MBC Group Co.

MBC Shows the First Listing on the Saudi Market in 2024

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Equities | Tadawul | Media Sector

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The Story

MBC gets ready to show action in the Saudi market

At the beginning of 2024, MBC Group would begin trading on the Saudi Exchange (Tadawul) on 8 January 2024, after a successful initial public offering (IPO) by the end of 2023, with a value of SAR25.0/share, driven by a huge conglomerate business model working with +30 expertise in the media and entertainment industries across MENA, competing with the biggest players thanks to a strong media presence, diversified product mix, and famous brands for diversified households across MENA.

The Story Background: MBC Group Co. (4072), one of the leading media and entertainment companies in the MENA region, seeks for listing on the main market of the Saudi Exchange (Tadawul) after an initial public offering (IPO).

IPO Prospectus: Initial public offering of 33.2mn ordinary shares through the MBC's capital increase from SAR2.9mn to SAR3.3mn. The IPO offer price was the highest value in the IPO valuation range of SAR23.0/share and SAR25.0/share, with a fully paid nominal value of SAR10.0/share. The offer shares will represent 10.0% of MBC's share capital (following the issuance of the offer shares).

IPO Results: The offer price was SAR25.0/share, meaning MBC will have a market cap of SAR8.3bn at listing. Subscription coverage is as follows:

(A) Participating Parties Tranche: a subscription coverage of 66.0x for 33.2mn shares, representing 100% of the total offering shares.

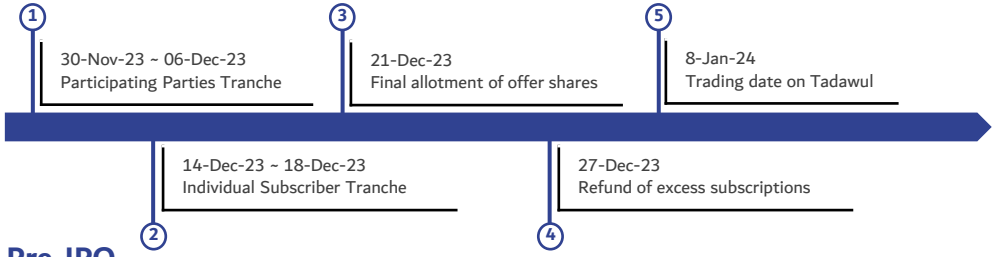
(B) Individual Subscriber Tranche: a subscription coverage of 17.6x for a maximum of 3.3mn shares, representing 10% of the total offering shares.

Use of IPO Proceeds: MBC intends to use the offering proceeds (after deduction of the offering expenses) in addition to other financing sources, including cash flows from its operating activities and bank financing, to finance the following activities:

1. Repayment of outstanding indebtedness, ranging between 25%-35% of IPO proceeds, within 12 months.
2. Enhance liquidity headroom to finance the working capital requirements of the business, ranging between 15%-25% of IPO proceeds, within 36 months.
3. Shahid content expenditure, ranging between 25%-35% of IPO proceeds, within 36 months.
4. Investment in new initiatives, ranging between 15%-25% of IPO proceeds, within 36 months.

Valuation: We have valued MBC Group using five methods, including DCF, EV/EBITDA, EV/EBIT, P/E and P/B methods. Therefore, we reached an average fair value of SAR36..3/share, implying a potential upside of 45.2% versus the highest offering price of SAR25.0/share.

IPO Timeline



Pre-IPO

Shareholders	Shares	BV (SAR)	Capital (SAR mn)	Ownership (%)
Istedamah Holding Company	179.6	10.0	0.0	60.0%
Mr.Waleed Al Ibrahim	119.7	10.0	0.0	40.0%
Free Float	-	-	-	-
Total	**299.3**	**-**	**0.0**	**100.0%**

Post-IPO

Shareholders	Shares	BV (SAR)	Capital (SAR mn)	Ownership (%)
Istedamah Holding Company	179.6	10.0	0.0	54.0%
Mr.Waleed Al Ibrahim	119.7	10.0	0.0	36.0%
Free Float	33.3	23.0 -25.0	332.5	10.0%
Total	**332.5**	**-**	**332.5**	**100.0%**

Key Performance Indicators & Multiples

Item	FY20a	FY21a	FY22a
Revenue (SAR mn)	2,318	2,845	3,489
Gross Profit (SAR mn)	502	755	675
Net Income (SAR mn)	(95)	737	35
GP Margin (%)	21.7%	26.5%	19.3%
Net Margin (%)	-4.1%	25.9%	1.0%
Net Debt (Cash)	(239)	(547)	(79)

Source: MBC Prospectus

The Business Model

Dramatic Business Journey

Business in Brief: MBC Group (formerly known as the Middle East Broadcasting Center) is a Saudi media conglomerate working in the media and entertainment industries, with content reaching over 150 million people each week in the Middle East and North Africa region.

Key Business Lines: The Group's main business segments include: (1) the TV broadcasting segment with 13 free-to-air (FTA) TV channels; (2) the over-the-top (OTT) segment video streaming platform in the MENA region; (3) the studios segment, which includes drama series and movie production; and (4) other media-related ventures.

