel, we expect MHG to continue maintaining its advantage of its significant market share in the retail segment though its contribution in overall sales of the company will likely dilute from 93% in 2024 to 80% by 2029.

The following discusses the company's likely strategy for existing and future product lines.

Lighting

Both retail and non-retail segments in lighting offer promising opportunities for growth

Both retail and non-retail segments in lighting offer promising opportunities for growth driven by wider adoption of smart solutions for lighting and focus on LED lights. Within the non-retail segments, wholesale and projects are the two significant growth opportunities for MHG given the company's relatively low penetration. MHG plans to introduce additional brands to cater to the specific dynamics of non-retail channels. MHG has already hired resources to work with various entities to comply with product specification requirements for the institutional buyers. For the retail channel, MHG targets growth opportunities primarily in KSA retail and an increase in its footprint in the GCC and non-GCC countries via (i) the franchising model of its flagship store chain, Build Station and (ii) development of dealer networks. We have penciled in 7% CAGR for the retail segment of lighting by 2029 and expect sales contribution of the non-retail segment to jump to over 15% from less than 5% in 2024.

Sanitary ware & water solution

Sanitary ware is one of MHG's biggest success stories in recent times

Launched in 2021, Sanitary ware is one of MHG's biggest success stories in recent times. MHG is likely to focus on a three-pronged strategy for further development of this business line.

- New product development within or adjacent categories offers growth opportunities, particularly in KSA retail segment. MHG's high market share in the retail segment in existing products will be a key advantage in the future success of new products.
- Low penetration in the non-retail segment, MHG will likely focus more on institutional sales for projects,
- Non-KSA sales via franchises, particularly in GCC countries where MHG has opened 4 showrooms (seven including the acquisition of Build Station UAE) in the past three years

All in all, we expect the Sanitary Ware and Water Solutions business line to undergo a CAGR of 13% over 2024-2029.

Furniture

MHG aims to formally mark its entry into the furniture market and targets a soft launch of its products by late 4Q25 or 1Q26

MHG aims to formally mark its entry into the furniture market and targets a soft launch of its products by late 4Q25 or 1Q26. MHG has screened product categories based on the company's criteria of market segmentation, growth, and margin benchmark. MHG has also signed agreements with key suppliers for furniture products from China. Living rooms, dining area and home décor are the three fastest-growing categories within the furniture market and will be prime focus areas for MHG. MHG plans to introduce the furniture products via its flagship store, Build Station. This is likely to be followed by the opening of a new chain of showrooms dedicated to furniture's brand. MHG targets to tap the potential of the retail segment first before setting foot in the non-retail segment. All in all, we have incorporated SAR34mn (implying 0.2% market share) sales of the furniture in our projections by 2029. Currently, MHG is engaged in training of staff for customization of designs, assembly and installation of furniture products.

Wall & Floor Coverings

The supply dynamics in the ceramic market have seen two major developments in the recent past

The supply dynamics in the ceramic market have seen two major developments in the recent past: (i) imposition of heavy import duties on products originating from select countries, and (ii) the expansion by existing players and entry of new players. Both developments have negative implications for existing retailers in the sector, particularly those with heavy reliance on imports. Interestingly, the mid-to-high segment has been relatively shielded so far from the risk of loss of market share or significant strain on margin. Given the increased competition, MHG has tightened its own criteria and will likely limit its participation in low-margin products. We expect MHG to deliver 3.5% CAGR of sales growth in this business unit vs projected industry growth of 6%.

Aluminum doors & windows

Another area where MHG has set its eyes on is high-quality imported aluminum systems for doors and windows for both residential and commercial use. The management sees a gap in offerings of high-end products with high aesthetic, durability and insulation. MHG has already lined up suppliers for the new product line and has also entered into an agreement with a local technical partner to provide support in the assembly and installation of products. MHG is currently building up a pipeline for the new product line and expects to formally start operation in 2H25.

HVAC

MHG entered Heating, Ventilation and Air Conditioning (HVAC) for residential, commercial and industrial business via acquisition of a company, Ice Bear, in 2021 with a primary objective of supporting its existing portfolio. HVAC contributed SAR4mn to the company's revenues. We reckon the similarities of HVAC's business compared to other products in MHG's portfolio are limited given the focus on B2B channel.

3-Four key advantages to sustain above-industry growth and margins

MHG enjoys four key advantages over other players

MHG's four key advantages-sales heavily skewed to the retail market (+90% sales from the retail segment), extensive pan GCC presence with comprehensive coverage of the fast-growing Saudi market, dominance of in-house brands, and long-standing supplier relationship-should play in the company's favor and enable MHG to sustainably deliver above-average margins and outpace industry growth.

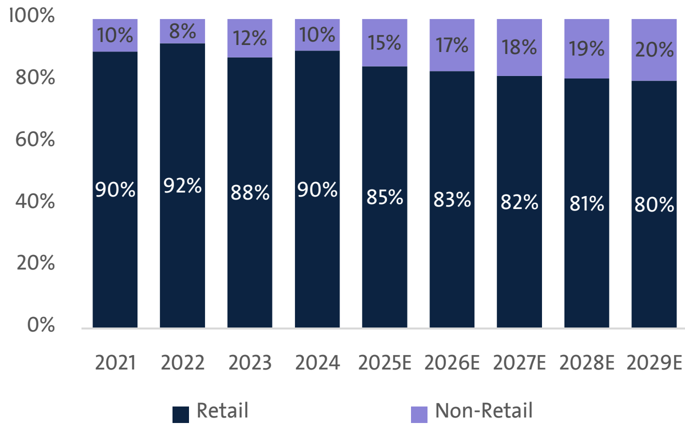
Retail-focused sales profile

MHG maintains a retail-heavy sales profile and derives over 90% of sales from the B2C retail segment. This constitutes a major difference in the strategy of MHG vs other players. MHG is a significant retail player in each of the product lines it operates, with market share ranging from 3.6 to 5.3% in an otherwise segmented market. This allows MHG to deliver superior margins and enjoy better credit terms, given most of the sales are made on advance payment. MHG has accordingly developed its product offerings, product designs, and distribution channel (see below), primarily targeting the retail segment in the Kingdom and the wider GCC region. Looking ahead, we expect the retail segment to remain a dominant contributor to the company's sales despite an expected change in the company's strategy.

MHG- Contribution of non-retail segment set to grow -SARmn

Source: Company Presentation, Industry Market Report

MHG-Retail will likely remain a dominant segment



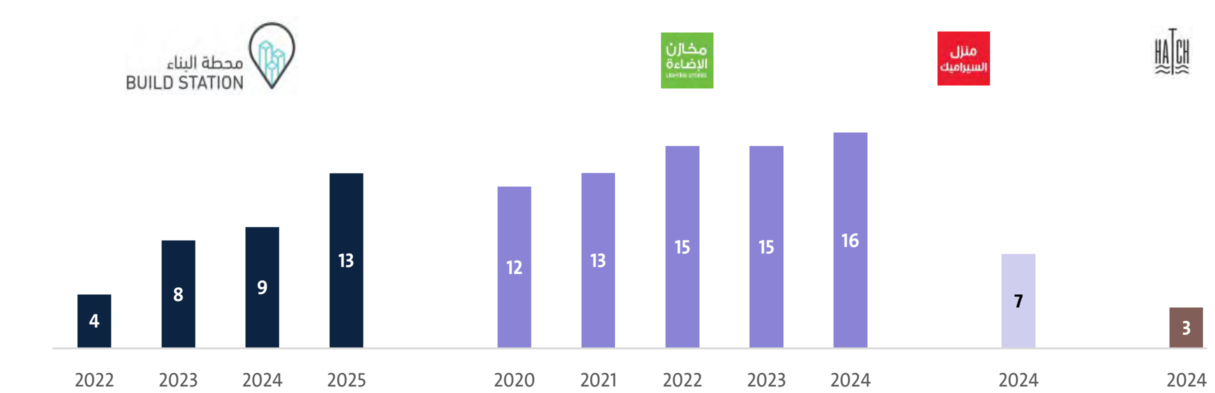
Build Station=Build Station-UAE, Source: Company Presentation, Industry Market Report

Extensive geographical footprint

MHG has developed an extensive network of showrooms across the Kingdom and in the GCC region for marketing its products and services. Altogether, the company maintains a network of 44 showrooms, out of which 39 are in KSA, and five are outside KSA including four franchise stores in GCC. In order to support the stores' sales, MHG has put in place 30 warehouses in strategically selected locations.

In line with the company's growth strategy and to address the changing trends in showrooms towards bigger and more comprehensive formats with all products under one roof, MHG is likely to focus more on gradually merging a select number of showrooms with a single product line into multi-product, big format display centers under the brand name Build Station. MHG will likely open standalone, big-format

Multi-brand showrooms to better cater to changing market trends



Source: MHG, AC

flagship showrooms for furniture products to address the unique display requirement of the new business line.

MHG: Geographical diversified physical presence via combination of own and franchised showrooms

Source: Company Presentation

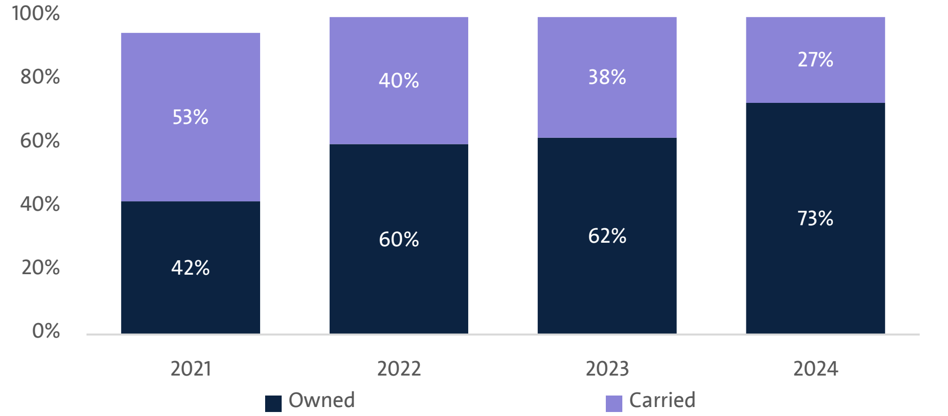
Significant contribution from company-owned brands

MHG has increased its share of revenues from in-house brands from 42% in 2021 to 73% in 2024

Out of 37 brands marketed by MHG, seven brands are developed in-house

One of the major advantages of MHG over other retailing companies within and outside building and material space is the significant contribution from the company-owned brands in the company's sales. MHG has successfully increased its share of revenues from in-house brands over the years. Since 2021, the contribution of in-house brands to the company's overall sales has increased from 42% to 73% in 2024. This is a clear testament of consumers' growing trust in the company's ability to deliver products of the highest standards compared to international brands. This is also evidence of the company's ability to design and source products more suitable for cultural designs and aesthetic needs. Sanitary ware and lighting are the two verticals where the company has a relatively higher contribution of in-house brands. Out of 37 brands marketed by MHG, seven brands are developed in-house and as such don't rely on franchise or other arrangements with international companies. As per management, margins on company-owned brands are 10-20% higher than margins on carried brands.

MHG derives a significant portion of sales from in-house brands



Source: Company Presentation, AC Estimates

Longstanding supplier relationship

MHG has established direct relationships with a comprehensive network of +17 suppliers

MHG has established direct relationships with a comprehensive network of +17 suppliers to ensure timely and reliable delivery of products as per pre-agreed specifications. MHG's sourcing model is a significant advantage compared to other retailers, as it allows MHG to leverage its position as brand owner and bypass many intermediaries to directly procure the products from the manufacturers to cut intermediary costs and optimize margins. MHG plans to replicate a similar sourcing model for new product verticals. To better coordinate sourcing activity across different geographies (China, Spain, Portugal), MHG has opened its regional offices which are staffed by local and international resources.

