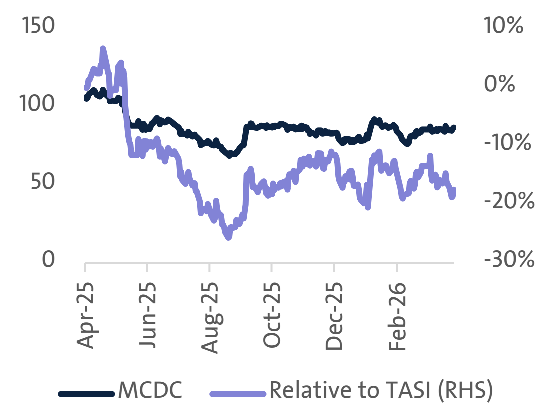
Rating lifted on increased visibility on new project; (TP: SAR97)

Recommendation	BUY
Market Price	84.5
Target Price	97.0
Total Return	16%

Stock Data

Market Cap Total/FF (USDmn)	4,507/3,706
Shares Total/FF (mn)	200/165
52 Week Hi-Low(SAR)	111/69
3/6/12 M Volume Traded (mnsh)	0.36/0.3/0.2
3/6/12 M Value Traded (USDmn)	9.3/7.2/4.8
3/6/12 M Relative Performance (%)	1/-4/-19

MCDC Stock Price Performance VS TASI



Source: AC

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MCDC: Strong earnings delivery in 3Q despite drop in volumes

We upgrade Makkah Construction & Development Company (MCDC) to Buy from Neutral. The rating change is premised on; (i) clarity on MCDC's investment in a new real estate project, and (ii) bringing forward the targeted completion of the asset optimization initiatives on existing assets to 2027. We see sustainable double-digit earnings growth for MCDC through to 2033. MCDC's balance sheet retains significant flexibility for determining the financing mix of the new project, capturing further available growth opportunities and lifting current cash payout. We value MCDC on DCF-based SOTP value with revised TP of SAR97, up from SAR83. Buy

Hospitality assets at Ajyad can lift operating earnings by 50-55% by 2033

Our preliminary estimates suggest the addition of new offerings at Ajyad can lift MCDC's operating earnings by 50-55% and deliver lower double-digit IRR based on stabilized occupancy of 75% for the hospitality asset in 2033 and estimated capex of SAR1.5bn (including IDC). MCDC plans to construct a 4-star hotel with 2000 keys (1.4x jump in number of keys) and a commercial center (90% of existing GLA).

Accelerated progress on renovation of existing assets targeted

Three key initiatives for asset optimization of MCDC existing assets include, (i) the renovation of rooms expected to be completed by 2027 vs earlier guidance of 2029, (ii) GLA addition to the commercial mall via redevelopment and optimization of mall area, and (iii) change in the tenant mix of commercial mall.

2025 Earnings: Another year of earnings growth

MCDC's 2025 earnings of SAR474mn came in below our estimate by 6% due to lower-than-expected occupancy in both the commercial mall (change in tenant in prime location) and hospitality assets (renovation of rooms ahead of the holy month of Ramadan). MCDC has delivered yet another year of strong growth in Revpar, GLA rate and earnings growth, reflecting the impact of the management initiatives on the optimization of its key assets. MCDC has maintained its dividend payout at SAR1.5, taking its payout ratio to 63% (73% in 2024). Based on the latest updates, we have revisited our earnings estimates for MCDC and cut 2026/2028 by 15%/3% and lift 2027 estimate by 3%.

MCDC: Financial Highlights (SARmn)

Year to Dec	CY24	CY25	CY26E	CY27E	CY28E	CY29E
Revenues	836	1073	1032	1336	1415	1465
Growth	14.4%	28.3%	-3.8%	29.5%	5.9%	3.6%
PAT	411	474	487	638	689	698
EPS (SAR)	2.1	2.4	2.4	3.2	3.4	3.5
Growth	23%	15%	3%	31%	8%	1%
DPS (SAR)	1.5	1.5	1.5	1.9	2.1	2.1
P/E (X)	41.2	35.6	34.7	26.5	24.5	24.2
D/Y (%)	1.8%	1.8%	1.7%	2.3%	2.4%	2.5%
EV/EBITDA (%)	38.6	36.4	35.0	26.2	24.0	23.3

Source: MCDC, AC Estimates

MCDC: Rating lifted on new project, accelerated progress on new initiatives

We upgrade MCDC to Buy from Neutral with revised TP of SAR97/sh, suggesting total returns of 15%.

