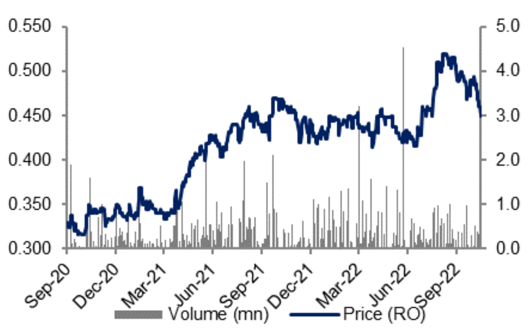
Contract Services

Renaissance Services (RNSS)

STRONG BUY: 12M TP @ 0.653

Valuation Summary (TTM)			
Price (RO)			0.430
PER TTM (x)			8.8
P/Book (x)			1.4
P/Sales (x)			0.8
EV/Sales (x)			1.5
EV/EBITDA (x)			7.5
Dividend Yield (%)			4.5
Free Float (%)			64%
Shares O/S (mn)			236
YTD Return (%)			2%
Beta			0.8
(mn)		**OMR**	**USD**
Market Cap		104	271
Enterprise Value		185	480
Price performance (%)	**1M**	**3M**	**12M**
Renaissance Services SAO	-9%	-2%	-4%
MSX 30 Index	-2%	4%	10%
MSX Services Index	-5%	-6%	-8%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (RO ,000)	104	123	122
Avg Daily Volume (,000)	190	249	264
52 week	**High**	**Low**	**CTL***
Price (RO)	0.530	0.400	10.5
* CTL is % change in CMP to 52wk low			
Major shareholders			
Al Douria Services LLC			14.6%
The Peacock Co LLC			11.6%
TISCO			9.7%
Others			64.2%
Other details			
Exchange			MSX
Sector			Transportat
Index weight (%)			2%



Continued revenue and profit growth along with margin expansion makes Renaissance Services (RNSS) an excellent investment opportunity among companies listed in MSX. Enhanced occupancy levels at its IFM premises are expected to drive earnings growth and improve margins, while stable market share of catering business and additional revenue contributions from servicing visiting armed forces are expected to provide earnings cushion in an otherwise inflationary business environment. We estimate RNSS' revenue and profits to register FY21-24E CAGR of 10% and 14% respectively, driving already cheap valuations more attractive. A strong balance sheet with 0.5x D/E provides the management confidence to fund any growth opportunities emanating from government's PPP initiative with ease. At current prices, the stock is trading at FY22E EV/EBITDA of 5.8x, P/E ratio of 8.6x, and dividend yield of 4.7%. We find these valuations undermining the company's growth prospects and expect a strong rerating of stock prices. Our Blended-DCF-Relative valuation approach resulted in 12M target price of RO 0.653/share offering return potential of 52% from current levels. We rate the stock a STRONG BUY with target price of RO 0.653.

Unmatched scale of operation and quality of service: Over the past 30years since its incorporation RNSS has time and again proved that it is amongst the few Omani companies that can truly boast of being an MNC, both in terms of geography of operations and quality of service. The testimonial of its quality of operations in this highly competitive business of Infrastructure Facilities Management (IFM) is the repeat orders and the acceptance from players such as PDO and MOH which are institutions that never comprise on their high standards.

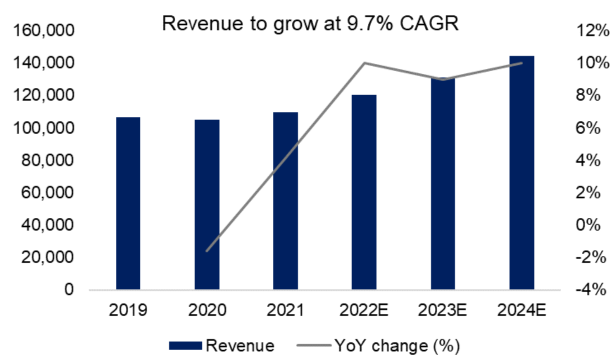
Proven management capability: RNSS has managed to overcome significant stress in both the macro as well as at the company level, each time coming out stronger and more efficient. It was challenged once again, almost immediately post the sale of its unrelated business in 2019 and establishment of core IFM services as the key driver; the company faced the covid crisis. RNSS was one of the most affected during this period as the company involved managing physical infrastructure and catering to over 30000 workers and 8600 of its own employees. While facilities were shut down and orders postponed in 2020, the situation is returning back to normalcy now. There is urgency in completing pending projects and need to accommodate workers in a safe and clean environment.

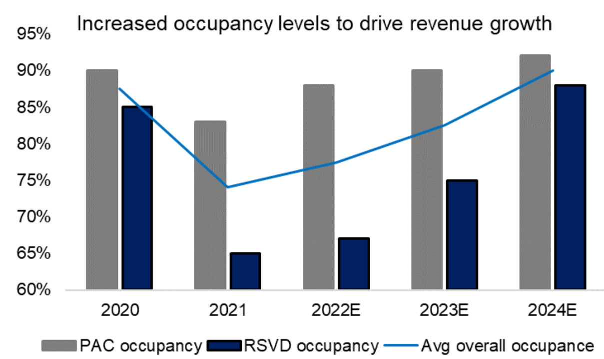
PPP initiative opens up new avenues for growth: As occupancy in its existing projects gradually improve, RNSS is back on its foot bidding for new opportunities. The strong network and relationships that it has fostered over the past several years of operations has been the biggest asset and enabler to grow its order book. There are very few companies operating at this scale and offering the host of services that RNSS does, it is a niche area that requires a specialized management capability.

Critical service provider: 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 post the pandemic. The stock currently trades at a discount to its international listed peers at 9x FY22E eps. It has delivered sustainable operating margins in the range of `20% and is focusing on consistently reducing its finance expenses. On this basis we believe the company warrants a re-rating and we initiate with STRONG Buy and a target price of 0.653 which is 52% from its current price.

Multiple triggers for revenue growth ahead: In our base case we estimate RNSS's revenue to grow by 9.7% per annum during FY21-24E. We expect this to be driven by improved occupancy levels at its accommodation business and re-tendering of contracts on an inflation adjusted price in the catering segment. Announcement of additional projects at Duqm and restarting petrochemical complex with SABIC should enhance the occupancy levels in the Renaissance Village which is currently at a low of c65%. We expect occupancy levels to rise to 90% and number of beds to increase by 5000 (`20%) by FY24E. Ministry of Health (MOH) catering contracts are already being repriced to adjust for inflation costs and we believe this trend will continue going forward.

If we include the potential from Manazil project and the prospective new contracts that could be obtained in the catering segment, the consolidated revenue growth will be enhanced significantly. We expect PDO to finalize and award the Manazil tender by 1H23 and RNSS to play an important role in the project. RNSS already manages nearly 26% of PDOs total accommodation facilities or 53% of third party operated Permanent Accommodation for Contractors (PAC) beds and has a legacy of superior standard and scale. Bidding for additional catering contracts have re-started with some urgency post the pandemic which will also be a revenue driver going forward. However, since Project Manazil still remains in the evaluation stage, and details of new catering and other services contracts are not yet confirmed, we are not including these in our base case outlook and valuations.

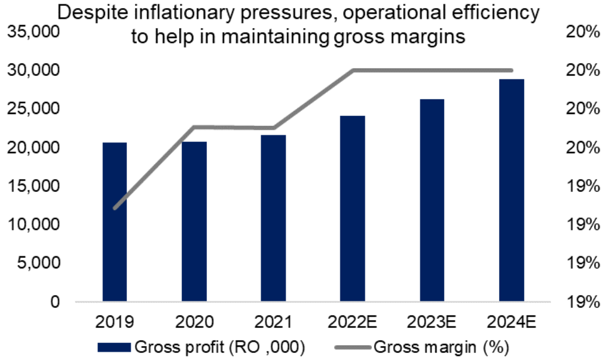


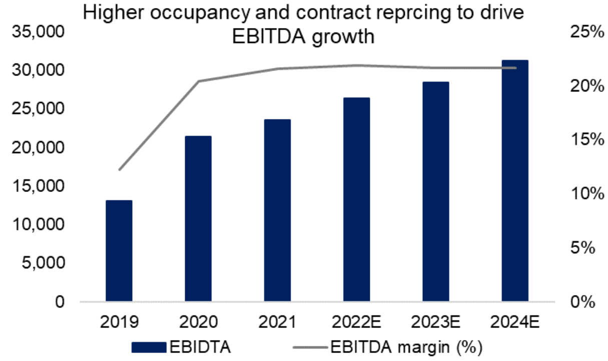


Source: Company Reports and US Research

Margin stability sustainable post shocks: Over the past two decades RNSS has managed to understand the business of providing manpower for various tasks inside out. Cost of manpower and efficient allocation of resources are both important aspects of this business. Bidding at the right price is critical and despite being the L1 bidder in most cases RNSS has managed to maintain operating margins. This, we believe is testimonial to the robust management capability of the company. While on one side we are optimistic about the rise in occupancy rates in Renaissance Village Duqm (RSVD), on the other side we expect the catering segment to see improvement on the contracts that are going to be re-priced going forward. We remain optimistic of the company maintaining its gross margins at c20% going forward.