MHG has removed multiple intermediaries to optimize its supply chain

Source: MHG, AC

MHG maintains a virtually debt-free balance sheet and generates strong FCF (80-90% of net income)

4: MHG maintains a solid financial position with strong FCF generation

MHG maintains a virtually debt-free balance sheet and generates strong FCF (80-90% of net income) despite consistent working capital investment. Strong FCF growth on the back of revenue and earnings growth underpins our expectation of 11% CAGR in dividends. Two of the major drivers of the company's cash flows-working capital and

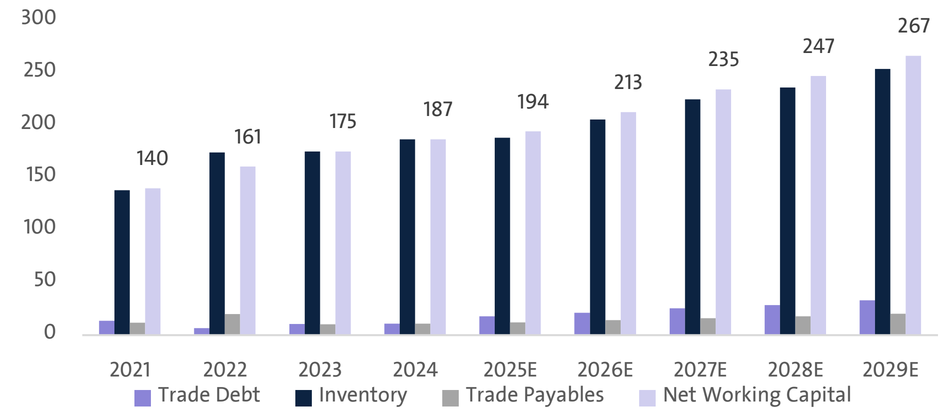
MHG maintains a virtually debt-free balance sheet and generates strong FCF (80-90% of net income)

capex-are broadly stable or trending down given the recent trends, allowing strong translation of EBITDA into free cash flows.

Stable working capital investment

MHG's future working capital needs are likely to mirror stable trends seen in the past few years and will likely grow with sales. The profile of future additions in working capital, however, may undergo a nominal change in line with the company's future rejigging of the business model in the form of developing underpenetrated non-retail channels. For the non-retail segment, the management has set clearly defined criteria for credit terms to be offered to institutional clients. The management targets to maintain relatively less stock of inventory for the institutional clients. All in all, we expect the addition to working capital financing to sustain and expect up to SAR0.25 addition in WC for every SAR1 increase in sales over 2025-2029.

MHG-Trends in key working capital drivers (SARmn)



Source: AC Estimates

MHG business model requires limited capex requirement

MHG's business model inherently entails limited CapEx needs

MHG's business model inherently entails limited capex needs for production capacity, beyond the company's plans to set up a workshop for R&D, product customization, and assembly. This allows the company's cash flow from operations (CFO) to directly cascade down to Free Cash Flows and adds to the company's capacity to maintain healthy payout. Broadly speaking, MHG capex needs can be divided into two areas:

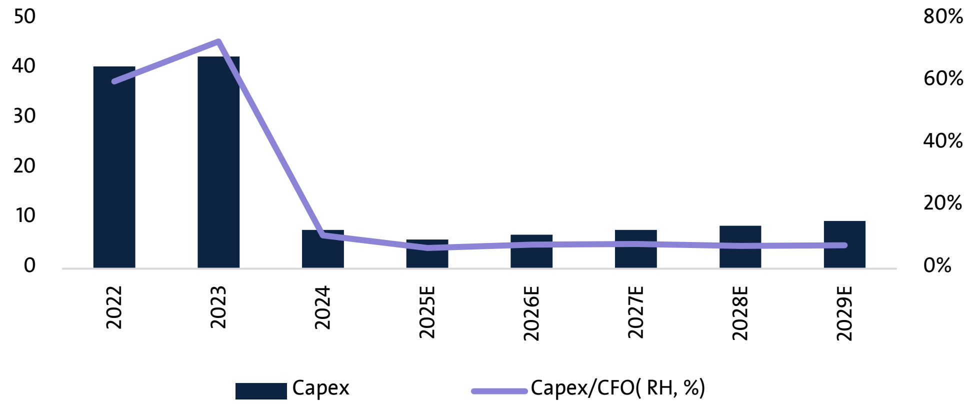
Showrooms and warehouses: Most of the company's capex is either for acquiring land for warehouses, showrooms, and fit out for new or rebushing and reorganization of existing showrooms into new formats of Build Station.

Workshop: MHG plans to open a workshop in the future to address the business need for the furniture segment.

Capex requirements in the past three years were extraordinarily high and were largely associated with the expansion of physical showrooms by over 50% since 2022. Looking ahead, we believe the pace of showroom opening is poised to slow down as the company's focus shifts to optimizing revenue from the recently opened centers.

Accordingly, we expect MHG capex intensity to drop from an average of 12% of sales in 2022-2023 to 1.2-1.5% in the forecast years, in line with the capex level seen in 2024.

MHG-Trends in key Capex and (SARmn)



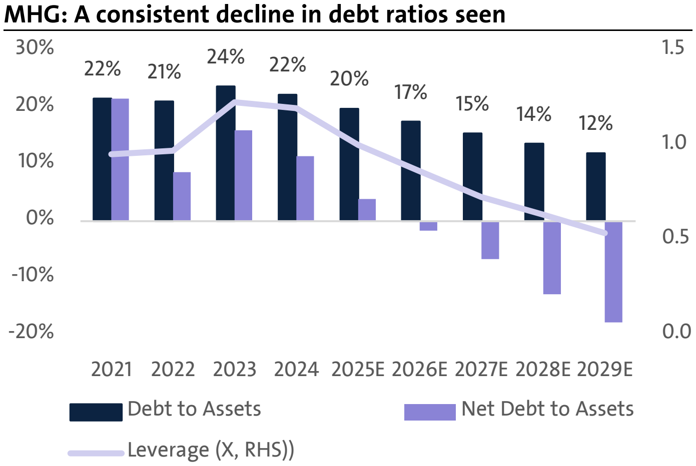
Source: AC Estimates

Virtually unleveraged balance sheet

MHG maintains a modest debt to asset and leverage ratio of 22% and 1.2x as of Dec-2024

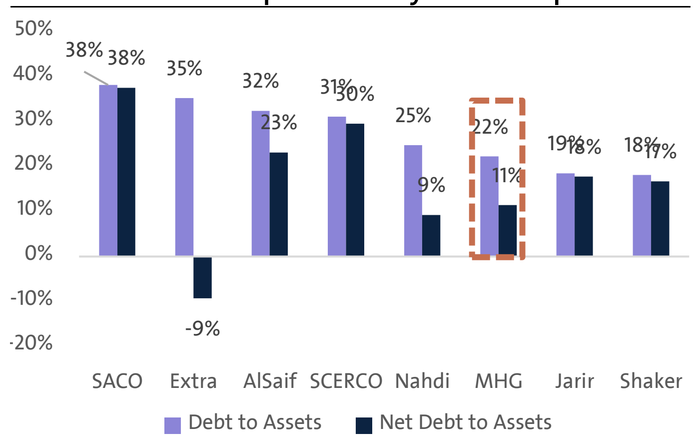
MHG maintains a modest debt to asset and leverage ratio of 22% and 1.2x as of Dec-2024 despite undergoing a significant growth spurt in the past four years. This reflects strong financial management and the investment in FCF-generating opportunities. Interestingly, the debt ratios for MHG compare favourably to its listed peers in the retailing sector. With the future growth in asset base/earnings, and modest capex requirement, we believe these ratios are likely to trend down to 12% and 0.5x by 2029. It is pertinent to highlight the long-term liabilities on MHG balance sheet largely related to leased liabilities for operational sites for office, warehouses, and showrooms. Excluding the impact of leased liabilities, MHG's balance sheet is virtually debt-free.

MHG: A consistent decline in debt ratios seen



Source: Company Presentation, AC Estimates

MHG's debt ratios compare favorably with listed peers'



*2024 Source: Company Presentation, AC Estimates

Key areas of upside and downside risks

Key upside risks

Our estimates for Sales/EBITDA margin/Net margin are respectively 200/100/300bps below estimates provided in the management guidance for the medium term. However, our gross and EBITDA margins estimates for 2025 are ahead of medium-term guidance given MHG's performance in 1H2025.

Comparison of Management Guidance and AC's estimates

Element	2025	2025	MT		Comments
	Mgt	AC	Mgt	AC*	
Revenue Growth	16%**	15%	14%	12%	MT sales growth estimates are broadly in-line with management guidance Modest impact built in from new initiatives in furniture and aluminum
Wall & Floor Ceiling	*9%*	*7%*			
Sanitary ware	*35%*	*31%*			
Lighting	*12%*	*11*			
HVAC	*1%*	*NM*			
Gross Margin	51%	54%	51%	50%	Change in Sales mix, Lower margins in built in all four segments, and B2B sales in China and Spain
EBITDA Margin	24%	24%	24%	23%	Lower net margin due lower gross margin and higher operating cost
Net Margin	19%	16%	19%	16%	Stable net margin seen
Capex	1%	3.8%	1%	1.2%	Conservative estimate built in,
Dividend Distribution	Payout ratio of 50-60%				In-line with management guidance, see upside risk

AC*=Average of forecast years, MT=Medium term, Mgt=Management **Implied from sales growth guidance of individual segments

We believe the following areas can help bridge the gap between our and management estimates and can prove to be major sources of upside risks to our estimates.

1-Regulations and mortgage rates

MHG's sales profile with a heavy tilt to B2C segment has made the company's sales and margin sensitive to factors affecting the construction or refurbishment activity in the retail segment of housing. New real estate mortgages for individuals provided by banks, a major indicator for housing construction, has dropped 7% YoY in the first seven months. We believe the following two broader factors are particularly important for the future pickup in mortgage activity

I-Real Estate regulations: The two latest regulations relevant for the overall health of the construction activities are;

i-Real estate regulation relating to white land tax and the introduction of related rules for the level of tax and the applicable zones

ii-Introduction of regulations for the ownership of real estate by foreign entities and individuals. The detailed rules for the same are likely to be introduced soon.

II-Mortgage rates: The expectation of a sharp drop in the global interest rates and the ensuing revision in the local benchmark of rates have gained traction. The downward revision in benchmarks rates bodes well for the mortgage rates for individuals and may serve to support pickup in overall mortgage financing from financial institutions to retail customers. The current mortgage rates for real estate financings from banks are in the range of 6.9-7.7% as per Saudi Real Estate Refinance Company, a key player in the mortgage refinance for individuals. The last revision in the benchmark was announced in Dec-24.

2-Customer response on new product launches

We have taken conservative assumptions for market share and sales for MHG's new business lines in aluminium and furniture. We have assumed MHG to grab <0.05% M/S in the living room & dining segment in the in the augural year and have increased to 0.4% by exit year. Given MHG's M/S in other products, we see room for future upside. Better-than-expected response from the customers for the new business lines may offer future upside to our estimates. MHG has already started marketing its aluminium frame products while the formal launch of the furniture business line is likely by late 4Q or early 1Q 2026.

3-Better-than-expected margins in B2B segment

Two areas where the upside surprise in margin vs our current estimates (22-25%) can stem from are aluminium and HVAC business. Both business lines are considered as complementary to existing products.