We upgrade Makkah Construction & Development Company (MCDC) to Buy from Neutral. The rating change is premised on:

Clarity on MCDC's investment in a new real estate project for which the company has acquired a land plot early this year: During the latest management briefing, the management has unveiled key details of future offerings and capex. MCDC plans to construct a 4-star hotel with 2,000 keys (1.4x jump in number of keys) and a commercial center (90% of existing GLA). The land plot is located within <600 meters distance from the Holy Mosque on Ajyad Road.

Our preliminary estimates suggest the addition of new assets can lift MCDC's operating income by 50-55% (2028 used as base-year for the comparison) and deliver double-digit IRR based on stabilized occupancy of 75% for the hospitality asset in 2033 and estimated capex of SAR1.5bn (management estimate of SAR1.12bn+/-30%). Our key assumptions are detailed below:

MCDC: Key Assumptions

	Existing Assets		Ajyad
	2025	2033	2033
Stabilized Occupancy			
Hotel	81%	87%	75%
Mall	99%	99%	96%
ADR (SAR)	913	1353	972
GLA (SAR/sqm)	16,851	22,300	5,434
Escalation in ADR/GLA rate	3%	3%	3%
Gross Cash Margin-Hospitality	62%	64%	57%
Gross Cash Margin-Mall	79%	77%	75%
Construction Period			4-years
Capex (SARmn)			1475

Source: MCDC, AC Estimates

MCDC plans to construct a 4-star hotel and mall, which can lift total keys by 1.4x and GLA by 90%

Preponing the asset optimization initiatives on existing assets: Three key initiatives for asset optimization of MCDC existing assets include:

I-Renovation of rooms is expected to be complete by 2027 versus the earlier guidance of 2029. MCDC has already completed renovation of four floors with +100 rooms in early 2026. and is likely to accelerate the progress after the upcoming Hajj season.

II-GLA addition in the commercial mall via redevelopment of the 4th floor on the mall and optimization of available public space. Cumulatively, the ongoing initiatives will lift mall GLA by 30% to 22,400 sqm.

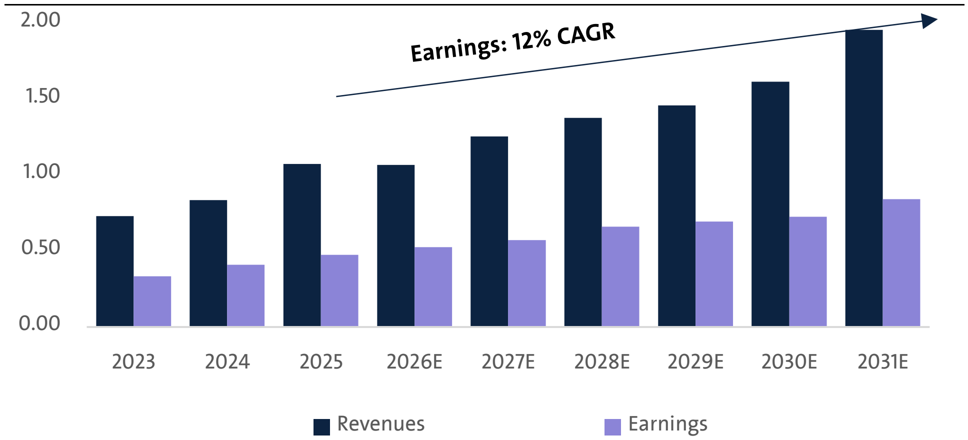
III-Change in tenant mix with focus on F&B, particularly in prime location.

We believe MCDC can deliver a 3-year earnings CAGR of 15%

Key reasons for our liking of MCDC

Sustainable double-digit earnings growth: We believe MCDC can deliver a 3-year earnings CAGR of 15% based on management initiatives on optimization of existing assets. The commencement of operations on Ajyad will likely allow MCDC to sustain its earnings growth trajectory, implying earnings CAGR of 12% over 2025-2033.

MCDC is set to deliver double-digit earnings growth (SARbn)



Source: MCDC, AC

MCDC's balance sheet retains significant flexibility for capturing further available growth opportunities

Solid financial position to pursue growth opportunities: MCDC's balance sheet retains significant flexibility for capturing further available growth opportunities, choosing financing mix of the Ajyad project and potentially lifting cash payout. The company is sitting on a net cash pile of SAR921mn in 2025. MCDC's cash flows from operation are expected trend upwards from SAR412mn in 2025 to SAR860mn by 2030 (cumulative: SAR3.5bn. We estimate total capex requirements of SAR2.5bn over 2026-2030.