Business History: MBC Group has a rich history of growth and expansion in a dramatic journey between many headquarters, as follows:

- 1991: Mr. Waleed Al-Ibrahim founded MBC in London to be the first privately owned Arabic-language television service offering programs to viewers in the Middle East, MBC1.
- 1994: MBC Radio was launched as the first private radio station in the KSA.
- 2001: MBC relocated the headquarters from London to Dubai Media City, UAE.
- 2002: It began its evolution as a multi-channel network when MBC2 was launched.
- 2009: Launching Shahid as the first OTT on-demand video streaming platform as a free advertising-based service.
- 2012: MBC expanded its Egyptian operation by launching a dedicated TV channel, MBC MASR.
- 2022: MBC moved to Riyadh, KSA.
- 2023: Under the restructuring process, ownership of all group companies was transferred from MBC Group Holdings (BVI) to MBC Group, leading to the company's direct and indirect ownership of all 35 subsidiaries of the group.

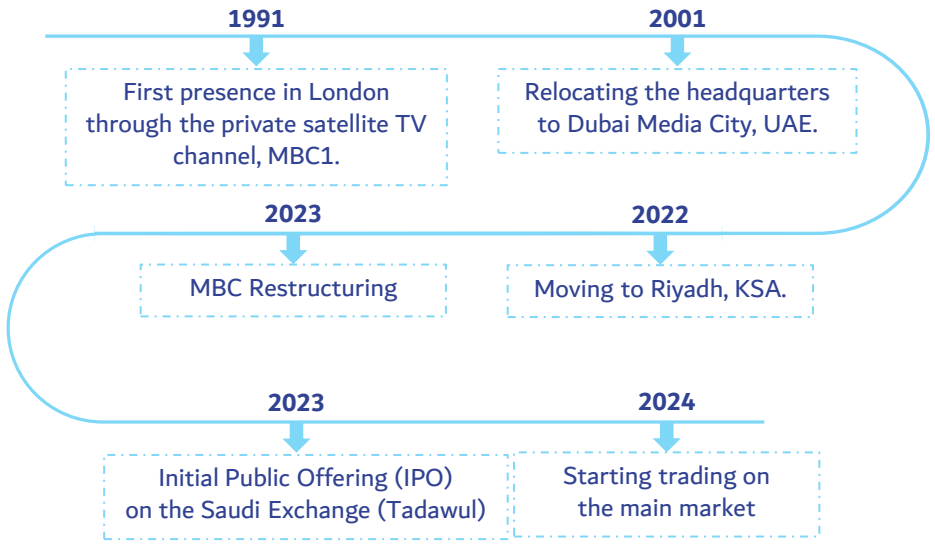
Business Strategy: MBC follows a strategy based on key strategic initiatives:

- Maintain the leading position in advertising on TV and radio and leverage its leading OTT platform to capture advertising that is being shifted to digital platforms.
- Grow the OTT subscription revenue and leverage economies of scale to significantly improve the SVOD's adjusted EBITDA margins.
- Invest in content production and acquisition to continue its leadership role as a broadcasting and media company in the MENA region.
- Diversify the business model by expanding its events management and gaming activities.

MBC Rebranding:



MBC Historical Footprints:



Business Model

Wide Product Mix

MBC TV CHANNELS

MBC RADIO

SHAHID

DREAM

FLASHWIN

MBC STUDIOS

MBC ACADEMY

MBC TALENT

PLATINUM

WIZZO

MMS

Source: Company disclosures.

Business Model

Director of the Media Competitor Landscape in MENA

Competitor landscape	mbc GROUP	osn	beIN MEDIA GROUP	إعلام المصريين Egyptian Media
Media segment presence	FTA Free-To-Air TV Broadcasting	FTA Free-To-Air TV Broadcasting	FTA Free-To-Air TV Broadcasting	FTA Free-To-Air TV Broadcasting
	OTT Over-The-Top Video Streaming Platform	OTT Over-The-Top Video Streaming Platform	OTT Over-The-Top Video Streaming Platform	OTT Over-The-Top Video Streaming Platform
	Radio	--	--	Radio
	Music	--	--	--
Key genre categories	Widely known in MENA for its FTA channels in general entertainment, ranging from movies to series including a dedicated channel for kids, and for news	Home grown regional player known for holding licensing agreements with international networks, providing premium general entertainment content	Highly focused and known in MENA as the premium paid TV provider for exclusive sports content including a variety of general entertainment channels	Egyptian based FTA player predominantly known for broadcasting general entertainment content including dedicated news and sports channels
Potential household reach	~95% of MENA	~70% of MENA	~70% of MENA	~60% of MENA

Source: Company disclosures.

Catalysts & Risks

SWOT Analysis



- Solid business model by combining the cash generative FTA TV and the high growth OTT streaming businesses
- Operation for over 30 years as a leading regional broadcasting company in the MENA region.
- Shahid is the leading subscription-based OTT streaming platform in the MENA region, with a strong growth trajectory and increasing revenue generation.

- Ability to generate advertising revenue due to the ongoing shift towards digital media advertising.
- Disability to grow the Shahid SVOD streaming platform to increase the level of subscribers that are necessary for Shahid's sustained profitability.
- Concentration of advertising revenues on certain clients due to recurring industry cycles.

