

Information Technology

Hold: 12M TP @ 129

Valuation Summary (TTM)

Price (SAR)	127.6
PER TTM (x)	50.4
P/Book (x)	12.1
P/Sales (x)	2.6
EV/Sales (x)	3.3
EV/EBITDA (x)	43.7
Dividend Yield (%)	2.4
Free Float (%)	50%
Shares O/S (mn)	30
YTD Return (%)	37%
Beta	0.9

(mn)	SAR	USD
Market Cap	3,828	1,021
Total Assets	4,437	1,183

Price performance (%)	1M	3M	12M
Al Moammar Information Syst	-6%	-24%	39%
Tadawul All Share Index	4%	-3%	1%
Industry Index	4%	-3%	1%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	31,489	22,156	23,400
Avg Daily Volume (,000)	210	160	158

52 week	High	Low	CTL*
Price (SAR)	178.00	86.00	48.4

* CTL is % change in CMP to 52wk low

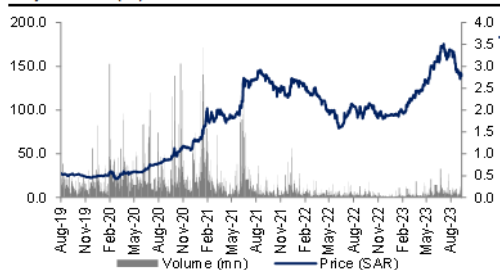
Major shareholders

Al Moammar Ibrahim B	27%
Al Moammar Khalid Bi	22.1%
BlackRock Inc	0.9%
Others	50.0%

Other details

Exchange	Saudi Arabia
Sector	Computers
Index weight (%)	0.1%

Key ratios	2020	2021	2022
EPS (SAR)	2.71	1.88	3.20
BVPS (SAR)	10.82	11.12	12.37
DPS (SAR)	1.40	1.67	2.40
Payout ratio (%)	52%	89%	75%

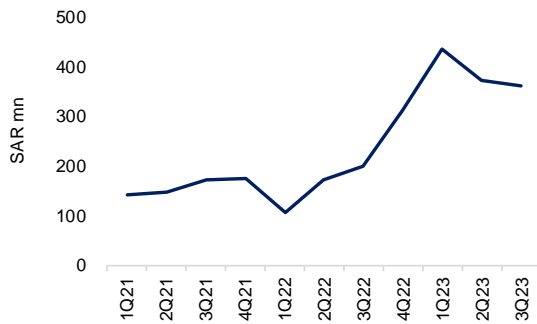


Al Moammar Information Systems Co.

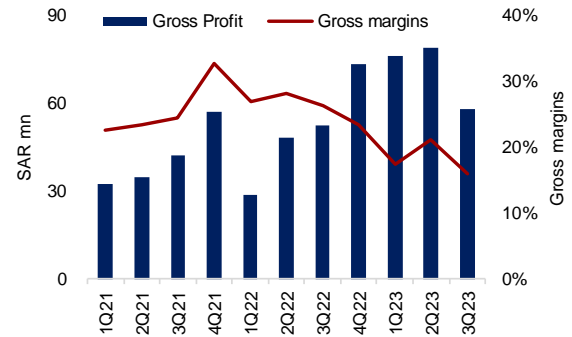
Al Moammar Information Systems Co. (MIS) 3Q23 revenue at SAR361mn was up by 81.7% YoY and was aided by the commencement of the execution of data centre project and strong order flow from its legacy operations (business excluding data centre). Revenue from the data centre segment increased by 172% YoY to SAR102mn, while non-data centre segment sales grew by 61% YoY to SAR259mn. Order inflow of legacy operations continued to remain strong at c.SAR1.7bn YTD (till Oct-23), driving the topline. However, the revenue was lower than our expectation of SAR401mn and was attributed to lower-than-expected revenue booking from its data centre operations. Gross profit increased by 11.2% YoY to SAR58mn and was driven by higher revenue. However, a fall in gross margins from 26.3% in 3Q22 to 16.1% for 3Q23 restricted the growth in profitability. The lower margin is likely to have been attributed by the inherent cyclicity in booking of orders in a contract driven operations. Operating cost increased by 404% YoY to SAR116mn and was impacted by a provision of SAR93mn towards impairment on contract assets and receivable. Increasing working capital requirement, resulted in higher debt, as finance cost increased by 269% YoY to SAR13mn for 3Q23. Overall, the company reported a net loss of SAR69mn, compared to a net income of SAR25mn for 3Q22 and was also lower than our expectation of SAR52mn. The main reason for the lower-than-expected profitability was the provisions for impairment and lower than expected gross margins. We see the impairment as a one-time event; however, the high working capital requirement of the operations, with receivable and contract assets of close to 400days, increases the risk of such provisions in the future. Overall, we have revised our target price on the company to SAR129/share and have changed our rating from Neutral to Hold.