Key downside risks

I-Significant investment in inventory & the risk of impairment

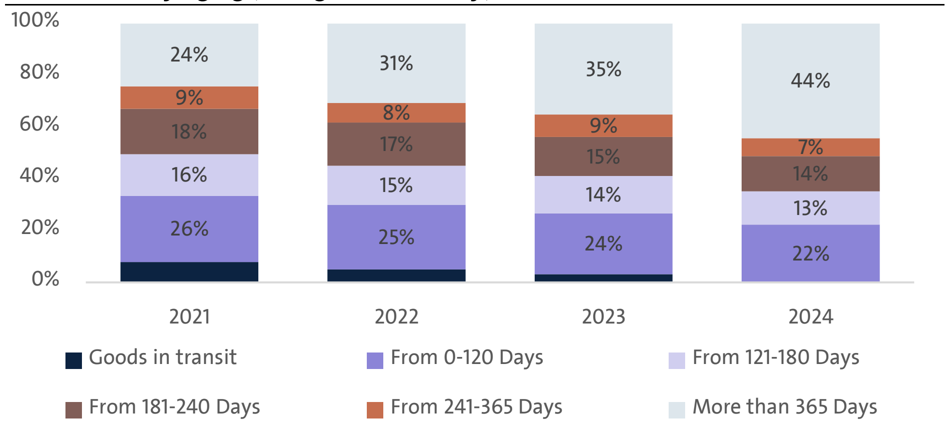
MHG carries a significant amount of inventory necessitated by the company's existing business model.

MHG carries a significant amount of inventory necessitated by the company's existing business model based on imported products, nature of industry (high number of SKUs) and channel mix. MHG's channel mix is heavily tilted to a comprehensive network of physical stores. As of Dec2024, MHG held SAR187mn inventory, up from SAR175mn in Dec-2023. The company's inventory levels have grown at a CAGR of 13% vs sales CAGR of 16% over 2021-2024, which clearly implies relative efficiency in inventory management. Ceramic accounted for 53% of company inventory in 2024 while lighting and other products accounted for the balance. MHG's current business model entails two key risks.

- Increase in the level of inventory and higher investment requirement as the company looks to sustain its growth trajectory seen in the past four years

- Write-off or impairment of inventory due to various reasons (out of fashion, breakage etc.). MHG has written off an average of 4.5% of sales as provisioning for inventory impairment over 2001-2024. Inventory provisioning cost in 2024 was recorded at 5.6%, the highest levels in the past four years. The management believes the high provisioning expense results from management proactive efforts to inventory management and is expected to normalize in future years. The impairment of inventory directly eats into the company's margins and earnings. We have assumed 4% provisioning expense for inventory (age of gross inventory) or 1.6-1.8% of net sales for future years. MHG's audit department conducts an annual exercise of physical counting of inventory, as per the management. Following exhibit provides a snapshot of inventory aging.

MHG-Inventory aging (% of gross inventory)



Source: Company Presentation, AC Estimates

MHG's business model of relying solely on imported products to serve its customers exposes the company to the risk of disruption of the supply chain

II-Reliance on imported supplies

MHG's business model of relying solely on imported products to serve its customers exposes the company to the risk of disruption of supply chain due to various reasons including relationship with the suppliers, regulatory issues (tariff and nontariff barriers) in either source or destination countries or disruption of shipping routes due to geopolitical issues. MHG has a longstanding relationship with its suppliers for both lighting (in China) and ceramics (Poland, Spain, Italy) products. MHG has put in place well-established practices for product design, specification, costing, sales return and after-sale service to mitigate the various risks in the supply chain for existing and future product lines. MHG has also signed agreements with suppliers of new categories of furniture and aluminum frame and associated technical partners. Secondly, the company has increased the number of suppliers to reduce the risk with a specific party. Thirdly, the company maintains an inventory of 210 days which also acts as a cushion against any unforeseen supply related issues.

III- Risk to margins from new players; change in channel mix

Every 50bps higher decline in margin may erode our estimates of the company's earnings by ~3%

The EBIT and EBITDA margins of MHG are significantly higher than the listed peers engaged in the retailing of discretionary products largely sourced from outside the Kingdom. While we believe the key advantages enjoyed by MHG long standing relationship with suppliers and focus on in-house brands, will allow the company to sustain the superior margin, the company's future plans to grow its presence in B2B/Govt channels and potential entry of new entrants may act to put pressure on MHG's margin beyond what we have modelled for B2C and B2B segments. We expect MHG's consolidated margins to trend down from 55% in 2024 to 47% in 2029. Every 50bps higher decline in margin may erode our estimates of the company's earnings by ~3%.

We believe MHG's valuations at the listing price of SAR85 adequately reflect the growth potential the company offers

Initiate with Neutral

We believe MHG's valuations at the listing price of SAR85 adequately reflect the growth potential the company offers and as such leave limited room for upside to our DCF-based TP of SAR86/sh. Initiate with Neutral.

We have valued MHG at SAR1370mn (SAR86/sh) based on DCF (FCFE) which forms the basis for our TP. Based on our TP, MHG's P/E and EV/EBITDA of 18.5x and 12.3x are 7% and 10% premium to its peers on 2026E estimates. MHG offers D/Y of 6.4% in 2025 (which include the announced dividend for 2024E) and 3% in 2026.

FCFE Valuation

We believe standard Free Cash Flow methods (Free Cash flow to Equity) better suit MHG as these methods allow flexibility to incorporate current dynamics and future earnings growth profile.

We have elected to use Free Cash Flow to Equity (FCFE) method for the free cash flow valuation of the company

We have elected to use Free Cash Flow to Equity (FCFE) method for the free cash flow valuation of the company. MHG is undergoing a significant growth spurt driven by the opportunities in the industry and the company's ambitious strategic objective of capturing more value in the key adjacent verticals with a similar retail-based model. We arrive at a valuation of SAR1,370mn based on FCFE by using Cost of Equity (CoE) of 8.9% and a terminal growth rate of 2%.

MHG-FCFE Valuation

SARmn	2025E	2026E	2027E	2028E	2029E
Net Income	65	74	87	96	111
Add: Depreciation and Amort	25	25	25	26	26
Less: Change in Working Capital	(9)	(19)	(22)	(14)	(17)
: Capital expenditures	(6)	(7)	(8)	(9)	(10)
: Net Borrowing & Others	(14)	(14)	(14)	(14)	(15)
FCFE	**62**	**59**	**68**	**86**	**96**
PV of FCFE	**62**	**55**	**58**	**67**	**69**
Summary of Valuation					
Long term growth rate (g)	2.0%				
Terminal value	1,412				
Present value of terminal value	1,010				
Present value of stage 1 cash	310				
Equity Value	1,320				
Add: Cash	53				
Less: Minority Share	-3				
Equity value	**1,370**				
Shares	16.0				
Equity value per share	**86.0**				
Implied P/E (2026E)	18.6				
Implied EV/EBITDA (2026E)	12.3				
Implied P/BV (2026E)	3.7				

Source: AC Estimates

We have used a two-stage DCF method for MHG to account for the impact of ongoing growth initiatives on product diversification (furniture), changes in channel mix for existing products and geographical expansion of Build Station brand in GCC countries. These initiatives will likely sustain the growth momentum into the medium term, in our view, before a relatively stable period ahead.

Key Assumptions

We have calculated the cost of equity for the DCF approach of 8.9%. The Cost of Equity assumptions include risk-free rate of 4.5%, a market risk premium of 5%, and an adjusted beta of 0.89 based on the daily beta of the companies in the peer group for a period of three years or since listing. Current MHG's balance sheet does not have any debt other than lease liabilities relating to showrooms and other fixed assets. Leasing is likely to be a preferred funding option for MHG.

MHG-COE Calculation	
Risk Free rate	4.5%
Market Risk Premium	5%
Adjusted Beta (x)	0.9
Cost of Equity	**8.9%**

Source: AC

Sensitivity analysis on terminal growth and CoE

We have calculated MHG's valuation sensitivity on CoE and terminal growth. Based on our calculation, we estimate every 25bps change in CoE would result in a ~3% change in valuation, while every 25bps change in terminal growth would account for a ~2.8% movement in valuation, respectively.

Sensitivity of DCF value to terminal growth and CoE

		Terminal Growth				
		1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
Cos of Equity	7.0%	86	88	91	94	97
	8.0%	83	85	88	90	93
	9.0%	82	84	86	89	91
	10.0%	78	80	82	84	87
	11.0%	76	77	79	82	84

Source: AC Estimates

We have incorporated the average working capital intensity of SAR0.25 for every SAR1 additional sales

Working Capital Sensitivity

MHG's import-based business model of multi-brands and high-number of SKUs necessitates significant investment in inventory. This in turn invariably makes the company's valuation more susceptible to changes in the working capital requirement. The need to contain the working capital burden is likely to be even higher considering future growth initiatives of the management to fully capture the benefit of growth on the company's valuation. For our Free Cash Flow valuation, we have incorporated the average working capital intensity of SAR0.25 for every SAR1 additional sales. We estimate SAR0.05 change in working capital intensity results in a valuation change of 3.2%.

2-Relative Valuation

Selection of Peers

MHG promises to be a unique offering in the fast-growing Saudi retail sector

MHG promises to be a unique offering in the fast-growing Saudi retail sector. Superior margin profile, exposure to the construction sector, opportunities in the adjacent segments with a similar capital-light retailing model, and the company's rich portfolio of owned brands set MHG apart from other retailing companies listed on the main market on Tadawul.

That said, we have drawn a list of companies for MHG in the Capital Goods and Consumer Discretionary sectors at Tadawul. We have also looked at the listed companies operating in Consumer Discretionary Retailing Sector (Home Improvement) having at least one common business line with MHG. We note the following observations on the selected peers.

- MHG has a diversified product mix, and as such no other listed company in the consumer discretionary segment offers a similar or comparable product offering.
- Some companies in the list don't have formal publicly available ratings or estimates due to lack of coverage.
- Some companies in the capital goods sector also operate production/assembling facilities, which dilute the usefulness of comparison of a pure retailing company like MHG.

MHG-Relative Valuation

Stock name	Country	Market Cap	Price*	P/E		D/Y		EV/EBITDA		P/BV	ROE	ROA
		USDm	Local	2025E	2026E	2025E	2026E	2025E	2026E	2025E	2025E	2025E
Extra	KSA	1,911	90.0	13.4	12.2	5%	6%	9.8	8.8	3.9	26%	10%
Saudi Ceramics	KSA	767	22.5	22.0	32.4		2%			2.6		
Jarir	KSA	4,106	12.8	15.8	15.0	6%	6%	13.1	12.4	3.8	23%	23%
AlSaif	KSA	650	7.0	30.8	22.1	3%	4%	19.0	14.9	3.6	5%	5%
Nahdi	KSA	4,049	116.7	18.6	19.0	5%	5%	9.3	8.5	6.3	32%	13%
Nice One	KSA	748	24.3	28.3	20.9		4%	25.2	17.7	14.8	38%	13%
Shaker	KSA	394	9.4	16.0	12.9	1%	1%	16.9	14.4	2.2	10%	5%
DOHOME	Thailand	400	3.8	18.7	15.9	1%	1%	12.1	11.1	2.3	5%	2%
Mr DIY Group	Malaysia	3,322	1.5	22.1	20.0	3%	4%	12.4	11.4	7.8	29%	15%
SIAM Global	Thailand	1,296	7.8	20.7	19.0	2%	2%	13.7	12.9	2.1	8%	58%
Home Products	Thailand	3,033	7.1	15.6	14.7	6%	6%	9.8	9.2	4.4	24%	16%
Mean				19.0	17.3	4%	4%	12.9	11.5	3.5	20%	16%
MHG	**KSA**	**363**	**85**	**20.9**	**18.6**	**3%**	**3%**	**13.7**	**12.7**	**4.0**	**19%**	**13%**

Source: Bloomberg, AC Estimates

Our key conclusions are as follow:

- MHG would trade at modest premium of 7% and 10% to its selected peers on P/E and EV/EBITDA based on 2026 estimates. Given the expected earnings growth CAGR of 15% over 2024-2029 and a number of areas of upside risk, we believe MHG's premium valuations are justified.
- MHG's D/Y sustainable D/Y of 3.3% in 2026 is nominally below the average estimates of its peers' D/Y. The management has guided for 50-60% dividend payouts. With low capex-intensity and strong FCF generation, we expect the company's payouts to remain on the higher end of the guidance and grow with expected earnings growth in future.
- MHG's ROE of 19% and ROA of 13% are modestly below the respective averages of its peers. With anticipated earnings growth in future, both ratios are likely to expand in future. We expect MHG's ROE to jump to 24% and ROA to increase to 16% by the end of forecast year.