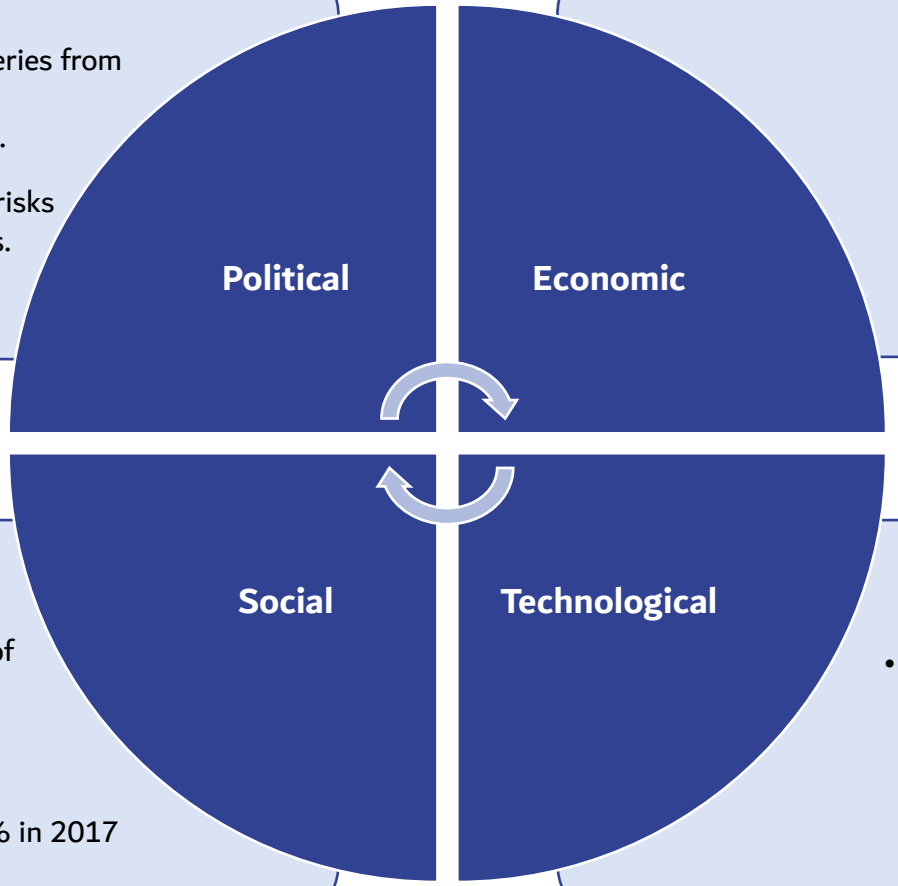
- The group's primary operations are concentrated in the MENA region, which is experiencing strong growth, primarily involving a significant number of young people.

- Reliance on the expansion project agreements with the KSA government, represented by Istedamah Holding Company.
- Competition with violating copyright platforms, such as EgyBest.

Catalysts & Risks (Cont'd)

PEST Analysis

- Obtaining broadcast licenses for movies and series from originator, so any contracts termination or loss of legal rights would have a critical effects.
- Low success rate in filing lawsuits against the risks of piracy and illegal online streaming platforms.



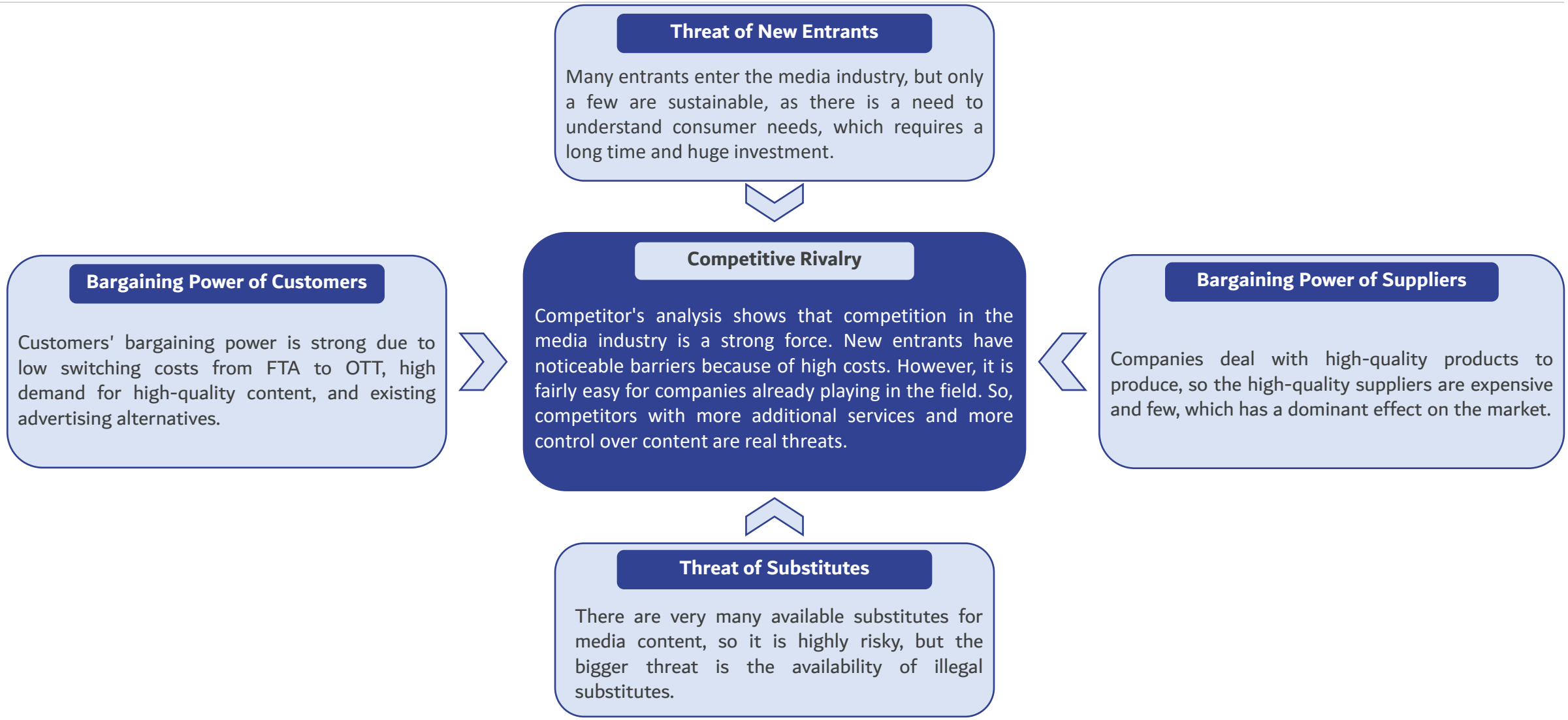
- The GDP per capita in the MENA region is expected to grow at a compound annual growth rate of 7.5% during 2022 and 2027; accordingly, purchasing power is expected to increase at a compound annual growth rate of 4.7% during 2022 and 2027. With this increased purchasing power, potential customers will be able to allocate a greater stake of their income to broadcasting services, in addition to making the region more attractive for marketing companies to spend on advertising.

