

MEKDAM HOLDING GROUP Q.P.S.C

A company listed on Qatar Stock Exchange

Date: 09-04-2022



مجموعة مقدام القابضة ش.م.ع.ق.

شركة مدرجة في بورصة قطر

التاريخ: 2022-04-09

Mr. Nasser Abdullah Al-Abdulghani
Director of Market Operations and Control Dept.
Qatar Stock Exchange
Doha - Qatar

السيد ناصر عبدالله العبدلغني المحترم،،
مدير إدارة عمليات السوق والمراقبة
بورصة قطر
الدوحة - قطر

Subject: Confirmation of credit rating at gcBBB-

الموضوع: تثبت التصنيف الائتماني عند درجة-gcBBB-

Peace, God's mercy and blessings be upon you,

السلام عليكم ورحمة الله وبركاته،،

Mekdam Holding Group announces that S&P has confirmed the credit rating at gcBBB-.

تعلن مجموعة مقدام القابضة بأن ستاندر آند بور قد أعلنت عن تثبيت التصنيف الائتماني عند درجة تقييم -gcBBB.

Sincerely yours,

Ehab Naser
Chief Executive Officer



وتفضلوا بقبول فائق الاحترام،،

ايهاب نصر
الرئيس التنفيذي

MEKDAM
HOLDING GROUP Q.P.S.C

Mekdam Holding Group

April 7, 2022

Credit Highlights

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Overview

Key strengths

High-profile customer base, including Qatari government-related entities (GREs), and access to international service providers.

Flexible cost structure, with direct costs of about 80% of total sales, and a backlog of more than 2.5x 2021 revenue on Jan. 1, 2022, providing good earnings visibility.

Minimal capital expenditure (capex) requirements, which supports strong credit metrics, with S&P Global Ratings-adjusted debt to EBITDA that we expect to remain below 2.0x over the next 12-24 months.

Key risks

Limited scale compared to rated peers, with revenue of Qatari riyal (QAR) 284 million and EBITDA of QAR32.7 million in 2021.

Exposure to a highly competitive and fragmented market environment, which could weaken future profitability.

Geographical concentration in Qatar, where the company generates 100% of its revenue.

Recurring working capital swings, given the predominance of government-related and quasi government entities in the client base.

Sizable dividends, with a pay-out ratio of 50%-60% of net income.

S&P Global Ratings expects Mekdam Holding Group (Mekdam)'s longer backlog to be balanced by lower profitability as the competitive landscape intensifies. Mekdam's strong backlog will continue to support its earnings visibility, at more than 2.5x 2021 revenue on Jan. 1, 2022. We have adjusted our base case to reflect the increasingly competitive landscape, particularly for Mekdam Technology (71% of 2021 revenue). To maintain market share in an increasingly competitive landscape, the company has lowered its prices. This resulted in lower profitability for the technology segment in 2021, with an EBITDA margin of about 5%, compared with 12% in 2020. We anticipate that the company's access to international service providers, coupled with its track record of working with Qatari GREs such as Qatar Energy (AA-/Stable/--), will preserve market share but dilute profitability. As a result, we now anticipate