MHG-SWOT Analysis

Strengths	Opportunities
▪ Well-established name with a successful 20 years of operation of meeting the customer demands ▪ Excellent track record of developing new products in the existing categories and adjacent categories, reflecting MHG's agility in capturing growth, addressing the market opportunity, and creating value for its shareholders ▪ A widespread distribution channel providing comprehensive coverage to consumers across the Kingdom ▪ Limited leverage on the company's balance sheet (practically unleveraged if lease liabilities are excluded), providing financial resources to self-fund future growth initiatives without the need for changing the payout ratio or opt for acquisition ▪ Significant contribution from the In-house brands in total sales in the key segments which allows the company to benefit from high margins, build sustainable brand equity, and scale up sales in various markets in the region	▪ Favorable economic conditions, defined by robust economic growth, particularly in the non-oil sector, a growing construction industry, and higher purchasing power ▪ Deepening company's presence in non-retail sales channels ▪ Opportunities in the adjacent categories with similar business model and segment characteristics ▪ Customization of products to reflect designs more suitable to local culture, which can offer the opportunity for sustainable high margin and create product differentiation ▪ Integrating smart technologies in several products for internal (lighting, furniture for home & offices and other structures) and external uses. MHG is well positioned to leverage its existing and future brands to benefit from the changing consumer preferences
Weakness	**Threats**
▪ Significant investment in inventory as part of the business model involving multiple brands in multiple categories with various SKU sizes across various geographical locations in and outside the Kingdom. ▪ Limited in-house production capabilities and dependence on imports for meeting the demand for lighting and ceramic products	▪ Regulatory action in terms of increasing duties on imports as part of government efforts to enhance local production and import substation ▪ Significant production addition in the ceramics products by existing local and new players, which can result in narrowing the gap in the offerings (design, product material) between locally manufactured and imported products, hence may drag sales and/or margin ▪ Segmented market with many players, suggesting differentiation based on product attributes and other value-added services for pricing and margin

Source: AC

Overview of the Company

About the Company

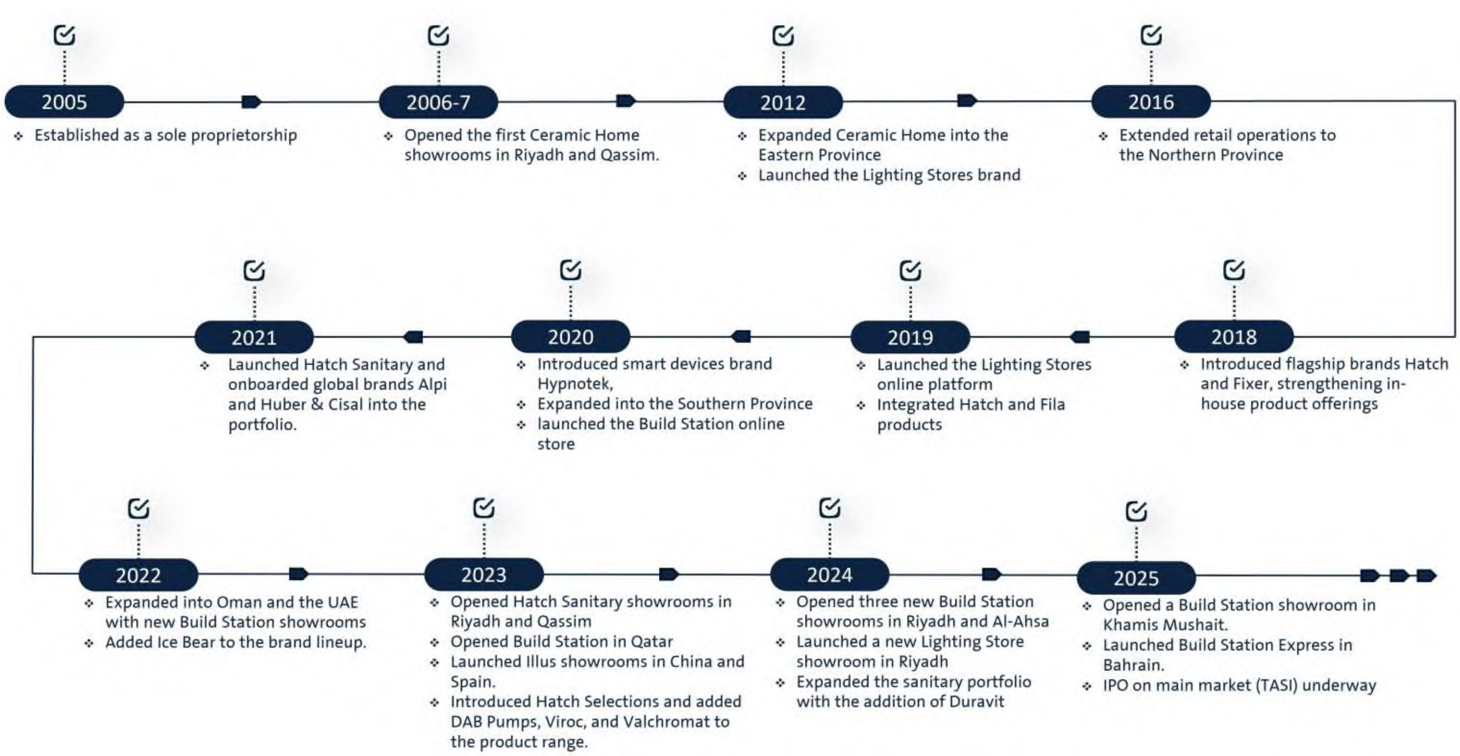
MHG is #1 player in lighting retail market, #2 player in sanitary ware retail market and #5 player in the imported tiles retail market as per the Euromonitor market report

Marketing Home Group (MHG) was established as a sole proprietorship in 2005 by Engineer Musad Algfari, the current CEO and MD. MHG opened its first showroom in Riyadh in 2006 to market ceramics products. The company has come a long way since its establishment and evolved from a single business line in Wall and Floor Coverings to become one of the leading retail firms in a diverse range of building and material products in the Kingdom. MHG offers. Over the years, MHG has developed an excellent track record of building new business verticals, establishing time-tested relationships with its suppliers, and responding to the changing consumer needs and technology.

MHG is #1 player in the lighting retail market, #2 player in the sanitary ware retail market, and #5 player in the imported tiles retail market as per the Euromonitor market report. MHG maintains a comprehensive network of showrooms and warehouses in KSA and several GCC countries. The fruits of MHG's successful strategy execution are evident in the company's solid financial footing. MHG has consistently delivered above-average margins, earnings growth, and FCF generation while at the same time has maintained a virtually debt-free balance sheet.

The following presents the key milestones in the company's history

MHG: Major events in the company's history



Source: Company Presentation

MEG operates five legal entities within and outside KSA with a primary objective of supporting its business lines, product imports, or the company's plans

Legal Entities

MEG operates five legal entities within and outside KSA with a primary objective of supporting its business lines, product imports, or the company's plans. The following are the key details.

Build Station UAE-60% Stake

The brand name of "Build Station" is owned and operated by MHG and was established to support the company's online sales. Until 2022, Build Station UAE operated as a separate legal entity with three physical stores in the UAE, which showcased MHG's product as a franchisee. MHG decided to acquire a majority stake of 60% in Build Station UAE in 2022. The acquisition helped MHG to establish its local presence and use the platform to expand its presence in other markets in the region. Build Station showrooms in KSA are completely owned and operated by MHG.

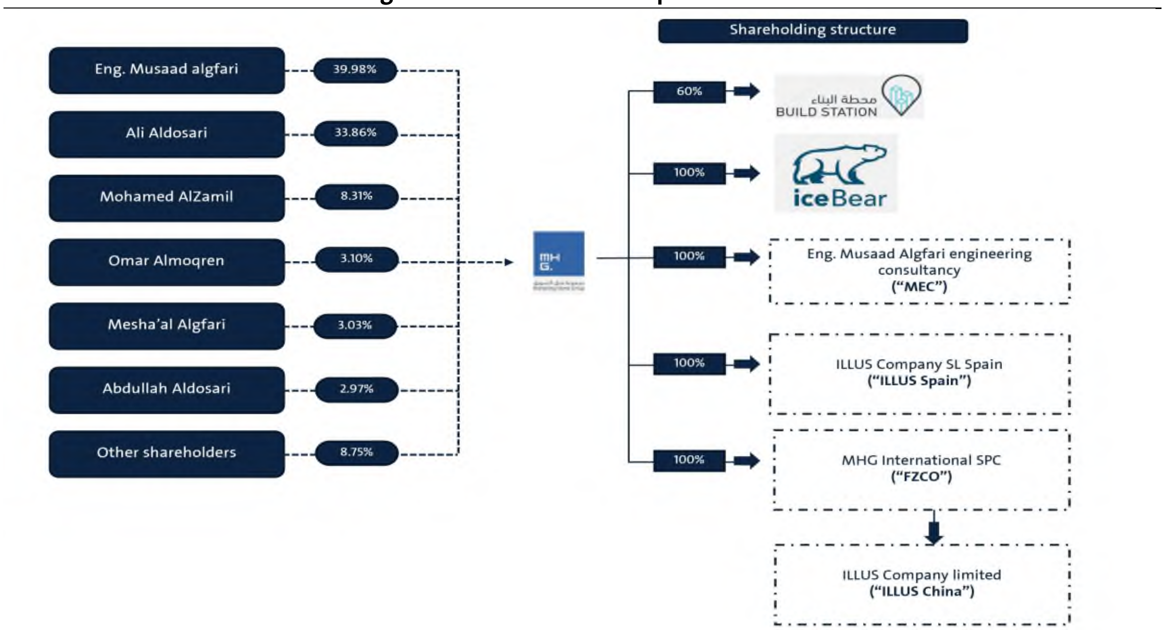
Ice Bear-100% Stake

Ice Bear is engaged in B2B business of heating, ventilation, and air conditioning (HVAC) segments for residential, commercial and industrial buildings. MHG acquired Ice Bear in 2022 with a primary objective of supporting its existing product portfolio. HVAC contributed SAR4mn to the company's revenues in 2024. MHG is currently building a pipeline of future projects in the real estate sector.

MHG International SPC -100% Stake

MHG International SPC was established in 2023 in a Sharjah-free zone with a primary purpose of acting as an international marketing and sales arm of group products in lighting and sanitary ware portfolio.

MHG: Details of MHG shareholding structure and ownership of subsidiaries



Source: Company Presentation

Illus Company Limited (Illus China): 100% Stake

MEG set up Illus China in 2023 with a paid-up capital of 0.3mn. This company has largely been dormant. Illus China is a subsidiary of MHG International SPC.

