2P
Software & Services
2P AB: Saudi Arabia
31 July 2023

US$0.88bn	81.80%	US$6.75mn
Market Cap	Free Float	Avg. Daily Value

Target price	29.00	29% above current
Current price	22.00	as at 31/07/2023

Existing rating

Underweight | Neutral | **Overweight**

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Perfect Presentation for Commercial Services Co.

Initiate with a target price of SAR29/sh

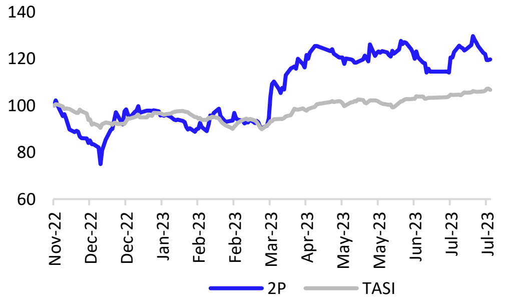
We initiate coverage on Perfect Presentation (2P) with an "Overweight" rating and a target price of SAR29/sh providing an upside of 29% to the last close. The software & services sector in Tadawul has witnessed tremendous growth in the past year with revenues and bottom line growing by 17% and 44% in FY22. As a result, the stocks have outperformed the market with the sector rallying 80% in FY22 and 83% YTD. 2P, on the other hand, has been lagging in terms of stock performance. The company revenues have grown at a historic 4-year CAGR of 51%. Currently, the backlog revenues stand at a massive SAR1.8bn representing a run rate of around 2 years. Since 2019 backlog revenues have grown by a whopping 2.9x. Going forward, we remain confident in the company's ability to attract new contracts and have assumed an increase in backlog revenues at a 5-year CAGR of 18%. Consequently, we foresee the top line for the company to grow by a 5-year CAGR of 20%. Given the clarity on near-term revenue growth, we believe the stock is trading at an attractive 2023e P/E level of 21.1x. Hence, we initiate with an Overweight rating on the stock.

Capitalizing on the ICT boom: The company operates in a growing industry where rapid transformation is being witnessed. IDC (market consultant) forecasts significant growth in IT spending in the Kingdom of Saudi Arabia, with IT services reaching SAR20.8bn by 2026 at a CAGR of 5.7%, hardware expenditure exceeding SAR33bn with a CAGR of 3.5%, and software spending reaching SAR10.6bn at a CAGR of 10.4%. In a fragmented market, 2P holds a decent market share in the business segment it operates. For the CX/O&M/SWD segment, it holds a market share of roughly 10/8/2% as of FY21.

Solid backlog revenues to drive growth: The backlog of the company stood at SAR1.8bn (1Q23) representing a run-rate of around 2 years based on FY22 revenues. The company has managed to increase its backlog revenues by 2.6x since 2019. New project additions have strongly risen each year since 2019 with the company adding SAR1.1/1.5bn worth of projects in FY21/22 representing a growth of 109/46% YoY. In the near to medium term, the company has a strong advanced-stage pipeline of projects with a high probability of winning (60-70% historical win rate). Going forward, we remain confident in the company's ability to attract new contracts and have assumed an increase in backlog revenues at a 5-year CAGR of 18%.

Tailored solutions for its customer: The company operates in 3 main integrated business segments namely 1) Customer Experience (CX), 2) Operation & Maintenance (O&M), and 3) Software development (SWD). This allows 2P to provide comprehensive solutions to its customers across segments making them effectively a one-stop shop for its clients. In terms of generating business, 2P enjoys the luxury where a project in one segment area usually helps in generating a lead for other segmental areas. The company also has several products in various IT fields and these products include but are not limited to Yamamah, Wesal, and Tarasul.

Performance (indexed to 100)



Financials

(SARmn)	2022	2023E	2024E
Revenue	927	1,133	1,405
Revenue growth	41.4%	22.2%	23.9%
Gross profit	180	222	278
Gross margin	19.5%	19.6%	19.8%
EBITDA	142	176	221
EBITDA margin	15.4%	15.5%	15.7%
Net profit	131	156	199
Net margin	14.2%	13.8%	14.2%
EPS	0.9	1.0	1.3
DPS	0.2	0.3	0.4
Payout ratio	27.8%	30.0%	30.0%
P/E	25.6x	21.5x	16.9x
RoE	63.6%	50.7%	46.0%

Source: Company data, Al Rajhi Capital.

Strong financial performance to continue: The company has grown leaps and bounds in the last four years recording a 4-year revenue CAGR of 51%. The revenues stood at SAR180mn in 2018 and have since jumped 5.1x to SAR927mn in FY22. Going forward we expect revenues to grow at a 2022-27e CAGR of 20%. The return ratios for the company are pretty impressive and better than its peers with ROE clocking in at 64% in FY22 and averaging at 65% for the last three years. As of FY22, the ROE of the listed peers stands at 42/32/47% for Solutions/ELM/MIS. We expect the superior return to continue for the company on the back of healthy margins as well as efficient utilization of capital. We forecast ROE to average at 51% during FY22-25.

Attractive Valuations: 2P got listed on the main market in Nov 2022 at a price of SAR185/sh. The stock has rallied by 26% YTD and 20% since listing. The Software and services sector in the main market has rallied by 83% YTD and 60% since 2P's listing. We argue that 2P is lagging the sector currently and is available at attractive valuations (current PE of 21.1x only as against sectors 26.6x). Our preferred valuation approach is DCF, where we assign a weight of 50% to it while the remaining 50% is assigned to the relative valuation approach. Using the above-mentioned approach, we arrive at a weighted average target price of SAR29/sh. The stock provides an upside of 29% from its last closing.

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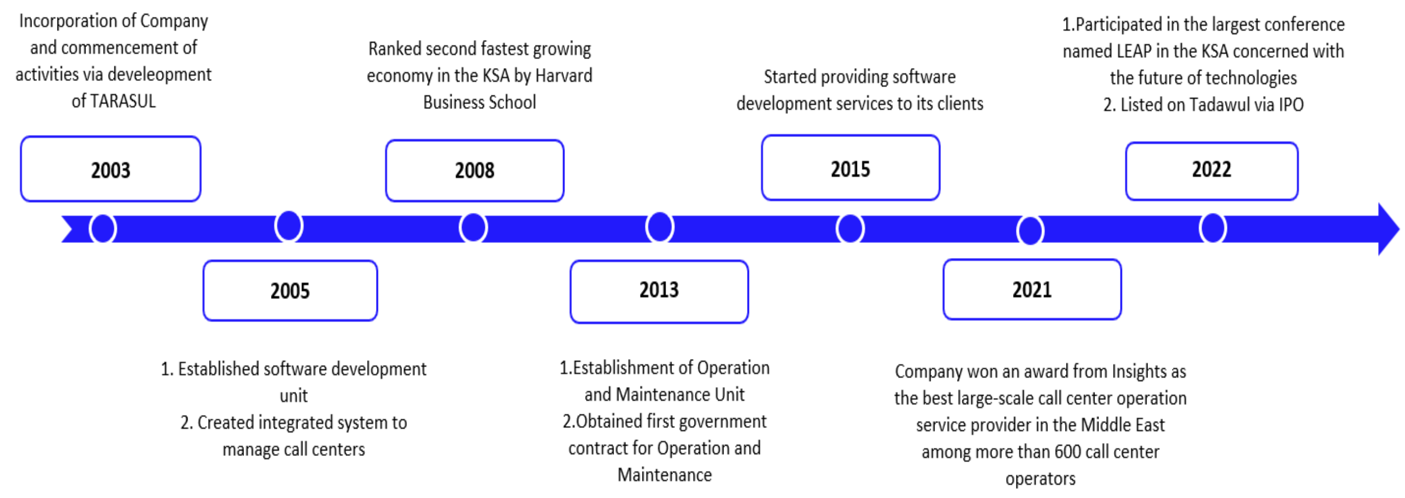
Company Overview

The company "Perfect Presentation Office for Commercial Services" (2P) was initially established by Nasser Abdullah Mohamed Albassam in Riyadh with a capital of SAR 25,000 in 2003. The company's capital went through several increases and changes in ownership, leading to its status with a capital of SAR150mn. The group has three main businesses Customer Experience ("CX"), Operation & Maintenance ("O&M"), and Software Development ("SWD"). The CX offers Business Process Outsourcing (call centre and related business), technology solutions like ticket management, CRM etc. O&M offers business support, Managed IT services, Preventive and Corrective services via skilled employee force. Lastly, SWD offers clients with customised software solutions and Decision Support Systems which provide data collection and analysis through software packages.

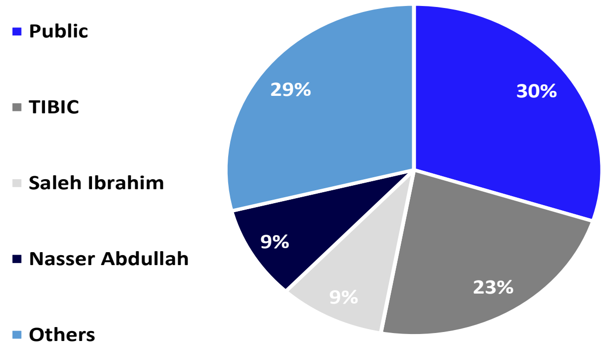
In November 2022, the group decided to list 30% or 4.5mn of its ordinary shares. Prior to IPO listing three shareholders held nearly 59% of group's shares namely The Ideal for Business and Investment Trade Company (32.6%), Mr. Saleh Ibrahim Hamad Al Mazroua (13%), and Mr. Nasser Abdullah Mohamed Albassam (13%). Their ownership collectively came down by ~18% to 41%. The new ownership structure is shown below on Figure 2.

