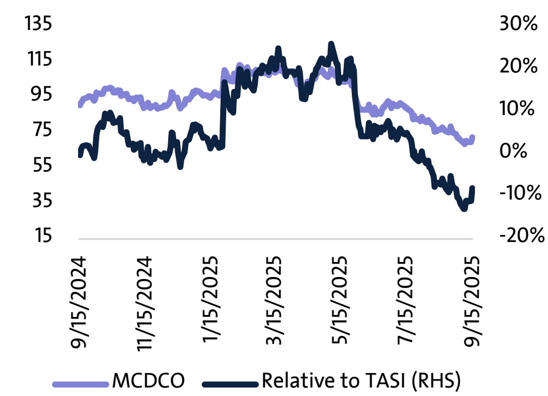
Optimizing the core; optionality on future diversification; initiate with Buy

Recommendation	BUY
Market Price	73.5
Target Price	83.0
Total Return	16%

Stock Data

Market Cap Total/FF (USDmn)	3,976/3,260
Shares Total/FF (mn)	200/165
52 Week Hi-Low(SAR)	113/68.6
3/6/12 M Volume Traded (mnsh)	0.4/0.3/0.2
3/6/12 M Value Traded (USDmn)	10.2/7.9/5.5
3/6/12 M Relative Performance (%)	-17/-25/10%

MCDCO Stock Price Performance vs TASI



Source: AC, Bloomberg

MCDCO -Asset optimization; future diversification; initiate with Buy

We initiate coverage on Makkah Construction & Development Company (MCDCO), the owner and operator of the landmark hospitality asset adjacent to the Haram Mosque, Makkah Hotel and Towers, with a Buy rating and set a target price of SAR83. We believe a 35% correction in the stock price from its Feb-25 peak, offers a good opportunity in a name with stellar growth potential via optimization of existing assets and balance sheet.

Four reasons for our liking

Significant opportunities to optimize returns on existing assets

Three major initiatives to optimize the returns on existing assets are: (i) optimizing lease rates via renewal or change in the tenant mix in the commercial center (lease rates up 52% since 2023), (ii) increasing the GLA of the commercial center via better utilization of public areas, and (iii) a major SAR400mn renovation of hospitality offerings with healthy returns. We project MCDCO to deliver a 5-year EPS/DPS CAGR of 13/13%.

Robust capacity for asset diversification

MCDCO has built up a robust cash position of ~SAR0.8bn (6% of market cap). MCDCO aims to further diversify its earnings/asset base via investment in the real estate opportunities within and outside the holy cities, focusing primarily on income-generating assets, and complementary business.

Market trend complements location

MCDCO 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.

Valuations have become reasonable

MCDCO's P/E is at a 41% discount to its 10-year average of 44x. We believe MCDCO's low-capex growth, robust financial position, established earnings history and unique location justify the valuation premium relative to TASI-listed peers. MCDCO's 2026E D/Y of 3% is significantly higher than the yields of its peers. Similarly, MCDCO's ROE/ROA are well ahead of peers' averages.

Key risks

(i) Risk associated with project execution, (ii) future growth projects yielding below-par returns (iii) risk of competition, and (iv) asset concentration.

MCDCO: Financial Highlights (SARmn)

Year to Dec	CY23	CY24	CY25E	CY26E	CY27E	CY28E
Revenues	731	836	1037	1105	1175	1285
Growth	58.4%	14.4%	24.1%	6.6%	6.3%	9.4%
PAT	334	411	506	575	620	708
EPS (SAR)	1.7	2.1	2.5	2.9	3.1	3.5
Growth	115%	23%	23%	14%	8%	14%
DPS (SAR)	1.2	1.5	1.9	2.2	2.3	2.7
P/E (X)	44.0	35.8	29.1	25.6	23.7	20.8
D/Y (%)	1.7%	2.0%	2.6%	2.9%	3.2%	3.6%
EV/EBITDA(X)	39.0	34.1	28.7	26.4	24.7	21.3

Source: MCDCO, AC Estimates

Muhammad Fawad Khan, CFA
Head of Research
mfkqadri@alinmacapital.com

Abulrahman Yusef Alnafia
Research Analyst
aynafiai@alinmacapital.com

Alinma Capital Company
Al Anoud Tower 2, King Fahad Road,
Riyadh 11544, Kingdom of Saudi
Phone: 011 494 8899
Website: www.alinmacapital.com

MCDCO Investment Case

We initiate coverage on MCDCO with a Buy rating and set a Target Price of SAR83.0/sh indicating 16% total return

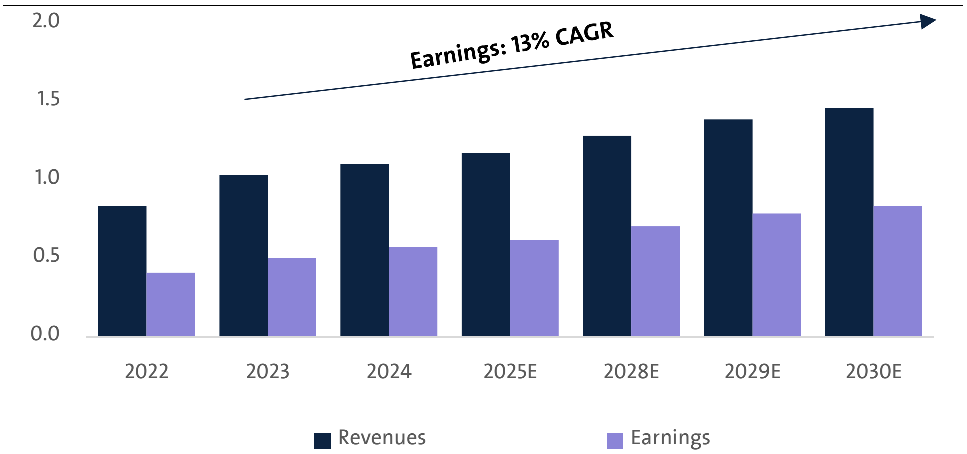
We initiate coverage on Makkah Construction & Development Company (MCDCO), the owner and operator of the landmark hospitality and commercial center adjacent to the Haram Mosque, Makkah Hotel and Towers, with a Buy rating and set a target price of SAR83. We believe a 35% correction in the stock price from its peak in Feb-25, offers a good opportunity to invest in a name with significant growth potential via optimization of existing key assets, excellent financial strength, and optionality on future diversification projects.

Four reasons for our liking

1-Significant opportunities to optimize returns on existing assets

The latest change in management at MCDCO has brought a renewed focus on asset optimization, asset diversification and shareholder returns. To this end, the management is in the process of implementing the three major initiatives to optimize the asset returns. We consider these initiatives as low-hanging fruit with the potential to deliver significant shareholder value due to (i) low risk of delays from time required for regulatory approval or legal processes, (ii) capex light in nature, (iii) having minimal impact on the company's occupancy, and (iv) healthy returns (high double-digit IRR). All in all, we expect future initiatives to deliver a strong 13/13% earnings/dividend CAGR over 2024A-20230.

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



Source: MCDCO, AC

Following are the key details of the future initiatives.