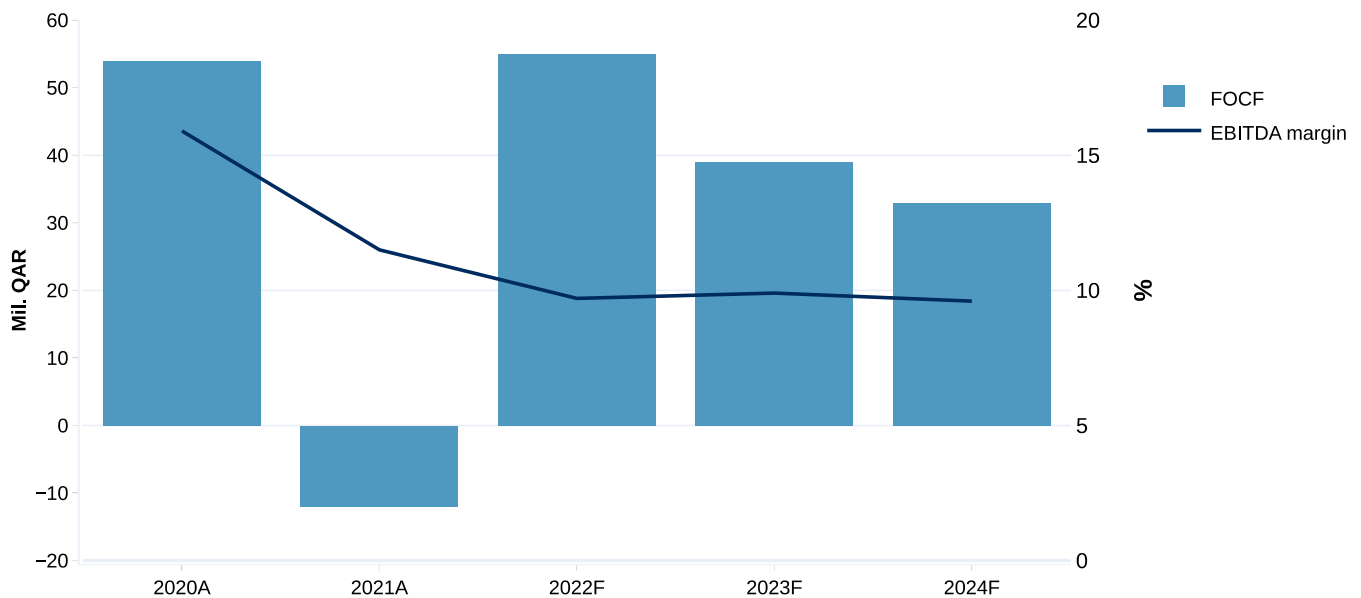
Mekdam Holding Group

that Mekdam's EBITDA margins will average about 10% on an S&P Global Ratings-adjusted basis in 2022-2024, compared with 11.5% in 2021 and 15.9% in 2020.

Minimal capex, despite a sizable dividend pay-out, should support the credit metrics. Under our revised base case, we exclude the QAR60 million–QAR65 million planned investment for the construction of the Lusail tower in Qatar, since we understand that this is now on hold. As a result, and despite a sizable dividend pay-out ratio of 50%-60% of the previous year's net income, we expect the company to continue to benefit from strong credit metrics. In particular, we anticipate that Mekdam's adjusted leverage will remain below 2.0x in 2022-2024.

The rating is constrained by what we see as Mekdam's limited scale and diversification. Our assessment is balanced by the highly fragmented industries in which Mekdam operates, its 100% concentration on the Qatari market, and limited scale (about \$80 million revenue in 2021) compared with peers such as Manpower (\$21 billion; BBB/Stable/--), Securitas AB (\$12 billion; BBB/Watch Neg/A-2); and Sprie (\$20 billion; BB/Negative/--), which are also more geographically diversified. Although the customer base is granular, with no customer representing more than 10% of consolidated revenue, we note a predominance of government-related and quasi government entities, which, in our view, could put pressure on working capital management. As a result, we believe that a material improvement in scale and profitability, alongside a track record of operating efficiency and minimal working capital swings, could be beneficial for the rating.