Figure 1 **2P Timeline**



Source: Company Data, Al Rajhi Capital

Figure 2 **Post - IPO Shareholding**

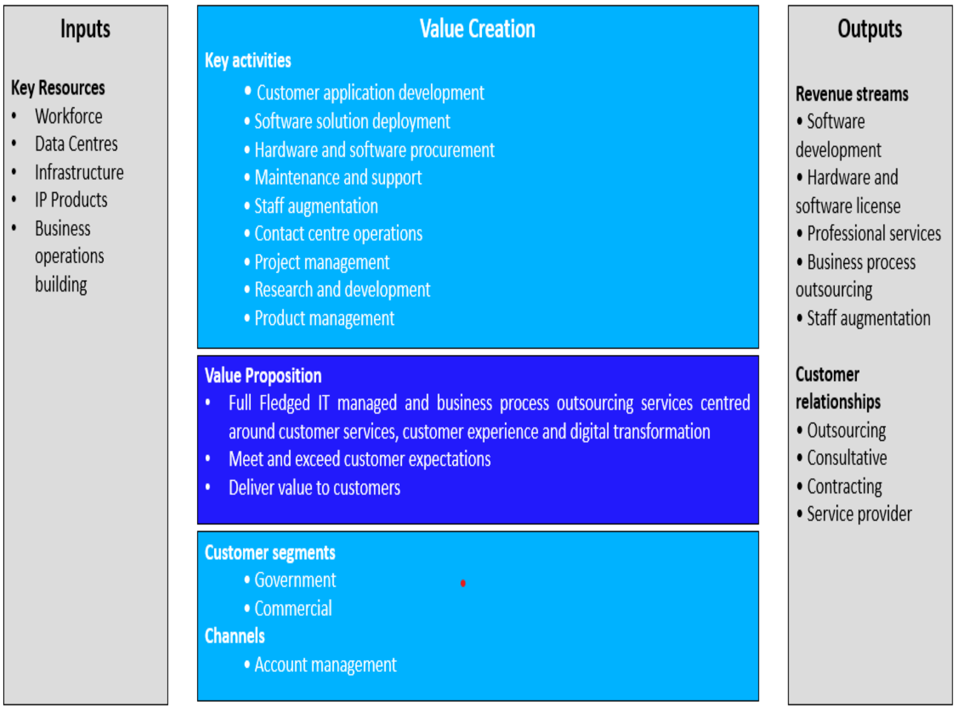


Source: Company Data, Al Rajhi Capital

Business Model

Perfect Presentation (2P) is one of the leading ICT providers focusing on providing customer experience solutions as well as streamlining business operations through increased efficiency. As such, the company provides services in three main lines of business namely 1) Customer Experience (CX), 2) Operation and Maintenance (O&M), and 3) Software Development (SWD). The three mentioned business segments are integrated to provide its clients with a one-stop solution. The company's unique selling proposition is no doubt the customer experience segment coupled with O&M and SD helping the company stand out against its competitors. Any client for the company will have the luxury of not only sourcing 2P's software design, development, and maintenance services but also using the company services to manage all their communication channels including contact centers, digital channels, and social media.

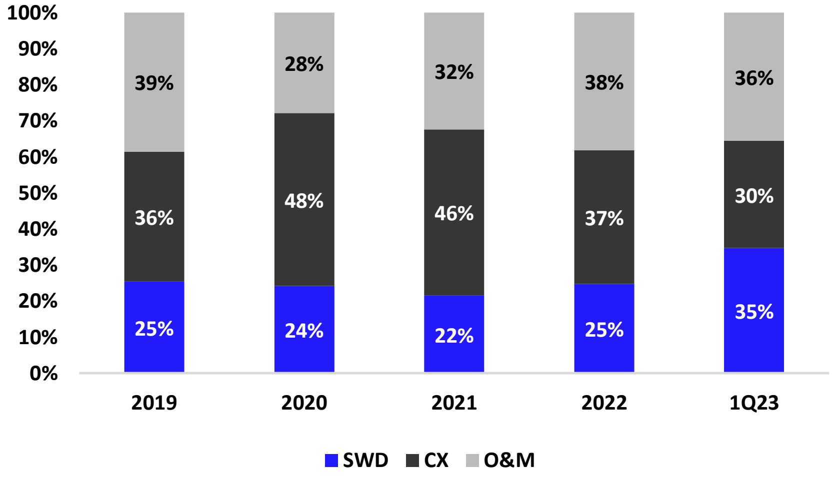
Figure 3 **2P's business model**



Source: IPO Prospectus

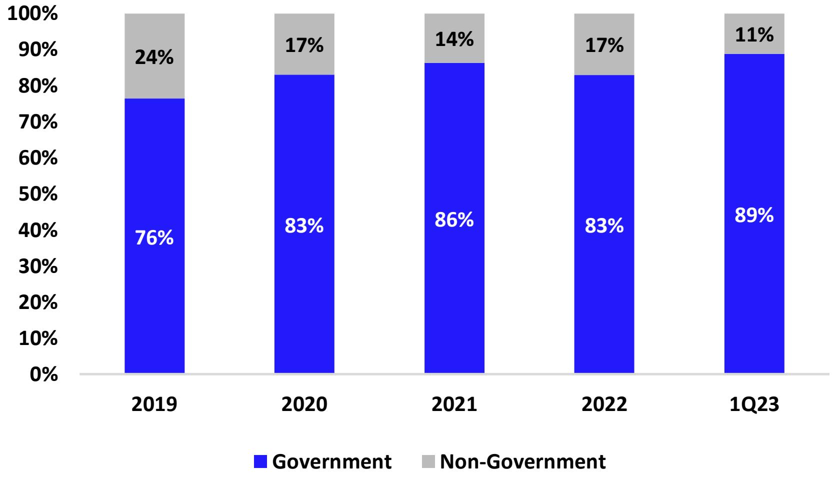
As of FY22/1Q23, revenues from each segment contributed 37/30%, 38/36%, and 25/35% to the overall revenues. Historically, the company has been more reliant on the customer experience segment which contributed 36/48/46% in FY19/20/21 respectively. At the gross levels, margins for CX, O&M, and SD average at 26/14/18% levels. In terms of clients, 83% of the revenues represent govt clients as of FY22, which previously used to be 76% as of FY19.

Figure 4 **Revenue Mix – business segment**



Source: Company Data

Figure 5 **Revenue Mix - clients**



Source: Company Data

The company has over 211 active contracts as of 1Q23 representing contract expansion by 2.0x (2019-2022). For the CX segment, there are currently 34 contracts. Overall, the CX segment has 125+ mn calls answered with an average duration of 3 minutes. The O&M contracts stand at 94 with an average revenue of SAR0.86mn per contract while SWD contracts stand at 94 with an average revenue of SAR0.94mn per contract. On average, project duration can be 1-3 years with the company roughly recognizing 20-22% of revenues from annual additions in backlog. The company boasts a healthy win rate of 60-70% based on the number of contracts they bid for.

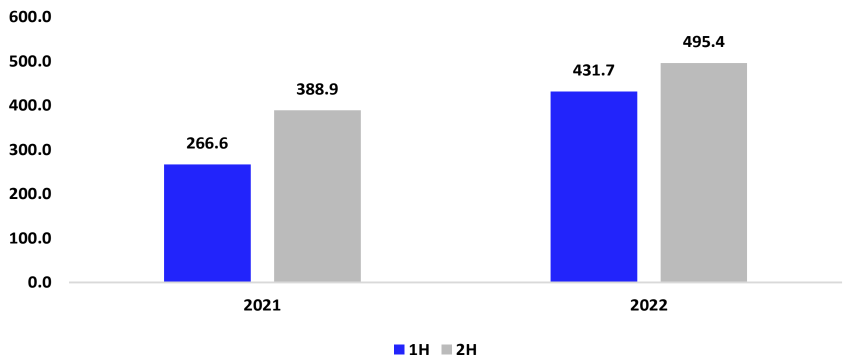
Figure 6 **KPIs in 1Q23**

Customer Experience ("CX")	Operation & Maintenance ("O&M")	Software Development ("SWD")
34 Contracts	94 Contracts	83 Contracts
+125mn calls answered	24/7 Support	SAR941k revenue/contract
3 minutes avg call duration	SAR855k revenue/contract	+13 SWD Solutions
92% Customers satisfaction	+890 on-ground engineers	80% customer retention

Source: Company Data

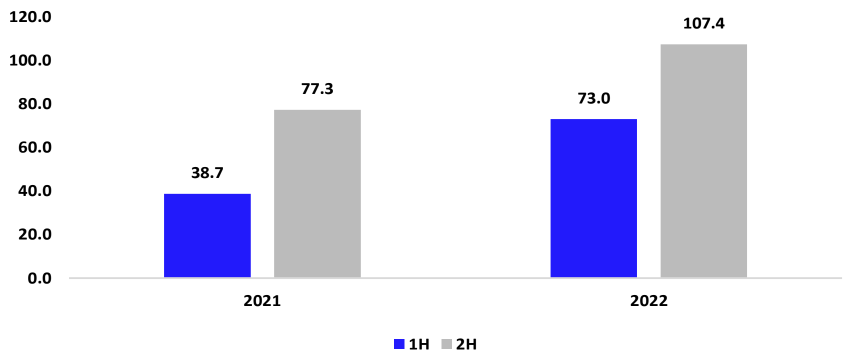
Seasonality: The business is seasonal in nature as on average 44% of the revenues are booked in the first half of the calendar year while the remaining 54% is booked in the second half. Similarly, the gross level margins during the 1H average around 16% while second half GP margins are much better and average around 21%. The primary reason is that most of the contracts the company has are with government entities and the during the 2H of the season the projects are implemented at a faster pace to complete them before the year's end. The company has to face a similar trend with its receivables which go down significantly in the 2H as the public entities release cash.