Increase in the GLA rate

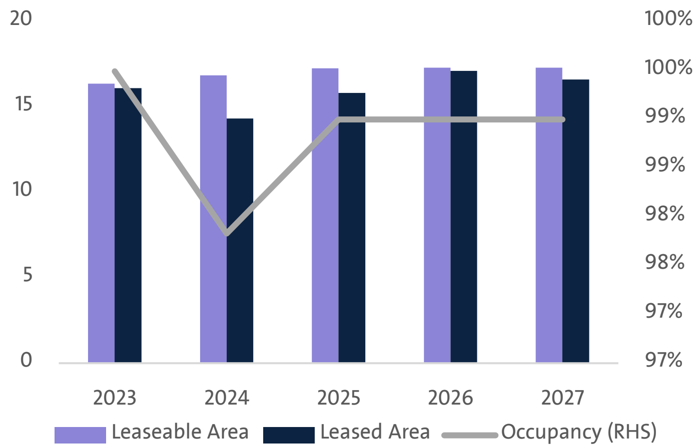
MCDCO has achieved a major increase in the lease rate of 52% since 2023

MCDCO has achieved a major increase in the lease rate of 52% since 2023. The lease rate renewal on better terms, particularly for the prime locations in the commercial center, is the major reason for the increase. The management expects to realize further gains in lease rate via, (i) a change in tenant mix with more focus on F&B at prime locations in the mall and (ii) more favorable renewal terms, particularly on legacy contracts. We expect the average lease rate for the commercial center to increase by 10% in 2025 (8.5% already realized in 1H25), 5% in 2026 and annual increase of 3% in subsequent years.

Optimizing the GLA area

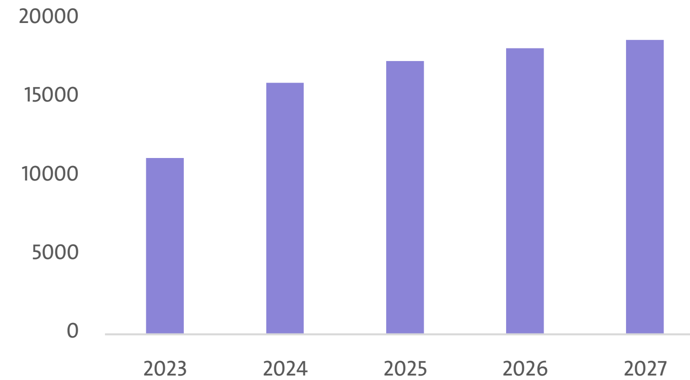
Another low-hanging fruit for MCDCO is optimizing the common public area in the commercial mall to sustainably increase the available GLA. The management has already firmed up one initiative, which is likely to be covered under normal capex with target completion in early 2026. This will likely increase GLA by 8% or 1,300 sqm. We see room for further increase in GLA by better utilizing the dedicated public area for offices and prayer hall to enhance the mall's GLA without compromising available services and expect further progress in this direction in not so distant future.

MCDCO is set to benefit from higher leaseable area (000 sqm)



Source: MCDCO, AC Estimates

...and significant increase in lease rate (SAR/sqm)



Source: MCDCO, AC Estimates

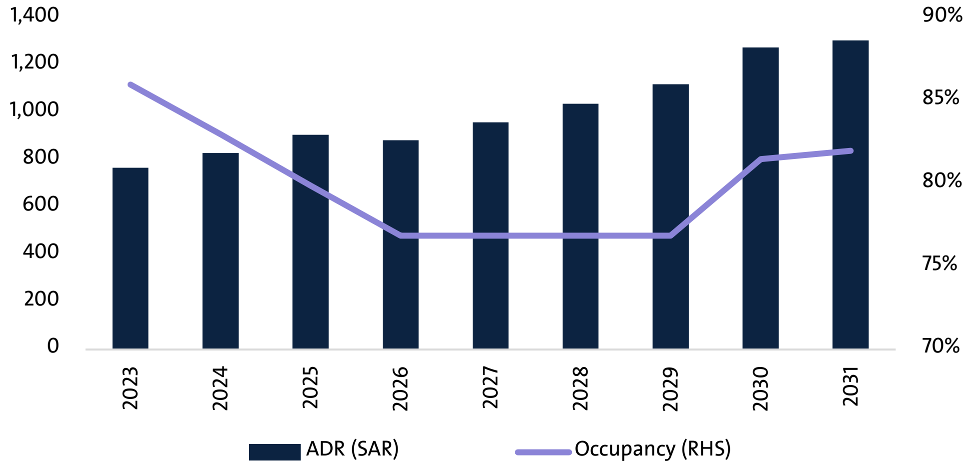
Major renovation of hospitality assets

MCDCO is undertaking a major capital expenditure, the first since 2011, to renovate hospitality offerings (rooms & suites) with a total estimated outlay of SAR400mn. The project is likely to have a payback period of 8-years, assuming the benefit of renovation in the form of higher ADR materializes as expected and the actual cost of the project remains within the estimate. The project is estimated to have a healthy double-digit IRR and significant NPV, as per our crude estimates. We have assumed a 3.5-year completion period for the project with ADR increase of 18% for the renovated rooms in our forecasts. All in all, we expect ADR to undergo an 8% CAGR over 2024-2030.

MCDCO is undertaking a major capital expenditure, the first since 2011, to renovate hospitality offerings

The renovation project involves upgrading furniture, fixtures & equipment (FF&E), upgrading sanitary ware, and other renovations within rooms/suites and common areas (hotel lobby, corridor etc). The management plans to undertake the project in a phased manner over a three-year period. Each phase will start post Haj and the renovated rooms are targeted to be available for service before the start of the Ramadan season in order to ensure minimum impact on the availability of rooms during the high season.

MCDCO: Renovation to lift ADR though occupancy may drop nominally



Source: MCDCO, AC Estimates

2-Robust capacity to sustain asset diversification

MCDCO has built up SAR0.8bn cash position which the company looks to deploy for real estate opportunities

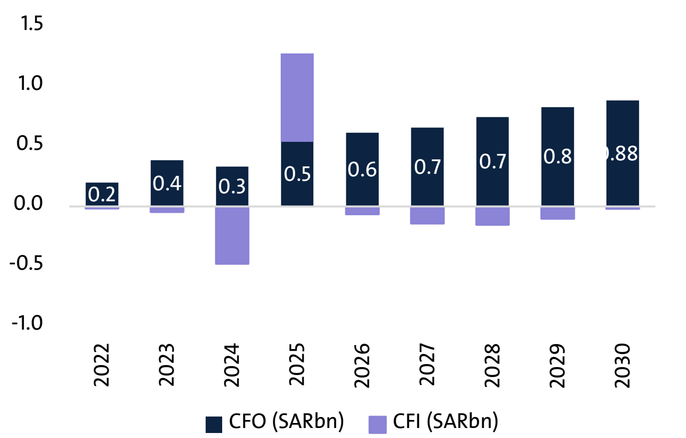
MCDCO has built up SAR0.8bn cash position (6% of market cap) which the company looks to deploy for real estate opportunities, within or outside the holy cities, with a primary focus on income-generating assets, and/or complementary businesses. Given the concentration of company's business activity at only location, the need for diversification of earnings and assets remains elevated.

Internal cash flow generation to fund the future projects

MCDCO's cash pile is sustainable and is unlikely to be impacted by future capex, in our view. MCDCO's operating cash flow (CFO) is likely to increase with the execution of the initiatives outlined above. We expect CFO to increase from SAR0.3bn in 2024 to SAR0.88n by 2030. The future CFO will allow the company to internally fund the project and maintain 75% payout without impacting the company's cash pile. It is pertinent to highlight MCDCO is yet to announce a formal dividend policy.