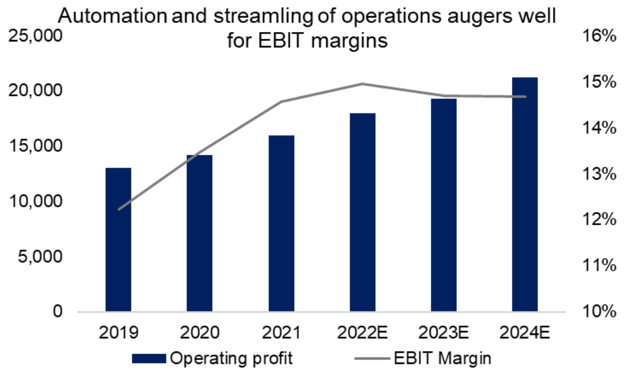
In the past, RNSS' net margins have been impacted by legacy problems from its subsidiary Topaz, which has been phased out by RNSS exiting from marine services business. The company's core business is cash generating and with a clean and healthy balance sheet and focus on core Integrated Facility Management (IFM) businesses, the company is well positioned to gather growth momentum. We feel that the company will be selective in choosing new investment opportunities, which drives our case for margin expansion in the range of 150-200bps over the next couple of years.

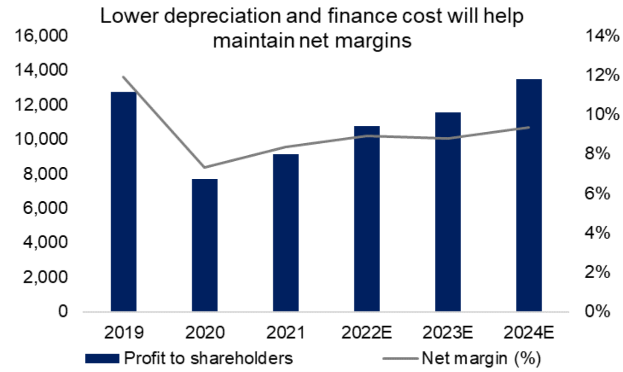




Source: Company Reports and US Research

Enhanced occupancy levels to drive revenue and profitability: We estimate the company's EBITDA to be supported by higher occupancy levels at its accommodation facilities in the future. RSVD has exclusive rights to provide accommodation facilities for companies operating at Duqm Special Economic Zone. Possible restarting of the Duqm Petrochemical Complex project, expansion of Oman Tank Terminal's oil storage facilities at Duqm, upcoming green hydrogen projects, and expansion of Oman Drydock Company are expected to attract significant influx of workers in to Duqm. PDO PACs used to witness occupancy levels north of 90% in the pre-covid years, but witnessed decline during the covid times. With increased oil prices, and enhanced activity in the E&P sector, we estimate PAC occupancy levels to reach pre-covid levels as early as next year. Currently the consolidated revenue derives about 55% from the accommodation business, while contract services contribute the remaining 45%.

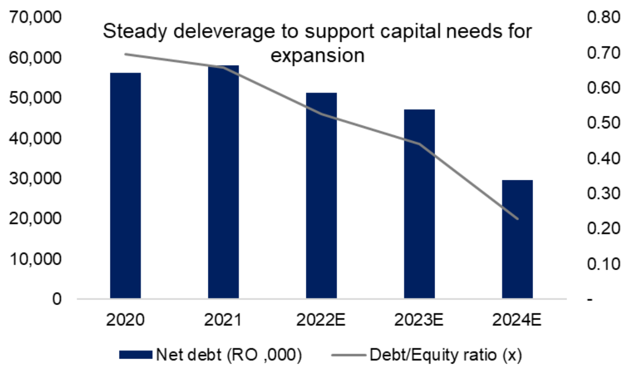


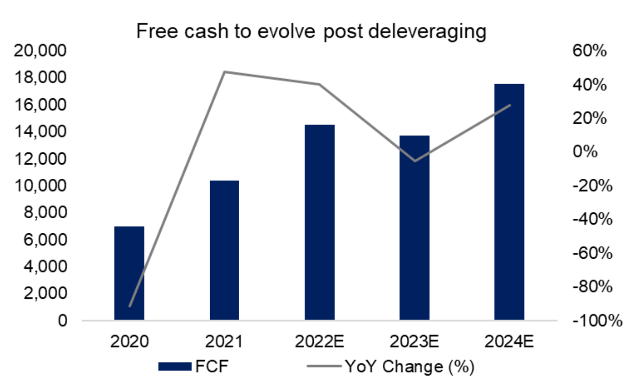


Source: Company Reports and US Research

Operational leverage and revenue growth to support net income CAGR of 14%: Aided by revenue growth and operational efficiency, RNSS is expected to report EBITDA growth CAGR of 10% through FY24E. We expect the company to successfully pass on a major portion of cost pressures emanating from inflationary environment while absorbing a small portion. As a result of high operational leverage from the accommodation business, we expect EBIT margin growth to remain positive through our forecast period. Revenue growth, margin expansion, and steady deleveraging of the company is expected to result in RNSS achieving net income CAGR of 14% over FY21-24E. We estimate the company to report FY24E EPS of RO 0.063.

Evolution of Free Cash in the books: RNSS is now a cash rich company with a balance of RO 26.8 million deposited with several banks across different maturities. The substantial cash levels helped the company reduce its debt while keeping firepower for investing in growth opportunities by bidding for larger projects. It has also enhanced the credit rating of the company and made borrowing easier and cheaper. The company opportunistically deployed a portion of its cash by doubling investments from 2020 to 2021, which stands at RO 8.2 million currently. This compliments the cash position and together add up to RO 33 million which is about 30% of the market capitalization of the company. As the debt levels reduce over the next few years, we believe RNSS will enhance its shareholder distribution levels, and this will become a cushion for valuation.

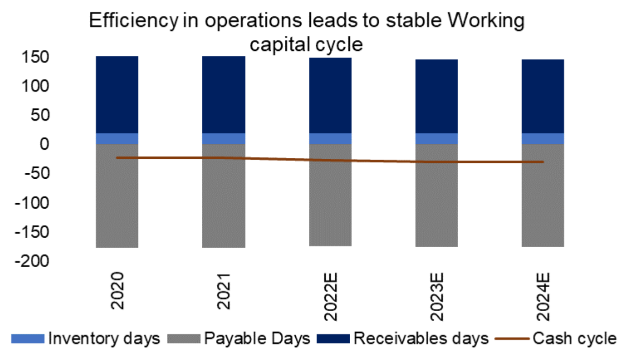


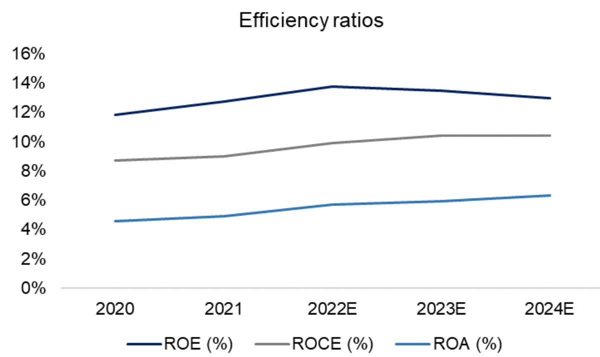


Source: Company Reports and US Research

RNSS has been successful in managing collections during the pandemic by adoption of digitalization of invoicing and minimizing bad debts. Collection days have averaged to 135 over the last two years, but we estimate it to compress to 125 days over the next two years. Since the cash payouts, type of contract and the tenure are pre-fixed the company can plan inventory more efficiently. However, the catering business handles a large number of perishable commodities, which necessitates for quick inventory turnover. We expect the company to maintain inventory days of three weeks, and it has established a strong supply chain for timely arrival of raw materials at different locations. The company has a fairly long period of around 6 months to pay off its suppliers, and thus we expect cash cycle to remain stable at around -30 days, resulting in the business requesting for lower working capital investments going forward.

ROA, ROE and ROCE have been on an increasing trend, and we expect the same to reach 6.3%, 13% and 10.4% respectively by FY24. Higher net margins and no additional equity infusion will auger well for the capital efficiency ratios.

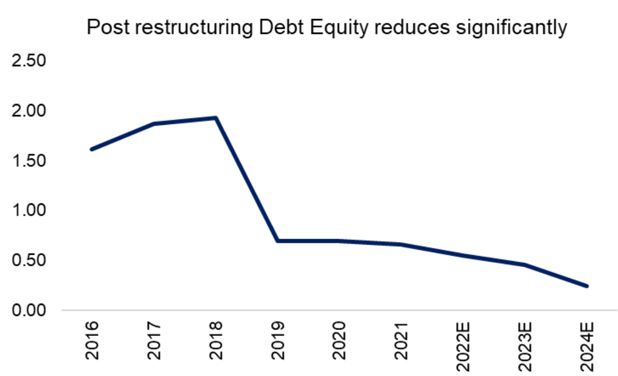


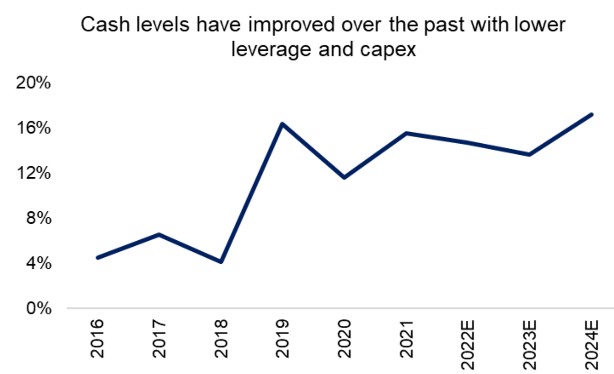


Source: Company Reports and US Research

Majority of the borrowing is for RSVD, which has ensured continuous positive cash flow generation capabilities for the foreseeable future. On a parent company level, debt equity is 10:90 providing firepower for funding growth capex needs. Moreover, the company, through one of its subsidiary TISCO, holds around 9.66% of treasury shares. As a strategy, the management had earlier indicated the company will continue to hold these shares and may be used as currency for supporting it in pursuing large inorganic growth opportunities.