Limited visibility in future data centre projects and high working capital requirement continues to make us cautious on MIS: The company is currently undertaking the execution of a SAR1.2bn data centre project. We forecast that c.70% of the order will be booked by 2023e and the full project will be completed by 2024e. Post this, we do not have any further visibility of projects in this segment. Though we expect the strong inflow of projects from its legacy operations to continue, the same is unlikely to compensate for the execution of the data centre project. Overall, the revenue and profitability growth are likely to come under pressure in 2024e and 2025e, due to the higher base in 2023e (excluding impairments). As of Sep-23, MIS had a debt of SAR688mn, a near doubling from the levels of SAR371mn in 2022 (D/E of 2.2x as of Sep-23, compared to 1.0x as of 2022). The main reason for this was the increase in the working capital requirement of the company. Given the contract nature of the company's operation, the working capital requirement can be volatile. Though we expect the debt levels to ease in the coming quarters, we remain cautious on this front. With the company quoting at 34x its 2024e EPS, we feel that the current market price fully reflects any upside on MIS operations. Overall, we reduce the target price to SAR129/share and revise our rating to HOLD.

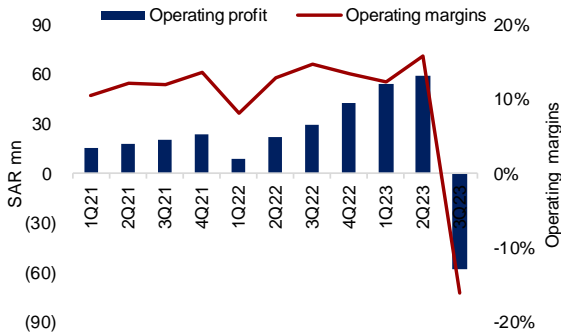
3Q23 revenue continues to grow YoY



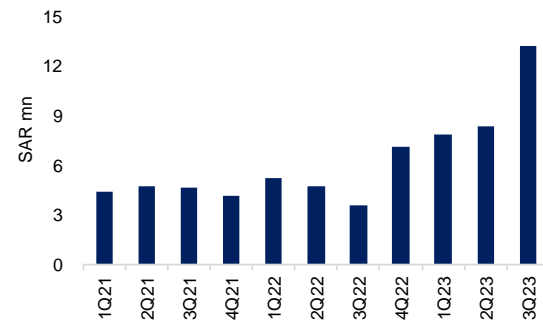
Gross profit growth impacted by pressure on margins



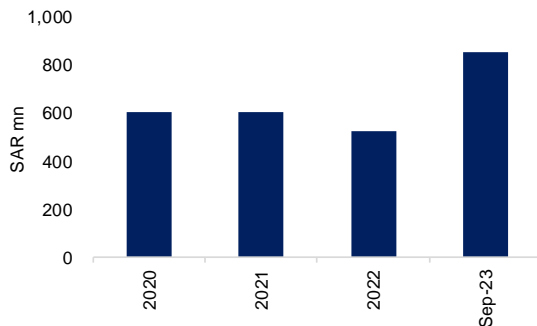
Operating profit impacted by impairments



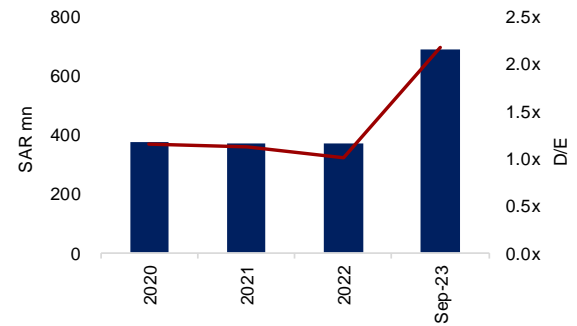
Finance cost increases due to higher debt