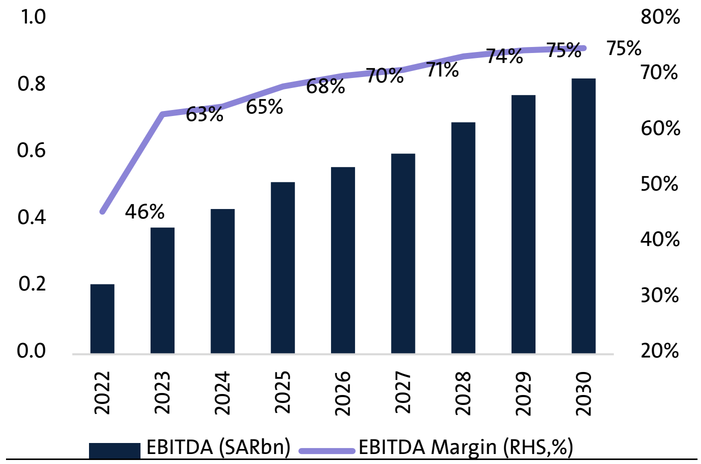
Over the years, MCDCO has made investments in assets close to Haram Mosque and other assets which include a minority stake in Jabal Omar (7% in 1H25), significant ownership in First Avenue for Real Estate Development Company (27.7%), investments in properties in Jabal Al Sharashef area, and investment in the company engaged in the development of Jabal Al Sharashef area (more details below).

MCDCO-The increase in CFO will suffice to fund CFI (SARmn)



Source: MCDCO, AC Estimates

MCDCO: A steady growth in EBITDA ahead



Source: MCDCO, AC Estimates

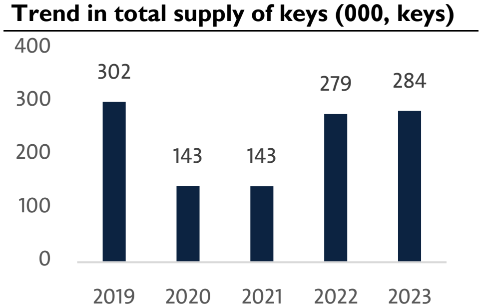
3-Market trend complements location

MCDCO stands to benefit from the significant increase in the religious tourism in Makkah

MCDCO 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/lease rates.

The existing gaps in offerings in the hospitality segment, particularly in high-quality serviced apartments, coupled with expected future growth in visitor arrivals, offer significant market opportunities for investors and developers in the hospitality sector given supply-demand dynamics, pricing, and occupancy levels. The sector has already made a phenomenal turnaround in the post-COVID period, with a sharp pickup in demand and a lack of meaningful supply additions.

Trend in total supply of keys (000, keys)



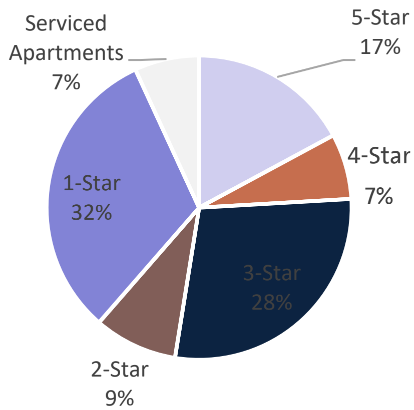
Source: AC

Supply Demand Dynamics

The Makkah hospitality market is primarily dominated by low-quality offerings in both hotels and serviced apartment segments. In hotels, 1-Star and 2-Star categories together account for 41% of total available keys as of 2023. Interestingly, the COVID-19 impact and demolition of some of the properties for redevelopment have reduced the total keys from 302k in 2019 to 284k in 2023. The supply for serviced apartments (SA) is estimated at 19.6 k, however, the bulk of supply (+90%) is considered low-quality due to the outsized presence of unbranded operators in the segment. Out of 19.6K licensed keys for SA, only 236 keys are considered quality offerings.

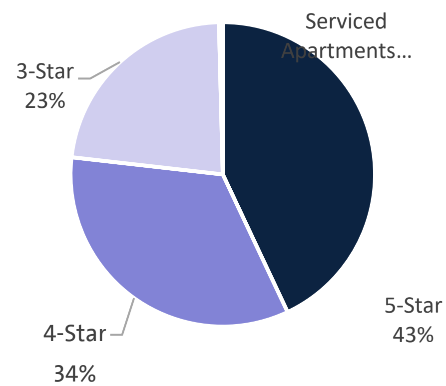
The seasonality in demand for the hospitality sector is quite steep and largely follows the Hijri Calendar for Hajj and Umrah and the last 10 days of the holy month of Ramadan (for Umrah). Other considerations driving seasonality in demand include local and international holiday seasons and seasonal variations in temperature in the Kingdom.

Breakdown of total supply (2023, total: 284k)



Source: AC

Hospitality quality offerings (total:67k)



Source: AC

Future additions in keys and serviced apartment

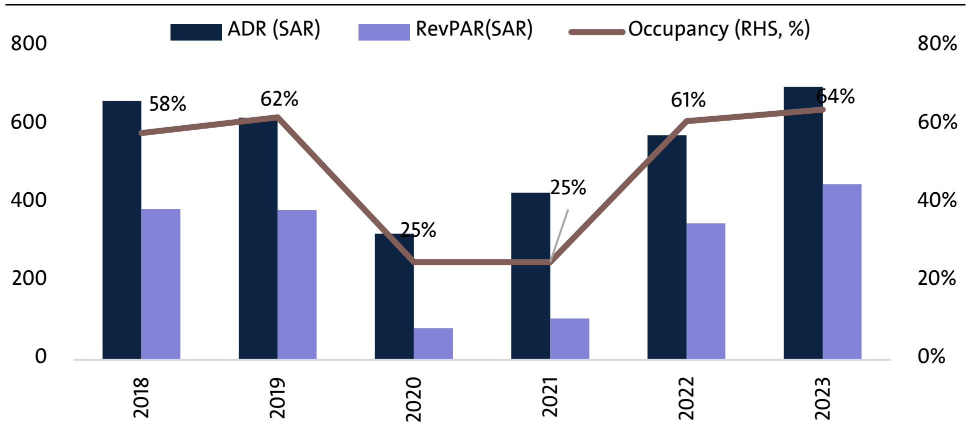
Supply projection suggests an estimated addition of 84k keys by 2030, which implies a supply CAGR of 4.7% vs. CAGR of 5.1% projected for visitor arrivals during the same period which is likely to keep occupancy rate at elevated levels. Interestingly, most of future supply is likely to be weighted towards quality offerings.

ADR & RevPAR Trends

The major revenue indicators for the hospitality sector in Makkah demonstrate healthy trends

The major revenue indicators for the hospitality sector in Makkah demonstrate healthy trends in line with quicker and deeper post-COVID turnaround experienced in the tourism activity in the city and current supply/demand dynamics. The trends in average daily rate (ADR) and Revenue Per Available Room (RevPAR) show significant sequential improvement in 2022 and 2023. This is almost consistent across all quality offerings. Meanwhile, the occupancy rate for quality offerings (3-Star and above for both hotels and serviced apartments) has scaled new heights.