Overall debt has been on a declining trend post the balance sheet restructuring. We expect net debt to be half of the current RO58mn by FY24. RNSS has often looked at prepayment as an option when cash is accrued in the books. This year the company prepaid installments on the term loans due in 2023 totaling to RO 7.9mn. It also prepaid interest installments of RSVD until May 2023 amounting to a total of RO 4.9mn. As resets happen every half year and since the interest rate scenario is on a rising trend, we believe this pre-payments as a prudent move by the management to save on future costs.





Source: Company Reports and US Research

Rising standard and scale of accommodation facilities: Provision of proper accommodation to the work force is integral to any project. It becomes pertinent especially when such projects are in remote locations. RNSS was an early mover in realizing the importance of this segment in a rapidly growing economy. The first accommodation facility was provided to the esteemed Petroleum Development of Oman (PDO) way back in the year 2000. PDO has always been known to upkeep high standards when in comes to worker welfare. Companies providing services to them must strictly adhere to these stringent specifications. Over the last two decades RNSS has not only managed to maintain these lofty standards it has also been able to scale up rapidly in providing such accommodation facilities across Oman and for different industries.

Currently RNSS provides accommodation to over 26,000 workers across various categories. The evolution of this segment has been the backbone of the company's growth. RNSS will benefit from the high occupancy rate at Renaissance Village PDO (RVPDO) and steady growth at Renaissance Village Duqm (RSVD) backed by rising industrial activities at the industrial city of Duqm. Additionally obtaining part of the Manazil PDO project will be a significant catalyst for the company going forward. RNSS has established itself as the market leader in the accommodation space and has proven ability to successfully manage significant scale and quality of operations across regions.

Renaissance offers IFM services at Renaissance Services Villages in Duqm and PDO locations: Accommodation facilities were provided by RNSS to primarily serve PDO in its various remote locations. The service was started in the year 2000 at Fahud, followed by Nimr, Qam Alam, Bahja and Marmul. The five locations have an overall capacity of 7600 beds with occupancy rates at +90%. RNSS has invested over OMR 100mn in these locations. These locations have reached saturation and are unlikely to witness increase in the number of beds going forward. However, pricing might increase on re-tendering owing to rising inflation levels. RV PDO has been a corner stone in building a long-term relationship with the premier institution Petroleum Development of Oman (PDO). The two-decade association with PDO has augured well for the company and subsequent orders in other segments such as catering have also followed.

PDOs long term vision to provide permanent quality accommodation augers well for RNSS and provides visibility to the business model. RNSS already has presence in most of PDOs locations and is successfully pursuing the proposed Village model while simultaneously keeping to the stringent standards stipulated by PDO. RNSS currently manages 7,302 PACs and 1,033 portacabins for PDO which is about 26% of its (PDOs) entire capacity (ex-Duqm). This is the second biggest entity after PDO (49%) that manages accommodation for the Oil & Gas group.

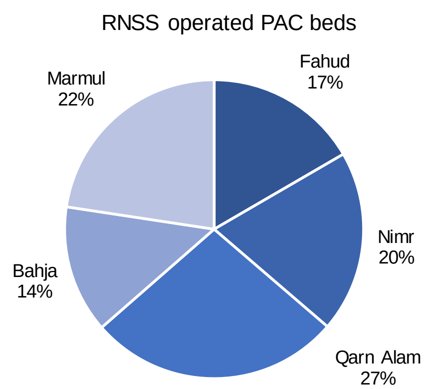
Renaissance Village Duqm (RSVD)

RNSS was the pioneer in providing accommodation facilities in the newly constructed city of Duqm in 2017. With over 2 decades of experience behind it, the company was confident of its strengths and considered Duqm an extremely potential opportunity. The Government on its part appreciated this move and provided exclusivity to the company until 2027. RSVD has been successfully operational in the special economic zone (SEZAD) of Duqm for over 5 years. At the location the company currently manages 18,600 beds across a total built up area of 180,981 sqm over 192,480sqm of total land area that it occupies. RNSS has invested about OMR 80mn in this project and expected to add another OMR 50mn to make the overall bed capacity to 25,000 in the next few years.

The size of RSVD has made it a very important source of revenue. It currently provides about 25% of the total revenue for the company. Occupancy rate has remained moderate post pandemic at 65% and expected to gradually increase over the next couple of years as activities at SEZAD and other parts of Duqm improve. One important anchor tenant Oman Dry Dock (ODD) is expected to add 1500 employees in RSVD over the next 12 months. 600 of them have already occupied and rest are following in tranches. The increasing activity at the port auger well for ODD and translates into higher employee turnover at RSVD. We believe RSVD project will witness significant increase in occupancy if two major impediments are cleared– firstly, curtailing of unorganized contractors providing temporary accommodation which are substandard and secondly signing up of large projects that require significant manpower.

Details of accommodation facility provided by Renaissance across its Villages:

RNSS Accommodation facilities	Year started	Capacity (nos.)
Renaissance Village Fahud	2000	1,250
Renaissance Village Nimr	2000	1,480
Renaissance Village Qarn Alam	2002	2,050
Renaissance Village Bahja	2010	1,040
Renaissance Village Marmul	2010	1,700
Renaissance Village Duqm	2017	18,600
Total beds		**26,120**



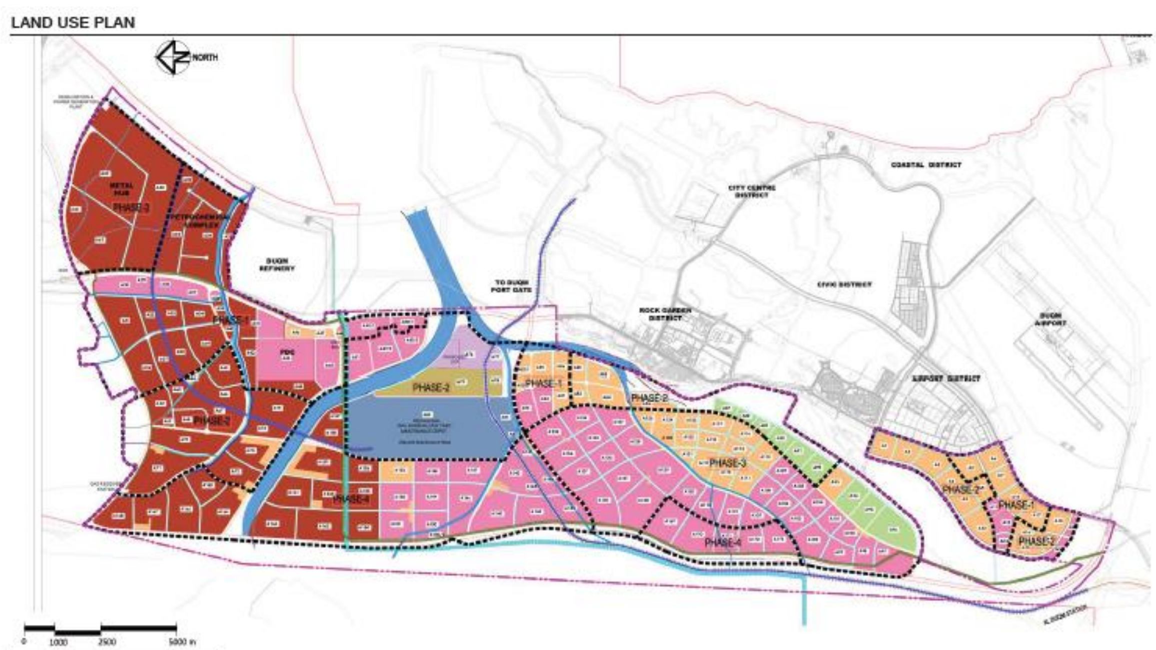
Source: Company Reports, PDO and US Research

Duqm new city new opportunities

The upcoming industrial city of Duqm is as critical a project to the country as it is to RNSS. Established by a Royal Decree in 2011, the Duqm Special Economic Zone Authority (SEZAD) is the sole government entity responsible for managing the economic zone. SEZAD is one of the largest development projects in the MENA region covering a total area of over 2000 sqkm. Private investment in Duqm has increased to $10bn with over 431 projects in various stages of development. A total of 22,200 workers are stationed at various sites across industrial and tourism projects.

The integrated economic zone is envisaged to become a hub for heavy, medium and light industries. Air, road and sea connectivity facilities are being developed along with duty free zones, fishing port and a dry dock for ship repair. SEZAD envisions Duqm City to become a popular regional destination offering residential, recreational and investment opportunities.

Chart: Duqm master plan



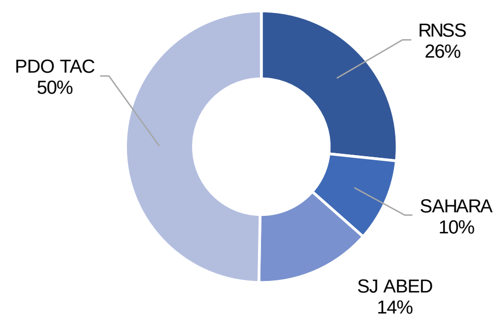
Source: https://duqm.gov.om/en

Manazil PDO project will be a growth catalyst if Renaissance wins at least one of the two tenders: PDO has about 31,000 people to accommodate, and it has done so gradually over the last three decades depending on the requirement. The Manazil project envisages to relocate these employees into a fully integrated permanent facility across the 12 hubs. These workers are currently accommodated in PDO camps, Permanent Accommodation Centers (PACs), Temporary Accommodation Centers (TACs) and Portacabins. It is expected that by moving them to a permanent co-located village will improve worker welfare, operating efficiencies and provide scalability and flexibility in times of shutdowns. The Manazil project expects to close all existing TAC, PDO camps and portacabins and commit to a new model of an Accommodation Village which will have appropriate standards of living and service levels. Some of the PACs run by private players such as RNSS will be re-furbished and re-used.

