

Contract Services

BUY: 12M TP @ 0.519

Valuation Summary (TTM)

Price (RO)	0.430
PER TTM (x)	7.7
P/Book (x)	1.2
P/Sales (x)	0.7
EV/Sales (x)	1.4
EV/EBITDA (x)	7.5
Dividend Yield (%)	4.7
Free Float (%)	64%
Shares O/S (mn)	236
YTD Return (%)	-8%
Beta	0.7

(mn)	OMR	USD
------	-----	-----

Market Cap	102	264
------------	-----	-----

Enterprise Value	222	576
------------------	-----	-----

Price performance (%)	1M	3M	12M
-----------------------	----	----	-----

Renaissance Services SAO	-4%	-8%	0%
--------------------------	-----	-----	----

MSX 30 Index	2%	0%	16%
--------------	----	----	-----

Industry Index	0%	6%	6%
----------------	----	----	----

Trading liquidity (,000)	1M	3M	6M
--------------------------	----	----	----

Avg daily turnover (RO ,000)	69	87	95
------------------------------	----	----	----

Avg Daily Volume (,000)	203	197	208
-------------------------	-----	-----	-----

52 week	High	Low	CTL*
---------	------	-----	------

Price (RO)	0.530	0.404	6.4
------------	-------	-------	-----

* CTL is % change in CMP to 52wk low

Major shareholders

Al Dawrih Services LLC	14.6%
------------------------	-------

Tawoos LLC	11.6%
------------	-------

Tawoos Industrial Services	9.7%
----------------------------	------

Others	64.2%
--------	-------

Other details

Exchange	MSX
----------	-----

Sector	Transportation
--------	----------------

Index weight (%)	2.51%
------------------	-------

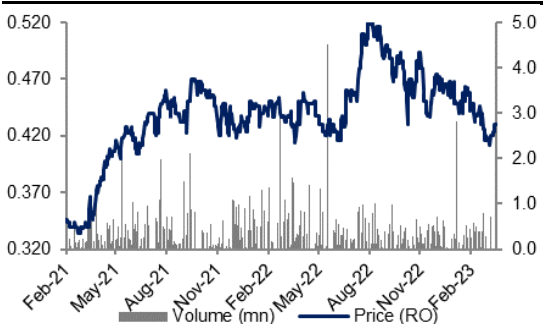
Key ratios	2020	2021	2022
------------	------	------	------

EPS (RO)	0.036	0.043	0.053
----------	-------	-------	-------

BVPS (RO)	0.290	0.314	0.453
-----------	-------	-------	-------

DPS (RO)	0.020	0.020	0.020
----------	-------	-------	-------

Payout ratio (%)	56%	47%	38%
------------------	-----	-----	-----



Renaissance Services – Growth slowing down

RNSS reported 2022 net income of RO 12.2 million, missing our estimates by 9%, and was +9% y/y. The revenue for the year came in at RO 121mn which is higher by 10.8% as compared to the previous year. Revenue grew on account of revival of order book with new orders and renewal of existing orders coming in this year. However, margins were lower than expected with gross margins for 2022 at 18.8% compared to our expectation of 19.7%. The company reported occupancy rates at RSVD at 42% for the 4Q22 and 62% for the full year. Gross margin erosion was severe in the last quarter of 2022 as it dropped to a low of 15.9%. We attribute this to low occupancy at RSVD, overseas operations incurring higher costs, and the general inflationary pressure. Operating Profit margin has also been on a declining trend, and it ended 4Q22 at 9.3% and for the full year at 13.4%. The higher margins in the 1Q22 compensated for the decline towards the end of the year and net margins remained at the long-term trend of 10.1% for 2022. Based on the current trend and outlook we are reducing our gross margin estimates for FY23-25E by 200bps. At current levels the shares trade at FY23E P/E of 8.5x, 1.2x book value, and offers a dividend yield of 4.7%. Based on our revised estimates and using a blended DCF-Relative valuation approach, we reduce our target price downwards from RO 0.653 to RO 0.519, which is still 20% higher than current market price. We downgrade our rating on the stock to BUY.