Figure 7 **Half Yearly Revenue Breakup (SARmn)**



Source: Company Data

Figure 8 **Half Yearly Gross Profit Breakup (SARmn)**



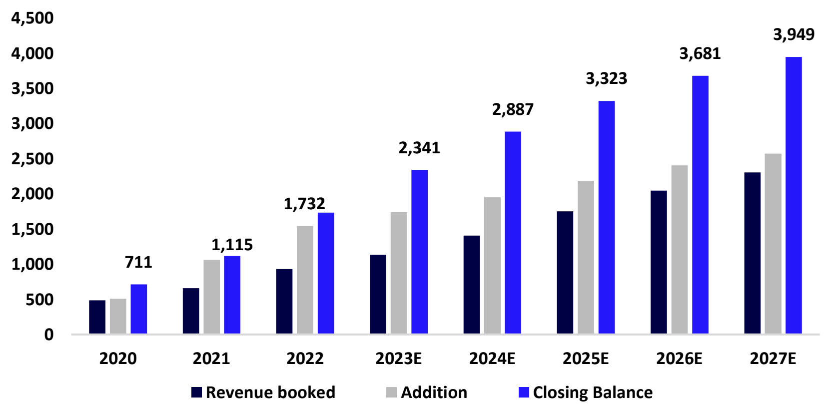
Source: Company Data

Investment Case

Capitalizing on the ICT boom: The government's focus on digitization in various sectors and the establishment of a robust digital infrastructure are essential objectives of Vision 2030. The Vision aims to propel the Kingdom into a digital economy, and make it a nation with a strong emphasis on e-Government expansion. The company operates in a growing industry where rapid transformation is being witnessed. IDC (market consultant) forecasts significant growth in IT spending in the Kingdom of Saudi Arabia, with IT services reaching SAR20.8bn by 2026 at a CAGR of 5.7%, hardware expenditure exceeding SAR33bn with a CAGR of 3.5%, and software spending reaching SAR10.6bn at a CAGR of 10.4%. In a fragmented market, 2P holds a decent market share in the business segment in which it operates. For the CX/O&M/SWD segments, it holds a market share of roughly 10/8/2% as of FY21.

Solid backlog revenues to drive growth: The company has expanded rapidly on the back of stupendous growth in its backlog revenues as the new contracts and projects continue to pile up. As of 1Q23, the backlog of the company stood at SAR1.8bn representing a run-rate of around 2 years based on FY22 revenues. To put things into perspective, the company has managed to increase its backlog revenues by 2.6x since 2019. New project additions have strongly risen each year since 2019 with the company adding SAR1.1/1.5bn worth of projects in FY21/22 representing a growth of 109/46% YoY. In addition, in the near to medium term, the company has a strong advanced-stage pipeline of projects in which it has a high probability of winning (60-70% historical win rate). Going forward, we remain confident in the company's ability to attract new contracts. However, the overall growth rate would dip owing to the base effect. We have assumed, on average, backlog additions of SAR2.2bn each year till FY27 which would increase our backlog revenues at a 5-year CAGR of 18%.

Figure 9 **Backlog in SARmn**



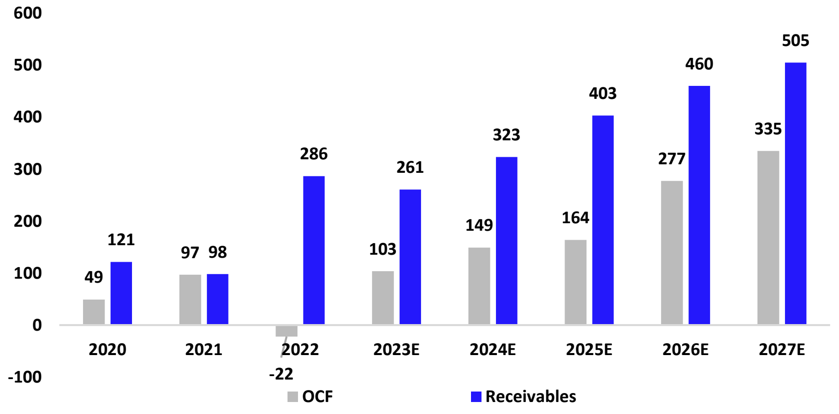
Source: Company Data; ARC estimates

Tailored solutions for its customer: The company operates in 3 main integrated business segments namely 1) Customer Experience, 2) Operation & Maintenance, and 3) Software development. This allows 2P to provide comprehensive solutions to its customers across segments, making them effectively a one-stop shop for its clients. In addition, the expertise in each segment means that the company has a superior ability to identify gaps and develop solutions to increase efficiency. From the business perspective, 2P enjoys the luxury where a project in one segment area usually helps in generating a lead for other segmental areas. In addition, the company has several products in various IT fields and some of them may be classified as intellectual property. These products include but are not limited to Yamamah, Wesal, and Tarasul.

Strong financial performance to continue: The company has grown leaps and bounds in the last four years recording a 4-year revenue CAGR of 51%. The revenues stood at SAR180mn in 2018 and have since jumped 5.1x to SAR927mn in FY22. The company was established in 2004 and was ready to capitalize on the recent ICT boom with its experienced team and proven track record. Especially, the Covid-19 period acted as a catalyst expediting the Kingdom's push towards digitization via forced innovation that resulted in increased demand for ICT services benefitting the existing players. Going forward we expect the topline to grow at a 5-year CAGR of 20% on the back of the existing backlog and boom in the overall ICT industry.

The majority of these new contracts were with public entities having high receivable days, and the mammoth surge in the backlog also put pressure on the working capital requirements of the company. The effects of this were mainly seen in FY22 where the operating cash flow for the company turned negative.

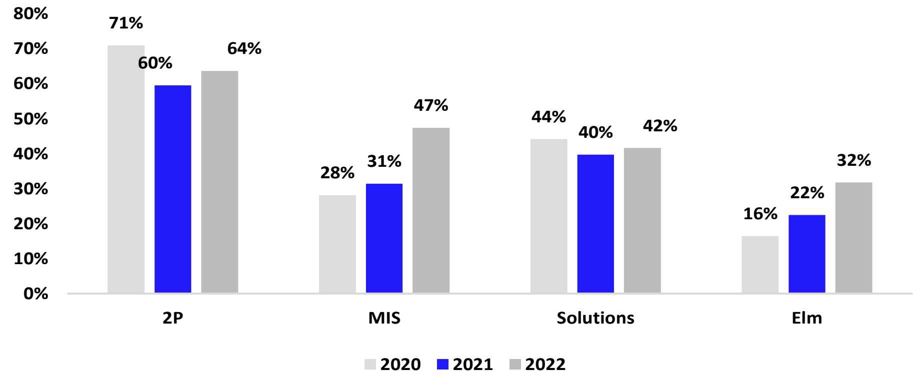
Figure 10 **Operating cash flow vs receivables SARmn**



Source: Company Data, ARC estimates

The company has had an average payout ratio of 34% in the last 3 years with the payout dropping to 28% in FY22. Going forward, we believe that the management is unlikely to increase its payout ratio and maintain it at the level of 30% in the near future. The return ratios for the company are impressive and better than its peers with ROE clocking in at 64% in FY22 and averaging at 65% for the last three years. As of FY22, the ROE of the listed peers stands at 42/32/47% for Solutions/ELM/MIS. We expect the superior return to continue for the company on the back of healthy margins as well as efficient utilization of capital. We forecast ROE to average 51% during FY22-25.

Figure 11 **2P vs peers' ROE**



Source: Company Data;

Valuation

Our preferred valuation approach to value the company is DCF, where we assign a weight of 50% to it while the remaining 50% is assigned to the relative valuation approach. Using the above-mentioned approach, we arrive at a weighted average target price of SAR29/sh. The stock provides an upside of 29% from its last closing.