The below table illustrates the current accommodation provided to the PDO workers classified by type of accommodation and company offering the same

COMPANY WISE	PAC	PORTACABINS	TOTAL
RNSS	7,302	1,033	8,335
SAHARA	2,957	123	3,080
SJ ABED	4,306	0	4,306
PDO TAC	9,834	3,271	15,539
Grand Total	**24,399**	**4,427**	**31,260**

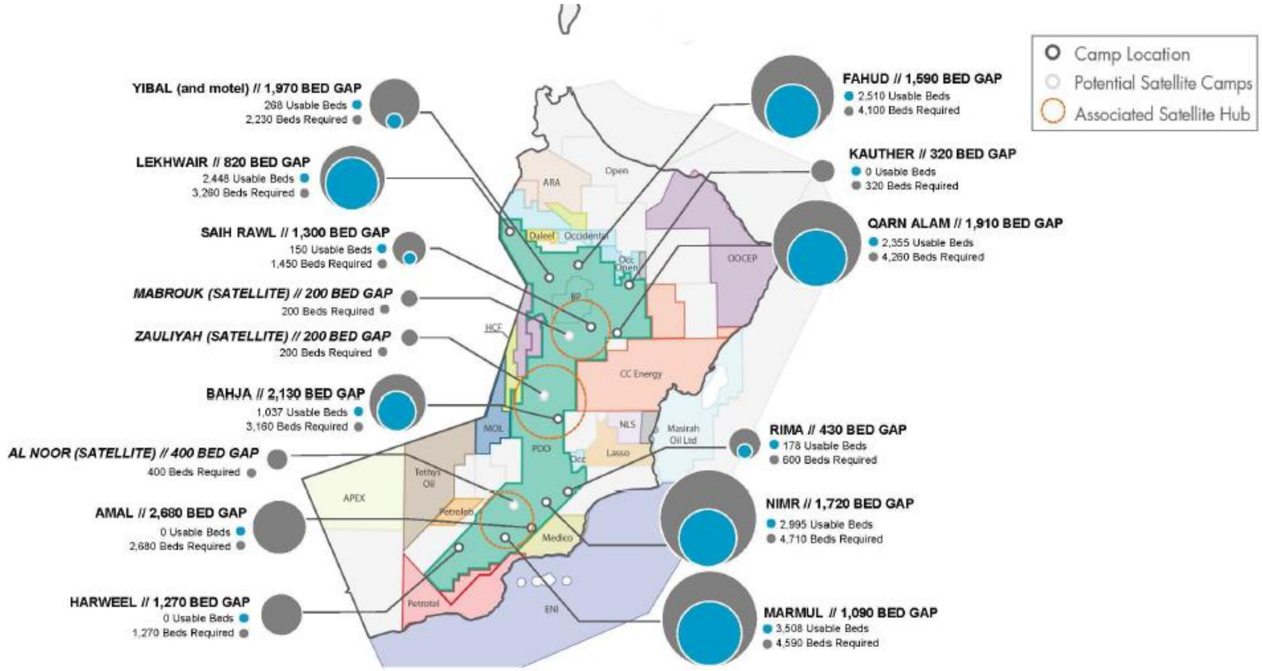
PDO PAC and TAC service providers



Source: Company Reports, PDO and US Research

In 2019, PDO sought proposals for a Design, Build, Own, Operate, Maintain with the option to Transfer (DBOOM/T) model from stakeholders for which RNSS was an important bidder. While the initial plan was to provide new/re-furbished accommodation for the entire 30,000 workers, PDO appears to have phased out the same by considering de-commissioning the TACs, camps and portacabins as priority. This will translate into 15,000 new beds which is roughly equal to the total number of beds currently managed by private entities such as RNSS, Sahara and SJ Abed together. Considering the dispersed locations and scale of project we expect PDO to award the project to 2 players. However, once approved this would be a long-term contract for 40 years and entail OMR 100mn. We expect at least 7500 beds to be allocated to RNSS which would be a 30% increase from the current overall beds managed. The new beds would have occupancy of over 90% as workers already utilize these facilities. The legacy and reputation history provides a good chance for RNSS to be part of the new Manazil pie.

Chart: Manazil location map



Note: Bed Gaps are tentative and will fluctuate based on Tenderer solutions. Required Beds account for an additional 10% of the projected population to account for structural vacancy and surge demand. Required Beds and Bed Gaps have been rounded up. The Saih Rawl, Bahja, and Amal industrial areas may require fewer beds (thereby smaller Bed Gaps) if satellite camps are built nearby to serve Mabrouk, Zauliyah, and Al Noor, respectively. Bed Gaps do not account for supplier own staff bed requirements.

PDO Manazil Matrix

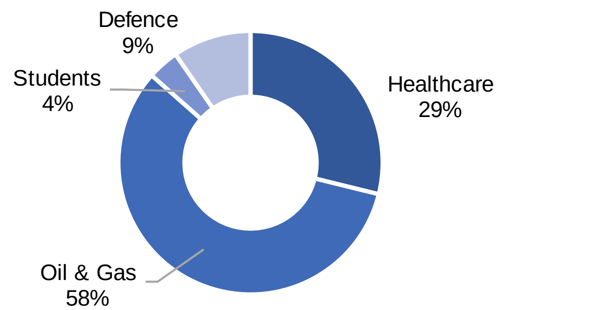
LOCATION	PAC			TAC	PDO CAMP	PORTACABINS	TOTAL	EXPECTED	USABLE	BED GAP	ROUND OFF
NORTH	**RNSS**	**SAHARA**	**SJ ABED**								
Fahud	1247	1263	0	554	709	0	3773	4100	2510	1590	1590
Kauther	0	0	0	213	0	155	368	320	0	320	320
Lekhwair	0	0	2288	484	160	1238	4170	3260	2448	812	820
QarnAlam	2049	0	0	1075	306	225	3655	4260	2355	1905	1910
SaihRawl(Mabrouk)	0	0	0	381	150	830	1361	1450	150	1300	1300
Yibal	0	0	0	1423	268	545	2236	2230	268	1962	1970
Total North	**3296**	**1263**	**2288**	**4130**	**1593**	**2993**	**15563**	**15620**	**7731**	**7889**	**7910**
SOUTH											
Amal (Al Noor)	0	0	0	1872	0	233	2105	2680	0	2680	2680
Bahja(Zauliyah)	1037	0	0	1192	202	273	2704	3160	1037	2123	2130
Harweel	0	0	0	610	0	231	841	1270	0	1270	1270
Marmul	1490	0	2018	661	375	203	4747	4590	3508	1082	1090
Nimr	1479	1516	0	1129	264	371	4759	4710	2995	1715	1720
Rima	0	178	0	240	0	123	541	600	178	422	430
Total South	**4006**	**1694**	**2018**	**5704**	**841**	**1434**	**15697**	**17010**	**7718**	**9292**	**9320**
Total	**7302**	**2957**	**4306**	**9834**	**2434**	**4427**	**31260**	**32630**	**15449**	**17181**	**17230**

Source: Company Reports, PDO and US Research

Catering services core to stability: Catering contributed to about 45-50% of the consolidated revenue for RNSS. The company has a proven record of providing catering solutions to several large institutions and in scale. It serves sectors such as Healthcare, Oil & Gas, Students, and the Defense staff. RNSS currently serve over 50mn meals annually across these sectors. Catering services for both the Omani as well as the international military has taken the operations of RNSS to extremely difficult locations such as Afghanistan and Iraq.

Chart: Sector-wise catering

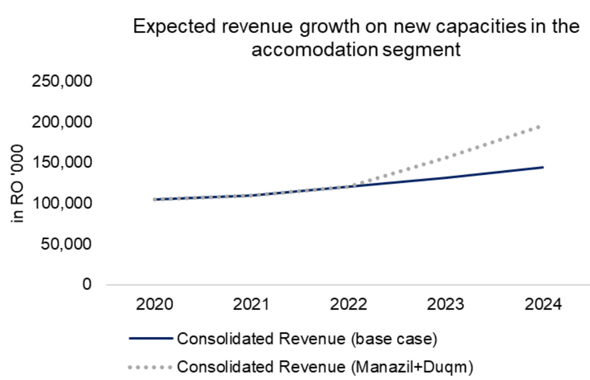
Catering	Annual meals
Healthcare	15
Oil & Gas	30
Students	2
Defence	5
Total	**52**

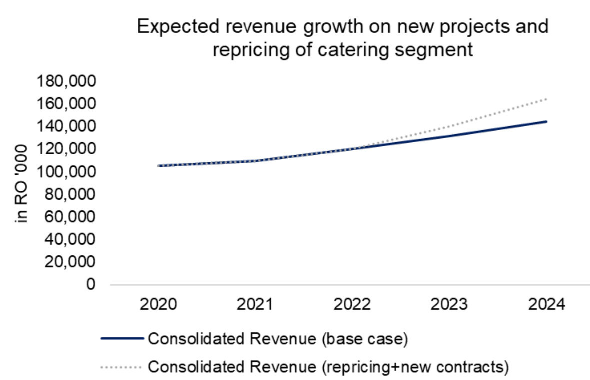


Source: Company Reports and US Research

It is important to note that each sector has specific requirements, and it is an overwhelming challenge to keep up with these exclusive necessities along with the high standards of quality. Managing manpower from across 49+ countries and repeatedly training them to maintain efficiency is a humungous operation. Many of these contracts despite being cyclical and time bound arrangement have been renewed repeatedly indicating the high satisfaction level of the clients.