Profitability Versus Free Cash Flow Generation



QAR--Qatari riyal. FOCF--Free operating cash flow. Source: S&P Global Ratings

Our Base-Case Scenario

Assumptions

- Real domestic GDP growth in Qatar of about 1.5%-2.0% in 2022 and 2023.
- Consumer price index inflation in Qatar of 2.0%-2.5% in 2022 and 2023.
- An increase in revenue of 35%-40% in 2022, driven in particular by Mekdam Technology's backlog and continued contract awards in line with a focus on increasing the number of contracts. We expect revenue to normalize and increase about 0.5%-1.0% in 2023, in line with macroeconomic trends in Qatar.
- A decline in adjusted EBITDA margins to about 10.0% in 2022-2024, compared to 11.5% in 2021 and 15.9% in 2020. We now expect the increasingly competitive environment to result in a change in strategy, particularly at Mekdam Technology, to balance lower prices with potential new and existing contracts.
- Minimal capex of QAR1 million-QAR2 million per year, less than 1% of consolidated revenue, and in line with historical trends. We exclude investment costs of about QAR60 million-QAR65 million for construction of the company's head office in Lusail, since we understand the project has been put on hold for now.
- A working capital inflow of QAR15 million-QAR20 million in 2022, in line with increasing revenue, before starting to decrease in 2023.
- Dividends of QAR17 million-QAR22 million in the coming two years, translating into a pay-out ratio of 50%-60% of the previous year's net income.
- No planned acquisitions.

Key metrics

Mekdam --Key Metrics*

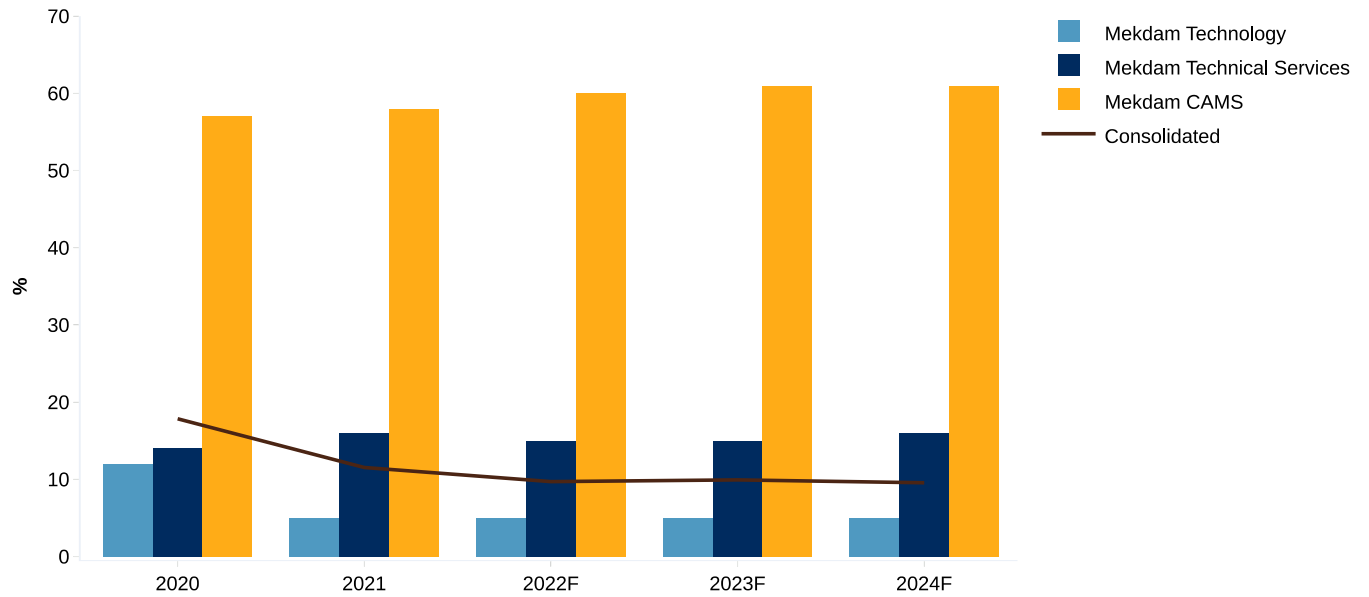
Mil. \$	2020a	2021a	2022e	2023f
Revenue growth (%)	(17.6)	68.5	35-40	0-1
EBITDA	26.8	32.7	35-40	35-40
EBITDA margin (%)	15.9	11.5	9-10	9-10
Debt to EBITDA (x)	0.9	1.4	0.5-1	0.5-1
DCF to debt (%)	60.8	Negative	>100	90-100

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Our base case points to strong credit metrics despite declining profitability. Despite lowering our profitability expectation to an EBITDA margin of about 10% on an adjusted basis, we continue to expect adjusted leverage below 2.0x. This is mainly thanks to minimal capex requirements now that the construction of the head office tower is on hold.