Figure 12 **Valuation**

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)	Upside/Downside
DCF	30	50%	15	32.2%
Relative Valuation (EV/EBITDA)	29	25%	7	28.9%
Relative Valuation (PE)	27	25%	7	20.6%
Fair Value (SAR)*		**100%**	**29**	
CMP as of Monday, 31 July 2023			*22*	
Upside/(Downside)			**29%**	

Source: Al Rajhi Capital; Rounded to SAR29/sh

We use the Discounted Cash Flow (DCF) methodology to arrive at a value of SAR30/sh. Our value is based on the cost of equity assumption of 12.5% resulting in a WACC of 9.4% while we have taken a terminal growth rate of 2.5%

Figure 13 **DCF Sensitivity Analysis**

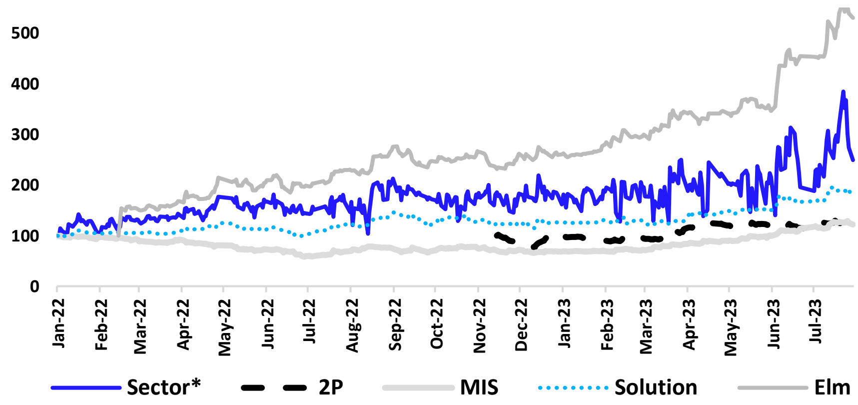
		Terminal growth				
		1.5%	**2.0%**	**2.5%**	**3.0%**	**3.5%**
WACC	**8.9%**	29	31	32	35	37
	9.2%	28	29	31	33	36
	9.4%	27	28	**30**	32	34
	9.7%	26	27	28	30	32
	9.9%	25	26	27	29	31

Source: Al Rajhi Capital

For relative valuation, we have used price to earnings as well as EV/EBITDA (average of FY23-24) mainly of the listed peer companies in the main market. The P/E multiple of 26.6x was used to arrive at a value of SAR29/sh while the EV/EBITDA multiple of 22.3x was used resulting in a value of SAR27/sh.

Conclusion: The stock got listed on the main market on Nov 2022 at a price of SAR185/sh. Soon after listing, the stock plummeted by 25% to touch a low of SAR13.9/sh thereafter it rallied again to stabilize at SAR18.0/sh. The stock has rallied by 25% YTD and 21% since listing. On the other hand, the software and services sector in the main market has rallied by 83% YTD and 60% since 2P's listing. We argue that 2P is lagging the sector currently and is available at attractive valuations (current PE of 21.1x only). The company has a clear backlog of revenues which guarantees growth, decent margins and impressive return ratios. Hence, we recommend building position in the stock and initiate coverage with an overweight rating providing an upside of 29% to the last closing price.

Figure 14 **2P vs Sector* performance**



Source: Bloomberg; * weighted average prices of MIS, Solution, and Elm indexed to 100

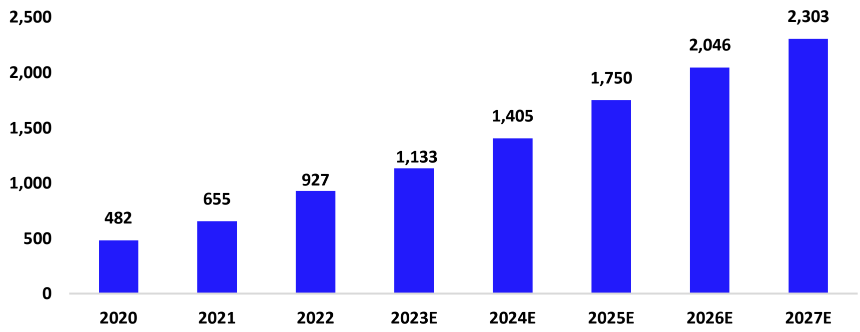
Key risks

- Government Sales Dependency: The company heavily relies on its sales to government clients, with government sales accounting for a significant portion of its total revenues, ranging from 76.4% to 88.7% in the financial years from 2019 to 2022.
- High concentration of government clients poses risks from budget changes and regulatory restrictions, affecting contract volume and duration.
- Government contracts have stringent terms and penalties, exposing the company to potential financial losses.
- Client payment risk may impact the company's performance and financial stability.
- Provisions for expected credit losses are made based on periodic reviews, impacting financial stability.
- Challenges in working capital due to high employee wages and longer repayment periods from government clients.

Financial Analysis

Revenue analysis: The 2018-22 revenues grew at a CAGR of 51%, while we expect ~20% revenue CAGR from 2022-27e. Currently, the group has nearly 38% of revenues from operations and maintenance services, followed by 37% from call centre services, while software development services share of revenues remains at c.25%. We believe the revenue share of software services may increase to 30% by 2027e as the management is looking to increase its market share from 2-3% currently. More than 80% of the group's revenue comes from government contracts which are long-term in nature. Contracts won are classified as backlog revenues which are recognized as revenues over the period of the contract.

Figure 15 **2P's Revenue Projection (SAR mn)**



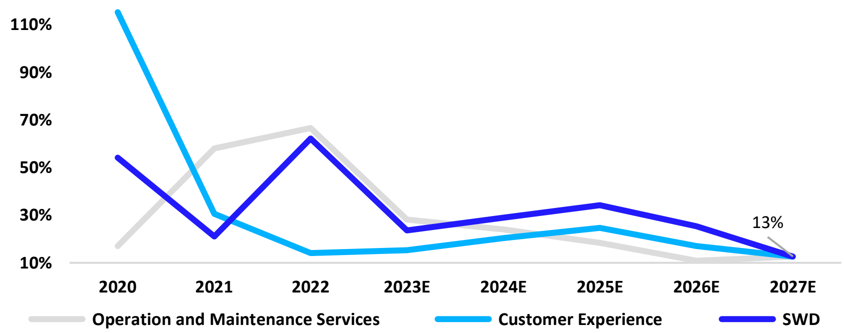
Source: Company Data; ARC estimates

Operation and Maintenance Services: This segment has grown at a CAGR of 45% during 2019-22, while we expect it to grow at a CAGR of 19% during 2022-27e. We believe the growth in this segment may come largely from government contracts. The average gross margin for this segment is c13%.

Customer Experience: This segment has grown at a 2019-22 CAGR of 47%, though only marginally above the other two segments, but the highest growth business during the period. We believe the growth to normalize at a 2022-27e CAGR of 18% as the management focuses on other segments which present larger opportunities. This segment in 2019 accounted for nearly group's half the revenues, however, the group has reduced its dependence on a single business line and increased revenue contribution from other segments. We believe this segment's contribution may decrease to 34% by 2027e and it will remain the second largest segment marginally behind Operation and Maintenance.

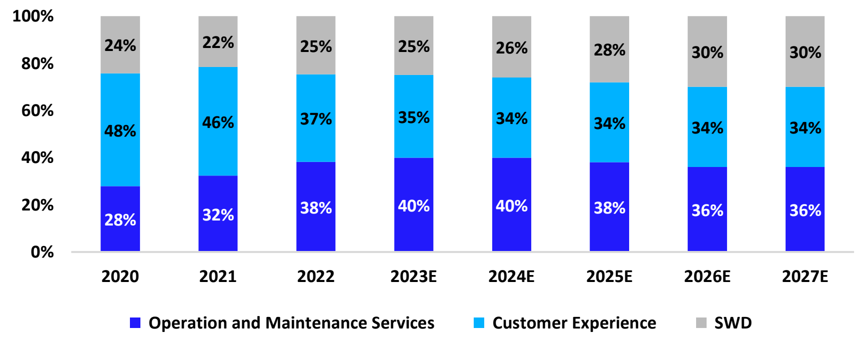
Software and Development Services (SWD): This segment historically has the lowest contribution to the group's revenues but has grown at par with operation and maintenance services with a 2019-22 CAGR of 45%. Despite lower margins than other segments, the management is focusing on SWD most likely for two reasons 1) to reduce dependency on the Customer experience segment and 2) The group has a very low market share of 2-3%, and hence, it presents an excellent growth opportunity.

Figure 16 **Revenue growth segment wise– y axis (set upper limit)**



Source: Company Data; ARC estimates

Figure 17 **Evolution of revenues by segment**

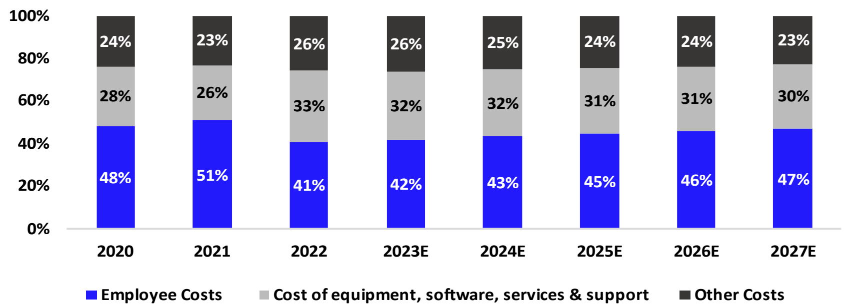


Source: Company Data; ARC estimates

Margins: The group has an average gross margin of c.19% which is much lower than its local peers' average of ~30%. We believe 2P may optimize its costs and improve its margins gradually. However, the improvement shall be largely offset due to the expected increasing revenue contribution of SWD which is a low (~18% margin in 2022) margin business compared to higher (>25% margins historically) margin business segment Customer Experience. We believe the margins may remain lower in SWD as it requires highly skilled employees compared to the other two segments.