MOH has been the biggest catering client for the company and currently contributes to almost 30% of the total revenue from this segment. The contract came into place in 2018 and for a period till 2021. It was renewed for 12 months and extended till Dec 2022. Further extension of this contract, which is valued around RO 80mn, is vital for the growth of this segment.





Source: Company Reports and US Research

Other services useful for integration: RNSS provides other allied services complimentary to the accommodation and catering for the same as well as outside clients. While these services contribute to not more than 5% of the overall revenue, they are important as a provider of Integrated Facility Management solutions. Some of these services include laundry, pest control, waste management, gardening etc. It recently received orders from Muscat Electricity Distribution Co (MEDC) to replace old meters with 400,000 smart meters in Muscat municipality. The contract is worth RO 9.3m, and to be completed within three years beginning January 2022. While this is a small contract compared to the overall revenue of RNSS, it utilizes the existing manpower already available with the company. Similarly, RNSS waste management service at Al Wusta and SEZAD utilise the services of unskilled and skilled workers already in the system. These are minor but integral parts of the overall management of the new city of Duqm. It provides a window to show case to the Government the variety of services that can be handled by the company by efficiently using the manpower.

International exposure opening of huge potential: RNSS has always been an international player. The OSV business had provided an opportunity for the company to interact with global leaders and maintain operations to the highest standards. The company is currently pursuing projects in UAE, Qatar and KSA. It has entered a JV with Mekdam in Qatar to cater to the hard FM opportunities. While details of the deal are not available, we believe the scope of international operations is huge. Qatar for example has a market for IFM which is double the size of Oman. We expect tangible exposure to take place by 2023 and meaningful revenue to flow post 2024.

Exit from bleeding Topaz operations resulted in a strong balance sheet structure and business profile: RNSS underwent a restructuring exercise in 2019 by exiting its Offshore Support Vessel (OSV) and Marine Logistics business. The OSV business was managed by a subsidiary of RNSS, Topaz in which the company had 86.5% stake and consisted of 110 vessels. However, maintaining such a business required significant capital infusion. RNSS consistently leveraged its balance sheet to provide for the growth of this segment till a tipping point when oil prices crashed and investments from user industry slowed down. The mismatch in cash flows via assets and liabilities from this segment caused considerable strain in the balance sheet and required prudent and permanent ways of resolution. The management decided to disengage from the business completely and focus on growing opportunities within the country.

In mid-2019 shareholders approved the offer from DP World to purchase Topaz for an amount of RO 415mn (USD 1.079bn). This enabled significant de-leveraging of the balance sheet and capital re-structuring. Debt/Equity ratio declined from 1.93 (in 2018) to 0.66 (in 2021), whereas the capital reduction caused due to clearing of accumulated losses made the company eligible to pay dividends. Post the sale of Topaz, RNSS transformed into a single focus business in the IFM space.

Strong Management and proven track record: Most of the members in the senior management have been at the helm for over 20 years including the members of the Board and CEO. This has been one of the most important reasons for the successful operations of the company. Renaissance have overcome several macro and micro level hurdles due to the combined effort and synergies of the management created over the decades. The management has been future focused and at the forefront of introducing automation, regular training and gender inclusive approach. The evidence of the regular efficiency improvement programs has led to

the company crossing 70 million LTI (Lost Time in Injuries) free hours of operation. The importance of sourcing goods locally is well understood by the management and hence In Country Value (ICV) is at 63%. Constant monitoring and reduction of food waste, focus on recycling, keeping to the ISO 14001:2015 are all good indicators of a management that thinks holistically.

It has introduced Renaissance 2.0 which aims at improving the ratio of Omanis in leadership roles. The company intends to recruit data scientists, anthropologists, and other backgrounds to broaden the talent pool. It plans to actively engage with the younger Gen X who will be a Shadow Board to bounce ideas in a reciprocal mentoring activity with Board Members. These are novel initiatives that if applied efficiently will provide a solid second level platform for the company in future.

Our DCF valuation resulted in fair value per share of RO 0.653 for Renaissance Shares: RNSS has a unique business with no listed peers in the region. While there are some international players that offer similar services, they are not exactly comparable. Hence, we believe RNSS warrants a singularity premium. We valued Renaissance Services using 4-year DCF model by applying cost of equity of 14.2%, and Weighted Average Cost of Capital of 12.9%. We assumed the cash flows to grow at 1.5% per annum beyond forecast period.

Our valuation resulted in Enterprise value of RO 238 million for the company, which translates to equity valuation of RO 153 million, or RO 0.650/Share. The valuation thus arrived offers upside potential of 41.8% from the current levels. At the DCF target price, the stock would be valued at FY23E EV/EBITDA of 9.0x and P/E of 13.3x, while offering dividend yield of 3.1%.

We initiate coverage with a STRONG BUY rating on Renaissance Services, based on its potential for enhanced occupancy levels at IFM locations, improvement in margins, superior cash generating capability, and continuous balance sheet deleverage. Further, new contract wins for IFM, Soft FM, PPP projects from the government, or major additions to accommodation facilities via Manazil will be a catalyst for major rerating on the stock's price over the medium term.

DCF Valuation	FY 2020	FY 2021	FY 2022e	FY 2023e	FY 2024e
NOPLAT	14,123	15,894	17,953	19,231	21,126
Add: Depreciation	7,274	7,653	8,385	9,139	10,053
Less: capex	7,918	4,565	5,000	5,000	5,000
Less: change in WC	3,175	-251	2,222	-54	-66
FCFF	10,304	19,233	19,115	23,424	26,245
PV of FCFF			18,689	20,292	20,145
PV of Terminal Value					179,927
Enterprise Value (,000)					239,053
Less net debt (,000)					58,876
Less minorities & Pension liabilities (,000)					25,770
Value of equity (,000)					154,407
No of shares (,000)					236,410
Value per share (RO)					**0.653**
CMP					0.430
Upside/downside (%)					51.9%

Valuation parameters	
Risk free rate	5.0%
Equity risk premium	9.0%
Beta	1.03
Cost of equity	**14.2%**
Cost of debt	6.0%
Corporate tax rate	15.0%
After tax cost of debt	5.1%
Target debt	15%
Target equity	85%
WACC	**12.9%**
Terminal growth rate	1.5%

WACC

Terminal growth rate	9.9%	10.9%	11.9%	12.9%	13.9%	14.9%	15.9%
0.0%	0.816	0.713	0.626	0.554	0.492	0.438	0.391
0.5%	0.870	0.756	0.663	0.584	0.517	0.460	0.410
1.0%	0.930	0.804	0.702	0.617	0.545	0.484	0.430
1.5%	0.996	0.857	0.745	**0.652**	0.575	0.509	0.452
2.0%	1.072	0.916	0.792	0.691	0.607	0.536	0.476
2.5%	1.158	0.983	0.845	0.734	0.643	0.566	0.501
3.0%	1.256	1.057	0.904	0.781	0.681	0.598	0.528
3.5%	1.369	1.142	0.969	0.833	0.723	0.633	0.557

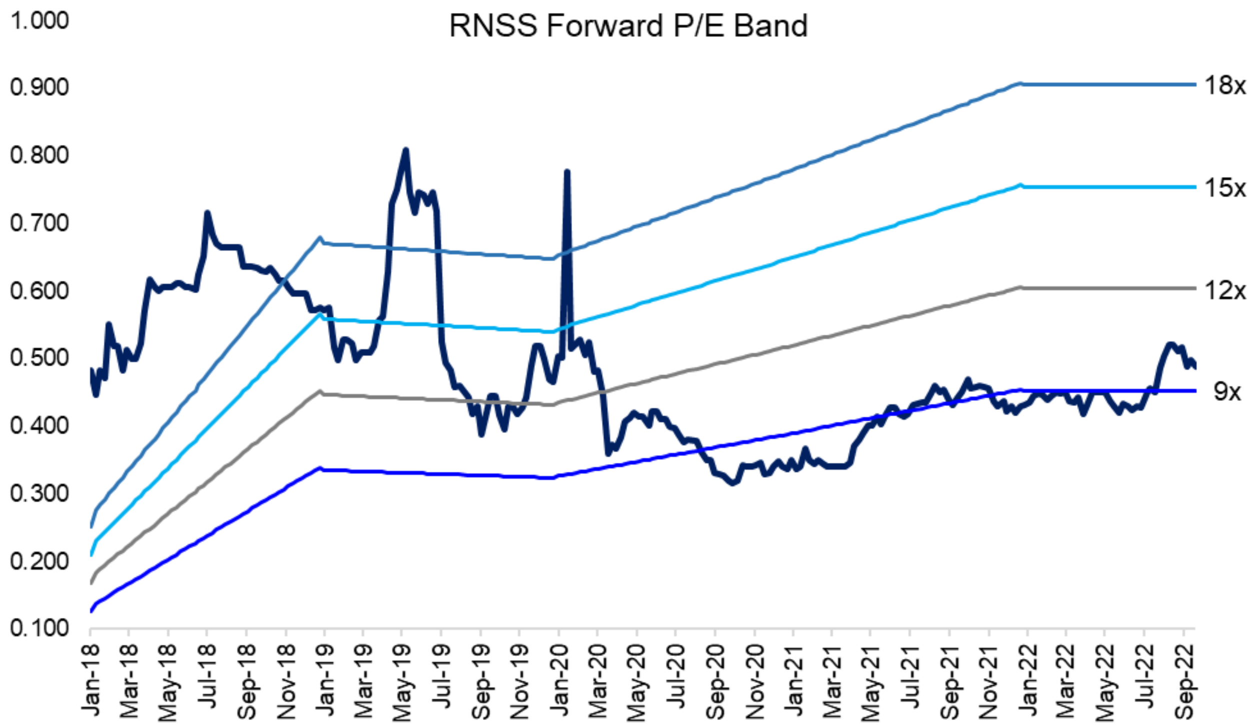
EV/EBITDA Valuation	
Target Multiple EV/EBITDA (x)	9.0
EBITDA FY22e	24,076
Enterprise Value	216,687
Less: Net Debt	58,876
Equity Value	157,811
Implied value per share (RO)	**0.668**
PE Valuation	
Target Multiple P/E(x)	11
Net income FY22E	13,768
Equity Value (RO ,000)	151,443
Implied value per share (RO)	**0.641**