Makkah Hospitality: Performance of quality segment



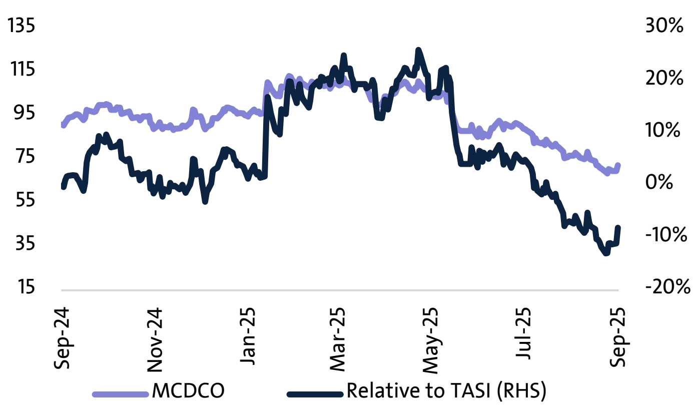
Source: AC, Masar IPO Prospectus

4-35% correction in stock price; reason for outperformance ahead

We believe the stock price correction offers a good opportunity

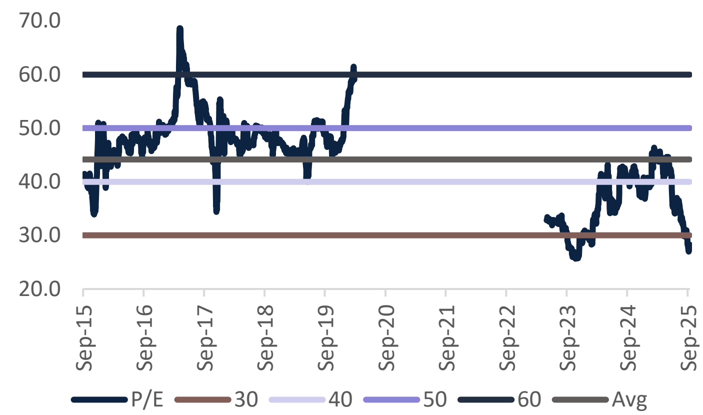
While MCDCO stock price has corrected 35% from its peak in Feb 2025, the stock has managed to deliver a 10% outperformance over the last 12-months against TASI. We believe the stock price correction offers a good opportunity given the company's expected earnings, dividend profile and current valuation. The stock trades at CY25/25 P/E of 28/26x, which is at a significant discount of 22/41% to its post- COVID/10-year averages (excluding the COVID-era). We see potential for MCDCO to outperform the TASI and discuss the key triggers below.

MCDCO managed to outperform TASI despite recent correction



Source: Bloomberg, AC

MCDCO's P/E trades at a discount to past average



Source: AC

Key triggers ahead

2025 is proving to be an eventful year for MCDCO with significant improvements in key operational and earnings metrics. Over the next few months, we eye following triggers for MCDCO:

- Award of major project related to renovation of hospitality offerings likely to be concluded in 4Q25/1Q26
- Completion of GLA addition in the commercial center in 4Q25/1Q26
- Identification of possible areas for optimization of current real assets
- Likely progress on the company's plans for diversification of earnings
- Progress on the securing quotas for the Umrah and Hajj business for the next year

Valuation

We have used DCF-based SOTP method to value MCDCO

We have used DCF-based SOTP method to value MCDCO. We have opted to rely on equity-based DCF valuation method instead of using any conventional real estate valuation method based on two reasons:

1-The uniqueness of company's assets and the status of company's balance sheet with significant surplus cash and investments present challenges in estimating the key inputs for specific real estate valuation methods generally found in valuation of hospitality assets. Specifically, we find the calculation of Capitalization Rate, whether based on recent market transactions or capital structure challenging, given the above considerations.

2-The company's future capex on renovation of assets in hospitality offerings and asset optimization for commercial center makes the use of conventional real estate valuation methods challenging.

That said, we highlight the significant improvement in company's financial disclosures and efforts to open communication with the investors in recent years, which we believe will aid in a better understanding of the company's assets and its future plans for growth.

1-DCF-based SOTP model used

We estimate the SOTP based fair value of the company of SAR83/sh

We have used DCF-based SOTP valuation method given company capex, free cash flow profile and the existing investments. We have employed a two-stage Free Cash Flow to Equity model to estimate the DCF-based fair value of the company. We estimate MCDCO's equity value at SAR16.6bn based on FCFE method which we have used to set our Target Price for the stock.

MCDCO: DCF-based SOTP Valuation

SARmn	2025E	2026E	2027E	2028E	2029E	2030E
Operating Profit	**471**	**515**	**555**	**646**	**725**	**767**
Impairment/Dep /Fair Value	33	33	33	34	34	41
Less: ∆ in Working Capital	-4	2	2	1	1	2
Capex	-6	-66	-143	-152	-102	-18
Taxes/Zakat	-27	-25	-50	0	0	0
Free Cash To Firm	467	460	398	529	659	792
PV of Free Cash To Firm	467	454	362	444	510	566
Summary of Valuation						
Long term growth rate (g)	3.00%					
Terminal value	**15,112**					
Present value of terminal value	10,796					
Present value of future cash flows	2,803					
Enterprise Value	13,598					
Cash	1,097					
Value of Investments	1894					
Equity value	**16,589**					
Shares	200.0					
Equity value per share	**83.00**					
Implied P/E (2026E)	28.9					
Implied EV/EBITDA (2026E)	24.2					

Source: AC Estimates

Key assumptions underpinning the DCF methods are explained below:

ADR: Average Daily Rate for hospitality offerings has sustained the improvement in the post COVID era and was up 11% YoY in 1H25. Meanwhile, occupancy for both rooms and suites remained elevated. We expect ADR to undergo an 8% CAGR in forecast years based on the company's plans for renovations of hospitality offerings and general increase in ADR.

The lease rate for commercial center recorded a noticeable improvement in the past two years and is up 52% since 2023

Lease rate for Commercial Center: The lease rate for commercial center recorded a noticeable improvement in the past two years and is up 52% since 2023. We believe the growth in lease rate is likely to be sustained in 2025 and 2026 on the back of the management's initiatives to optimize the yield from the commercial center, either via tenant mix or renewal of contracts on better terms. We have assumed a 3% sustainable lease rate in our earnings estimates.

Occupancy: MCDCO's prime location and the hospitality offerings have helped the company maintain occupancy levels close to 80%. Our future projections for occupancy take into consideration the increase in religious tourism and the management's efforts to optimize occupancy level, and potential synergies from MCDCO's Haj & Umrah business. Accordingly, we have assumed nominal increase in occupancy levels to ~84% by 2030 (86% in 2023 and 83% in 2024). We have built in an occupancy rate of 77% during the renovation period over 2026-2030.

Terminal growth rate: We have a 3% terminal growth rate, which is in line with the increase in lease rate and ADR escalation assumption.

Cost of Equity of 8.4: Our cost of equity assumptions includes a risk-free rate of 4.5%, a market risk premium of 5%, and beta of 0.78x (adjusted 10-year). MCDCO maintains a cash-rich balance sheet with an insignificant level of debt.