Cost analysis: Employee costs account for more than 40% of the cost of sales. The second largest expense is the cost of equipment, software, services & support which accounts for nearly 34% of the group's costs. The rest of the costs are indirect costs, and we believe these costs are likely to reduce as a percentage of sales over time as the company's revenues increase since they are not directly correlated with sales.

Figure 18 **Cost of sales split**



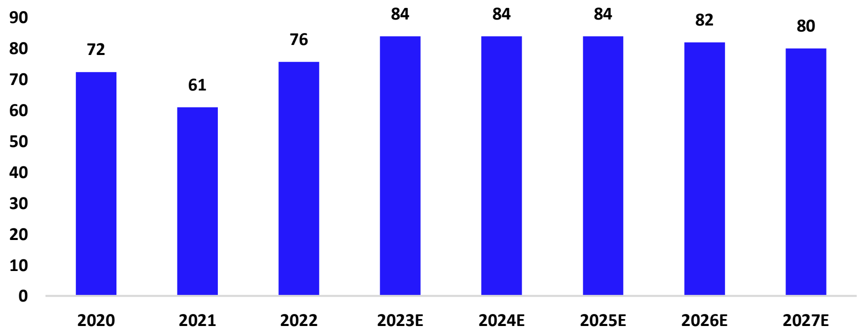
Source: Company Data

Working Capital: The company reported an overall debt level of SAR291mn at the end of 1Q23. Currently, the debt is more than its equity, however, the majority (SAR286mn) of the group's debt is in short-term loans, which are most likely used to fund its working capital requirements. We believe the short-term loans to remain on the higher side as the company is working on multiple projects and have a healthy pipeline.

Contract Assets and receivables account for nearly 75% of the group's assets in 1Q23. The group's cash position has remained weak historically as cash accounted for only 7% of its current assets. This is probably the reason that management has refrained from paying regular dividends despite consistent profitability. The group's cash is largely engaged toward working capital requirements.

The receivable days (DSO) for the company on average stand at 73 days (last 4 years), while payables (DPO) days are at 34 days. Due to the long-term nature of the group's contracts, we believe the receivables are likely to remain on the higher side. The group has a decent cash conversion cycle of 40 days (historical average) and we expect it to remain at the same level.

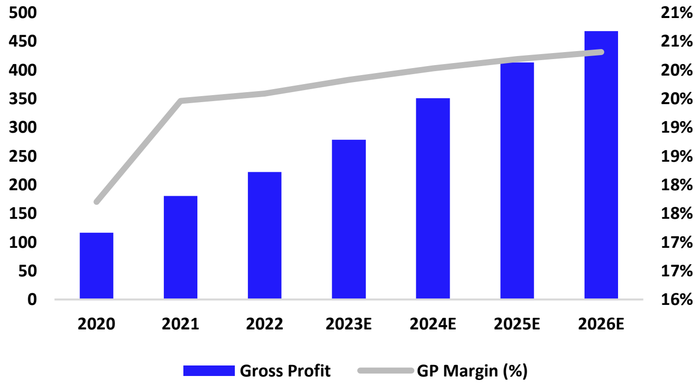
Figure 19 **Receivable days to remain on the higher side**



Source: Company Data; ARC estimate

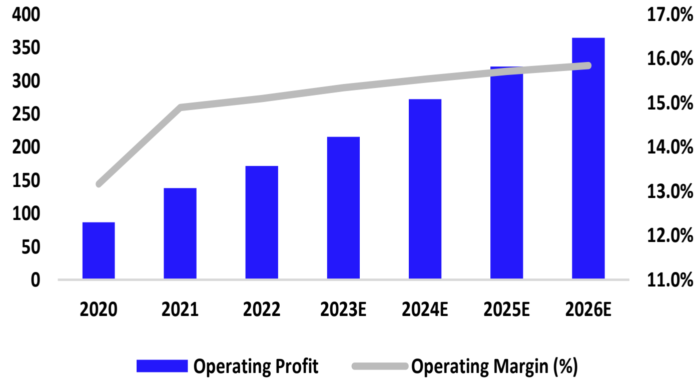
ROE: 2P reported a ROE of 64% in 2022 and has an average historical ROE of 65%. While the ROE is higher than the majority of the group's local peers, one must remember that group's equity is quite low while debt is on the higher side. We believe once, the group can resolve its operating cash flows by managing its working capital, it should be in a better position to pay regular dividends.

Figure 20 **Gross Profitability (SARmn)**



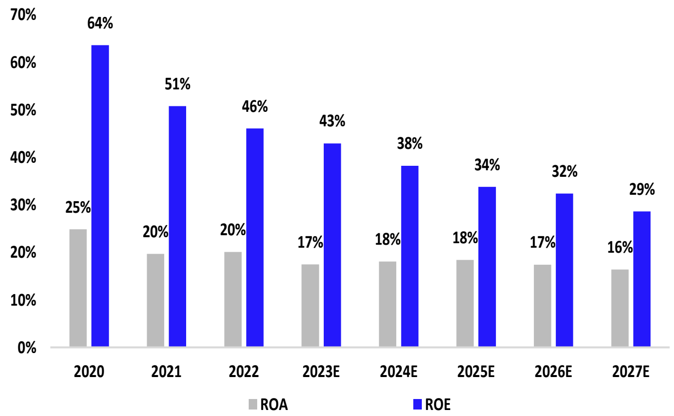
Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 21 **Operating Profitability (SARmn)**



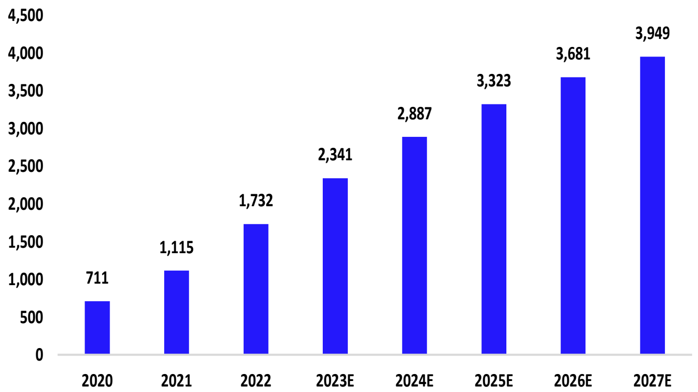
Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 22 **ROA and ROE**



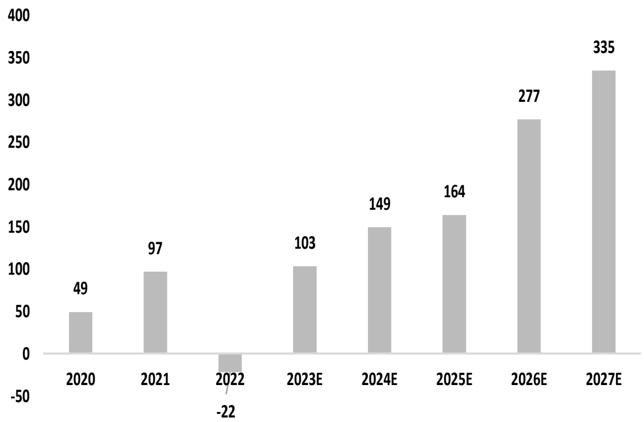
Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 23 **Completed Contracts and Average Size (SARmn)**



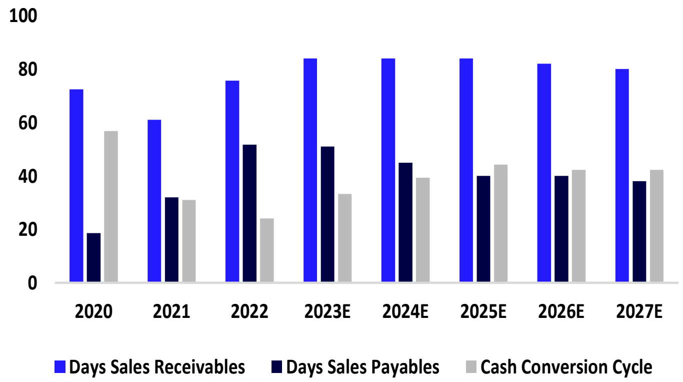
Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 24 **Cash Flow Position (SARmn)**



Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 25 **Cash Conversion Cycle**

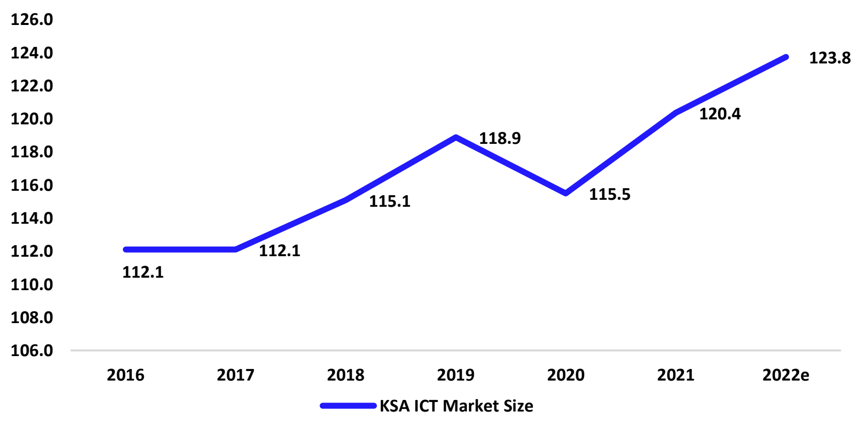


Source: Company Data, Al Rajhi Capital; ARC estimates

Industry overview

In recent years, the Saudi economy has witnessed numerous opportunities due to its digital transformation. The government's focus on digitization in various sectors and the establishment of a robust digital infrastructure are essential objectives of Vision 2030. This vision aims to propel the Kingdom into a digital economy, and make it a nation with a strong emphasis on e-Government expansion.