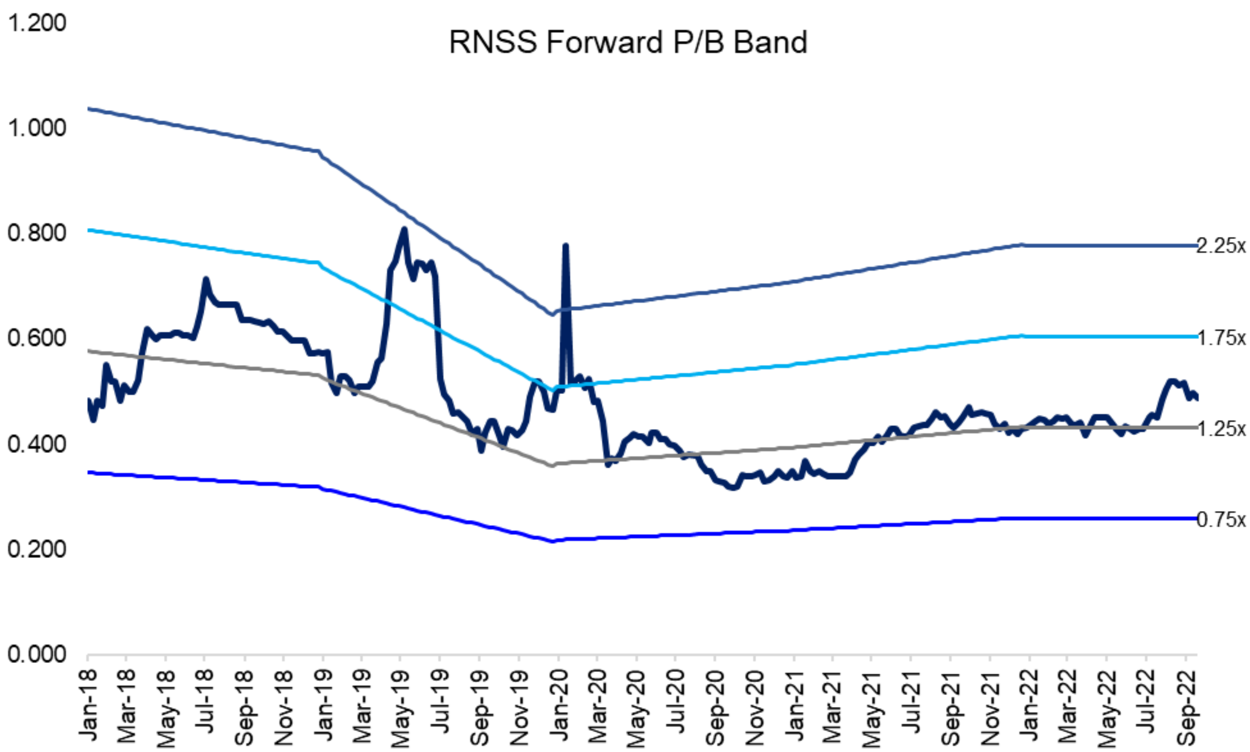
12M Blended Fair Value Per Share of RO 0.653

Summary valuations	Weight	Weighted value
Discounted Cash Flow	50%	0.326
EV/EBITDA	25%	0.167
P/E	25%	0.160
Blended 12m fair value per shai	**100%**	**0.653**

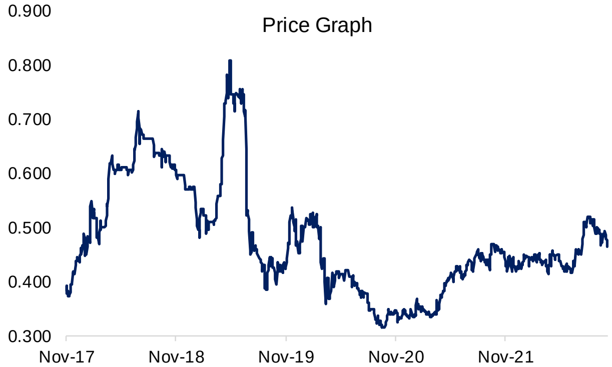
Key downside risks to our view: (i) A slow and protracted economic recovery; (ii) slower pace of project execution in Duqm and other areas; (iii) Increasing unorganized and substandard workspace; and (iii) lower oil prices.

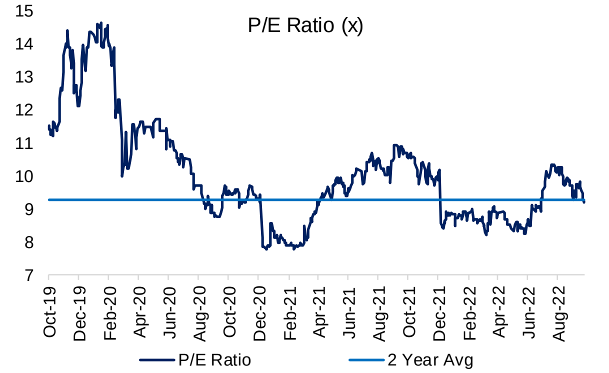
Forward PE charts

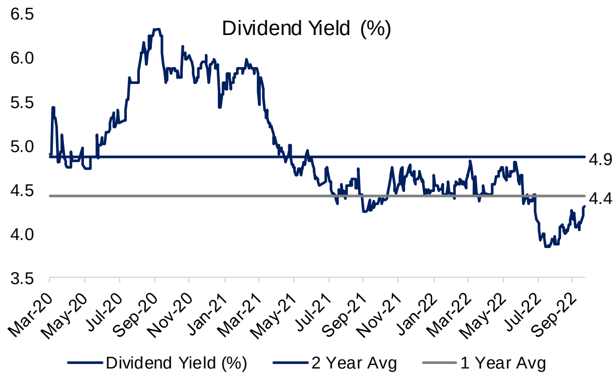




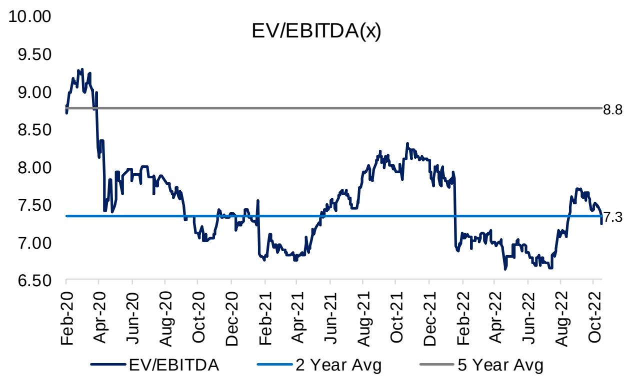
Source: Bloomberg Professional®, Company Reports and US Research

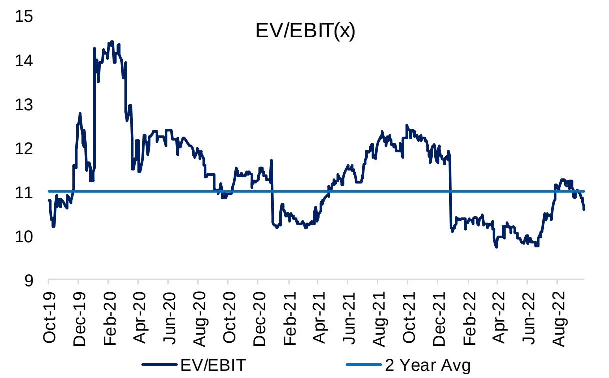

Price Graph
0.900
0.800
0.700
0.600
0.500
0.400
0.300
Nov-17
Nov-18
Nov-19
Nov-20
Nov-21