Market trends complement location: MCDC stands to benefit from the significant increase in the religious tourism in Makkah, driven by the progress on objectives under Vision 2030, in the form of further optimization of occupancy, and higher ADR and lease rates. The prime locations of existing operating and future assets give MCDC an added advantage.

Further asset optimization: The potential for further asset optimization remains beyond current initiatives on the existing assets, in our view.

Valuation

We value MCDC on DCF-based SOTP value with revised TP of SAR97/sh, We continue valuing MCDC using the FCFE method with terminal year set in 2033 to coincide with the assumption of stabilization of hospitality assets and repayment of expected loans for acquisition of land plot (SAR880mn financing already arranged) and future construction. Our key assumptions for Cost of Equity of 8.4% and terminal growth rate of 3% remain unchanged. For Ajyad project financing, we have assumed 75% of future capex needs for Ajyad project will be met via borrowing, allowing the company to maintain 7%/25% Net/Gross debt to asset ratio in 2030 vs projected 2%/19% in 2026.

Key risks to investment case

(i) The execution risk associated with the company's plan to renovate and construct its existing hospitality offerings in hotels and serviced apartments, and development of new assets(ii) the risk of lower ADR or occupancy due to future additions in keys and retail assets in areas surrounding the Haram, though we highlight MCDC enjoys significant location advantage, (iii) concentration risk as MCDC's current future assets are located at only location and address religious tourism only.

Earnings Estimates Revisited

We have cut 2026/28 estimates by 15/2% but lift our 2027 earnings estimate by 3%

We have revisited our earnings estimates for MCDC based on the latest updates. Specifically, we have cut 2026/28 estimates by 15/3% but lift our 2027 earnings estimate by 3% based on:

- Performance of hospitality and commercial assets in 4Q: The occupancy levels of both offerings underperformed our expectations primarily due to (i) preponing of renovation work on hospitality rooms ahead of the start of peak season in Ramadan, resulting in only 1% increase in RevPar YoY, and (ii) changes in tenant mix on a prime location in the commercial mall which drove 4% drop in GLA rate.
- Elevated G&A cost in 2025: Based on the latest management update, we now incorporate higher G&A costs in our future estimates. The G&A cost is up 28% YoY in 2025 (cumulative 42% since 2023) primarily due to the requirement to add new resources to undertake growth projects and strengthen different departments.
- The current geopolitical situation: While we believe MCDC's prime location will allow the company to maintain its high level of occupancy, the company's RevPar will likely be impacted due to likely effect on religious tourism from ongoing conflict.
- We have also incorporated the future development of land plot in Ajyad in our earnings and valuation estimates which has effectively lowered other income from bank deposits.
- Revised renovation plan: We have incorporated a revised schedule for the completion of renovation of both hotel and tower. Management is now targeting to complete renovation by 2027, two years ahead of earlier guidance. This has impacted the available rooms and the headline occupancy in 2026 and 2027. We now expect occupancy of the hotel (based on total

MCDC: Estimates Revision

	2025	2026	2027	2028	TP
New	474	486	638	689	97.0
Old		575	620	708	83.0
% change		-15.5%	2.9%	-2.7%	17%

Source: AC estimates

rooms) to drop to below the 70% mark in 2026 before gradually rising to levels seen in 2023.

2025 Earnings: Another year of strong earnings growth

MCDC has delivered yet another year of strong earnings growth, with revenues crossing SAR1bn mark for the first time

MCDC's 2025 earnings of SAR474mn came in below the consensus estimate (6% below our estimate) due to below-expected occupancy on both the commercial mall (change in tenant in prime location) and hospitality assets (renovation of rooms ahead of the holy month of Ramadan). The company's revenues have crossed 1bn mark for the first time in the company's history. Overall, MCDC has delivered yet another year of strong earnings growth of 15%, reflecting the impact of the management initiatives on optimizing of its key assets. MCDC has maintained its dividend payout at SAR1.5, dragging its payout ratio to 63% in 2025 from 73% in 2024.

Hospitality Assets: RevPar recorded an 7% YoY jump in 2025 following a 6% jump in 2024, reflecting strong demand. Occupancy in 2025 has dropped to 81% from 83% in 2024 due to drag from regulations limiting visits to Makkah before and after Hajj season to only permit holders for an extended period relative to previous years. The operating cash margins for the hospitality offering were stable YoY at 62%.