Figure 26 **ICT Market Outlook in the Kingdom (SARbn)**

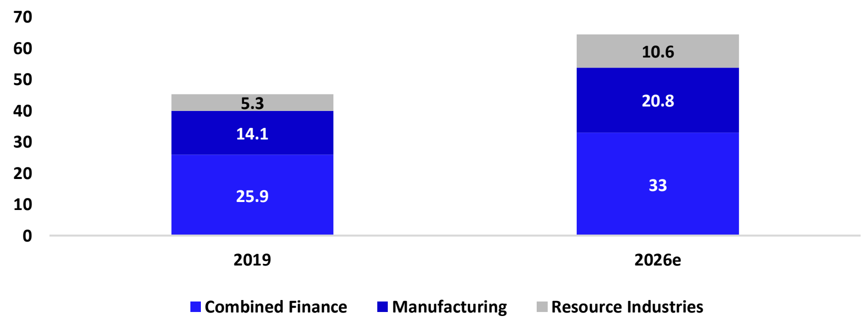


Source: IPO Prospectus, IDC, Al Rajhi Capital

IT sector outlooks by technology in KSA

IDC (market consultant) forecasts significant growth in IT spending in the Kingdom of Saudi Arabia, with IT services reaching SAR20.8bn by 2026 at a CAGR of 5.7%, hardware expenditure exceeding SAR33bn with a CAGR of 3.5%, and software spending reaching SAR10.6bn at a CAGR of 10.4%. Cloud-based solutions are gaining prominence, enabling technology-led transformation projects despite budget constraints. Despite the COVID-19 pandemic's impact on IT spending in 2020, strong adoption plans across industries are expected to drive market recovery over the five-year forecast period till 2025.

Figure 27 **IT spending by technology market (SARbn)**

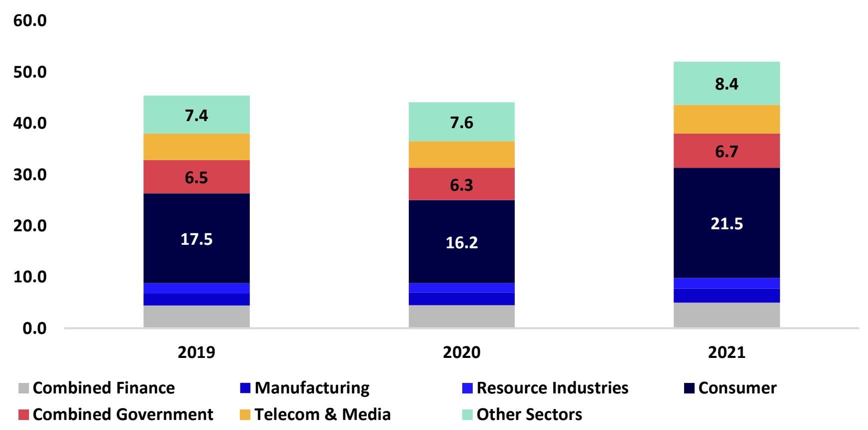


Source: IPO Prospectus, Al Rajhi Capital

IT market outlook by sector in KSA

Government spending on IT holds the largest share in the enterprise IT market in the Kingdom, followed by the telecommunications and media, banking and financial services, manufacturing, and resource sectors. The oil and gas and banking sectors lead in technology adoption, investing in advanced solutions like big data, analytics, cloud computing, and advanced security. The government is the largest spender on IT services, while the telecommunications sector transformed with a focus on infrastructure and customer experience. Financial institutions are enhancing internal IT environments for flexibility and client focus. The manufacturing and resource sectors rank fourth and fifth in IT services spending.

Figure 28 **IT spending by technology market (SARbn)**



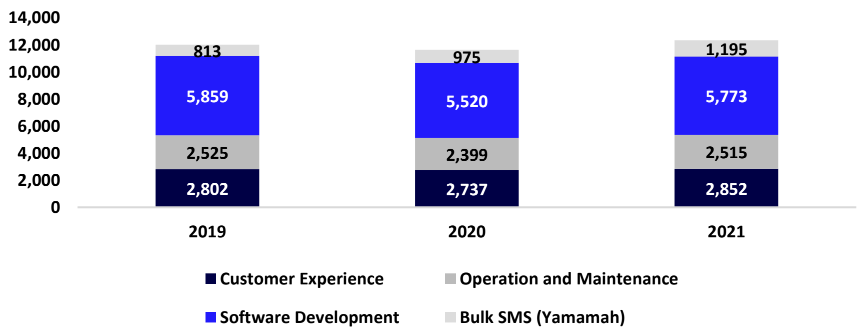
Source: IPO Prospectus, Al Rajhi Capital

Key IT spending drivers in the Kingdom

- National Technology Development Program (NTDP) aims to boost digital skills and support SMEs through a funding program.
- Digital Skills Development initiatives target training 100,000 Saudi youth in digital abilities by 2030.
- Saudi Project HQ Initiative encourages foreign investment by permitting only international firms with regional headquarters in the Kingdom to conduct business with the government by 2024.
- Tech Startup Enablement initiatives include strategic investments in start-ups and SMEs, generating jobs and contributing to the economy.
- Global Excellence in Artificial Intelligence aims to position Saudi Arabia as a leader in data and AI, with training for 25,000 specialists and attracting investments.
- Mega Projects like Neom, Qiddiyah, and Red Sea project drive the Kingdom's digital transformation and contribute to the economy through employment opportunities and GDP growth.

Overview of Key markets in which 2P operates.

Figure 29 **Total addressable market size (SARmn)**



Source: IPO Prospectus, Al Rajhi Capital

Customer experience: The Customer experience market in the Kingdom recorded a CAGR of 1% between 2019 and 2021, reaching SAR2.9bn, with Perfect Presentation holding 10.6% of the market share in 2021. The market is expected to grow due to the focus on improving service responsiveness and effectiveness in Government and private entities. The BPO market, particularly in customer experience, has significant potential, and 2P has a strong position. The Saudi BPO industry has transformed into a regional player serving customers beyond the local market. The Government and regulators are adapting standards to align with global norms and developing policies to foster a competitive environment. However, systems integration faces challenges such as budget constraints and IT managers' focus on immediate efficiency impacts.

Operations and maintenance: In 2021, the Company had a market share of 8.4% in operations and maintenance segment in the Kingdom. Customers increasingly chose outsourced services over self-management of on-premises infrastructure, and cloud services are expected to see further growth due to pandemic conditions. The market for project services experienced slow growth due to budget constraints, decreased high-cost projects, and payment-related obstacles. IT outsourcing (managed services) contributed to growth in operations and maintenance as organizations embraced the concept of relinquishing control over IT infrastructure. Demand for outsourcing services with SLAs at a lower price has increased.

Software Solutions: In 2021, the Software Development market experienced a slight decrease, reaching SAR5.7bn with a CAGR of 0.7% between 2019 and 2021. Perfect Presentation had about 2.4% of the market share in 2021. The market is expected to expand in the future, particularly in application-related services. However, support services may see slower growth due to the rise of cloud services, leading to a decline in demand. Training and education services in the IT field have also been affected by budget reductions amid the ongoing pandemic.

Bulk SMS: The Bulk SMS market in the Kingdom recorded a significant CAGR of 21.2% between 2019 and 2021, reaching SAR1.1bn in 2021, with Perfect Presentation representing around 0.7% of the SMS package market share in 2020. Messaging services are increasingly important for communication in various sectors, including banking, finance, insurance, manufacturing, service delivery, and retail. The COVID-19 pandemic has accelerated the adoption of messaging services, making them a cost-effective communication channel for advertising, promotions, and brand awareness. The telecommunications market is expected to continue growing, driven by the demand for bulk SMS services and strong focus from service providers, as messaging services offer low costs, quick communication, and ease of content delivery with minimal investment.

Key regulatory authorities and policies in the Kingdom:

- CITC issued Regulatory Framework for Cloud Computing with updates in Version 3 in 2020G.
- NCA oversees cybersecurity and national strategy implementation.
- MCIT introduced Cloud First Policy to govern ICT purchase decisions in the Saudi Government.
- CMA regulates and ensures the confidentiality of customers' data in the capital market.
- SAMA Cyber Security Framework mandates financial institutions to use cloud services within the Kingdom or with explicit approval.
- KSA Data Protection Law was established to regulate data transfers and personal data privacy.
- Economic Free Zones Initiative aims to create special economic zones for investment, including cloud computing.