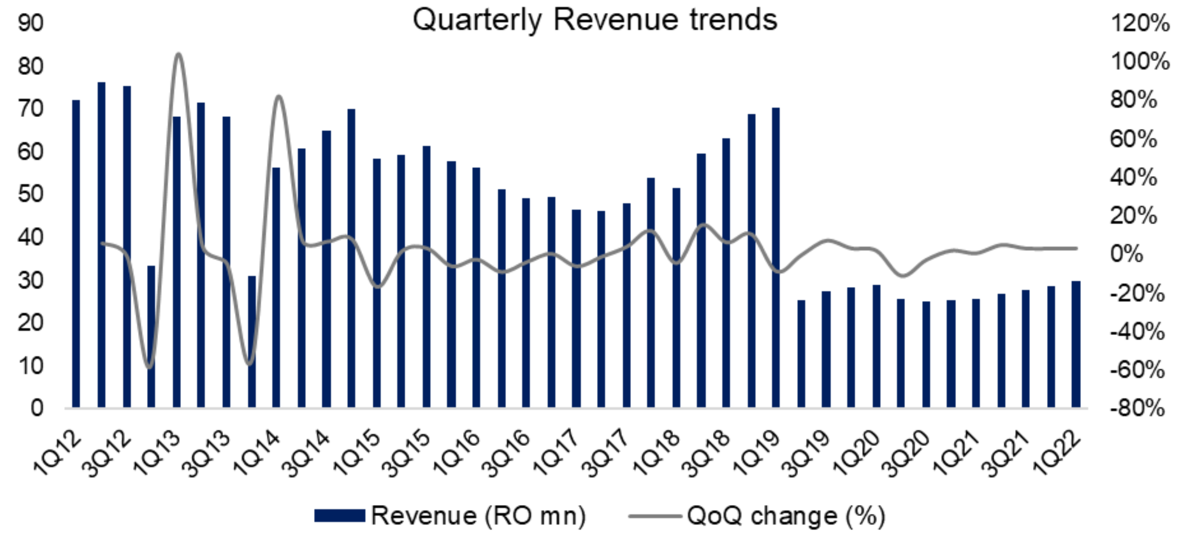

P/E Ratio (x)
15
14
13
12
11
10
9
8
7
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20
Oct-20
Dec-20
Feb-21
Apr-21
Jun-21
Aug-21
Oct-21
Dec-21
Feb-22
Apr-22
Jun-22
Aug-22
P/E Ratio
2 Year Avg

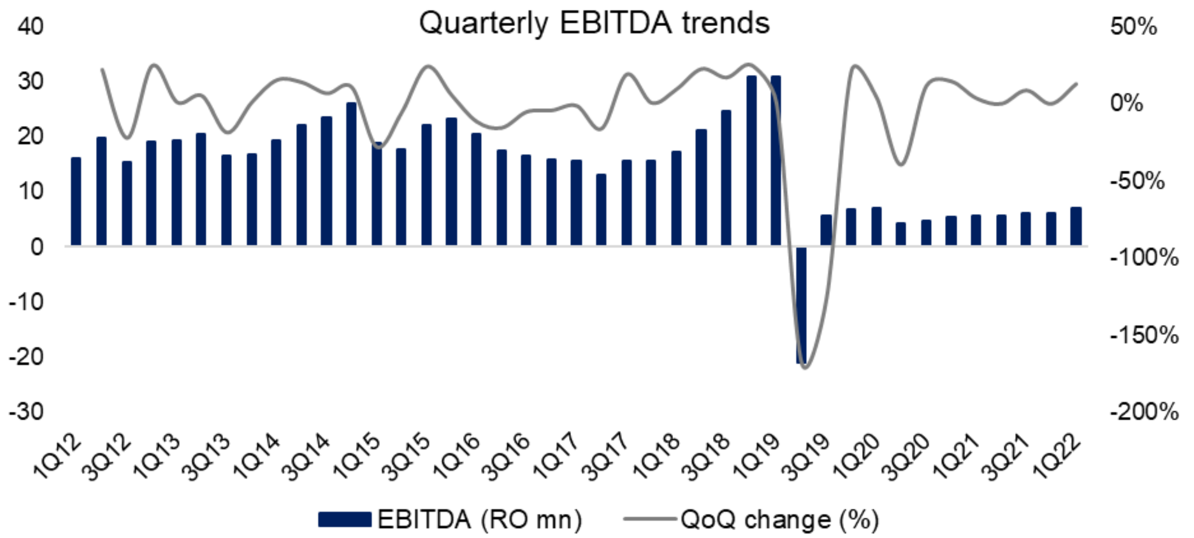

Dividend Yield (%)
6.5
6.0
5.5
5.0
4.5
4.0
3.5
4.9
4.4
Mar-20
May-20
Jul-20
Sep-20
Nov-20
Jan-21
Mar-21
May-21
Jul-21
Sep-21
Nov-21
Jan-22
Mar-22
May-22
Jul-22
Sep-22
Dividend Yield (%)
2 Year Avg
1 Year Avg

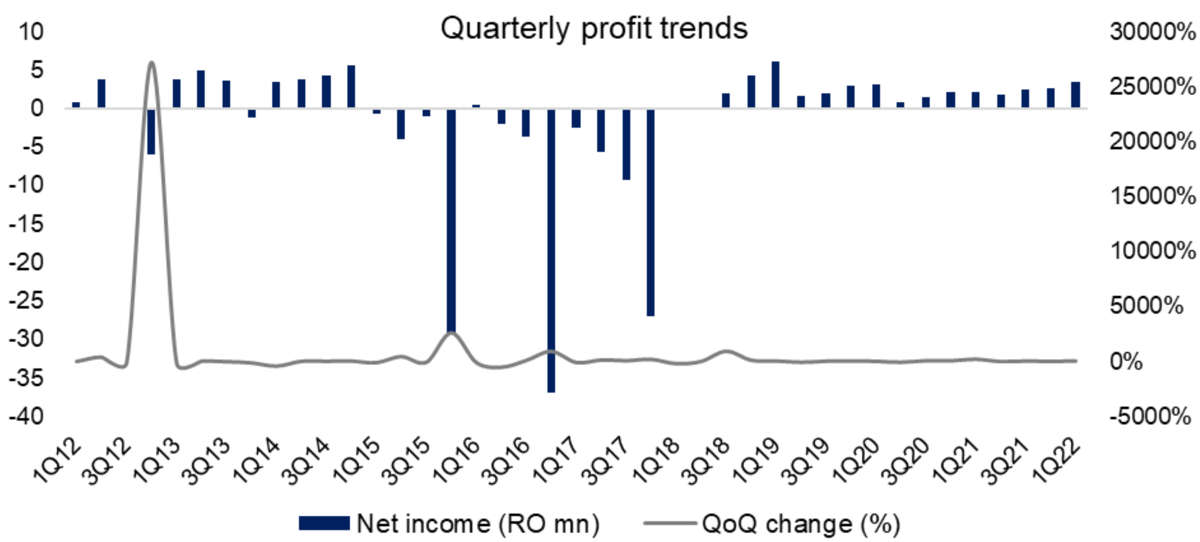

Price to Book ratio (x)
1.8
1.6
1.4
1.2
1.0
0.8
0.6
1.4
1.3
Nov-17
Nov-18
Nov-19
Nov-20
Nov-21
P/B
2 Year Avg
5 Year Avg


EV/EBITDA(x)
10.00
9.50
9.00
8.50
8.00
7.50
7.00
6.50
8.8
7.3
Feb-20
Apr-20
Jun-20
Aug-20
Oct-20
Dec-20
Feb-21
Apr-21
Jun-21
Aug-21
Oct-21
Dec-21
Feb-22
Apr-22
Jun-22
Aug-22
Oct-22
EV/EBITDA
2 Year Avg
5 Year Avg


EV/EBIT(x)
15
14
13
12
11
10
9
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20
Oct-20
Dec-20
Feb-21
Apr-21
Jun-21
Aug-21
Oct-21
Dec-21
Feb-22
Apr-22
Jun-22
Aug-22
EV/EBIT
2 Year Avg


Quarterly Revenue trends
Revenue (RO mn)
QoQ change (%)


Quarterly EBITDA trends
EBITDA (RO mn)
QoQ change (%)

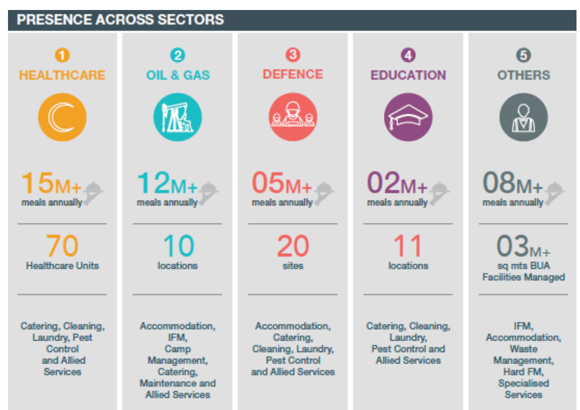

Quarterly profit trends
Net income (RO mn)
QoQ change (%)

About Renaissance Services

A decade ago, the name Renaissance SAOG (RNSS) would have been synonymous with a bulky, asset heavy, highly leveraged international company that had operations in several unrelated businesses across the world. On one side the company operated in the highly capital intensive and specialized areas of Marine and Engineering maintaining a fleet of vessels, ship repairing, Oil & Gas related maintenance services. While on the other end it also managed a contract servicing business that included the construction, management and maintenance of accommodation, food and cleanliness of workspace across several sectors. Alongside RNSS also had business interests in IT, education, and training as well as media related sectors.

Today the story of RNSS is very different from the past. The company is leaner, less leveraged and focused on its core competencies. It has shed legacy issues and transformed into a bemouth providing Infrastructure Facilities Management (IFM) services in over 100 locations across the country and in the GCC serving a variety of sectors. Services begin from the design, construction and operations of accommodation for over 30,000 people along with serving 50mn meals annually via their catering business coupled with other services such as maintenance and related life support facilities.