- KSA's market growth is primarily driven by: (1) a relaxed adherence to cultural traditions; and (2) a younger population's increased use of music streaming services.
- Promoting cultural and entertainment events as the Saudi government looks to increase household spending in the Kingdom from 1.7% in 2017 to 6.0% by 2030.

- The population is characterized by a young, tech-savvy population with an average age of 28 years, making it more likely to use digital and innovative products.

Catalysts & Risks (Cont'd)

Porter's Five Forces Analysis



Financial Analysis

Recent Financial Results Commentary

Profitability:

MBC posted a net profit after minority of SAR51.7mn in 1H23a versus a net loss after minority of SAR516.5mn in 1H22a, reflecting a net profit margin of 2.7% in 1H23a, due to a %78.5 y/y decrease in gross profit of SAR463.3mn, reflecting a GPM of 24.5%, compared to 15.9% in 1H23a, mainly attributed to a %16.0 y/y increase in revenues, recording SAR1.9bn in 1H23a compared to SAR1.6bn in 1H22a.

Revenues Breakdown by Segments:

1. **Free-To-Air (FTA) TV broadcast segment** revenues decreased by 2.7% y/y, recording SAR1.4bn in 1H23a, contributing %60.6 of total revenues in 1H23a.
2. **Over-The-Top (OTT) video platform segment** revenues increased by %64.8 y/y, recording SAR511.0mn in 1H23a, contributing %27.0 of total revenues in 1H22a.
3. **Studios segment** revenues increased by %214.3 y/y, recording SAR264.0mn in 1H23a, contributing %14.0 of total revenues in 1H22a.
4. **Others segment** revenues decreased by %15.9 y/y, recording SAR212.0mn in 1H23a, contributing %11.2 of total revenues in 1H22a.

Revenues Breakdown by Clients:

1. **Contracts with customers** revenues increased by %12.5 y/y, recording SAR1.3bn in 1H23a, contributing %71.7 of total revenues in 1H23a.
2. **Other operation** revenues increased by %26.1 y/y, recording SAR534.4mn in 1H23a, contributing %28.3 of total revenues in 1H22a.

Income Statement

SAR mn	1H23a	1H22a	y/y
Revenues	1,890.0	1,629.4	%16.0
Cost of revenues	(1,426.7)	(1,369.8)	%4.2
Gross profits / (losses)	463.3	259.6	%78.5
GP Margin (%)	24.5%	15.9%	858 bps
General and administrative expenses (G&A)	(434.1)	(370.6)	%17.2
Earnings before interest, tax, depreciation and amortization (EBITDA)	29.2	(110.9)	--
EBITDA Margin (%)	1.5%	-6.8%	835 bps
Depreciation on property and equipment	(19.5)	(23.6)	(%17.2)
Depreciation on right-of-use assets	(7.9)	(9.8)	(%19.6)
Amortisation of intangible assets	(5.1)	(3.6)	%41.6
Earnings before interest and taxes (EBIT)	(3.3)	(147.9)	(%97.8)
EBIT Margin (%)	-0.2%	-9.1%	890 bps
Other income	49.2	70.8	(%30.6)
Net finance income / (cost)	(4.5)	2.6	--
Earnings before tax (EBT)	59.0	(12.5)	--
EBT Margin (%)	3.1%	-0.8%	389 bps
Income tax and zakat	(7.3)	(3.9)	%85.6
Net profits / (losses) before minority	51.7	(16.5)	--
Net profits / (losses) after minority	**51.7**	**(16.5)**	**--**
NP Margin (%)	**2.7%**	**-1.0%**	**--**

Revenues Breakdown by Segments

SAR mn	1H23a	(%)	1H22a	(%)	y/y
Free-To-Air (FTA) TV broadcast segment	1,145.0	%60.6	1,177.0	%72.2	(%2.7)
Over-The-Top (OTT) video platform segment	511.0	%27.0	310.0	%19.0	%64.8
Studios segment	264.0	%14.0	84.0	%5.2	%214.3
Others segment	212.0	%11.2	252.0	%15.5	(%15.9)
Eliminations	(242.0)	%12.8	(193.0)	%11.8	%25.4
Total revenues	**1,890.0**	**%100.0**	**1,629.4**	**%100.0**	**%16.0**

Revenues Breakdown by Clients

SAR mn	1H23a	(%)	1H22a	(%)	y/y
Contracts with customers	1,355.6	%71.7	1,205.5	%74.0	%12.5
Other operation	534.4	%28.3	423.9	%26.0	%26.1
Total revenues	**1,890.0**	**%100.0**	**1,629.4**	**%100.0**	**%16.0**