Illus Company Limited (Illus Spain): 100% Stake

Illus Spain was incorporated in 2024 with a paid-up capital of SAR3.6mn. Illus Spain operates a showroom in Spain to market group products.

MEC: 100% Stake

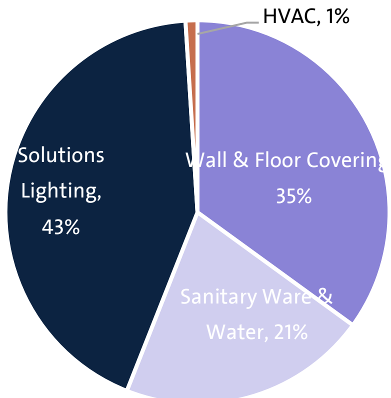
MEC provides administrative, IT and other support services to MHG and is domiciled in Egypt. MEC was owned by the major shareholders of the group until 2023. Following the change in the legal status of MHG and as part of the preparation of IPO, MHG acquired the company in 2023.

The company aspires to address the market needs for modern, innovative, and well-trusted products

A diversified sales portfolio

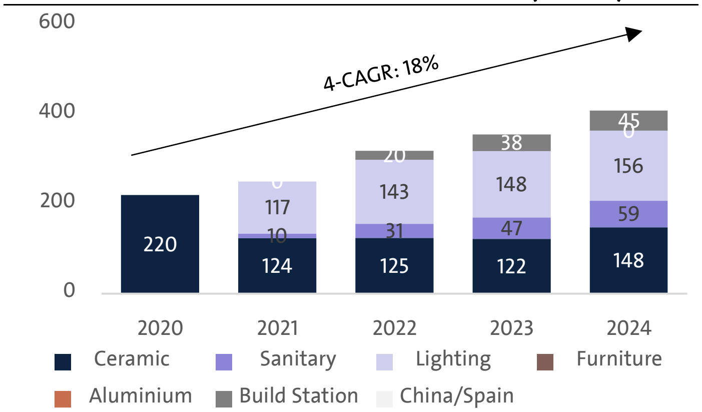
MHG operates in four complementary business lines in the construction and material sector. The company aspires to address the market needs for modern, innovative, and well-trusted products with a wide range of selections for upscale residential and commercial units. MHG primarily caters to mid-to-high end segment in each business line. The products are carefully selected and designed with major consideration given to local cultural values, aesthetic preferences, and functionality. The company's presence in multiple business lines and geography allows MHG to maintain a diversified revenue base. The revenue contribution from Lighting, Sanitary Ware & Water, Wall Floor Coverings and HVAC stood at 43%, 21%, 35% and 1% respectively, in 2024. MHG has grown its sales by a significant 18% CAGR over 2020-2024.

MHG-Revenue profile (2024A)



Source: Company Presentation, AC

MHG has delivered 18% sales CAGR since 2020* (SARmn)



*2020 Ceramic sales represent total company sales, Source: Company Presentation, AC

A summary of each business line is given below:

Lighting Solutions (43% of sales, 3.9% market share)

Lighting Solutions is the largest segment in the company's portfolio, with over 43% of the contribution to sales. MHG relies on suppliers from China, the global capital of manufacturing of lighting products, for sourcing of lighting products. MHG is present in more than 13 categories in this vertical via three in-house brands (Illus, ilict, Hypnotek) and one carried brand (Mean Wall). Major categories in this business line include indoor & outdoor lighting, smart devices, switches, and sockets. MHG operates 16 standalone showrooms for the lighting segment under the brand name Light House. Other sales channels include Build Station, E-Commerce and non-retail.

Walls & Floor Coverings (35% of sales, 3.8% market share)

Major products under this business line include porcelain and ceramic tiles, tile adhesive, and grout. MHG carries more than 12 brands under this product line. Given the company's product positioning and strong consumer preference, the sourcing of products is primarily done from European countries (Spain and Portugal), which are known for their differentiated design, aesthetic and durable product materials. MHG owns two brands under this business line, which include Hatch and Fixer. Key sales channels for the products under business lines include Ceramic Home (seven showrooms), Build Station, E-Commerce and non-retail.

Sanitary Ware & Water (21% of sales, 5.3% Market share)

Launched in 2021, Sanitary Ware & Water has shaped up to be one of the biggest successes for MHG in recent times. MHG maintained 5.3% of the market share in the imported retail segment, the highest in its category. With a 21% sales contribution in 2024, the business line has emerged as a significant driver of the company's growth since 2021. The major products in this vertical include toilet seats, showers, mixers, washbasins, and bathtubs marketed via one in-house brand, Hatch and seven carried brands. Given the success of the business line, MHG has launched three standalone showrooms under the brand name of "Hatch". Other sales channels include Build Station, E-Commerce and non-retail. China is the major source for the import of products under this vertical.

HVAC: 1% of Sales

Heating, Ventilation and Air Conditioning (HVAC) is a small but highly promising and complementary business line in MHG's portfolio, given the company's future strategy of growing its presence in the non-retail segment. MHG operates in six categories via one in-house brand by the name of Ice Bear.

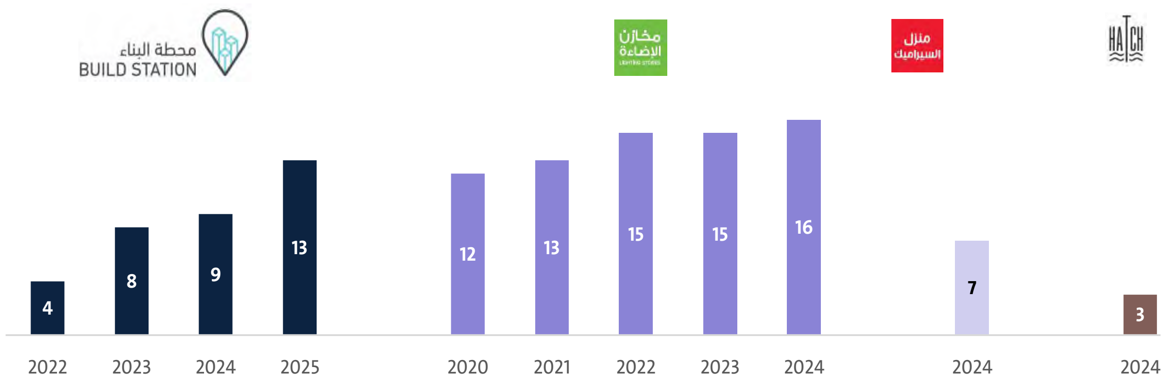
Diverse geographical physical presence

Altogether, the company maintains a network of 44 showrooms, out of which 39 are in KSA

MHG has developed an extensive network of showrooms across the Kingdom and in the GCC region for marketing its products and services. Altogether, the company maintains a network of 44 showrooms, out of which 39 are in KSA, and five are outside KSA including four franchise stores (Oman, Qatar, Kuwait & Bahrain). To support the stores' sales, MHG operates 30 warehouses in strategically selected locations.

In line with the company's growth strategy and to address the changing trends in showrooms towards bigger and more comprehensive formats, MHG is likely to focus more on merging existing showrooms, subject to locations, into Build Stations or opening new showrooms focused on specific product categories.

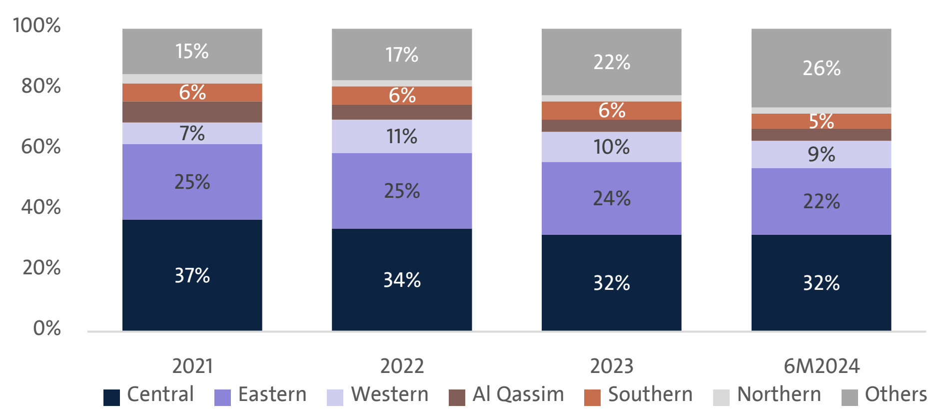
MHG maintains a comprehensive physical presence in strategic locations in KSA & GCC



Source: Company Presentation, AC

MHG's geographic sales profile reflects the company's extensive physical presence and a strong brand loyalty in the Kingdom. Physical showroom sales in the Kingdom account for 75% of sales in 1H2024 as per our estimates. Project, wholesale and E-commerce account for the remaining portion of the company's sales.

MHG-Showrooms in KSA contributed 75% of the company's sales in 1H2024



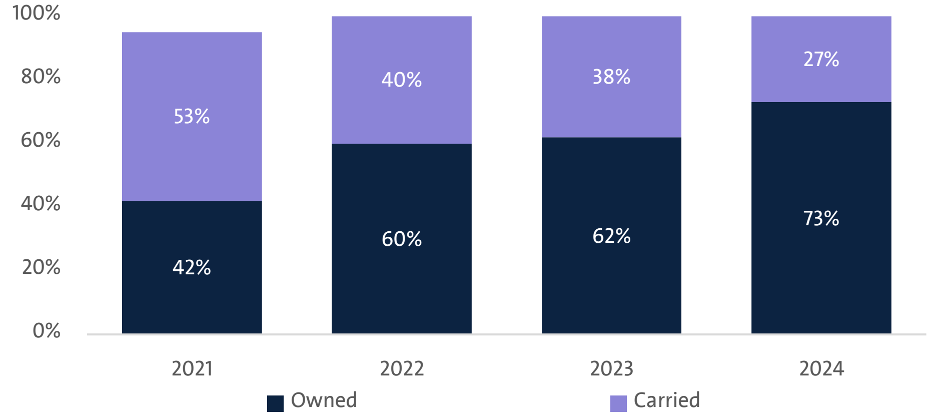
Source: Company Presentation, AC

Significant contribution from company-owned brands

Sanitary Ware and Lighting are the two verticals where the company makes relatively higher contributions from in-house brands

One of the major advantages of MHG over other retailing companies within and outside building and material space is significant contribution from the company-owned brands. Since 2021, the contribution of in-house brands to the overall sales of the company has increased from 42% to 73% in 2024. This is a clear testament of consumers' growing trust in the company's ability to deliver products of the highest standards comparable to international brands. This is also evidence of the company's ability to design and source products more suitable for cultural trends and aesthetic preferences. Sanitary Ware and Lighting are the two verticals where the company makes relatively higher contributions from in-house brands. Out of 37 brands maintained by the company, seven brands are developed in-house and as such don't rely on franchise or other arrangements with international companies.

MHG-Owned brands account for over 70% of sales



Source: Company Presentation, AC

Longstanding supplier relationship

MHG's sourcing model allows the company to directly procure the products from the manufacturers, cut intermediary costs, and optimize margins

MHG has established a direct relationship with a comprehensive network of +17 suppliers to ensure timely, reliable delivery of products as per pre-agreed specifications. This is another significant advantage for MHG compared to other retailers, as the sourcing model allows MHG to leverage its position as a brand owner and bypass many intermediaries to directly procure the products from the manufacturers, cut intermediary costs and optimize margins. MHG plans to replicate a similar sourcing model for new product verticals. In order to better coordinate sourcing activity across different geographies (China, Spain, Portugal), MHG has opened its regional offices which are staffed by local and international talent.