Commercial Asset: The headline lease rate jumped 7% YoY. Occupancy further improved to 98.4% in 2025 from 97.8% in 2024. The lease rate is estimated to have dropped by 11% QoQ in 4Q25 due to 3% QoQ drop in occupancy. MCDC has increased total available area to 17,577sqm in 2025, up from 16,871sqm in 2024. The expected shift in tenant mix will likely be a major trigger for further improvement in lease rate in the near-term. The operating cash margin for commercial assets further improved by 100bps YoY to 79% in 2025. Management has guided for another 5% jump in the lease rate in 2026 to SAR17,700/sqm.

Hajj & Umrah business: The increase in pilgrims drove the revenues from the segment by a massive 113%. The margin of the business came in at 4% in 2025 vs 10% in 2024. The management has guided for 5-6% gross margin for this business line.

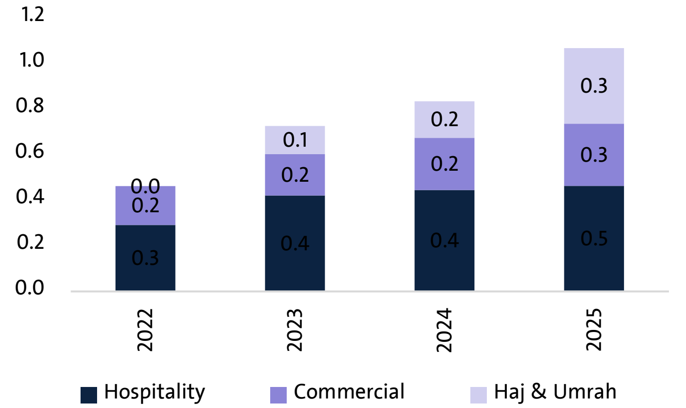
G&A Cost is up 28% YoY: The G&A cost is up 28% YoY in 2025 (cumulative 42% since 2023) primarily due to the requirement to add new resources to undertake growth projects and strengthen different departments.

MCDC-2025 Results Review								
	1Q25	2Q25	3Q25	4Q25	QoQ	2024	2025	YoY
Revenues	**236**	**388**	**284**	**165**	**-27%**	**886**	**1,073**	**21%**
Hotel	170	120	77	95	-36%	485	462	-5%
Commercial Center	65	71	72	64	1%	240	272	14%
Hajj & Umrah	0	197	139	1	-29%	159	337	112%
Cost of Revenues	**66**	**245**	**189**	**57**	**-23%**	**364**	**558**	**53%**
Gross Profit	170	143	95	107	-34%	472	515	9%
Operating Expenses	25	24	20	21	-17%	-72	-92	27%
Operating Income	145	119	75	86	-37%	472	515	9%
Profit After Tax	**150**	**144**	**85**	**95**	**-41%**	**411**	**474**	**15%**
EPS	0.75	0.72	0.43	0.47	-41%	2.05	2.37	15%
Margins								
Operating Margins	72%	37%	33%	65%		53%	48%	43%
Net Margins	64%	37%	30%	58%		46%	44%	74%
Key KPIs								
Hospitality								
RevPAR (SAR)	1,313	930	593	737	24%	691	742	7%
Occupancy	93%	71%	79%	81%	2%	83.0%	81.0%	-2%
Commercial Center								
Lease Rate (SAR)	16,901	17,729	17,903	15,916	-11%	15755	16851	7%
Occupancy	98%	100%	99%	97%	-3%	98%	99%	1%

Source: Company Announcement

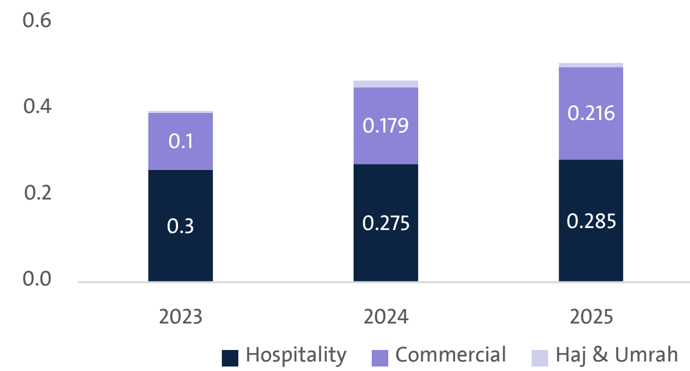
MCDC: Key Trends

MCDC: Revenue Profile by segment (SARbn)