Source: Financial Statements

Financial Analysis (Cont'd)

Financial Statements

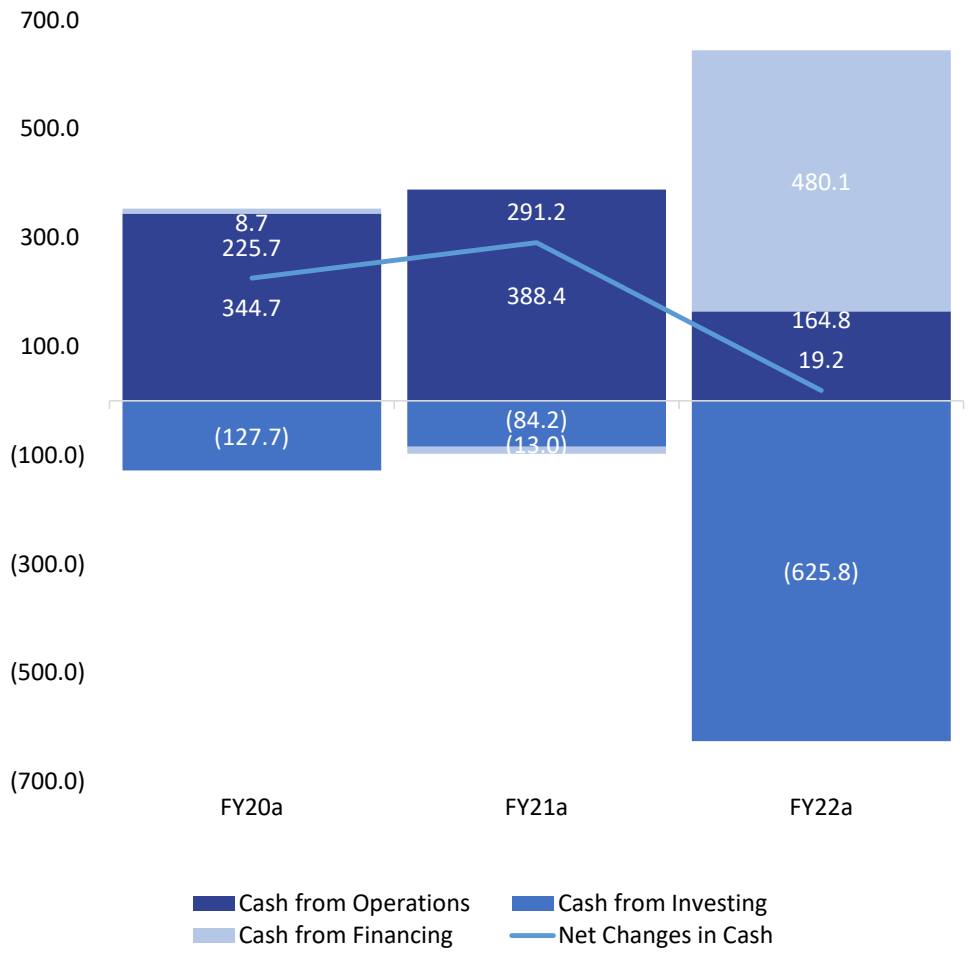
Income Statement

SAR mn	FY20a	FY21a	FY22a
Revenues	2,317.6	2,845.5	3,488.7
Cost of revenues	(1,815.1)	(2,090.3)	(2,814.2)
Gross profits / (losses)	502.4	755.2	674.6
GP Margin (%)	21.7%	26.5%	19.3%
General and administrative expenses (G&A)	(552.9)	(651.8)	(774.1)
Earnings before interest, tax, depreciation and amortization (EBITDA)	(50.4)	103.4	(99.5)
EBITDA Margin (%)	-2.2%	3.6%	-2.9%
Depreciation on property and equipment	(55.3)	(54.1)	(47.6)
Depreciation on right-of-use assets	(19.1)	(21.8)	(18.8)
Amortisation of intangible assets	(0.6)	(3.1)	(8.1)
Earnings before interest and taxes (EBIT)	(125.4)	24.3	(174.1)
EBIT Margin (%)	-5.4%	0.9%	-5.0%
Other income	41.6	398.5	203.2
Net finance income / (cost)	3.4	(0.0)	2.4
Earnings before tax (EBT)	(95.7)	760.4	55.1
EBT Margin (%)	-4.1%	26.7%	1.6%
Income tax and zakat	(0.1)	(12.8)	(7.2)
Net profits / (losses) after minority	**(95.4)**	**737.1**	**35.0**
NP Margin (%)	**-4.1%**	**25.9%**	**1.0%**

Balance Sheet Statement

SAR mn	FY20a	FY21a	FY22a
Total non-current assets	405.0	384.5	1,283.5
Total current assets	3,059.6	4,832.3	5,065.5
Total assets	**3,464.6**	**5,216.8**	**6,349.1**
Total non-current liabilities	277.9	271.1	253.2
Total current liabilities	1,065.0	2,069.6	3,135.3
Total liabilities	1,342.8	2,340.8	3,388.5
Total owner's equity	2,121.7	2,876.0	2,960.6
Total liabilities and owner's equity	**3,464.6**	**5,216.8**	**6,349.1**

