Al Moammar Information Systems

Consumer – Software & Services

MIS AB: Saudi Arabia

17 August 2021

الراجحي المالية
Al Rajhi Capital

US$1.072bn	54%	US$14.29mn
Market cap	Free float	Avg. daily volume

Target price	**182.0**	13.2% over current
Current price	**160.8**	as at 17/8/2021

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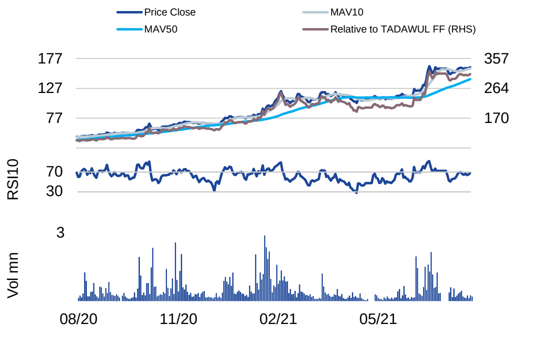
Existing rating

Underweight	Neutral	**Overweight**

Performance



Source: Bloomberg

Earnings

(SARmn)	FY2020	FY2021E	FY2022E
Revenue	1,017	1,172	1,328
Revenue growth	1.9%	15.3%	13.3%
Gross profit	180	227	316
Gross margin	17.7%	19.4%	23.8%
EBITDA	109	162	243
EBITDA margin	10.7%	13.8%	18.3%
Net profit	90	132	204
Net margin	8.9%	11.2%	15.4%
EPS	3.6	5.3	8.2
DPS	1.7	2.4	3.7
Payout ratio	46.5%	45.0%	45.0%
EV/EBITDA	39.6x	26.6x	17.5x
P/E	44.5x	30.5x	19.7x
RoE	29.3%	34.6%	41.5%

Source: Company data, Al Rajhi Capital

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Order execution to pick-up speed; TP at 182/sh

Al Moammar Information Systems (MIS) Q2 2021 revenue came in at SAR248mn (-22% y-o-y) and was impacted by low revenue booking. Due to the life cycle of the ongoing projects, many of the orders had not achieved revenue-booking milestone, resulting in a fall in revenue. In line with lower revenue, gross profit fell 32.9% y-o-y to SAR32mn due to a 203bps fall in gross margin (15.1% in Q2 2020 and 16.6% in Q1 2021). Lower gross profits, lower other income and higher interest cost was mitigated to a certain extent by lower operating expenses, resulting in overall net income falling by 57.3% y-o-y. Despite the weak financial performance, we remain bullish on MIS, as we expect better revenue booking in H2 2021. We further gain confidence on the back of 36% y-o-y growth in the new order booking in H1 2021 amounting to SAR720.5 mn and the strong order backlog of SAR1.1 bn, which provides strong visibility on the growth outlook of the company. Added to this, the data centre operation with Saudi Fransi Capital (SFC) is likely to commence from H2 2021, which will provide further impetus to the company's profitability. Thus, post-Q2 2021 earnings we slightly increase our target price from SAR180/sh to SAR182/sh and maintain our "Overweight" rating.

Figure 1 Earnings Summary

SAR(mn)	Q2 2021	Q1 2021	Q2 2020	% chg y-o-y	% chg q-o-q
Revenue	248	223	320	-22%	11%
Gross Profit	32	37	48	-33%	-13%
Gross Margin	13%	17%	15%	NM	NM
Operating Profit	15	22	27	-45%	-32%
Net income	10	16	24	-57%	-35%

Source: Company data, Al Rajhi Capital

Key growth drivers:

1) MIS joint venture with SFC to provide company exposure to the fast-growing segment of data centre operation

2) Strong revenue visibility, at the back of growth in new order accretion, resulting in a strong order backlog

3) Diversifying presence into new segment including, cloud computing, maintaining the digital infrastructure of hospitals, digital banking, etc.

Valuation: We use a 50% DCF and 50% relative valuation using P/E of 27x to value MIS. Our DCF based target price (based on 6.4% WACC and terminal growth of 3%) is SAR178/sh and the relative valuation-based target price, based on 27x P/E, is SAR186/sh, resulting in a weighted average target price of SAR182/sh, which implies 13.2% upside from CMP of SAR160.8/sh.

Downside Risks: There are a few downside risks to our valuation and assumptions, as below:

1) Since data center market is under penetrated and extremely attractive, competitors might enter into the business, this stands as a downside risk to our valuations.

2) The overall business is highly exposed to government, and if oil prices go down then the company's revenue might suffer and will affect our valuations.

3) The rising receivables is concerning and might lead to impairments in future which could lead to a dilution of operating margins and our valuations.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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