MCDCO: Basic Valuation Assumptions

Risk Free rate	4.5%
Market Risk Premium	5.0%
Adjusted Beta (x)	0.78
Cost of Equity	**8.40**

Source: AC Estimates

Sensitivity analysis on terminal growth and cost of equity

We obtain a valuation range of SAR73-97/sh assuming ranges of terminal growth of 2.5-3.5% and CoE of 7.9-8.9% respectively

The following table presents the sensitivity of MCDCO's's FCFE valuation to changes in cost of equity and terminal growth. Based on the sensitivity, we obtain a valuation range of SAR73-97/sh assuming ranges of terminal growth of 2.5-3.5% and CoE of 7.9-8.9% respectively. On an average basis, MCDCO's FCFE valuation moves by 3.7% for every 25bps change in terminal growth rate and by 3.5% for a 25bps change in CoE, respectively.

MCDCO: Valuation sensitivity to CoE & terminal growth rate

		Terminal Growth				
		2.5%	**2.8%**	**3.0%**	**3.3%**	**3.5%**
Cost of Equity	**7.9%**	83.9	86.7	89.7	93.2	97.0
	8.2%	80.9	83.4	86.2	89.2	92.6
	8.4%	78.1	80.4	82.9	85.7	88.7
	8.7%	75.6	77.7	80.0	82.5	85.2
	8.9%	73.3	75.2	77.3	79.6	82.1

Source: AC

3-Relative Valuation

Taiba Investment and Jabal Omar are the two closest peers with significant assets catering to the religious tourism in the Kingdom

We have relied on a sample of 10 real estate companies primarily listed on Tadawul's main index TASI to compare MCDCO's valuation with its peers'. MCDCO's is a unique asset in terms of location, established earnings history, and capital structure.

Taiba Investment and Jabal Omar are the two closest peers with significant assets catering to the religious tourism in the Kingdom. However, the two companies are in different stages of growth. Taiba has embarked on a significant expansion phase following its merger with another TASI-listed company, primarily focused on hospitality. Jabal Omar looks to strengthen its financial position following a significant financial restructuring and commissioning of new hospitality assets.

Masar and KEC are the two TASI-listed master developers catering to religious tourism. However, both companies differ in terms of size, complexity, and offerings and as such have yet to establish earnings and/or payout history.

We make the following observations on MCDCO's relative valuation vis a vis selected listed peers.

- MCDCO trades at a significant premium to its listed peers on TASI. The stock trades at a 70% premium on P/E and an 66% premium on EV/EBITDA.
- Interestingly, the stock offers healthy D/Y of 3% vs the average yield of the select peers of 2.2%.
- MCDCO's ROE and ROA of 10% and 9% are significantly above peers' averages.

  We believe MCDCO's low-capex growth, robust financial position, established earnings history, and unique location justify the premium.

MCDCO-Relative Valuation

Stock name	Country	Market Cap	Price	P/E		P/BV	D/Y		EV/EBITDA		ROE	ROA
		USDm	Local	2025E	2026E	2025E	2025E	2026E	2025E	2026E	2025E	2025E
Jabal Omar	KSA	5560	17.8			1.4						
Taiba Investments	KSA	2650	38.2	22	20	1.4	1.7%	1.7%	18.2	18.2	7%	5%
Masar	KSA	8908	23.2	38	34	2.2			74.7	75.8	6%	2%
KEC	KSA	1134	12.5			1.4						
Saudi Real Estate	KSA	1591	15.9	17		1.1			12.1	12.7	6%	7%
Retal	KSA	1711	12.8	20	13	7.0	3.2%	3.2%	18.0	11.8	36%	7%
Dar Alarkan	KSA	4800	16.9	18	16	0.8			15.0	14.3	5%	4%
Al-Andalus Property	KSA	463	18.8			1.6	1.4%	1.4%	22.0	21.9		4%
Arriyad Dvelop.	KSA	1859	30.1	1141	20	1.7	2.0%	2.0%	25.6	15.0	5%	3%
Cenomi Centers	KSA	2902	22.6	11	8	0.7	6.4%	6.4%	15.4	11.3	6%	6%
Mean				**21.3**	**15.0**	**1.3**	**2.2%**	**2.2%**	**18.9**	**15.9**	**6.4%**	**4.1%**
Makkah Constr	**KSA**	**3976**	**73.5**	**29.1**	**25.6**	**3.7**	**2.6%**	**2.9%**	**28.7**	**26.4**	**10%**	**9%**

Source: Bloomberg, AC Estimates

Key Risks to Our Investment Case

The following are key downside risks to our investment case for MCDCO:

I-Risk associated with project execution

MCDCO is undertaking a major renovation project that aims to transform the company's hospitality offerings

MCDCO is undertaking a major renovation project that aims to transform the company's hospitality offerings. A SAR400mn project is the first major project in the company's recent history since 2011 and entails a phased renovation of property over the lean occupancy period. The company's earnings face downside risks in case of (i) delays in completion of each phase of the project, as it would reduce the number of earnings units (rooms/suites) available during the peak demand season, (ii) capex overruns relative to original estimates, and (iii) lower benefits from renovation of earnings units. We have spread out the company's renovation plans to four years instead of three years to account for the risk of the project delays.

II- Returns on future growth projects

MCDCO carries a cash-rich balance sheet with nominal debt

MCDCO carries a cash-rich balance sheet with nominal debt. The total amount of cash and liquid investments on the company's balance sheet amounts to SAR820mn or 6% of current market cap. MCDCO is looking for projects for future development of its current liquid financial resources. However, the company has not made many major investments since 2013 other than the investment in a publicly listed company, First Avenue Real Estate and Construction Company, a NOMU-listed stock, in 2024. The return on the company's stock price will be subject to materialization of adequate returns on future investment and its impact on the company's existing business model.

III- Risk of competition

The forecast from the real estate consultancy company points to the addition of 85k total keys over 2024-2030 in Makkah. The majority of future keys will likely cater to the offerings in which MCDCO is currently engaged. This entails the risk of a price war, particularly in the lean period, which can impact the company's earnings and return. MCDCO's current location adjacent to the Haram Mosque is a major advantage for the company and will likely result in limited impact on ADR/RevPAR in case of a price war among future players, in our view.

IV- Concentration risk

MCDCO's earnings are subject to risk of downside due to low occupancy rates

MCDCO operates only one hospitality and commercial asset adjacent to the Holy Mosque, which caters to religious tourists coming from all over the world. As such, the company's earnings are subject to risk of downside due to low occupancy rates arising from any natural disaster, geopolitical event or any epidemic/pandemic.

MCDCO operates a five-star hospitality facility with six towers and a commercial mall.

Overview of the Company

About the Company

Makkah Construction & Development Company (MCDCO) was incorporated in 1998 to undertake development and operation of hospitality facilities in an area adjacent to the Holy Mosque in Makkah. The company's first project was launched in the same year, and the construction of the project was completed in 1994, which marked the start of operations for the hotel. MCDCO operates a five-star hospitality facility with six towers and a commercial mall. The two projects are constructed on an area of over 16,000 sqm.