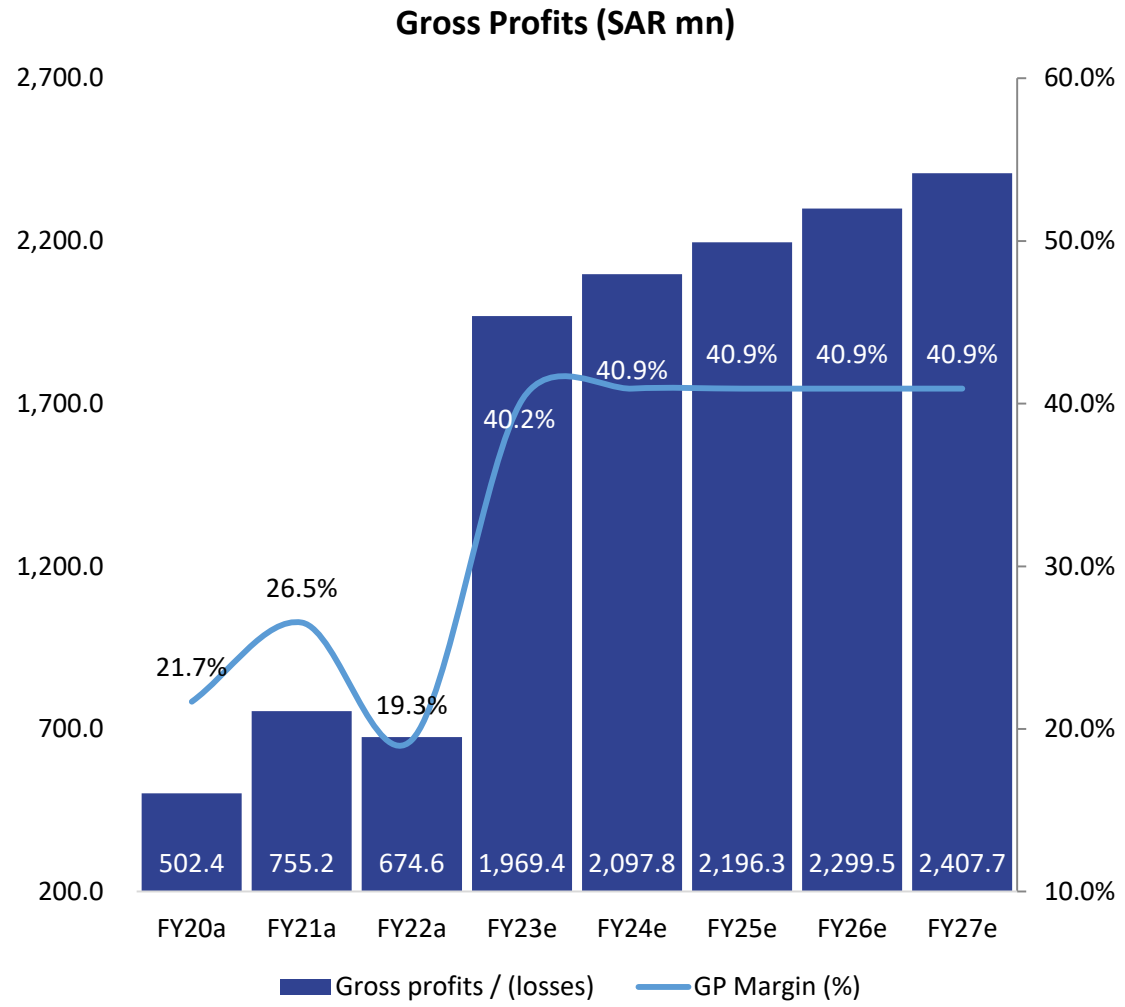
Cash Flow Movement

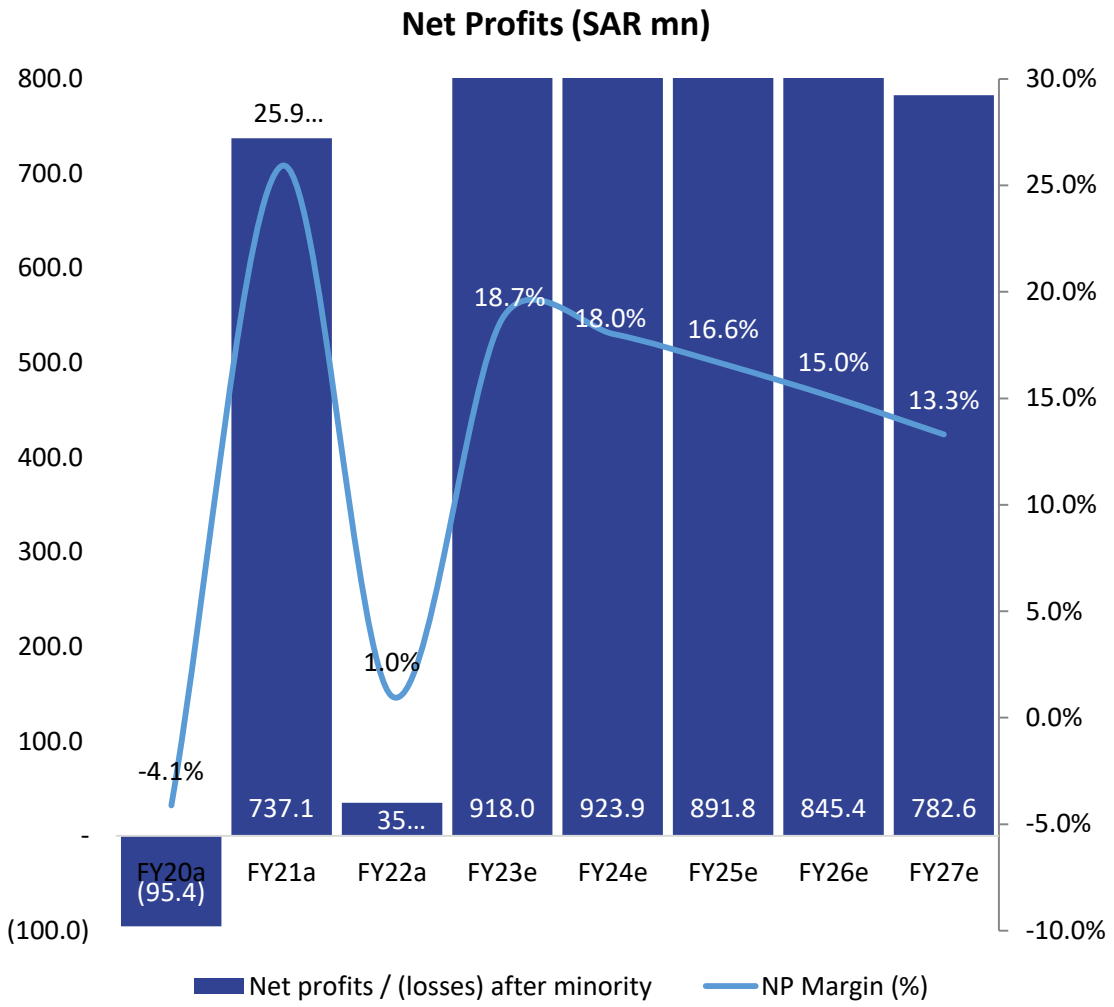


Source: Financial Statements

Financial Analysis (Cont'd)

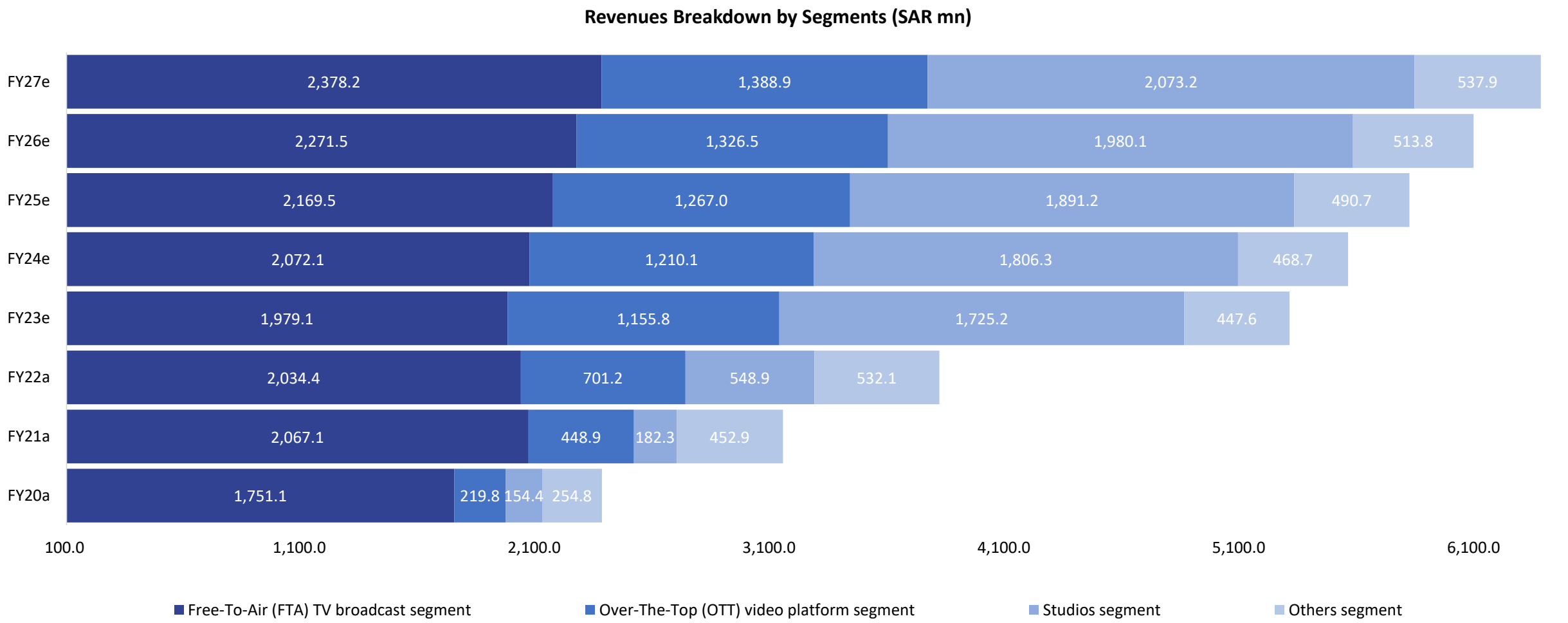
Gross Profits vs. Net Profits





Financial Analysis (Cont'd)

Revenue Breakdown Streams



Source: Financial Statements

Valuation

A Possible 45.2% Upside Potential

Market Valuation Approach: Peer Companies

Name	P/B	P/E	EV/EBIT	EV/EBITDA
Saudi Research and Media Group - SRMG	4.0x	19.0x	17.6x	13.0x
China Publishing & Media Holdings Co Ltd	1.1x	11.6x	11.9x	11.9x
Shanghai Fengyuzhu Culture Technology Co Ltd	1.7x	15.4x	17.1x	17.1x
Easy Click Worldwide Network Technology Co Ltd	1.5x	26.6x	25.3x	25.3x
Median	**1.6x**	**17.2x**	**17.3x**	**15.0x**
Average	**2.1x**	**18.2x**	**18.0x**	**16.8x**