Key competitors in KSA

The listed KSA peer group for 2P is limited, and following is a comparison with the listed players in the same space:

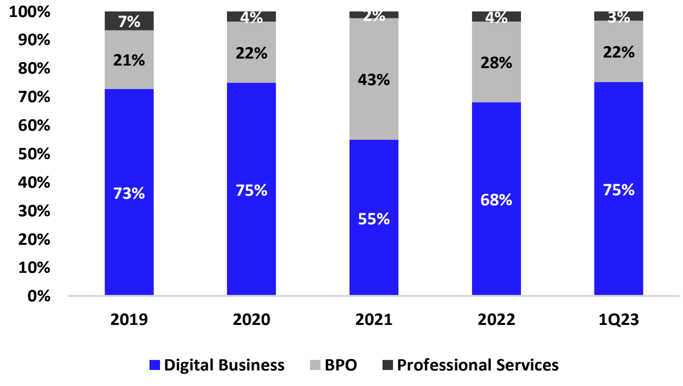
Solutions: Solutions by STC, in 1Q23, drew 58% of its revenues from Information Communication and Technology (ICT) services, while 25% and 17% of revenues came from Managed and Digital services, respectively. The company collaborates with Saudi Telecommunication Company (STC), a partially Government-owned entity, to align its services with the National Transformation Program and Vision 2030. Moreover, close to 68% of its revenues come from non-STC customers while a substantial 32% of its revenues come from STC. Solutions has had an average ROE of 42% in the last three years.

MIS: Al Moammar Information Systems Company (MIS) was the first IT company listed on the Saudi Stock Exchange. It focuses on growth through digital technologies. The group has three business segments i.e., Equipment & Hardware, Software Licenses, and Maintenance, services & solutions which contributed 87%, 2%, and 10% of its 1Q23 revenues, respectively. Government contracts accounted for nearly 90% of its revenues in 2022. The group's three-year historical ROE is around 36%.

Elm: Elm is a Saudi Arabian company specializing in information technology and digital transformation. Established in 1991 and headquartered in Riyadh, the company offers advanced digital solutions to various sectors, including government, finance, healthcare, and telecommunications. Nearly 75% of the group's revenues came from Digital business in 1Q23, while Business Process Outsourcing (BPO), and Professional services accounted for 22% and 3%, respectively. In 1Q23 34% of the group's revenues came from government sources, however, historically nearly 50% of revenues have come from the government.

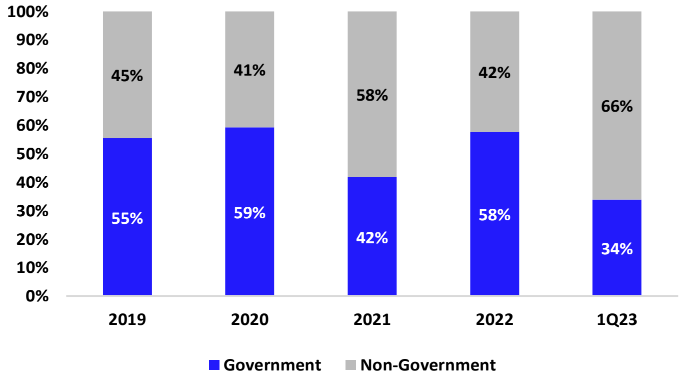
Others: Apart from the above there are several non-listed players like Edaja, Arabic Computer Systems, and one NOMU listed company SURE Global Technologies.