Management Call Takeaways

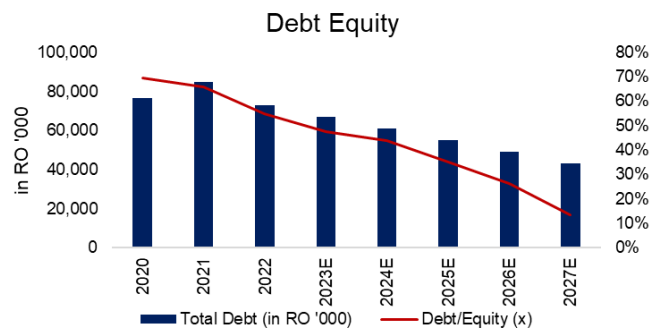
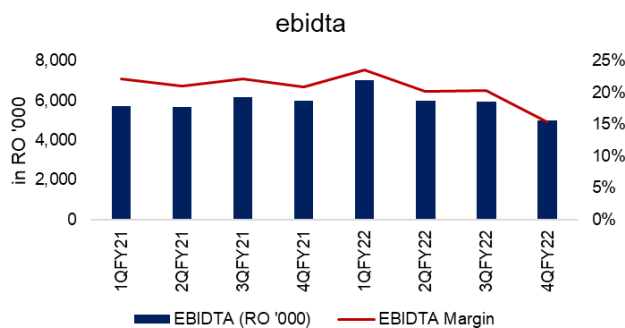
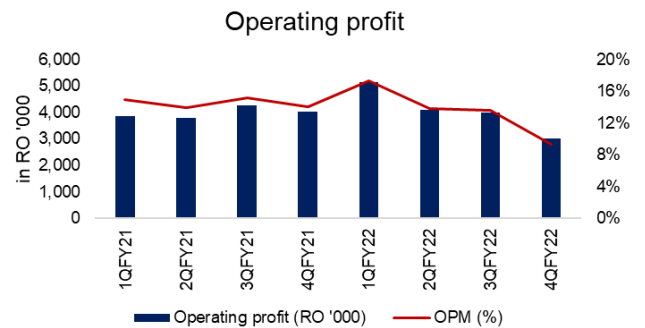
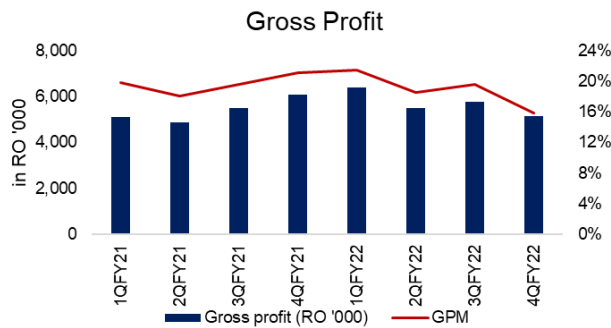
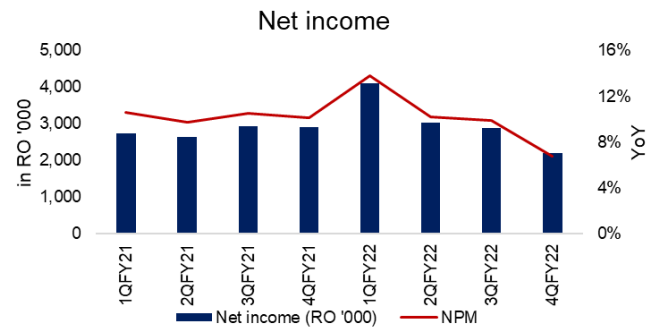
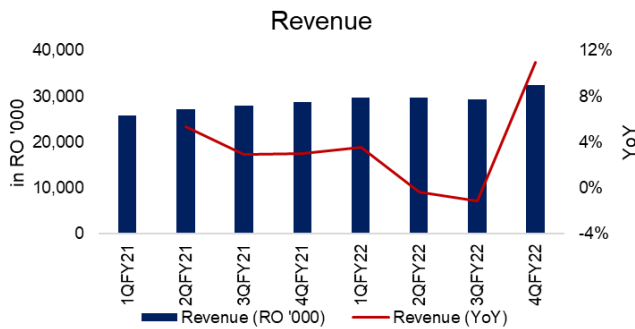
Management commentary is positive and implies renewal of legacy contracts and return to the bidding process for new ones. RNSS expects to take advantage of the growing prospects outside Oman. It has stepped into Qatar in 2022 to pursue small ticket projects during FIFA2022 along with the Mekad group. Recently RNSS has planned to offer its services in KSA. Attractive opportunities coming up at the modern city of Neom where the requirement for large scale workforce will be an area of focus.