Following are the details of the company's real estate offerings:

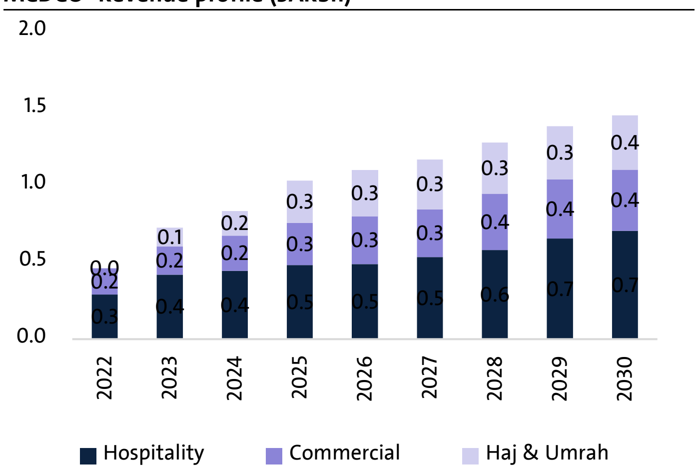
- Hospitality: 1437 rooms and suites (45:55 split) catering to the requirements of pilgrims to the holy mosque
- Commercial Center: 470 shops spread across three floors. One floor in the commercial center is dedicated for a prayer hall and offices.

MCDCO manages the hospitality facilities with its own resources. MCDCO had earlier engaged two international hotel management operators to manage and maintain the hotel. The last agreement with the international operator ended in 2019. The company does not intend to enter a hospitality management arrangement with an international operator after completing of its planned renovation.

Haj & Umrah Services

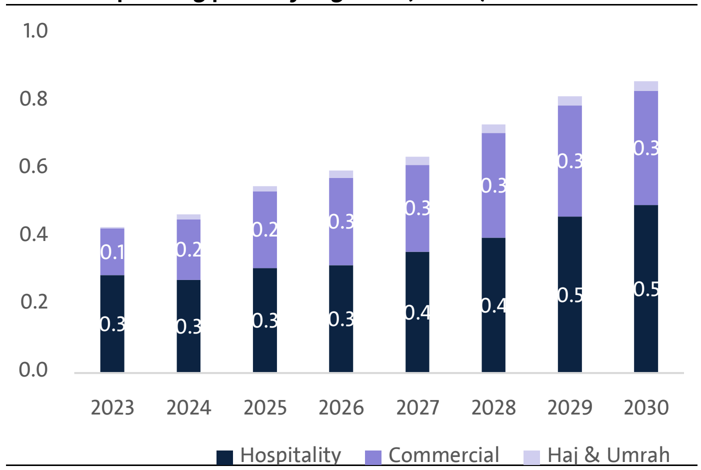
Besides providing accommodation facilities for the pilgrims, MCDCO is also engaged in Haj & Umrah services for local and international pilgrims. MCDCO provides a platform for booking of various facilities and services to pilgrims planning to visit the two holy cities. MCDCO served a total of 64k pilgrims through its platform in 1H2025 vs. the quota of 100k. The company made SAR229mn revenues and SAR16mn operating profit from the provision of the services in 2024.

MCDCO- Revenue profile (SARbn)



Source: MCDCO, AC Research

MCDCO: Operating profit by segment (SARbn)



Source: MCDCO, AC Research

Details of major group companies

Makkah Hotel Company Towers (Stake: 100%, Capital: SAR1mn):

The primary objective of the company is to provide accommodation, food, administrative services, support services, real estate facility management, and logistics. The company was established in 2023. The company has, in turn, established a subsidiary named Maad Al Taqwa Hajj Services Company, which is engaged in providing services to pilgrims.

Manafa Al Barakh Investment Company (Stake: 100%, Capital: SAR0.5mn): Established in 2024, the primary objective of the company is to provide financial services.

Makkah Company for Umrah Service (Stake: 100%, Capital: SARmn): The company provides services to visitors to the Prophet Mosque. It was established in 2017

Details MCDCO's Key Investments

MCDCO investment in Jabal Omar

MCDCO maintains a~7% stake in Jabal Omar, a TASI-listed real estate company engaged in the hospitality offerings

MCDCO maintains a~7% stake in Jabal Omar, a TASI-listed real estate company engaged in the hospitality offerings for religious tourism in Makkah. MCDCO has acquired the shares both as a result of direct investment in the company at the time of the company's foundation via in-kind contribution and conversion of the company's loans to Jabal Omar. MCDCO has taken advantage of the significant liquidity event of the inclusion of Jabal Omar in the MSCI EM Index in May 2025 and has reduced its start-of-period holding of 9.8% (~110mn shares) to current 7% (77mn shares).

MCDCO Investment in First Avenue for Real Estate Development Company

MCDCO invested SAR340mn in a NOMU-listed real estate company, First Avenue for Real Estate Development Company (First Avenue) for an effective 27.7% stake (56.8mn shares) in Sep-24. The current market value of its investment stands at ~SAR0.45bn. First Avenue maintains a diversified asset base across key cities. The company is involved in construction, leasing, and sale of real estate offerings in hospitality, residential and non-residential buildings.

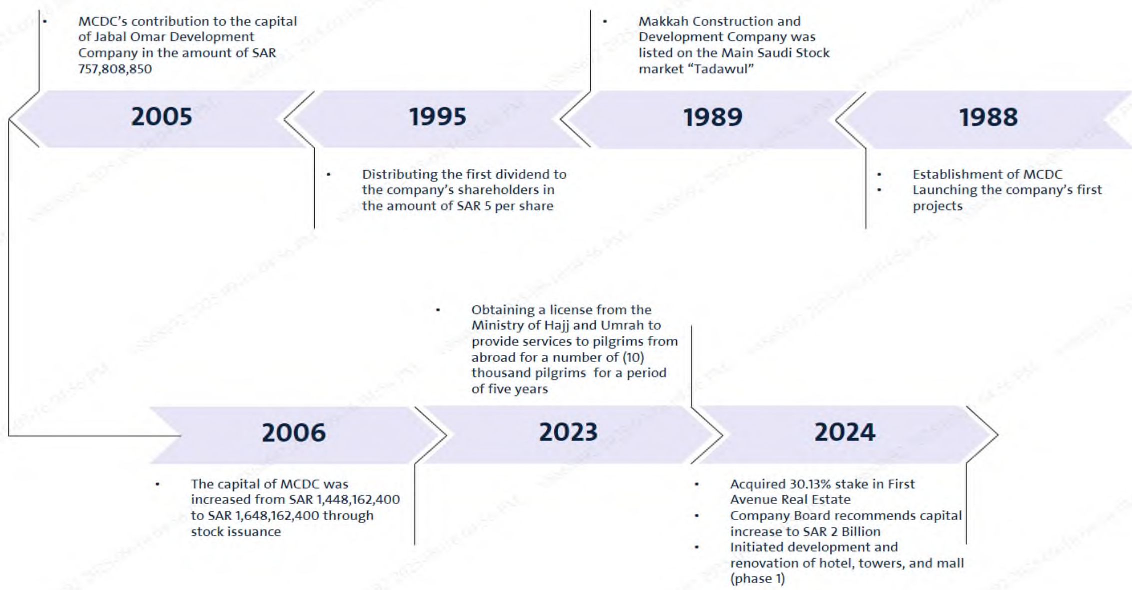
MCDCO Investment in Jabal Al Sharashef Area

MCDCO owns properties in Jabal Al Sharashef area with the primary objective of income generation. The market value of properties is quoted at SAR70mn in Dec-2024. MCDCO generated SAR3mn lease income from the properties in 2024.