Profitability By Segment

S&P Global Ratings-adjusted EBITDA margin



Source: S&P Global Ratings.

Company Description

Mekdam is a Qatari-based limited liability company established in 2017. The company operates mainly through three wholly owned subsidiaries:

- Mekdam Technology (71% of 2021 revenue; 31% of 2021 reported EBITDA), which is a one-stop integrator of more than 65 different systems spanning information communication technology, audio-visual, safety and security, services and maintenance, engineering, and mobile telephony products.
- Mekdam Technical Services (23% of 2021 revenue; 35% of 2021 reported EBITDA), which provides manpower outsourcing and recruitment services, with expertise across various sectors including oil and gas, IT, and health care.
- Mekdam CAMS (6% of 2021 revenue; 33% of 2021 reported EBITDA), which offers a centralized alarm-monitoring system across Qatar, with more than 4,000 active connections. It has something of an exclusivity, with connectivity to the national command center (NCC) grid, including 100% coverage of malls, exchanges, schools, petrol stations, hotels, and The Pearl City. We understand this is tailor-made software in collaboration with the Ministry of Interior, Civil Defense, and the NCC.

In 2021, Mekdam generated QAR284.3 million of revenue and QAR32.7 million of EBITDA on an adjusted basis.

Peer Comparison

Mekdam has a good track record with Qatari GREs and access to international suppliers, which could increase its attractiveness in the Qatari market. However, we see the market as highly fragmented, with increasing competition. Given its 100% concentration in Qatar and revenue of less than \$100 million, Mekdam is smaller in scale and diversification than its rated peers.

Mekdam Holding Group--Peer Comparisons

	Mekdam Holding Group	Spie SA	ManpowerGroup Inc.	Securitas AB
Foreign currency issuer credit rating	--	BB/Stable/--	BBB/Stable/--	BBB/Watch Neg/A-2
Local currency issuer credit rating	--	BB/Stable/--	BBB/Stable/--	BBB/Watch Neg/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2020-12-31
Thsnd.	QAR	QAR	QAR	QAR
Revenue	284,265	28,958,328	75,445,624	47,853,741
EBITDA	32,744	2,414,812	3,049,220	3,030,699
Funds from operations (FFO)	32,305	1,925,038	3,010,877	2,387,501
Interest	439	291,037	38,343	245,577
Cash interest paid	439	241,237	38,343	261,091
Operating cash flow (OCF)	(10,090)	1,843,759	2,821,575	3,578,148
Capital expenditure	1,782	277,022	233,715	778,398
Free operating cash flow (FOCF)	(11,872)	1,566,736	2,587,859	2,799,750
Discretionary cash flow (DCF)	(11,872)	1,185,410	1,326,088	2,023,125
Cash and short-term investments	5,943	5,135,479	3,086,352	2,092,277
Gross available cash	5,943	5,135,479	3,086,352	2,047,949
Debt	47,252	8,589,616	3,345,606	6,812,312
Equity	88,379	6,966,945	9,216,464	7,849,141
EBITDA margin (%)	11.5	8.3	4.0	6.3
Return on capital (%)	28.5	8.6	18.7	10.8
EBITDA interest coverage (x)	74.6	8.3	79.5	12.3
FFO cash interest coverage (x)	74.6	9.0	79.5	10.1
Debt/EBITDA (x)	1.4	3.6	1.1	2.2
FFO/debt (%)	68.4	22.4	90.0	35.0
OCF/debt (%)	(21.4)	21.5	84.3	52.5
FOCF/debt (%)	(25.1)	18.2	77.4	41.1
DCF/debt (%)	(25.1)	13.8	39.6	29.7