Renaissance village Duqm (RSVD) is going through a tough phase; occupancy levels have been declining each quarter and it stood at a low of 42% at the end of 2022. The completion of some large projects and related de-commissioning, delay in new project awards and continuation of unorganized PACs are causing strain. It expects a cyclical increase in occupancy by 2000-3000 people to be accommodated later in the year. The Jindal green steel project, petchem complex, new cement plant, green hydrogen plant and coastal road projects are some major catalysts in the pipeline which could trigger the increase in occupancy beyond 2023. However, the company is focusing on automation and cost cutting at several levels to maintain the profitability of RSVD even at this level. Based on the expected improvement in efficiency, the management has guided a base minimum EBIDTA level profits to arrive at an occupancy of 5000 and net profit breakeven at 6000.

Existing PAC business will witness a capex of RO 1.9mn to support brown field expansion. This should help in increasing PAC capacity by few thousand beds, which will be serviced by the company for next 5 years. A full year impact of this expansion will be visible from FY2024E

RNSS reported its full year EPS at RO 0.050 compared to RO 0.043 in 2021. EBITDA remained flat for the year at RO 23.9 million. We do not expect significant capex to be planned unless the project pipeline trajectory builds. Borrowings declined by RO 13mn to RO 65 million in 2022. The reduction in gross debt is expected to continue going forward and we expect debt equity to remain below 0.5x going forward. The company is actively scouting for growth opportunities in regional markets, and the strong balance sheet position provides it with sufficient firepower for leverage. Until such time, we expect the earnings growth to slow down and remain muted.

We believe the systemic importance of IFM, its direct relationship with the growth of pivotal sectors such as hydrocarbon, construction, health, very little competition in the organized space, lean balance sheet and history of international operations put RNSS in a sweet spot. Our optimism stems from that fact that the economy has returned to normalcy, RNSS has progressively bidding for new projects and is looking for expansion outside Oman. However, we also assert our caution on the declining margins and stress in RSVD occupancy levels. RNSS is a one of its kind company in Oman and has managed several projects of scale both domestically and internationally. We are confident of the management capability to overcome this low phase and achieve the expected level of profitability going forward. Based on the latest financial performance and outlook, we reduce our target price from RO 0.653 to RO 0.519 which offers an upside potential of 22.5% from current price.



INCOME STATEMENT (RO '000)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	105,030	109,438	121,266	129,755	140,135	154,148	171,105	191,637
Operating costs	84,334	87,878	98,437	105,750	114,911	126,402	140,306	157,143
Gross profit	20,696	21,560	22,829	24,005	25,224	27,747	30,799	34,495
Admin exp	7,058	6,032	7,246	6,812	7,357	7,707	8,555	9,582
Investment Income	501	397	669	552	552	552	552	552
EBIDTA	21,413	23,578	23,985	26,341	27,759	30,858	34,191	38,228
Operating profit	14,139	15,925	16,252	17,744	18,419	20,591	22,796	25,465
Finance costs	4,548	4,686	4,801	4,378	3,843	3,483	3,123	2,763
Profit Before Tax	9,591	11,239	12,099	13,366	14,576	17,108	19,673	22,702
Taxation	16	31	-119	40	44	51	59	68
Net income	9,575	11,208	12,218	13,326	14,533	17,057	19,614	22,634
<i>Less: Minority interest</i>	1,902	2,071	840	2,665	2,907	3,411	3,923	4,527
Profit to shareholders	7,673	9,137	11,378	10,661	11,626	13,646	15,691	18,107