Market Valuation Approach: Peers Multiples Method

Item	P/B	P/E	EV/EBIT	EV/EBITDA
Multiplier (x)	1.6x	17.2x	17.3x	15.0x
EBITDA in FY23e				1,061.7
EBIT in FY23e			993.7	
NP (after minority) in FY23e		918.0		
Owner's equity (after minority) in 1H23a	2,993.2			
Fair value for the company (SAR mn)	4,795.6	15,803.0	17,220.1	15,931.0
Add				
Cash and cash equivalents in 1H23a	-	-	798.1	798.1
Less				
Total debt in 1H23a	-	-	(802.8)	(802.8)
Fair value for shareholders (SAR mn)	4,795.6	15,803.0	17,215.4	15,926.3
Outstanding shares (# mn)			299.3	
Fair value for shareholders (SAR)	16.0	52.8	57.5	53.2
Average fair value for shareholders (SAR)			**44.9**	

Source: Mubasher Capital Estimates.

Income Valuation Approach: Discounted Cash Flow (DCF) Method

Item	FY23e	FY24e	FY25e	FY26e	FY27e
NOPLAT [EBIT * (1- tax rate)]	863.5	847.4	785.6	705.1	602.8
Depreciation on property and equipment	50.1	53.0	56.1	59.3	62.8
Depreciation on right-of-use assets	15.6	13.1	11.1	9.3	7.9
Amortisation of intangible assets	2.4	2.2	2.1	2.0	1.9
Chaning in working capital	(726.1)	(116.9)	(121.6)	(127.3)	(133.3)
Total CAPEX	(59.4)	(59.9)	(60.7)	(61.8)	(63.2)
Free cash flow to the firm (FCFF)	**146.0**	**739.0**	**672.5**	**586.6**	**478.7**
Terminal Value					8,505.7
Free Cash Flow + Terminal Value	**146.0**	**739.0**	**672.5**	**586.6**	**8,984.4**
Discount duration (time factor)	0.50	1.00	1.00	1.00	1.00
Discount rate	0.97	0.93	0.93	0.93	0.93
Discount factor	0.97	0.90	0.84	0.78	0.72
Discounted Free Cash Flows	**141.0**	**665.3**	**563.0**	**455.7**	**6,478.0**

The Present Value of Free Cash Flows in 1H23a	**8,303.0**
Add	
Cash and cash equivalents in 1H23a	798.1
Less	
Total debt in 1H23a	(802.8)
Equity value before minority in 1H23a (SAR mn)	8,298.3
Minority rights in 1H23a	(13.3)
Equity value after minority in 1H23a (SAR mn)	8,285.1
Outstanding shares (# mn)	299.3
Average fair value for shareholders (SAR)	**27.7**

Valuation

A Possible 45.2% Upside Potential

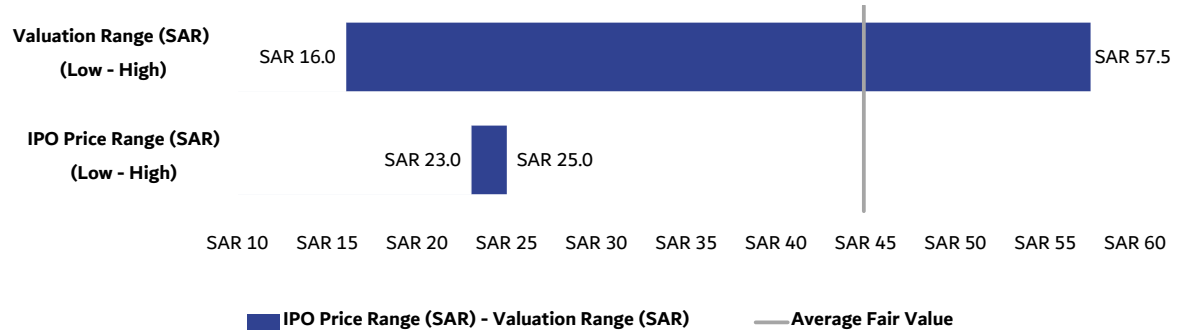
Valuation Summary:

We valued MBC Group using five valuation methods, as follows:

1. An income valuation approach using discounted cash flow (DCF) method, implying an equity value of SAR8.3bn.
2. A market valuation approach using peers' median P/B method of 1.6x and a book value of SAR3.0bn in 1H22a, implying an equity value of SAR4.8bn.
3. A market valuation approach using peers' median P/E method of 17.2x and net profits of SAR918.0mn in FY23e, implying an equity value of SAR15.8bn.
4. A market valuation approach using peers' median EV/EBIT method of 17.3x and an EBIT of SAR993.7mn in FY3e, implying an equity value of SAR17.2bn.
5. A market valuation approach using peers' median EV/EBITDA method of 15.0x and an EBITDA of SAR1.1bn in FY3e, implying an equity value of SAR15.9bn.

We assigned an equal weight to the five methods and applied a 50% discount to non-Saudi peers median multiples conservatively, reaching an average **fair value of SAR36.3/share, implying 45.2% upside potential.**

Football Field Valuation: IPO Price Range vs. Valuation Range



Source: Mubasher Capital Estimates.

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