

Target Price: SAR235/share
Current Price: SAR230/share
Upside: 2.1%
Rating: Neutral

Saudi Azm for Communication and Information Technology Company (Azm)

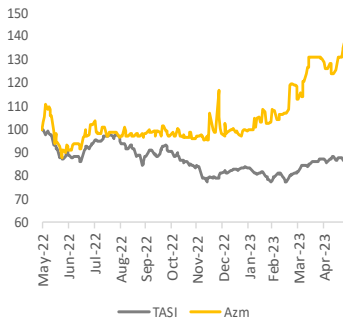
Directionally positive; Revise to Neutral after 40% rally

Stock data

NOMU Ticker	9534
Mkt cap (SARmn)	690
Trd. Val 3m (SARmn)	1.6
Free float	58.0%
QFI holding	0.3%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- We expect the company to report better than guided revenue and net profit growth (clean) for FY2023 (ending mid-year CY2023).
- Market potential remains significant, especially given the small base.
- We tweak our target price on Saudi Azm to SAR235/share (previously SAR222/share) based on average of 25x P/E and DCF methods (unchanged). We have a Neutral rating post the ~40% rally YTD in line with our prior recommendation.

Sustained growth, strong guidance: From SAR15mn in 2018, the group's revenue increased to 153mn in 2022 and saw much higher growth than its peers given the smaller size. We expect 29% revenue growth in FY2023 better than previous guidance of 26%. This is lower than 1HFY23 (6 months ending Dec 2022) revenue growth of 44% because of the phase of the projects in progress. As the company builds up a track record and becomes sizeable, it will help the company to bid for larger Government projects and grow faster. We expect the company to maintain current growth rate of around 28% in FY2024. The company's backlog remains healthy with publicly announced SAR40mn projects in 2023, but project wins are at least 2x given that smaller projects are not announced.

Products focus: Currently, more than 50% of the group's revenues come from the Manpower segment, which has single-digit margins. While we previously expected to see lower contribution from Manpower, we believe this has been growing, supporting the platform/services revenues which are volatile depending on the project stage. The group's average gross margin for the period 2020-22 was c.20%, but we expect it to widen as products generally have higher margins and become sizeable.

Risks: Being a technology-driven company, the major risk is failure to keep up with technological changes in the sector. Lack of diversity in clientele, ability to maintain talent, execution risks leading to inability to bid for future projects, increase in competition, unfavorable changes in regulations are some of the other risks.

Figure 1: Key financial metrics

SARmn	2021a	2022a	2023e	2024e	2025e
Revenue	135	153	197	252	296
Revenue growth	31%	13%	29%	28%	18%
Gross Profit	29	31	42	54	64
Gross Profit margin	21.6%	20.2%	21.5%	21.4%	21.5%
EBITDA	19	21	23	32	40
Op. income	17	20	22	30	37
Net profit	16	18	19	27	32
Net profit margin	11.5%	11.9%	9.9%	10.6%	11.0%
EPS (SAR)	5.2	6.1	6.5	8.9	10.8
P/E	44.4x	37.9x	35.4x	26.0x	21.3x

Source: Company data, GIB Capital

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Financials

Figure 2: Summarized basic financial statements (SARmn)

Income statement	2021a	2022e	2023e	2024e	2025e
Revenue	135	153	197	252	296
y/y growth	31%	13%	29%	28%	18%
Cost of Services/Goods	106	122	154	198	232
Gross Profit	29	31	42	54	64
Operating margin	22%	20%	22%	21%	22%
Selling and Marketing	0	1	2	2	3
General and Administrative	12	15	21	23	25
EBITDA	19	21	23	32	40
Depreciation, Amortization & Impairment	1	1	2	2	3
Operating Profit	17	20	22	30	37
Operating margin	13%	13%	11%	12%	12%
Finance Cost	1	1	0	0	0
Finance Income	0	0	0	0	0
Profit Before Tax	16.5	19.6	21.4	29.8	36.8
Tax	1.0	1.4	1.9	3.3	4.3
Profit After Tax	16	18	19	27	32
y/y growth	31%	17%	7%	36%	22%
Net margin	11%	12%	10%	11%	11%
EPS	5.2	6.1	6.5	8.9	10.8
DPS	0.0	0.0	0.0	0.0	0.0
Dividend Payout	0%	0%	0%	0%	0%

Balance Sheet	2021a	2022e	2023e	2024e	2025e
Account Receivables	34	11	15	30	41
Other Current Assets	153	81	118	126	153
Cash and Equivalents	14	27	43	55	76
Total Current Assets	75	81	102	138	177
Total Non-Current Assets	3	26	28	30	32
Total Assets	79	108	130	168	210
Current Liabilities	41	40	58	70	79
Non-current Liabilities	5	16	4	4	4
Equity	33	52	68	94	127
Total Equity and Liabilities	79	108	130	168	210
BVPS	10.9	17.3	22.6	31.4	42.2

Cashflow	2021a	2022e	2023e	2024e	2025e
Cashflow from Operations	-1	33	19	17	26
Cashflow from Investing	-11	-9	-3	-4	-5
Cashflow from Financing	-1	-10	0	0	0
Total Cashflows	-12	24	16	12	21

Source: Company, GIB Capital

Figure 3: Key ratios

Key ratios	2021a	2022a	2023e	2024e	2025e
Profitability ratios					
RoA	20%	17%	14%	16%	15%
RoE	48%	35%	28%	28%	25%
Net margin	11.5%	11.9%	9.5%	10.4%	10.8%
Liquidity ratios					
Current Assets/ Current Liabilities	1.8	2.0	1.7	2.0	2.2
Debt to Total Equity (w/ IFRS liab.)	36%	4%	3%	2%	2%
Receivable Days	91	27	59	43	51
Inventory Days	0	0	0	0	0
Payable days	4	34	19	26	23
Cash conversion cycle	87	-7	40	17	28
Debt ratios					
Net Debt/EBITDA (w/ IFRS liab.)	-0.1x	-1.2x	-1.7x	-1.6x	-1.8x
Debt/Assets (w/ IFRS liab.)	0.1x	0.0x	0.0x	0.0x	0.0x
Net Debt/Equity (w/ IFRS liab.)	-0.1x	-0.5x	-0.6x	-0.6x	-0.6x
Valuation ratios					
P/E	47.1	40.1	39.2	27.8	23.0
P/B	22.5	14.1	10.9	7.8	5.9
EV/EBITDA	37.6	32.9	30.0	21.2	17.3
FCF yield	-0.5%	4.1%	2.1%	1.7%	2.8%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, GIB Capital

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We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/- 10%, we have a Neutral rating.

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