Figure 30 **Solutions - Revenues by segment**



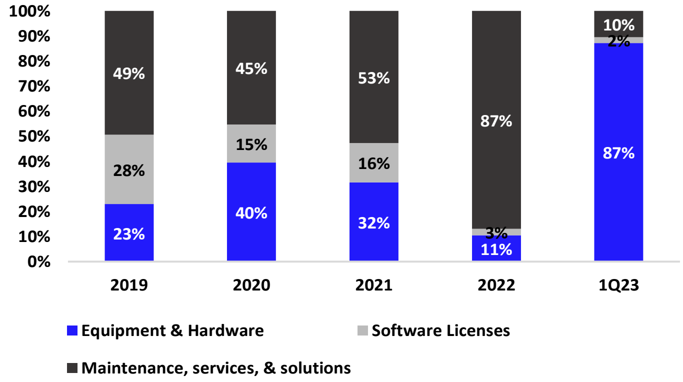
Source: Company Data, Al Rajhi Capital

Figure 31 **Solutions - Revenues by source**



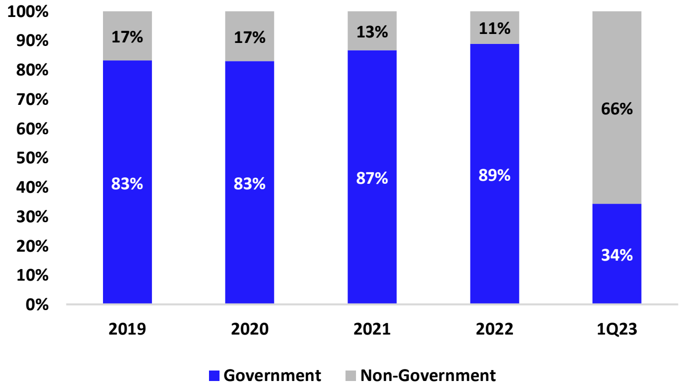
Source: Company Data, Al Rajhi Capital

Figure 32 **MIS - Revenues by segment**



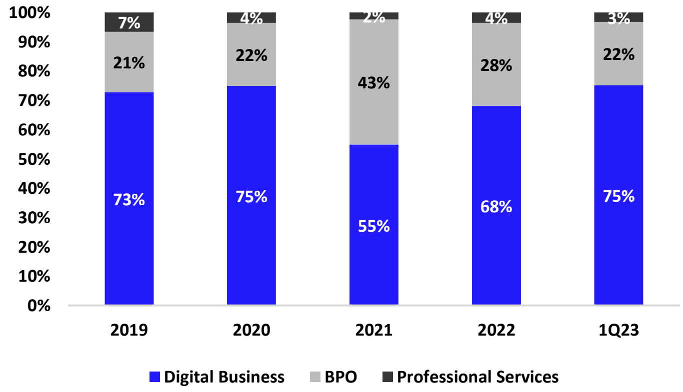
Source: Company Data, Al Rajhi Capital

Figure 33 **MIS - Revenues by source**



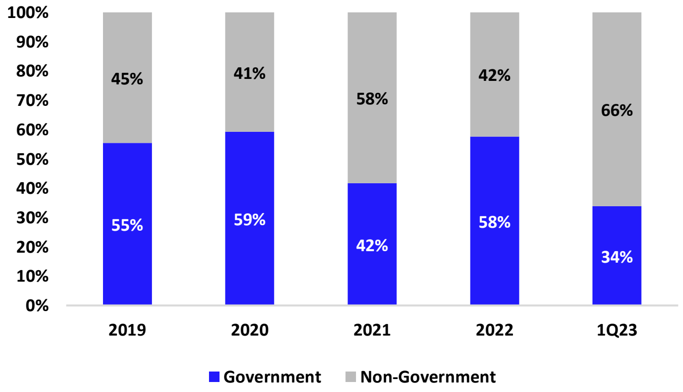
Source: Company Data, Al Rajhi Capital

Figure 34 **Elm - Revenues by segment**



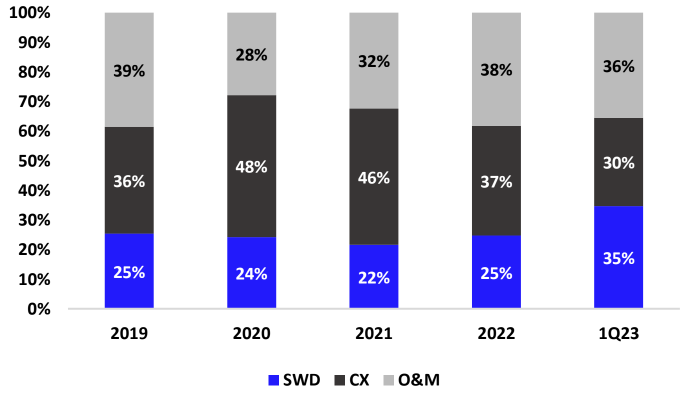
Source: Company Data, Al Rajhi Capital

Figure 35 **Elm - Revenues by source**



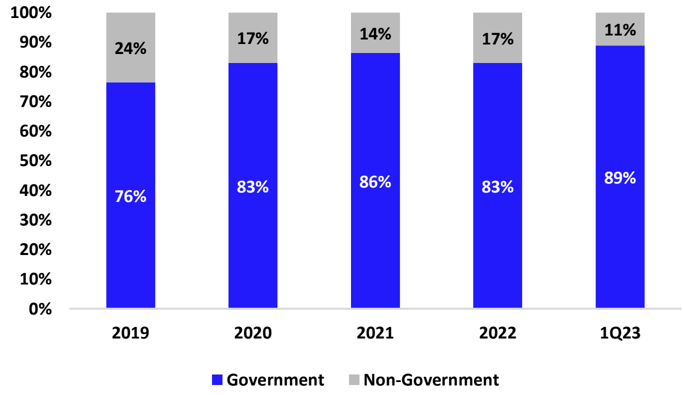
Source: Company Data, Al Rajhi Capital

Figure 36 **2P - Revenues by segment**



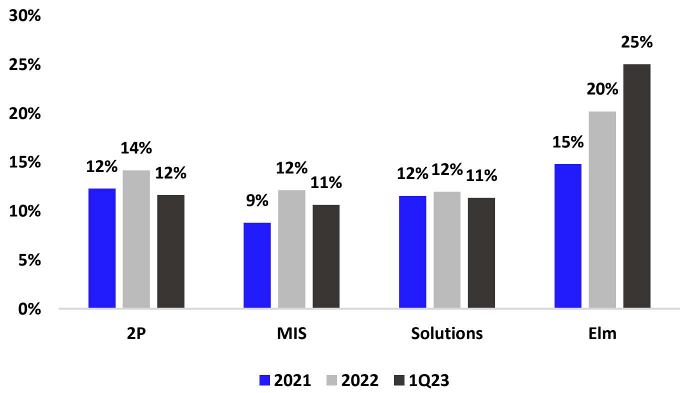
Source: Company Data, Al Rajhi Capital

Figure 37 **2P - Revenues by source**



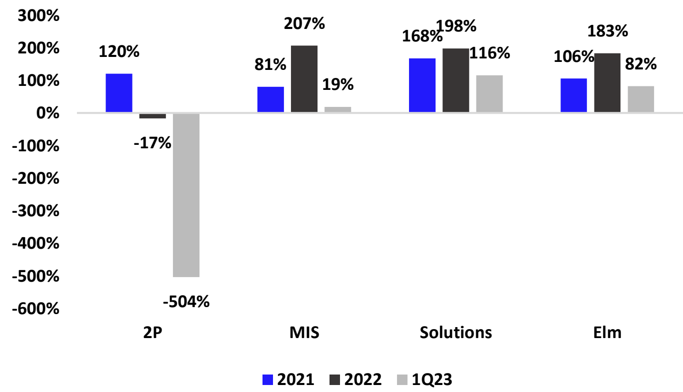
Source: Company Data, Al Rajhi Capital

Figure 38 **Net Income Margin (%)**



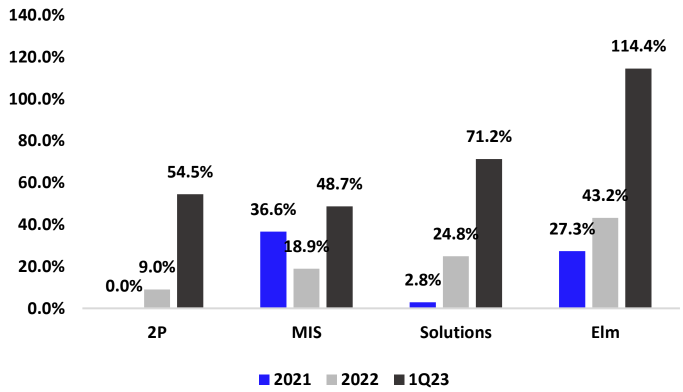
Source: Company Data, Al Rajhi Capital

Figure 39 **Operating Cash Flow to Net Income (%)**



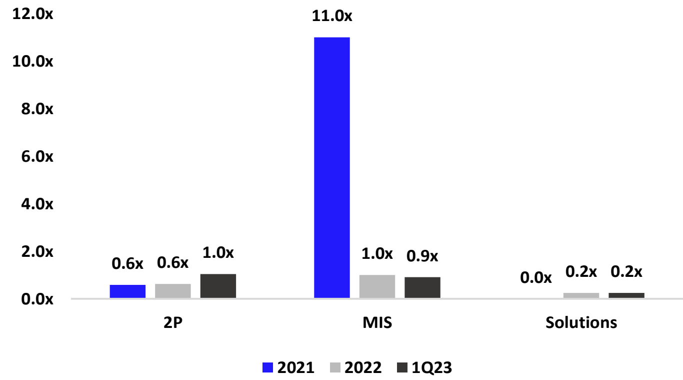
Source: Company Data, Al Rajhi Capital

Figure 40 **Net Working Capital to Sales (%)**



Source: Company Data, Al Rajhi Capital

Figure 41 **Debt to Equity Ratio**



Source: Company Data, Al Rajhi Capital

Key Financials

Figure 42 **Income Statement**

(SAR mn)	**2022**	**2023E**	**2024E**	**2025E**	**2026E**
Sales	**927**	**1,133**	**1,405**	**1,750**	**2,046**
Y-o-Y	*41.4%*	*22.2%*	*23.9%*	*24.6%*	*16.9%*
Cost of Sales	-747	-911	-1,126	-1,399	-1,633
% of revenues	*80.5%*	*80.4%*	*80.2%*	*80.0%*	*79.8%*
Gross Income	**180**	**222**	**278**	**350**	**413**
Y-o-Y	*55.5%*	*23.0%*	*25.5%*	*25.8%*	*17.9%*
GPM	*19.5%*	*19.6%*	*19.8%*	*20.0%*	*20.2%*
SG&A	-38	-46	-57	-72	-84
% of revenues	*4.1%*	*4.1%*	*4.1%*	*4.1%*	*4.1%*
Other income/ (expenses)	-4	-4	-6	-7	-8
Operating Expenses	**-42**	**-51**	**-63**	**-79**	**-92**
% of revenues	*4.6%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*
Operating Income	**138**	**171**	**215**	**272**	**321**
Y-o-Y	*60.1%*	*23.9%*	*25.9%*	*26.2%*	*18.2%*
OPM	*14.9%*	*15.1%*	*15.3%*	*15.5%*	*15.7%*
Financial costs	-4	-11	-11	-10	-12
Profit before tax	**136**	**162**	**207**	**263**	**312**
Zakat & Tax	-5	-6	-7	-9	-11
% of PBT	*3.6%*	*3.6%*	*3.6%*	*3.6%*	*3.6%*
Net Profit Before Unusual Items	**131**	**156**	**199**	**254**	**300**
Non-controlling interest	0	0	0	0	0
Net Income	**131**	**156**	**199**	**254**	**300**
Y-o-Y	*63.1%*	*19.0%*	*27.4%*	*27.4%*	*18.3%*
NPM	*14.2%*	*13.8%*	*14.2%*	*14.5%*	*14.7%*
EPS (SAR/sh)	**0.88**	**1.04**	**1.33**	**1.69**	**2.00**

Source: Company Data, Al Rajhi Capital

Figure 43 **Cash Flow Statement**

(SAR mn)	**2022**	**2023E**	**2024E**	**2025E**	**2026E**
Cash from operations	-22	103	149	164	277
Capex	-19	-23	-28	-35	-41
Free cash flow	**-40**	**81**	**121**	**129**	**236**

Source: Company Data, Al Rajhi Capital

Figure 44 **Key Ratios**

Key metrics	**2022**	**2023E**	**2024E**	**2025E**	**2026E**
Current ratio	1.3x	1.4x	1.6x	1.7x	1.8x
Receivables turnover ratio	3.2x	4.3x	4.3x	4.3x	4.5x
Payables turnover ratio	11.1x	5.8x	4.7x	4.1x	3.1x
Operating cycle (days)	24	33	39	44	42
EV/EBITDA	24.3x	19.7x	15.6x	12.4x	10.5x
P/E	25.6x	21.5x	16.9x	13.3x	11.2x
P/B	13.3x	9.3x	6.7x	4.9x	3.8x
ROE	63.6%	50.7%	46.0%	42.9%	38.2%

Source: Company Data, Al Rajhi Capital

Figure 45 **Balance Sheet**

(SAR mn)	2022	2023E	2024E	2025E	2026E
Assets					
Trade receivables	286	261	323	403	460
Contract assets	300	367	421	525	593
Prepayment and other debt balances	16	42	52	65	76
Cash and cash equivalents	67	157	238	340	522
Total current Assets	**673**	**831**	**1,040**	**1,338**	**1,657**
Property, plant and equipment, net	131	149	172	201	235
Intangible assets, net	1	2	4	5	7
Other non-current assets	2	2	2	2	2
Total non-current assets	**134**	**154**	**178**	**209**	**244**
Total assets	**807**	**984**	**1,218**	**1,547**	**1,902**
Liabilities					
ST Debt	154	218	240	291	330
Trade payables	144	127	139	153	179
Accruals and other payables	126	136	169	210	246
Contract liabilities	71	74	84	105	123
Provision for Zakat and income tax	5	5	5	5	5
Due to related parties	22	26	33	41	48
Total current liabilities	**522**	**586**	**669**	**805**	**930**
End of service benefit obligations	26	35	46	61	81
Non current portion of long term loans	5	0	0	0	0
Total non-current liabilities	**32**	**35**	**46**	**61**	**81**
Shareholders' equity					
Capital	150	150	150	150	150
Statutory and other reserve	13	13	13	13	13
Retained earnings	90	200	339	517	728
Equity attributable to shareholders of the Parent Company	**254**	**363**	**503**	**680**	**891**
Non-controlling interest	0	0	0	0	0
Total equity	**254**	**363**	**503**	**680**	**891**
Total liabilities	**807**	**984**	**1,218**	**1,547**	**1,902**

Source: Company Data, Al Rajhi Capital

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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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

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