BALANCE SHEET (RO '000)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PPE	135,021	139,586	134,296	144,296	151,796	156,796	161,796	166,796
Right to use asset	4,259	4,161	4,064	4,064	4,064	4,064	4,064	4,064
Intangibles	1,968	1,952	1,934	1,934	1,934	1,934	1,934	1,934
Long term investments	2,529	4,616	5,618	5,618	5,618	5,618	5,618	5,618
Total Non-Current Assets	143,777	150,315	145,912	155,912	163,412	168,412	173,412	178,412
Short term investments	1,549	3,655	1,281	1,281	1,281	1,281	1,281	1,281
Inventories	4,651	4,764	5,081	5,450	6,306	6,937	7,700	8,624
Trade receivables	38,965	41,350	48,847	48,009	51,850	57,035	64,164	67,073
Cash and bank balance	20,243	26,894	20,558	17,289	11,185	10,845	12,114	21,833
Total current assets	65,408	76,663	75,767	72,028	70,622	76,097	85,259	98,811
Total Assets	209,185	226,978	221,679	227,940	234,034	244,509	258,671	277,223
Share capital	23,641	23,641	23,641	23,641	23,641	23,641	23,641	23,641
Share premium	26,936	26,936	26,936	26,936	26,936	26,936	26,936	26,936
Reserves	4,278	4,069	2,413	3,069	3,319	3,319	3,319	3,319
Retained earnings	7,007	12,366	20,957	26,890	33,788	42,705	53,668	67,047
Equity to shareholders	61,862	67,012	73,947	80,536	87,684	96,601	107,564	120,943
Non controlling interest	18,953	21,024	21,704	24,056	26,191	28,855	32,129	36,126
Total equity	80,815	88,036	95,651	104,592	113,875	125,456	139,693	157,068
Borrowings	71,026	78,168	65,345	60,345	55,345	50,345	45,345	40,345
Other Liabilities	10,464	10,443	10,662	10,678	9,855	9,845	9,835	9,825
Total non-current liabilities	81,490	88,611	76,007	71,023	65,200	60,190	55,180	50,170
Trade payables	41,244	43,344	42,105	45,414	49,047	53,952	59,887	67,073
Other current liabilities	5,636	6,987	7,916	6,911	5,911	4,911	3,911	2,911
Total current liabilities	46,880	50,331	50,021	52,325	54,958	58,863	63,798	69,984
Total liabilities	128,370	138,942	126,028	123,348	120,159	119,053	118,978	120,155
Total equity and liabilities	209,185	226,978	221,679	227,940	234,034	244,509	258,671	277,223

Cash Flow (RO '000)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	19,373	21,591	18,584	21,318	18,966	22,930	25,929	35,988
Investing cash flow	-22,982	-13,297	4,009	-10,000	-7,500	-5,000	-5,000	-5,000
Financing cash flow	-17,906	-635	-23,929	-15,106	-14,571	-14,211	-13,851	-13,491
Change in cash	-13,535	6,651	-6,336	-3,269	-6,104	-340	1,270	9,719
Beginning cash	33,778	20,243	26,894	20,558	17,289	11,185	10,845	12,114
Ending cash	20,243	26,894	20,558	17,289	11,185	10,845	12,114	21,833

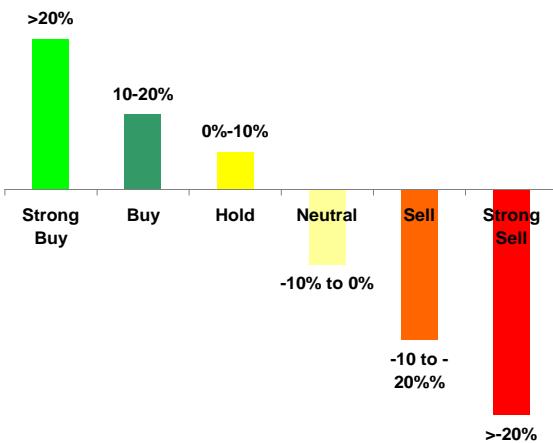
Key contacts

Research Team

Joice Mathew Sr. Manager - Research E-Mail: joice@usoman.com Tel: +968 2476 3311	Manna Thomas ACCA Research Associate Email: manna.t@usoman.com Tel: +968 2476 3347	Contact Address P. O Box: 2566; P C 112 Sultanate of Oman Tel: +968 2476 3300
---	---	--

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

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. Opinion expressed is our current opinion as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we endeavor to update on a reasonable basis the information discussed in this material, United Securities, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. United Securities LLC, and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions. United Securities LLC and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.