Working capital requirement increases



Leverage increases as working capital increase



Source: Company reports, US Research

Income Statement (SAR mn)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	675	639	790	1,554	1,401	1,021	1,061	1,138
Cost of sales	(502)	(472)	(587)	(1,279)	(1,131)	(807)	(839)	(899)
Gross profit	173	167	203	276	271	214	222	238
Operating expenses	(75)	(89)	(101)	(185)	(114)	(109)	(112)	(115)
Operating profit	98	77	102	91	157	105	111	123
Other income	5	4	18	4	5	5	5	5
Finance expenses	(16)	(18)	(21)	(39)	(36)	(19)	(15)	(15)
Income from associates	2	2	6	6	6	6	6	6
Earnings before tax	89	65	105	62	132	96	106	120
Tax	(8)	(8)	(10)	(8)	(18)	(13)	(14)	(16)
Net income	81	56	96	54	114	83	92	103

Balance Sheet (SAR mn)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Property and equipment	37	42	41	39	38	36	35	34
Intangibles	2	6	5	7	9	11	12	13
Investment in associates	5	7	9	14	20	26	31	37
Investments	0	25	25	25	145	145	145	145
Other non-current assets	25	45	22	22	22	22	22	22
Total non-current assets	69	126	102	108	234	240	246	251
Contract assets	351	522	628	1,190	1,031	720	716	734
Receivables	516	388	507	998	900	655	681	730
Cash & Cash Equivalents	81	22	152	123	85	20	30	37
Other current assets	130	94	219	219	219	219	219	219
Total current assets	1,079	1,026	1,507	2,530	2,235	1,615	1,646	1,721
Total assets	1,148	1,152	1,609	2,638	2,469	1,854	1,892	1,972
Share Capital	200	250	300	300	300	300	300	300
Total reserves	124	84	71	98	121	129	138	148
Total equity	324	334	371	398	421	429	438	448
Short term borrowings	372	371	371	599	593	375	364	358
Trade payables	243	265	502	895	791	565	587	630
Contract liabilities	139	123	323	703	622	444	461	494
Other current liabilities	15	12	9	9	9	9	9	9
Total current liabilities	769	771	1,205	2,207	2,015	1,393	1,421	1,491
Contract liabilities	33	24	10	10	10	10	10	10
Long term lease liabilities	1	0	0	0	0	0	0	0
Other non-current liabilities	20	23	23	23	23	23	23	23
Total non-current liabilities	54	47	33	33	33	33	33	33
Total Liabilities	823	818	1,238	2,240	2,048	1,426	1,454	1,524
Equity and liabilities	1,148	1,152	1,609	2,638	2,469	1,854	1,892	1,972

Cash Flows (SAR mn)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	(28)	45	198	(226)	185	232	108	111
Cash from investments	(18)	(38)	14	(5)	(125)	(5)	(5)	(5)
Cash from financing	98	(67)	(81)	202	(98)	(292)	(94)	(99)
Net changes in cash	52	(60)	131	(29)	(38)	(65)	9	8
Closing balance (C/b)	81	22	152	123	85	20	30	37