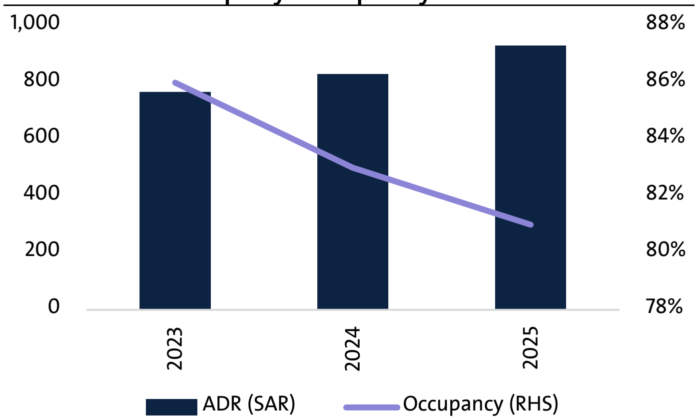
Source: MCDC, AC Estimates

MCDC: Gross profit by segment (SARbn)



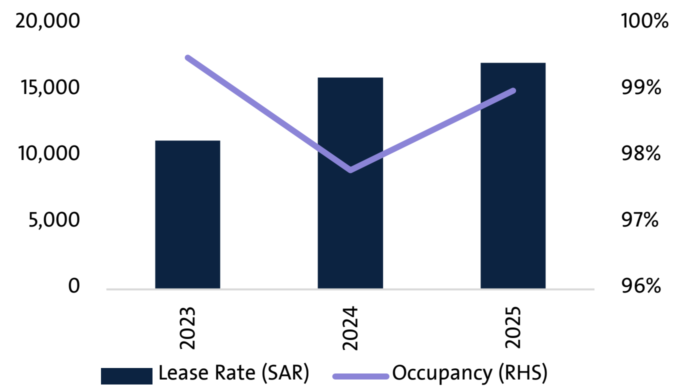
Source: MCDC, AC Estimates

MCDC: ADR and occupancy of hospitlaity



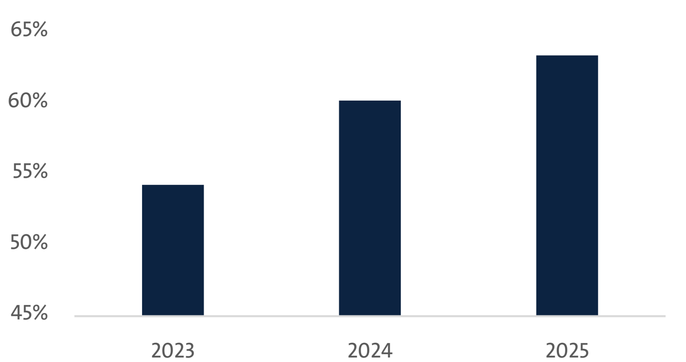
Source: MCDC, AC Estimates

MCDC: Lease rateand occupancy of commerical center



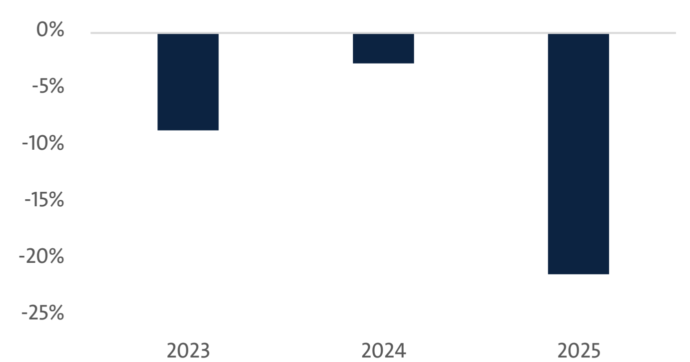
Source: MCDC, AC Estimates

MCDC: Profit Margin (%)



Source: MCDC, AC Estimates

MCDC: Gearing ratio (%)



Source: MCDC, AC Estimates

Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA** 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.

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Alinma Capital Company (ACC) follow a four-tier rating system based on total return methodology as per following details

>+15% Total Return: Stocks with +15% expected total return (including dividend yield) over the next 12-months are classified as Buy.

5-15%: Stocks with total return between 5-15% can be classified as Buy or Neutral.

>-5%<+5% total return: Stocks with total return between -5+5% can be classified as Neutral or Underperform

Underperform-Stocks which are expected to have <-5% total return

Not Covered: AIC has not assigned any rating on the stock

Coverage Suspended: AIC has temporarily suspended the coverage of the stock either in compliance with local regulation or other considerations

Price data for the listed securities is based on 19 April, 2026.

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