Shareholding Details

The overall shareholding of the company is largely distributed among the family members of the founding shareholders. As part of the current IPO process, 4.8mn shares (30% of total outstanding shares) will be offered to the investors for the listing at Tadawul's main index, TASI. This will result in a proportionate reduction in shareholding among existing shareholders post-listing of the company. It is pertinent to note that the big increase in share capital of MHG in 2022 coincided with the change in the company's legal status from sole proprietorship to limited liability company. Since the change in legal status, the company's share capital has remained unchanged at SAR160mn divided into 16mn shares.

MHG Shareholding Details (Pre-Post IPO, mn)

Name	Shares	%	Shares	%
Eng Musaad Alqfari	6.4	40%	4.5	28%
Mr Ali Aldosari	5.4	34%	3.8	24%
Meshal Abdulrahman Abdulaziz	0.5	3%	0.34	2%
Other Individuals	3.7	23%	2.6	16%
Public/Offer for sale	0		4.8	30%

Source: Company Presentation, AC

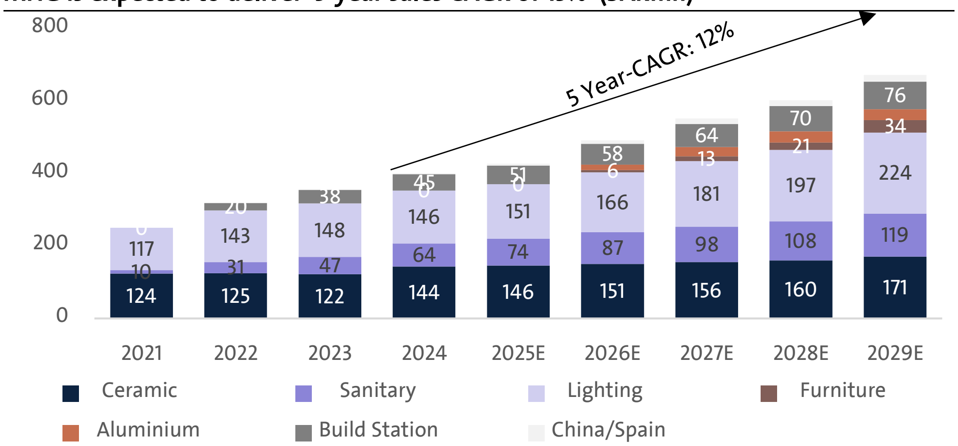
Financial Analysis

Strong growth momentum set to sustain

MHG is poised to build on its growth momentum in recent years, which saw the company deliver 18% CAGR since 2020

MHG is poised to build on its growth momentum in recent years which saw the company deliver 18% CAGR since 2020. MHG's future growth strategy is premised on expected new product launches, tapping the potential of existing B2B and Govt contracts, and entering new business lines with similar business dynamics in mid-to-high-end segments of furniture and aluminium frames. We project MHG to deliver a 5-year sales CAGR of 12%. Sanitary ware, lighting and furniture are poised to be me major contributors to MHG future growth, in our view. Sales for the ceramic segment is likely to remain relatively unimpressive as the company is expected to put more focus on opportunities, which meet the company's internal benchmarks for profitability in view of increasing competition from existing and new players in the porcelain/ceramic tiles and changing consumer preference for certain SKUs.

MHG is expected to deliver 5-year sales CAGR of 13% (SARmn)



Source: Company Presentation, AC Estimates

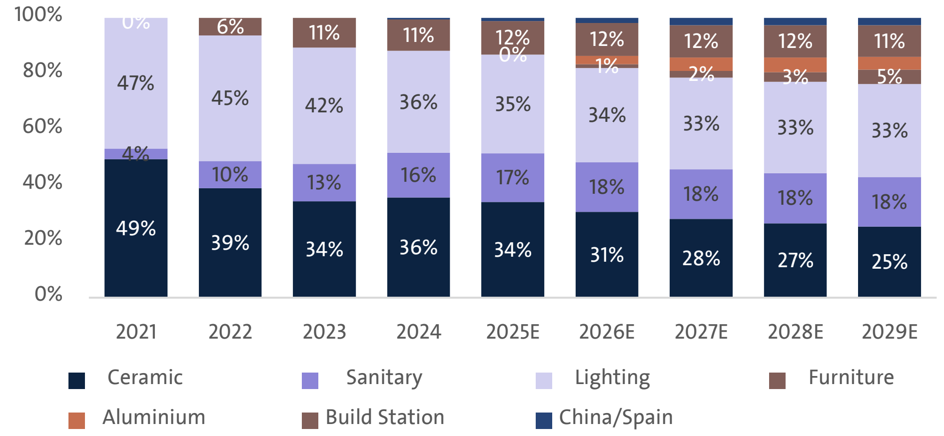
It is noteworthy to highlight that MHG's discount to customers clocked in at 3.2% in 2024, which is not materially different from the levels observed in recent years.

MHG-Future sales profile will likely evolve further

MHG's sales profile will likely continue to further evolve in future

MHG's sales profile will likely continue to further evolve in the future with the launch of new product lines and focus on both geographical expansion and further development of non-retail channels for its existing products. The contribution of ceramic, which accounted for almost 50% of the company's sales in 2021, will continue to see a further drop over the medium term, in our view. This is primarily due to management's conscious decision to limit the company's exposure to a category beset by growing local and international competition. On the other hand, the contribution of sanitary ware will likely further grow on new product launches and channel development. New product lines, furniture, and aluminium frames will likely account for 10% of the company's sales by 2029.

MHG-Revenues by major product lines



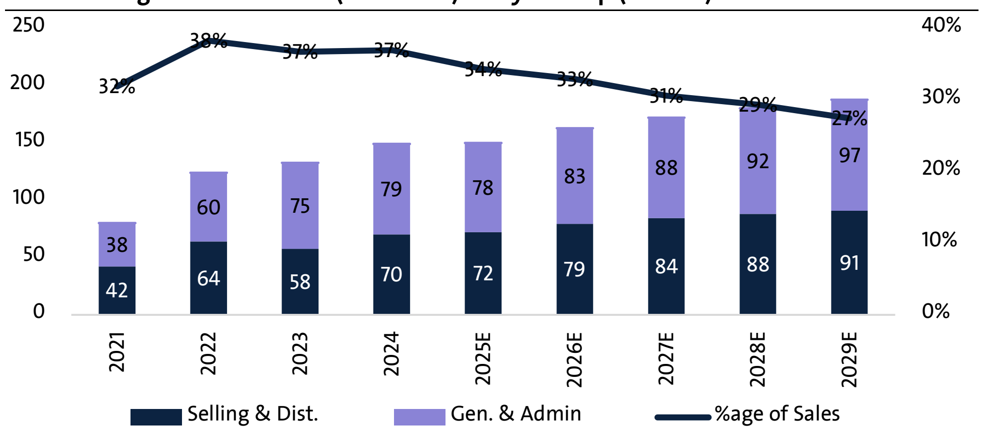
Source: Company Presentation, AC Estimates

MHG-Operating cost likely to reflect the benefit of higher volumes

MHG has significantly increased S&D and G&A costs in the past four years

MHG has significantly increased Selling and Distribution (S&D) and General & Admin (G&A) costs in the past four years. Cumulatively, the costs for the two heads have increased by 90% since 2021. Three key reasons for the increase in cost are, (i) opening of new showrooms within big cities to increase the access to a wider retail market in the Kingdom, (ii) introduction of new categories and products, (iii) increase in headcount in the head office to support new growth initiatives and corporate functions and (iv) realignment of compensation structure, particularly for staff involved in sales, to make it more market competitive. Interestingly, the total costs as %age of sales has tapered off from a high of 38% in 2022 to 35% in 2024 and will likely continue the declining trend in the future. Our estimates for future S&D and G&A take into account the future expected opening of new showrooms for all four product lines and Build Stations and the expected change in sales mix towards B2B and government segments.

MHG- Selling and Admin cost (% of sales) likely to drop (SARmn)



Source: AC Estimates

We expect MHG's overall working capital requirements to remain stable and reflect the recent trends

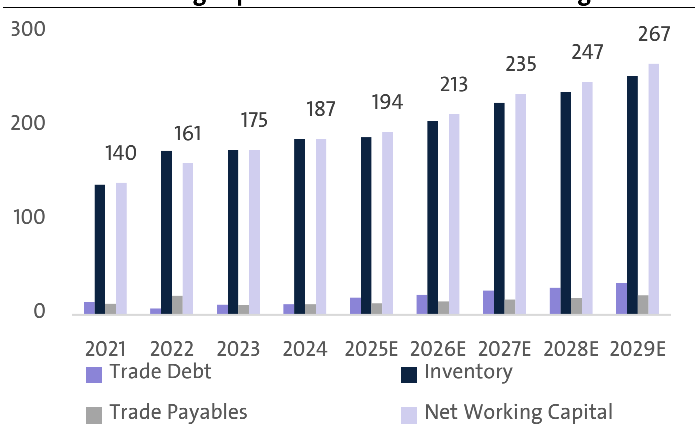
MHG: Inventory levels dominate working capital financing

MHG is primarily engaged in a trading business; hence, inventory levels have historically remained the single largest component of working capital financing. The operational requirement for maintaining a high level of inventory stems from the company's multi-brand (37 brands), significant number of SKU (+6000) and comprehensive geographical footprint.

We expect MHG's overall working capital requirements to remain stable and reflect the recent trends. However, the dynamics of working financing are likely to undergo a slight change in the next few years on the back of expected changes in sales mix and the company's entry into new segments. With the company's growing presence in non-retail segments, we anticipate trade debt to grow in future. For the non-retail segment, the management has clearly defined criteria for credit terms to be offered to institutional clients. Meanwhile, the management expects to be more efficient in holding stocks for such clients by relying on direct delivery of orders to clients' designated locations. All in all, we expect the addition to working capital financing to sustain and expect up to SAR0.25 addition in WC for every SAR1 increase in sales.

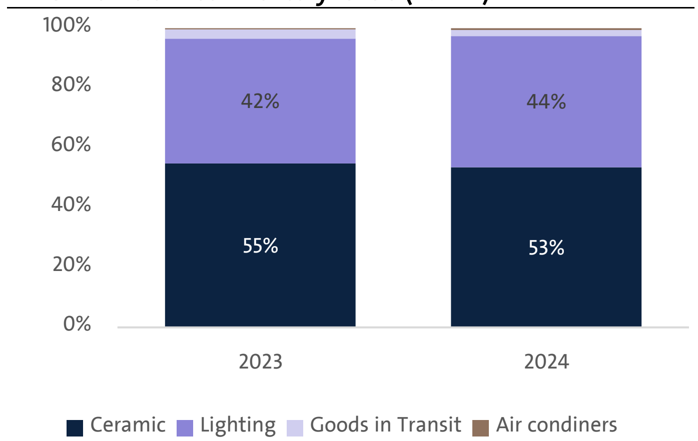
In terms of products, Wall & Floor Covering alongside Sanitary Ware account for 54% of total gross inventory, while Lighting contributes 44% of total gross inventory. Historically, MHG has made 2.5% of sales as provisioning for impairment of inventory in its account.