MCDCO Investment in Jorum Development Company

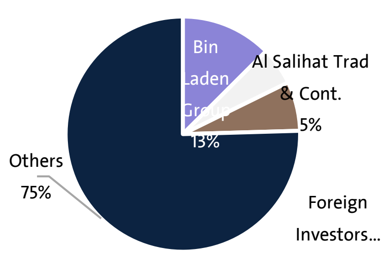
MCDCO acquired 28% stake in Jorum Development Company (Jorum) in 2013 for SAR28.8mn. Jorum is engaged in the development of Al Sharashef area. The company has incurred losses over the years which has reduced MCDCO's investment to SAR18mn

Makkah Construction and Development Company milestones



Source: Company Reports

MCDCO Shareholding : 2025



Source: Bloomberg, Tadawul, AC

Shareholding Details

MCDCO was incorporated and listed on Tadawul in 1989 pursuant to a Royal Decree. MCDCO's current major shareholders include Bin Laden Group and Salihat Trading and Contracting Holding Co, as per Bloomberg, with respective holdings of 12.5% and 5.2%. The foreign shareholders have accumulated a 6.8% stake (13.6mn shares) since the change in regulation for foreign ownership in publicly listed real estate companies early this year. MCDCO's free float is estimated at ~83% as per Bloomberg. MCDCO's market cap and free float market are estimated at USD3.9bn and USD3.3bn. MCDCO was included in the MSCI Saudi, MSCI EM Index and FTSE-Russel index in 2025 following the changes in regulations on foreign ownership.

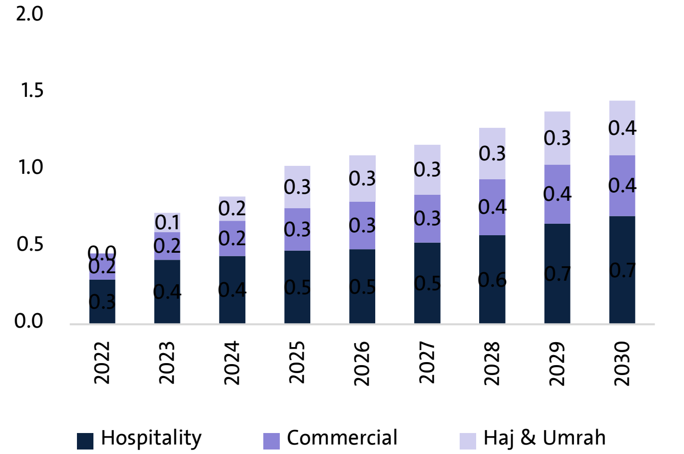
MCDCO-SWOT Analysis

Strengths	Opportunities
▪ Location of the hotel and commercial center in proximity to the Holy Mosque in Makkah ▪ MCDCO provides a unique experience for visitors to the Haram Mosque ▪ A robust financial position with significant surplus cash ▪ High occupancy rate relative to other hospitality offerings ▪ Proactive management of financial assets and the real estate offerings to materialize higher returns for the shareholders ▪ In-house management of the hospitality operations without engagement with any international hotel chain operator	▪ Favorable economic conditions, defined by robust economic growth, particularly in the non-oil sector, growing foreign and local investments and significant revenue diversification ▪ Exposure to significant market opportunities directly aligned with the Vision 2030 goals and the religious tourism targets, which may provide opportunities to MCDCO to better utilize its financial resources ▪ Easing visa regulations and processes for both Hajj and Umrah ▪ A growing population, both citizens and residents, with later driven by economic activity and government initiatives, will likely translate into more visitors to Al Haram and better occupancy for the rooms and suites
Weakness	**Threats**
▪ Concentration risk as MCDCO assets are located at only one location and have exposure to only religious tourism theme ▪ Variation in occupancy rate during the year producing seasonality in earnings ▪ Distributed ownership of the company	▪ Future competition from development of new hospitality offerings in areas surrounding MCDCO ▪ Delay in execution of the company's future initiatives for renovation of hospitality offerings, expanding GLA or changing the tenant mix in the commercial center

Source: AC

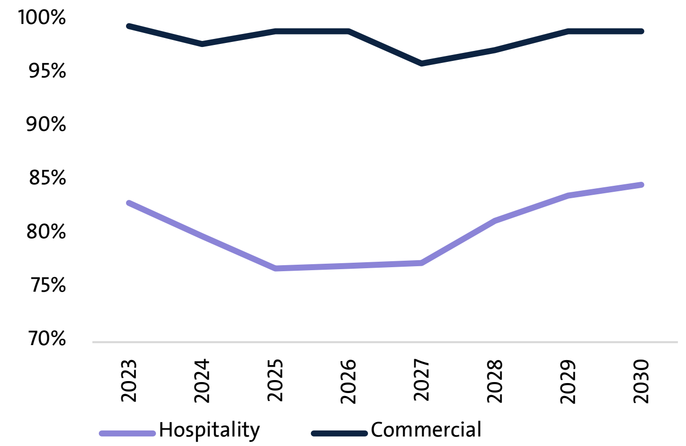
MCDCO in Charts

MCDCO:Revenue trajectory (SARbn)



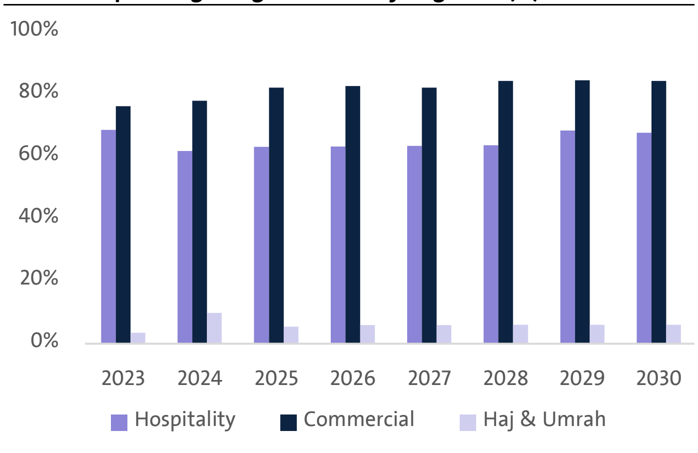
Source: MCDCO, AC Research

MCDCO: Occupancy rates (%)



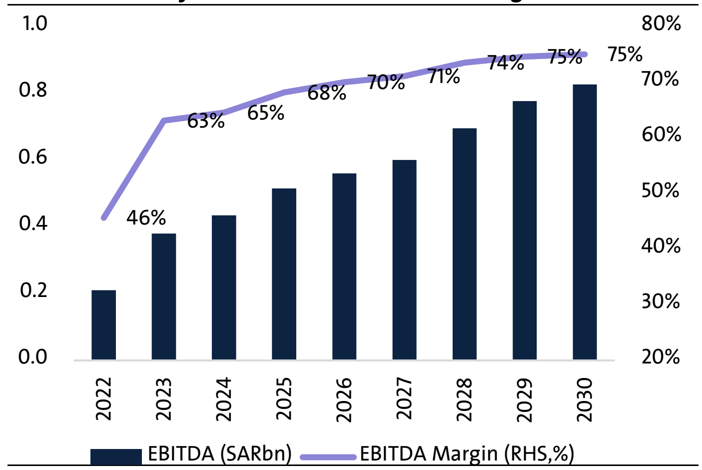
Source: MCDCO, AC Research

MCDCO: Operating Margins Trends by Segment (%)