Business Risk

Our assessment of Mekdam's business risk profile reflects the company's participation in competitive and highly fragmented industries; its limited geographical diversification, with 100% concentration on the Qatari market; and its limited scale, with about \$80

Mekdam Holding Group

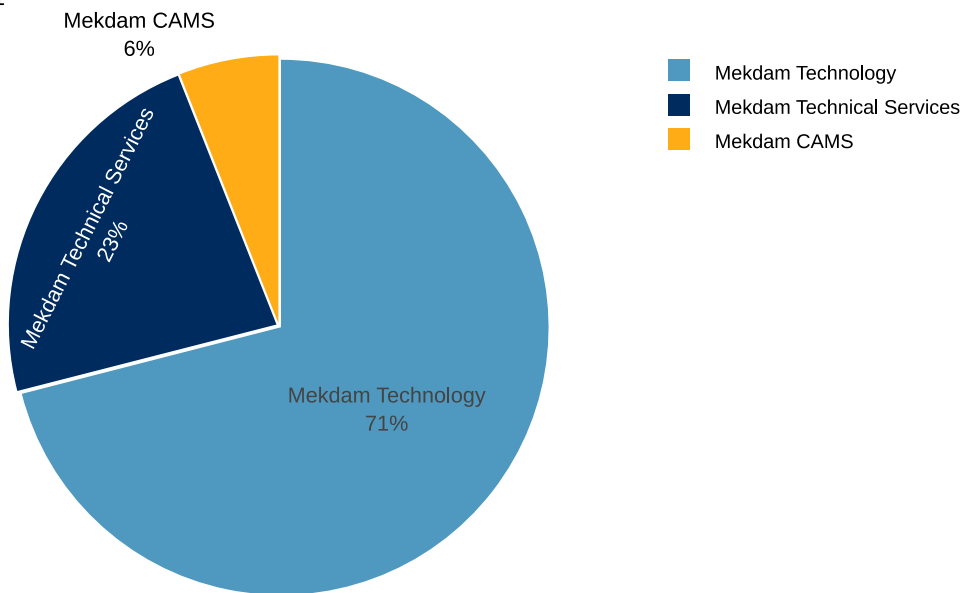
million in revenue in 2021. Additionally, despite its granular customer base, with no customer representing more than 10% of consolidated revenue, we believe that Mekdam relies significantly on contributions from government-related and quasi government entities, especially in the Technology and Technical Services divisions, which, in our view, could put pressure on working capital management.

However, we view positively Mekdam's leading market position in Qatar through its Technology, Technical Services, and CAMS divisions. Mekdam also has strong partnerships with international system providers such as Cisco and a good track record with Qatari GREs as recurring customers, for example, Qatar Energy.

Furthermore, with a revenue backlog averaging QAR700 million as of January 2022, we see good earnings visibility and growth prospects. Mekdam has been introducing new services and exploring opportunities to expand its customer base in new sectors. We also take into account Mekdam's highly flexible cost structure, with direct costs representing about 80% of total sales, although this does not translate into above-average profitability due to the pricing pressure in the market. Therefore, we expect that Mekdam's profitability will range between 9% and 10% over the next 12 months-18 months, compared to 11.5% in 2021.

Revenues By Segment

2021



Source: S&P Global Ratings.

Financial Risk

Our financial risk assessment for Mekdam reflects our expectation that the company will maintain its strong leverage metrics, with average debt to EBITDA below 1x in 2022-2024 on an adjusted basis. The company has minimal capex requirements of QAR1 million-QAR2 million annually, translating into less than 1% of total sales. Additionally, Mekdam has put on hold its new head-office building project for the coming five years, which significantly reduces the pressure we expect on free operating cash flow generation. However, we still believe that Mekdam's high pay-out ratio of 50%-60% of the previous year's net income could weigh on discretionary cash flow.