MHG-Net working capital will rise in line with sales growth



Source: Company Presentation, AC

MHG-Profile of net inventory levels (2024A)



Source: Company Accounts, AC

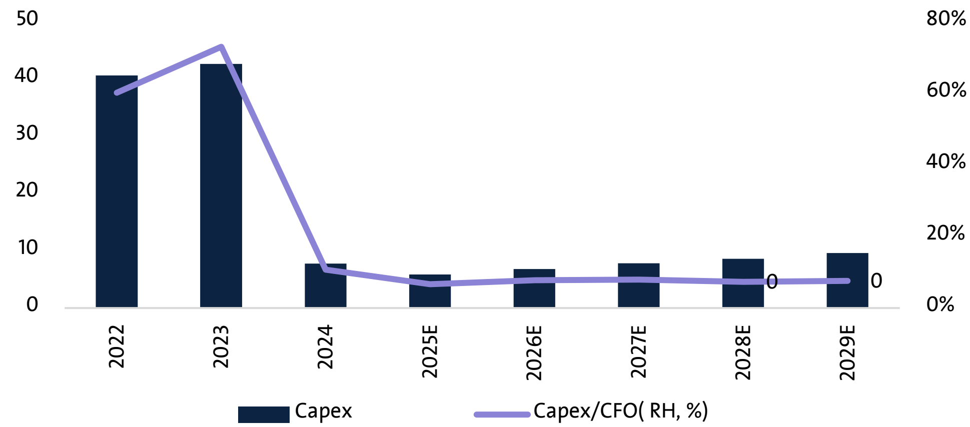
MHG operates a capex light but working capital heavy trading model

Capex- MHG operates a capex light model

MHG operates a capex-light but working capital-heavy trading model whereby the company primarily imports, assembles, packages, and distributes products to its customers. The capital expenditure primarily relates to the opening of showrooms, warehouses, putting in place means for product handling and transportation, or uplifting the existing showrooms. Looking ahead, we estimate MHG's future capex to remain in the range of 1.25-1.5% of sales based on following:

- The company plans to open at least four showrooms, which include one showroom for the new product lines. The average cost of opening an outlet is estimated at SAR10mn which we have considered for our estimates of capex for future years.
- Expected opening of workshop for the furniture segment.

MHG has clearly left CapEx-intensive period behind (SARmn)



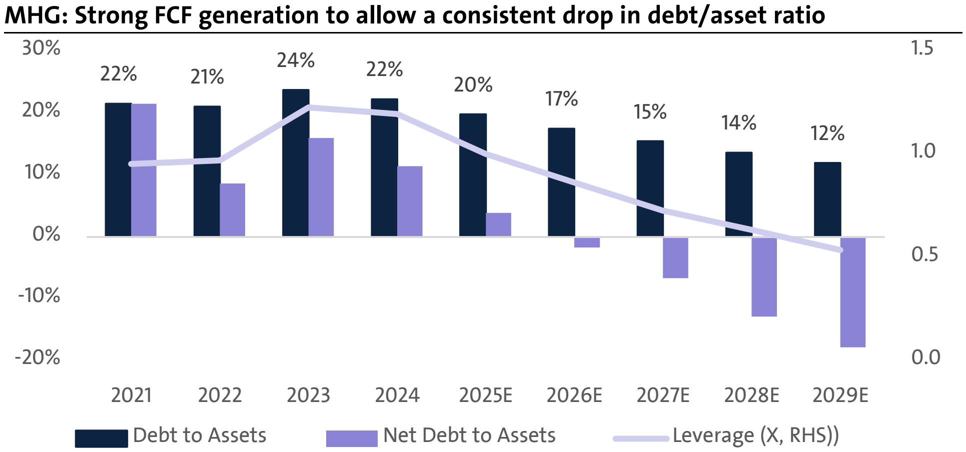
Source: MHG. AC estimates

MHG-Virtually debt free balance sheet

MHG maintains a modest debt to asset and leverage ratio of 22% and 1.2x respectively as of Dec-2024

MHG maintains a modest debt to asset and leverage ratio of 22% and 1.2x respectively, as of Dec-2024. In the past four years these ratios have been relatively stable despite MHG assuming more liabilities to open new showrooms. With the future growth in asset base and earnings and modest capex requirements, we believe MHG's debt to asset and leverage ratios are likely to trend down to 12% and 0.5% by 2029, respectively. It is pertinent to highlight long-term liabilities on MHG balance sheet largely pertain to leased liabilities for operational sites for office, warehouses, and showrooms. Excluding the impact of leased liabilities, MHG's balance sheet is virtually debt-free.

MHG: Strong FCF generation to allow a consistent drop in debt/asset ratio



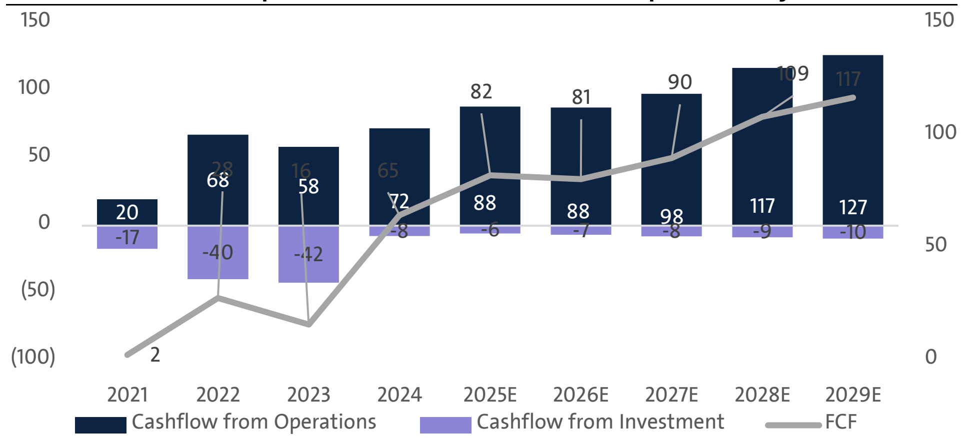
Source: Company Account, AC estimates

MHG-Strong FCF generation will likely sustain

We project MEG's free cash flow generation to step up to SAR112mn by 2029, up from SAR65mn in 2024

With limited CapEx requirements to support future revenue growth due to recent opening of showrooms, and no significant changes in working capital requirements, we project MHG's free cash flow generation to step up to SAR117mn by 2029, up from SAR65mn in 2024, or 5-year CAGR of 13%. Future FCF will be available for either repayment of the company's leased liabilities or dividend distribution to shareholders.

MHG: Free Cash Flow uptrend is set to sustain on lower capex intensity



Source: MHG, AC estimates

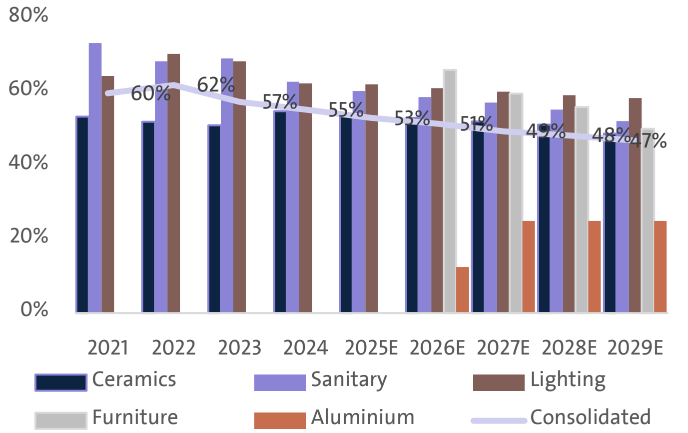
Margins Trends-Resilience in EBIT/EBITDA and net margins

MHG's gross margin is expected to remain healthy though the declining trend in margins is set to continue

MHG's gross margins are expected to remain healthy, though the declining trend in margins is set to continue as the company executes its growth strategy based on deepening in non-retail channels, introduction of new categories, and general competition in the ceramic segment. We expect MHG's consolidated margin to drop from 55% in 2024 to 47% by 2029. Our estimates build in a declining trend for both B2C and B2B sales in each category. That said, we hasten to highlight that we expect EBITDA, EBIT and net margins for the company to be relatively resilient for the following reasons:

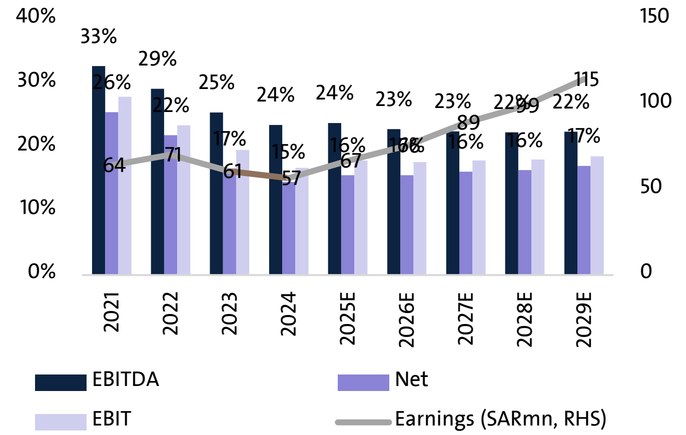
- Positive jaws between expected growth in gross profit vs selling & distribution expenses, primarily due to relative slowdown in opening of new showrooms and associated hiring and the focus on optimization of sales from the existing showrooms
- Significant drop in one-off costs relating to consultancy, and rebranding
- The impact of an increase in financing costs and taxes will likely be muted

MHG's gross margins are likely to trend down



*000 Sqm. Source: Company Presentation. AC Estimates

though EBITDA and net margins will likely remain resilient



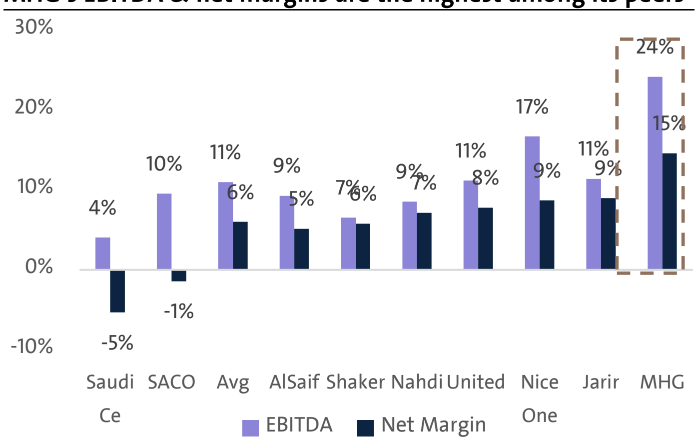
*000 Sqm. Source: Company Presentation. AC Estimates

One aspect that differentiates MHG vis a vis other retailer is the growing contribution of high-margin, company-owned brands in the company's sales

MHG-Highest EBIT & EBITDA margins among its listed peers

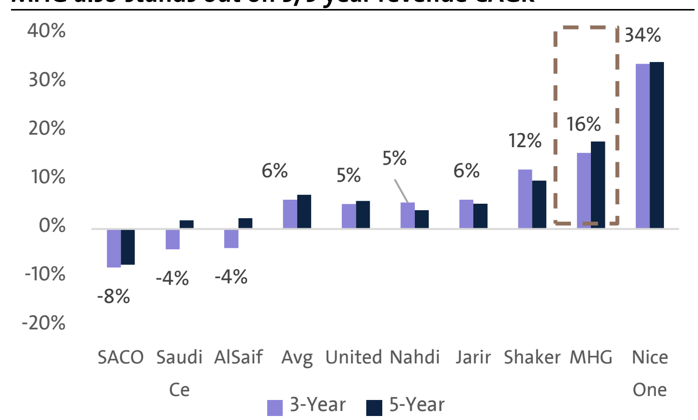
The difference in treatment of various costs involved between MHG (includes cost of products only) and its TASI-listed peers (include cost of products, overheads, and/or production) makes the comparison of MHG's gross margin with its listed peers less relevant, in our view. Comparison of EBIT and EBITDA margins, which account for the difference in treatment of cost, however, remains useful. Based on 2024 published accounts, MHG's EBITDA and net margins of 24% and 15%, respectively, are the highest among its peers.