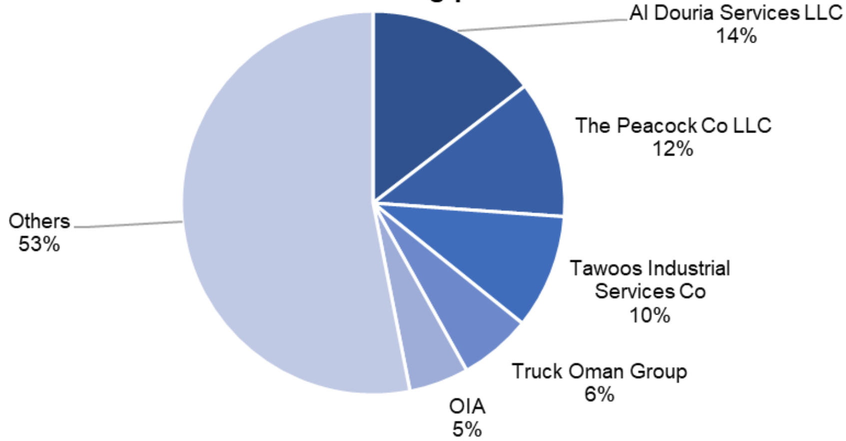
While Accommodation and catering form the core of the company's revenue, the remaining services are complimentary and augur well in providing clients a one stop shop for all their facility management needs. Contracts such as providing electricity meters are taken up based on RNSS ability to manage manpower resources and do not form the core of the business. Rapid urbanization, tourism and infrastructural development are anticipated to accelerate the domestic market growth.



Source: Company reports

The IFM operations of RNSS can be broadly classified into two - hard and soft facilities management. Wherein the hard services include operations and maintenance related work such as HVAC, monitoring and evaluation, STP operations and other civil maintenance services. Soft services comprise of catering cleaning, laundry, recreation and other life support services. A third and most important part of the RNSS operations relates to the accommodation solutions which come under the Renaissance Village brand. This is a design, build, own, operate, maintain, with the option to transfer (DBOOMT) model focused on raising the standards of workers at an affordable cost.

While Oman remains the primary market for Renaissance, it has operations in UAE through its subsidiary, and has recently initiated its operations in Qatar via a JV with Mekdam group. However, with intense competitive environment in these markets, making meaningful inroads in short period of time would be difficult.



Board of Directors

S.No	Name	Position	Category
1	Samir J Fancy	Chairman	Non-Independent, Non-Executive, Shareholder
2	Ali Hassan Sulaiman Al Lawati	Director	Non-Independent, Non-Executive, Shareholder
3	Sunder George	Director	Independent, Non-Executive, Non-Shareholder
4	Hamad Mohammad Al Wahaibi	Director	Non-Independent, Non-Executive, Shareholder
5	HH Sayyid Tarik bin Shabib Al S	Director	Non-Independent, Non-Executive, Shareholder
6	Michael Brown	Director	Independent, Non-Executive, Non-Shareholder
7	Dr. Lamya Al-Haj	Director	Independent, Non-Executive, Non-Shareholder

Source: MCD, US Research

UNITED SECURITIES LLC. المتحدة للأوراق المالية ش.م.م

Renaissance Services (RNSS)

24 October 2022

Income statement (RO '000)	2020	2021	2022E	2023E	2024E
Revenue	105,030	109,438	120,382	131,216	144,338
Operating costs	84,334	87,878	96,305	104,973	115,470
Gross profit	20,696	21,560	24,076	26,243	28,868
Admin exp	7,058	6,032	6,621	7,217	7,939
Investment Income	501	397	538	248	248
EBIDTA	21,413	23,578	26,378	28,414	31,230
Operating profit	14,139	15,925	17,993	19,274	21,177
Finance costs	4,548	4,686	4,521	4,794	4,272
Profit Before Tax	9,591	11,239	13,472	14,481	16,905
Taxation	16	31	40	43	51
Net income - consolidated	**9,575**	**11,208**	**13,432**	**14,437**	**16,855**
Less: Minority interest	1,902	2,071	2,686	2,887	3,371
Profit to shareholders	**7,673**	**9,137**	**10,745**	**11,550**	**13,484**

BALANCE SHEET (RO '000)	2020	2021	2022E	2023E	2024E
PPE	135,021	139,586	144,586	149,586	154,586
Right to use asset	4,259	4,161	4,161	4,161	4,161
Intangibles	1,968	1,952	1,952	1,952	1,952
Long term investments	2,529	4,616	4,616	4,616	4,616
Total Non-Current Assets	**143,777**	**150,315**	**155,315**	**160,315**	**165,315**
Short term investments	1,549	3,655	3,655	3,655	3,655
Inventories	4,651	4,764	5,417	5,905	6,495
Trade receivables	38,965	41,350	43,337	47,238	51,962
Cash and bank balance	20,243	26,894	28,122	26,671	38,791
Total current assets	**65,408**	**76,663**	**80,532**	**83,468**	**100,903**
Total Assets	**209,185**	**226,978**	**235,847**	**243,783**	**266,218**
Share capital	23,641	23,641	23,641	23,641	23,641
Share premium	26,936	26,936	26,936	26,936	26,936
Reserves	4,278	4,069	3,905	3,766	4,437
Retained earnings	7,007	12,366	19,340	26,050	33,944
Equity to shareholders	61,862	67,012	73,822	80,393	88,958
Non controlling interest	18,953	21,024	23,710	26,598	41,079
Total equity	**80,815**	**88,036**	**97,532**	**106,991**	**130,037**
Borrowings	71,026	78,168	73,168	68,168	63,168
Other Liabilities	10,464	10,443	10,507	10,151	9,790
Total non-current liabilities	**81,490**	**88,611**	**83,675**	**78,319**	**72,958**
Trade payables	41,244	43,344	48,153	52,486	57,735
Other current liabilities	5,636	6,987	6,487	5,987	5,487
Total current liabilities	**46,880**	**50,331**	**54,640**	**58,473**	**63,222**
Total liabilities	**128,370**	**138,942**	**138,315**	**136,793**	**136,180**
Total equity and liabilities	**209,185**	**226,978**	**235,847**	**243,783**	**266,218**

Cash Flow (RO '000)	2020	2021	2022E	2023E	2024E
Cash from operations	19,373	21,591	19,518	18,729	22,570
Investing cash flow	-22,982	-13,297	-4,006	-4,181	-4,181
Financing cash flow	-17,906	-635	-14,749	-16,204	-15,682
Change in cash	-13,535	6,651	1,228	-1,451	12,120
Beginning cash	33,778	20,243	26,894	28,122	26,671
Ending cash	**20,243**	**26,894**	**28,122**	**26,671**	**38,791**

Ratio Analysis	2020	2021	2022E	2023E	2024E
Per share					
EPS (RO)	0.036	0.043	0.050	0.054	0.063
BVPS (RO)	0.262	0.283	0.312	0.340	0.376
DPS (RO)	0.020	0.020	0.020	0.025	0.025
FCF per share (RO)	-0.015	0.035	0.066	0.062	0.078
Valuation Ratios					
Market Cap (RO ,000)	70,923	80,379	101,656	101,656	101,656
EV (RO,000)	127,142	138,432	152,981	148,932	131,313
P/E (x)	11.97	10.05	8.55	7.95	6.81
EV/EBITDA (x)	5.94	5.87	5.80	5.24	4.20
Price/Book (x)	1.64	1.52	1.38	1.26	1.14
Dividend Yield (%)	6.7%	5.9%	4.7%	5.8%	5.8%
Price to sales (x)	0.68	0.73	0.84	0.77	0.70
EV to sales (x)	1.21	1.26	1.27	1.14	0.91
Liqiudity					
Cash Ratio (x)	0.70	0.43	0.53	0.51	0.46
Current Ratio (x)	1.40	1.52	1.47	1.43	1.60
Quick Ratio (x)	1.30	1.43	1.37	1.33	1.49
Return Ratios					
ROA (%)	4.6%	4.9%	5.7%	5.9%	6.3%
ROE (%)	11.8%	12.7%	13.8%	13.5%	13.0%
ROCE (%)	8.7%	9.0%	9.9%	10.4%	10.4%
Cash Cycle					
Inventory turnover (x)	19.55	18.67	18.92	18.54	18.62
Accounts Payable turnover (x)	2.07	2.07	2.10	2.08	2.09
Receivables turnover (x)	2.70	2.73	2.84	2.90	2.91
Inventory days	19	20	19	20	20
Payable Days	176	177	174	176	175
Receivables days	135	134	128	126	125
Cash Cycle	-23	-23	-26	-30	-30
Profitability Ratio					
Gross Margins (%)	19.7%	19.7%	20.0%	20.0%	20.0%
EBITDA Margins (%)	20.4%	21.5%	21.9%	21.7%	21.6%
PBT Margins (%)	9.1%	10.3%	11.2%	11.0%	11.7%
Net Margins (%)	9.1%	10.2%	11.2%	11.0%	11.7%
Effective Tax Rate (%)	0.2%	0.3%	0.3%	0.3%	0.3%
Leverage					
Total Debt (RO ,000)	76,462	84,947	79,447	73,947	68,447
Net Debt (RO ,000)	56,219	58,053	51,325	47,276	29,656
Debt/Capital (x)	3.23	3.59	3.36	3.13	2.90
Debt/Total Assets (x)	0.37	0.37	0.34	0.30	0.26
Debt/Equity (x)	0.70	0.66	0.53	0.44	0.23

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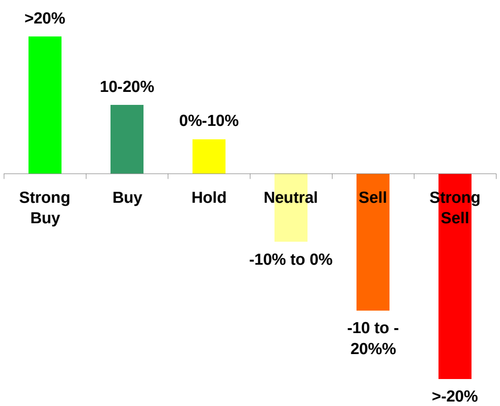
Rating Criteria and Definitions

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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