Debt maturities

As of Dec. 31, 2021:

- 2022: QAR25.1 million
- 2023: QAR 3.6 million
- 2024: QAR 1.5 million
- Thereafter: Nil

Financial summary

Period ending	Dec-31-2020	Dec-31-2021
Reporting period	2020a	2021a
Display currency (mil.)	QAR	QAR
Revenues	169	284
EBITDA	27	33
Funds from operations (FFO)	26	32
Interest expense	1	0
Cash interest paid	1	0
Operating cash flow (OCF)	57	(10)
Capital expenditure	3	2
Free operating cash flow (FOCF)	54	(12)
Discretionary cash flow (DCF)	15	(12)
Cash and short-term investments	10	6
Gross available cash	15	6
Debt	25	47
Common equity	60	88
Adjusted ratios		
EBITDA margin (%)	15.9	11.5
Return on capital (%)	25.9	28.5
EBITDA interest coverage (x)	22.6	74.6
FFO cash interest coverage (x)	22.6	74.6
Debt/EBITDA (x)	0.9	1.4
FFO/debt (%)	104.5	68.4
OCF/debt (%)	233.1	(21.4)
FOCF/debt (%)	222.0	(25.1)

Mekdam Holding Group

DCF/debt (%) 60.8 (25.1)

Reconciliation Of Mekdam Holding Group Reported Amounts With S&P Global Adjusted Amounts (Thsnds. QAR)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	30,183	88,379	284,265	32,744	31,371	439	32,744	(10,090)	0	1,782
Lease liabilities	2,994	-	-	-	-	-	-	-	-	-
Incremental lease liabilities	1,300	-	-	0	0	0	0	0	-	-
Postretirement benefit obligations/deferred compensation	3,526	-	-	0	0	0	-	-	-	-
Debt: other	9,249	-	-	-	-	-	-	-	-	-
Total adjustments	17,070	0	0	0	0	0	(439)	0	0	0
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	47,252	88,379	284,265	32,744	31,371	439	32,305	(10,090)	0	1,782

Liquidity

We assess Mekdam's liquidity as adequate, with sources covering uses by more than 1.2x in the 12 months from Jan. 1, 2022. The liquidity assessment is supported by Mekdam's strong relationship with Qatari banks, low leverage, and prudent working capital management.

Principal liquidity sources

- Nonrestricted cash and cash equivalents of about QAR5.9 million.
- Cash funds from operations of about QAR35 million-QAR40 million
- A working capital release of QAR15 million-QAR20 million.

Principal liquidity uses

- Our estimate of maintenance capex of about QAR1 million-QAR2 million.
- Annual dividends of QAR18 million.
- Debt maturities of about QAR25.1 million.

Covenant Analysis

Compliance expectations

As of Dec. 31, 2021, Mekdam was compliant with the two covenants below. We forecast adequate headroom in our base case.

Requirements

The company has two bank covenants--one stipulating a minimum liquidity ratio of 1.0x and the other stipulating a maximum ratio of debt to equity of 3 to 1.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- N/A					- N/A					- Governance structure				

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021. N/A--Not applicable.

Our credit rating analysis of Mekdam is constrained by governance factors, in particular our assessment of the board's effectiveness when compared with global peers. This is due to the relatively small scale of the business and the composition of some of the committees, such as the investment committee. Two of three committee members are nonindependent, although we understand that it is not a mandatory governance requirement to have independent board members. We expect governance and transparency to improve thanks to the company's listing on the Venture Market of the Qatar Stock Exchange in July 2021.

Rating Component Scores

Rating Component Scores

GCC Regional Scale Rating	gcBBB-
Business risk	Vulnerable
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Vulnerable
Financial risk	Modest
Cash flow/leverage	Modest
Modifiers	
Diversification/portfolio effect	Neutral
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Fair
Comparable rating analysis	Neutral

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of April 07, 2022)*

Mekdam Holding Group

Issuer Credit Rating

Gulf Cooperation Council Regional Scale

gcBBB-/--/--

Issuer Credit Ratings History

07-Mar-2021

Gulf Cooperation Council Regional Scale

gcBBB-/--/--

Ratings Detail (as of April 07, 2022)*

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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