MHG's EBITDA & net margins are the highest among its peers



Source: Bloomberg, Company Presentation

MHG also stands out on 3/5 year revenue CAGR*



Nice One: 3 7 4 years. Source: Bloomberg, Company Presentation

One key aspect that differentiates MHG on product offerings vis a vis other retailer is the growing contribution of high-margin, company-owned brands in the company's sales. This allows MHG to better execute its pricing strategy, be responsive to changing consumer demand and trends, and be flexible to seasonality or respond to general competition. MHG owns seven brands in the categories it operates. Sales from these company-owned brands contributed 73% to the total company's sales in 2024, up from

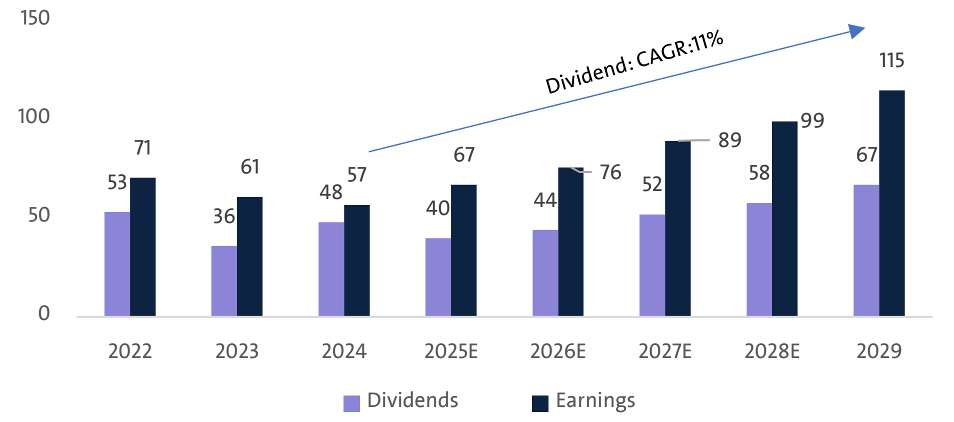
42% in 2021. As per management, margins on company-owned brands are 10-20% higher than margins on carried brands.

Dividend distribution

Based on the management guidance and the expected future growth in earnings, we expect MHG to deliver 11% CAGR in dividend by 2029

As per latest available management guidance, MHG targets to distribute 50-60% of earnings as cash payout in future. The management guidance and the expected future growth in earnings entail ~13% CAGR in dividend by 2029. The expected future growth in dividend will likely lift MHG's dividend yield from current 3% to 5% by 2029.

MHG: Dividends are likely to undergo 16% CAGR (SARmn)



Source: MHG, AC estimates

Appendix I: Highlights of Major Projects in KSA

PROJECT NAME	SECTOR	LOCATION	AREA (KM)	INVESTMENT (USDBN)	EXPECTED COMPLETION
NEOM	Modern living	Tabuk	26,500	500	2025 - 2039
New murabba	Urban district	Riyadh	19	100	2030
Roshn	Real Estate	Multi-city	138	90	2023 - 2030
The Jeddah Public Transport Program	Transportation	Jeddah	162	60	2035
Riyad air	Aviation	Riyadh	N/A	35	2030
Masar	Hospitality	Makkah	4	27	2035
King Salman Park	Urban district	Riyadh	16	23	2027-2030
King Salman international Airport	Logistics	Riyadh	57	23	2030
Diriya	Tourism, Culture	Riyadh	7	20	2024 - 2030
Jeddah Central	Real Estate, Urban district	Jeddah	6	20	2027-2030
Al'ula	Tourism, Culture	Madinah	22,000	15	2023 - 2035
Saudi Downtown	Real Estate, Urban district	Multi-city	10	10	2030
Qiddiya Project	Entertainment, Urban district	Riyadh	360	8.8	2025 - 2030
King Abdullah Financial District	Financial District	Riyadh	45	8	2017-2024
The Red Sea Project	Tourism	Jeddah	28,000	6.7	2030
Mohammed bin Salman non-profit city (misk)	Real Estate, Urban district	Riyadh	3	5	2030
Seven	Entertainment	Multi-city	N/A	5.0	2030

Source: AC, Various Websites

MHG-Key Financials

MHG Profit & Loss (SARmn)

	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Revenue	**330**	**375**	**411**	**443**	**502**	**571**	**624**	**695**
MHG	299	306	354	378	425	483	527	590
Ceramic	125	122	144*	146	151	156	160	171
Sanitary	31	47	64*	74	87	98	108	119
Lighting	143	148	146	151	166	181	197	224
Furniture	0	0	0	0	6	13	21	34
Aluminium	0	0	0	0	15	26	32	31
Build Station-UAE	20	38	45	51	58	64	70	76
China & Spain	0	0	2	5	9	15	16	18
Ice Bear	5	7	4	9	9	10	10	11
Net Revenue	**322**	**365**	**390**	**429**	**486**	**553**	**604**	**673**
Cost of Revenue	-123	-156	-175	-202	-236	-280	-313	-358
Gross Profit	**199**	**209**	**215**	**227**	**250**	**273**	**291**	**315**
S&M	-64	-58	-70	-72	-79	-84	-88	-91
G&A	-60	-75	-79	-78	-83	-88	-92	-97
Prov. for Exp. Credit	0	-5	-1	0	-1	-2	-2	-2
EBIT	**75**	**71**	**65**	**77**	**86**	**99**	**109**	**125**
EBITDA	**94**	**93**	**92**	**102**	**111**	**124**	**135**	**151**
Other Income	0	0	3	3	4	5	6	7
Financial Charges	-3	-4	-5	-5	-4	-4	-4	-4
PBT	**73**	**67**	**63**	**75**	**85**	**100**	**111**	**128**
Zakat	-2	-6	-6	-8	-9	-11	-12	-14
PAT	**71**	**61**	**57**	**67**	**76**	**89**	**99**	**115**
EPS	4.4	3.7	3.5	4.1	4.6	5.4	6.0	7.0
DPS	3.3	2.3	2.9	2.5	2.8	3.2	3.6	4.2

*Estimated. Source: Company Accounts, AC Estimates

MHG-Balance Sheet (SARmn)

	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Assets	**433**	**481**	**493**	**518**	**549**	**586**	**628**	**677**
Non-Current Assets	**173**	**225**	**211**	**198**	**187**	**178**	**170**	**163**
PPE	76	108	108	101	94	88	82	76
Others	90	113	102	97	92	89	88	87
Current Assets	**260**	**257**	**282**	**320**	**362**	**408**	**458**	**514**
Inventories (net)	174	175	187	189	206	225	236	254
Trade Rec. (net)	7	11	11	18	21	26	29	33
Cash & Cash Equiv	54	37	53	82	105	130	166	202
Equity & Liabilities	**433**	**481**	**493**	**518**	**549**	**586**	**628**	**677**
Equity	**273**	**294**	**314**	**341**	**373**	**410**	**452**	**500**
Share Capital	160	160	160	160	160	160	160	160
Retained Earnings	103	123	153	178	207	242	281	325
Liabilities	**160**	**187**	**179**	**176**	**175**	**176**	**176**	**178**
Non-Current	**93**	**117**	**114**	**110**	**106**	**103**	**100**	**98**
Long Term Loans	0	0	0	0	0	0	0	0
NCP of Lease Liab.	80	102	96	89	82	77	71	66
Emp. defined	13	15	18	21	24	27	29	32
Current Liabilities	**67**	**70**	**65**	**67**	**69**	**72**	**75**	**80**
CP of Lease Liab.	11	12	14	14	14	14	15	15
Accrued Exp. & other	4	4	6	6	6	6	6	6
Trade Payables	20	10	11	12	14	16	18	21

Source: Company Accounts, AC Estimates

MHG-Snapshot of Cash Flows (SARmn)

SARmn	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Cash Flows from Op'ting	**68**	**58**	**72**	**88**	**88**	**98**	**117**	**127**
Depreciation & Amort.	18	22	26	25	25	25	26	26
Working Capital Changes	(46)	(8)	(18)	(7)	(16)	(19)	(10)	(17)
Cash Flows from Investing	**(40)**	**(42)**	**(8)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**
Capex	(41)	(43)	(8)	(6)	(7)	(8)	(9)	(10)
Other	1	0	0	0	0	0	0	0
Cash Flows from Financing	**(13)**	**(33)**	**(49)**	**(54)**	**(58)**	**(66)**	**(72)**	**(82)**
Dividend	0	(16)	(48)	(40)	(44)	(52)	(58)	(67)
Leased Liabilities	(12)	(16)	(14)	(14)	(14)	(14)	(14)	(15)

Source: Company Accounts, AC Estimates

MHG-Key Ratios

Liquidity	Units	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Current Ratio	X	3.88	3.68	4.36	4.80	5.21	5.65	6.07	6.45
Quick Ratio	X	0.96	0.72	1.01	1.52	1.84	2.16	2.60	2.96
Cash Ratio	X	0.86	0.57	0.84	1.25	1.53	1.81	2.22	2.54
WC turnover	X	2.0	2.1	2.1	2.2	2.3	2.4	2.4	2.5
Turnover									
Total Asset	X	0.70	0.75	0.77	0.80	0.85	0.90	0.92	0.99
DIO*	Days	210	193	201	192	190	187	185	183
DSO	Days	8	11	10	15	16	17	17	18
DPO	Days	42	60	24	23	22	22	21	21
CCC	Days	**175**	**143**	**187**	**184**	**184**	**182**	**182**	**180**
Debt									
Debt to Equity		34%	39%	35%	30%	26%	23%	19%	17%
Debt to Assets	%	21%	24%	22%	20%	17%	15%	14%	12%
Debt Coverage	X	5	4	4	4	5	5	6	7
Leverage	X	1.0	1.2	1.2	1.0	0.9	0.7	0.6	0.5
Profitability									
GP Margin	%	62%	57%	55%	53%	51%	49%	48%	47%
Op'ting Margin	%	23%	20%	17%	18%	18%	18%	18%	19%
EBITDA Margin	%	29%	25%	24%	24%	23%	23%	22%	22%
NP Margin	%	22%	17%	15%	16%	16%	16%	16%	17%
Growth									
Revenues	%	32%	13%	10%	8%	13%	14%	9%	11%
Gross Profit	%	33%	5%	3%	5%	10%	9%	7%	8%
EBITDA	%	14%	-1%	-1%	11%	9%	12%	8%	12%
EBIT	%	7%	-5%	-8%	18%	12%	16%	10%	14%
Net Profit	%	10%	-14%	-7%	18%	13%	18%	11%	16%
ROE	%	25%	20%	17%	19%	20%	21%	21%	24%
ROA	%	16%	13%	12%	13%	13%	15%	15%	16%
Market									
Market Price	SAR/sh	85	85	85	85	85	85	85	85
PE	X	19.3	22.7	24.5	21.0	18.5	15.7	14.1	12.2
EV/EBITDA	X	14.9	15.1	15.3	13.7	12.6	11.3	10.4	9.3
Dividend Yield	%	3.9%	2.6%	3.4%	2.9%	3.2%	3.8%	4.3%	4.9%
Payout Ratio	%	75%	59%	84%	60%	60%	60%	60%	60%
P/B	X	5.0	4.6	4.3	4.0	3.7	3.4	3.1	2.8

Source: Company Accounts, AC Estimates

Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA, Abdulrahman Yusef Alnafia**, the author/s of this report, hereby certify that that: (i) views expressed in this report reflect the Research Analyst's personal views about all of the securities and (ii) no part of any of compensation of the author/s was, is, or will be directly or indirectly related to the specific recommendations or views expressed by in this report.

Price data for the listed securities is based on 20th July 2025.

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