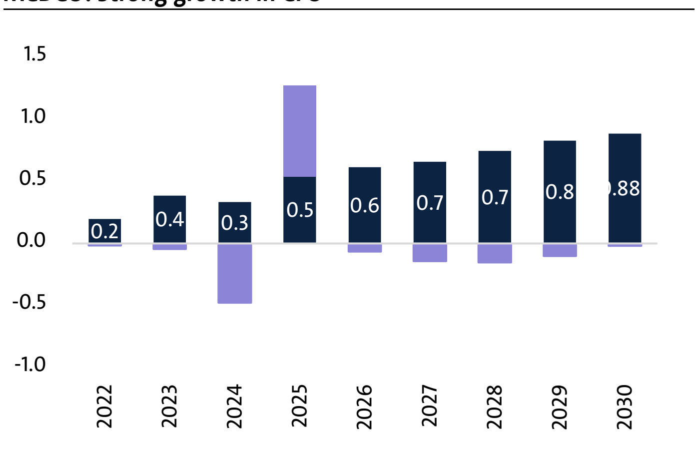
Source: MCDCO, AC Research

MCDCO: A steady rise in EBITDA and EBTDA margin



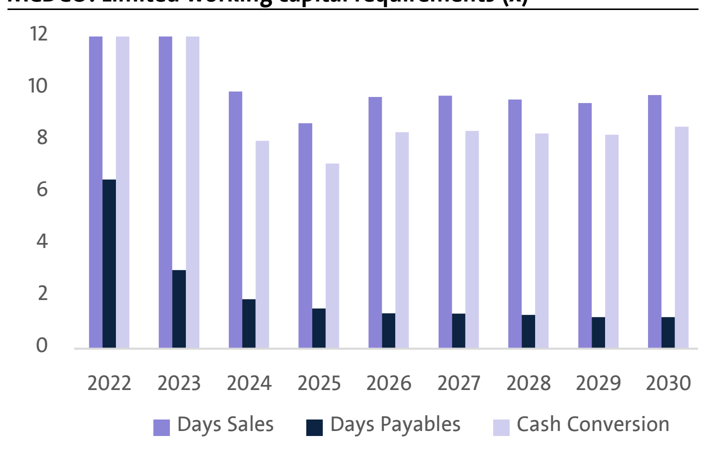
Source: MCDCO, AC Research

MCDCO: Strong growth in CFO



Source: MCDCO, AC Research

MCDCO: Limited working capital requirements (x)



Source: MCDCO, AC Research

Key Financials

Income Statement

SARmn	2023	2024	2025E	2026E	2027E	2028E
Revenue	731	836	1,037	1,105	1,175	1,285
Cost of Revenue	-328	-364	-481	-503	-531	-546
Gross Profit	**403**	**472**	**557**	**603**	**644**	**739**
S&D expenses	**-7**	**-6**	**-6**	**-6**	**-6**	**-7**
G&A	**-58**	**-66**	**-68**	**-69**	**-70**	**-72**
EBIT	**347**	**399**	**483**	**527**	**567**	**661**
EBITDA	**380**	**435**	**516**	**561**	**601**	**695**
Finance income/Others	2	24	38	64	71	67
Financial costs	**349**	**423**	**521**	**592**	**638**	**729**
Zakat	**-15**	**-12**	**-15**	**-17**	**-18**	**-21**
Profit after Tax	**334**	**411**	**506**	**575**	**620**	**708**
EPS	1.7	2.1	2.5	2.9	3.1	3.5
DPS	1.2	1.5	1.9	2.2	2.3	2.7

Source: MCDCO, AC Estimates

Balance Sheet

SARmn	2023	2024	2025E	2026E	2027E	2028E
Assets	**4,622**	**4,505**	**4,426**	**4,539**	**4,639**	**4,810**
Non-Current Assets	**4,023**	**4,193**	**3,240**	**3,272**	**3,382**	**3,500**
PP&E	1,324	1,336	1,311	1,334	1,408	1,532
Current Assets	**599**	**312**	**1,186**	**1,267**	**1,257**	**1,310**
Cash and cash equivalents	526	112	985	1,070	1,064	1,121
Trade receivables	24	21	28	30	32	35
Equity	**4,092**	**4,054**	**3,994**	**4,138**	**4,293**	**4,470**
Share capital	1,648	1,648	2,000	2,000	2,000	2,000
Retained earnings & Others	2,443	2,406	1,994	2,138	2,293	2,470
Liabilities	**531**	**450**	**432**	**401**	**345**	**340**
Non-Current Liabilities	**138**	**129**	**106**	**83**	**60**	**62**
Long-term borrowings	100	75	50	25	0	0
Other non-current liabilities	38	54	56	58	60	62
Current Liabilities	**392**	**321**	**326**	**318**	**285**	**278**
Trade payables and others	4	5	4	4	4	4
Accrued expenses and others	204	130	125	123	96	95
Dividend Payables	184	187	196	190	185	179

Source: MCDCO, AC Estimates

Summary of Cash Flows

SARmn	2023	2024	2025E	2026E	2027E	2028E
Operating Activities	387	333	540	615	659	746
Investing Activities	(45)	(478)	734	(66)	(143)	(152)
Financing Activities	-187	-270	-400	-464	-521	-537

Source: MCDCO, AC Estimates

Key Ratios

Revenue Contribution	Units	2023	2024	2025E	2026E	2027E	2028E
Hospitality	%	58%	53%	46%	44%	45%	45%
Commercial	%	25%	27%	27%	28%	27%	28%
Haj	%	17%	19%	27%	27%	28%	26%
Turnover Ratios							
AR Turnover	X	16.0	36.8	42.0	38.0	38.0	38.5
AP Turnover	X	120.6	191.9	236.4	273.5	276.6	290.6
DSO	Days	23	10	9	10	10	9
DPO	Days	3	2	2	1	1	1
CCC	Days	**20**	**8**	**7**	**8**	**8**	**8**
Capital Structure Ratios							
Debt to Equity	%	3%	3%	2%	1%	0%	0%
Debt to Assets	%	3%	2%	2%	1%	0%	0%
Net Debt to EBITDA	X	1.0	0.3	2.0	2.0	2.0	1.8
Debt to EBITDA	X	0.3	0.2	0.1	0.1	0.0	0.0
Profitability Ratios							
GP Margin	%	66%	69%	72%	74%	75%	77%
Operating Margin	%	56%	59%	63%	65%	66%	69%
EBITDA Margin	%	62%	64%	67%	69%	70%	73%
NP Margin	%	54%	60%	66%	71%	72%	74%
ROE	%	8%	10%	13%	14%	15%	16%
ROA	%	8%	10%	12%	13%	13%	15%
Market Ratios							
Market Price	SAR/sh	73.50	73.50	73.50	73.50	73.50	73.50
PE	X	44.0	35.8	29.1	25.6	23.7	20.8
Dividend Yield	%	1.7%	2.0%	2.6%	2.9%	3.2%	3.6%
BVPS	SAR/sh	20.5	20.3	20.0	20.7	21.5	22.4
PBV	X	3.59	3.63	3.68	3.55	3.42	3.29
EV/EBITDA	X	39.0	34.1	28.7	26.4	24.7	21.3

Source: MCDCO , 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.

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Alinma Capital Company (AC) follow a three-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: AC has not assigned any rating on the stock

Coverage Suspended: AC 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 18th Sep 2025.

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