Ratios	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<u>Per Share (SAR)</u>								
EPS	2.7	1.9	3.2	1.8	3.8	2.8	3.1	3.4
BVPS	10.8	11.1	12.4	13.3	14.0	14.3	14.6	14.9
DPS	1.4	1.7	2.4	0.9	3.0	2.5	2.8	3.1
FCF/share	(1.5)	0.3	7.1	(7.7)	2.0	7.6	3.4	3.5
Revenue/share	22.5	21.3	26.3	51.8	46.7	34.0	35.4	37.9
<u>Valuations</u>								
M.Cap (SAR mn)	3,828	3,828	3,828	3,828	3,828	3,828	3,828	3,828
EV (SAR mn)	4,114	4,146	4,013	4,265	4,171	4,012	3,985	3,966
P/E	47.1x	67.8x	39.9x	71.5x	33.6x	46.2x	41.7x	37.0x
EV/EBITDA	41.2x	51.1x	37.6x	44.6x	25.8x	36.6x	34.5x	30.9x
EV/Sales	6.1x	6.5x	5.1x	2.7x	3.0x	3.9x	3.8x	3.5x
P/BV	11.8x	11.5x	10.3x	9.6x	9.1x	8.9x	8.7x	8.5x
P/S	5.7x	6.0x	4.8x	2.5x	2.7x	3.8x	3.6x	3.4x
Div. yield	1.1%	1.3%	1.9%	0.7%	2.4%	1.9%	2.2%	2.4%
FCF yield	-1.2%	0.2%	5.5%	-6.0%	1.6%	5.9%	2.7%	2.8%
<u>Liquidity</u>								
Cash Ratio	0.1x	0.0x	0.1x	0.1x	0.0x	0.0x	0.0x	0.0x
Current ratio	1.4x	1.3x	1.3x	1.1x	1.1x	1.2x	1.2x	1.2x
Quick ratio	1.4x	1.3x	1.2x	1.1x	1.1x	1.2x	1.2x	1.2x
<u>Return ratio</u>								
ROA	7.1%	4.9%	6.0%	2.0%	4.6%	4.5%	4.9%	5.2%
ROE	25.1%	16.9%	25.8%	13.5%	27.0%	19.3%	21.0%	23.1%
ROCE	14.1%	11.0%	13.7%	9.1%	15.5%	13.0%	13.8%	15.3%
<u>Cash cycle</u>								
Contract asset turnover	1.9x	1.2x	1.3x	1.3x	1.4x	1.4x	1.5x	1.5x
Payables turnover	2.1x	1.8x	1.2x	1.4x	1.4x	1.4x	1.4x	1.4x
Receivables turnover	1.3x	1.6x	1.6x	1.6x	1.6x	1.6x	1.6x	1.6x
Contract asset days	190	298	290	279	268	257	247	236
Payable days	177	205	312	256	256	256	256	256
Receivables days	279	222	234	234	234	234	234	234
Cash Cycle	292	315	213	258	247	236	225	214
<u>Profitability ratio</u>								
Gross margins	25.7%	26.1%	25.7%	17.7%	19.3%	20.9%	20.9%	20.9%
EBITDA margins	14.8%	12.7%	13.5%	6.2%	11.5%	10.7%	10.9%	11.3%
Operating margins	14.6%	12.1%	12.9%	5.9%	11.2%	10.3%	10.4%	10.9%
PBT margins	13.3%	10.2%	13.4%	4.0%	9.4%	9.4%	10.0%	10.5%
Net margins	12.0%	8.8%	12.1%	3.4%	8.1%	8.1%	8.7%	9.1%
Effective tax rate	9.2%	12.9%	9.1%	13.5%	13.5%	13.5%	13.5%	13.5%
<u>Leverage</u>								
Total debt (SAR mn)	373	371	371	600	593	375	364	358
Net debt (SAR mn)	291	350	219	477	508	355	334	321
Debt/Capital	53.5%	52.7%	50.0%	60.1%	58.5%	46.6%	45.4%	44.4%
Debt/Total assets	32.5%	32.2%	23.1%	22.7%	24.0%	20.2%	19.2%	18.1%
Debt/Equity	1.1x	1.1x	1.0x	1.5x	1.4x	0.9x	0.8x	0.8x
Debt/EBITDA	3.7x	4.6x	3.5x	6.3x	3.7x	3.4x	3.1x	2.8x
Net debt/EBITDA	2.9x	4.3x	2.1x	5.0x	3.1x	3.2x	2.9x	2.5x

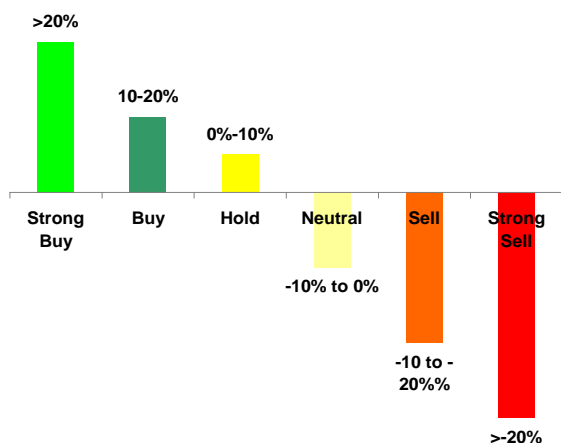
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Rating Criteria and Definitions

Rating	Rating Definitions
Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe



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