KSA IT Sector, *Outlook remains promising…*

15 May 2023

Company	Rating
Arabian Internet & Communication Services Co. (Solutions by STC)	**Accumulate (previously, Hold)**
Al Moammar Information Systems (MIS)	**Hold (previously, Buy)**

- **The Kingdom's IT sector spending has gathered pace in recent years, yet it remains less than a percent of its GDP currently, below the average of more mature markets**
- **IT sector development is a key pillar of the Kingdom's Vision 2030 program. The government aims to elevate KSA among the top 20 digital nations by 2030 and make it a regional digital hub**
- **The ICT sector in Saudi Arabia is estimated to keep expanding at a decent low double-digit over the next 2-3 years, driven by newer technologies like cloud, IoT, AI, etc.**
- **The unorganized sector accounts for about half of Saudi's ICT sector but lacks competencies and scalability, which makes the case strong for players like Solutions and MIS, in our view**

We revisit our coverage of the KSA IT Sector with two names in focus – **Arabian Internet & Communication Services Co. (Solutions by STC), and Al Moammar Information Systems (MIS).** Over the past year, the ICT sector has witnessed rapid growth with the Kingdom registering an improvement in the international ranking on several IT parameters, driven by the government's digital transformation drive. Hence, we remain optimistic about the sector's outlook since it is likely to witness heightened activity over the coming years in the run-up to achieving Vision 2030 goals.

- **Dynamics for the ICT sector remain favorable as the Kingdom eyes becoming one of the top digital innovative nations globally.** ICT is a strategic sector for the Kingdom in its quest to achieve long-term sustainable growth as the government aims to become the regional digital hub as well as among the top 20 leading digital innovative nations. A well-developed IT sector would be crucial to enhance the efficiency and productivity of multiple sectors and achieve a well-diversified economy. The government has launched various programs and initiatives in this regard, yet the Kingdom's spending on IT as a proportion of GDP remains low (0.9%) as compared to the Global average of over 4%, which indicates there remains considerable room for the sector to expand.

- **The IT sector's value hit over USD 40bn in 2022 and is set to expand at a strong pace in the future.** According to the Ministry of Communications & Information Technology (MCIT), the Kingdom's ICT sector reached about USD 40.9bn in 2022, which was partly boosted by some one-offs like the rollout of 5G, the latest generation Wi-Fi, and the first global spectrum auction. Going forward, the development of mega smart cities, and the digitalization of healthcare, education, and services will act as a major stimulator for the sector. Solutions by STC forecasts the sector's value to hit USD 53bn by 2025, though with the recent developments, we opine the sector could hit this size even earlier.

- **Organized IT players are better placed to benefit from the sector's growth.** Both Solutions by STC and MIS posted solid growth in 2022, accompanying the sector's expansion. We believe that the availability of necessary infrastructure, skill sets, experience, and long-term associations with suppliers and customers, makes both the companies preferred choices for the government as well as other parties in executing their ICT transformation needs. We believe that an increase in Solutions' market share during 2022 and a consistent rise in the value of new contracts won by MIS is a testimony to the point highlighted above. We raise our rating on Solutions to **Accumulate** (previously, Hold) as we foresee the company to remain on a healthy growth trajectory. For MIS, we maintain our target price as we expect a slowdown in the data centers' income.

Name	Last Px (SAR)	Target Price (SAR)	Upside / (Downside) (%)	P/E'23e, (x)	P/B'23e, (x)	EV/EBITDA '23e, (x)	ROE'23e, (%)	Cash Div Yield, %
Solutions by STC	294.00	**330.00**	12.2%	30.3	11.1	20.7	39.0%	2.1%
Al Moammar Information Systems	127.80	**135.40**	5.9%	46.4	10.0	38.4	21.9%	2.6%
Average				**38.4**	**10.6**	**29.6**	**30.5%**	**2.3%**

Source: Bloomberg, U Capital Research; Last price as of 14 May 2023

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KSA IT Sector

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Risks to Valuation

Key downside risks to our valuations include:

- Below expected market share increase or loss of market share of key business verticals to competitors
- A more-than-expected rise in manpower costs, which form a major chunk of overall costs for IT companies, due to an increase in employee attrition, or unavailability of required skillsets
- Rescission of any contract(s) or missing important project revenue recognition milestones
- An expected synergy of any M&A activity not materializing
- Macro headwinds negatively impacting or constraining the forecasted expansion of the overall market
- Overdependency of the business on the government and related entities

Key upside risks to our valuations include:

- A more-than-estimated growth rate in the existing domains and/or higher-than-forecasted market share gains in different business verticals
- An increase in the run rate of securing new contracts
- Overall IT industry expanding at a more than-forecasted rate

Sensitivity Analysis

Our overall TP for **Solutions** changes about +/- 2-3% due to +/- 0.25% changes to terminal growth or in WACC. Our overall TP changes slightly less than half a percent from +/-0.5x changes in the target P/E multiple.

Solutions by STC

WACC \ Terminal growth	1.50%	1.75%	2.00%	2.25%	2.50%
6.7%	333.4	342.8	353.2	364.8	377.8
6.9%	323.3	331.7	341.0	351.3	362.8
7.2%	314.0	321.6	**330.0**	339.2	349.5
7.4%	305.5	312.4	320.0	328.3	337.5
7.7%	297.7	304.0	310.9	318.4	326.6

P/E multiple \ 2023e EPS (SAR)	8.71	9.21	9.71	10.21	10.71
32.9x	317.2	322.2	327.1	332.0	336.9
33.4x	318.5	323.5	328.5	333.5	338.6
33.9x	319.8	324.9	**330.0**	335.1	340.2
34.4x	321.1	326.3	331.5	336.6	341.8
34.9x	322.5	327.7	332.9	338.1	343.4

Our overall TP for **MIS** changes about +/- 4-5% due to +/- 0.25% changes to terminal growth or in WACC. Our overall TP changes less than half a percent from +/-0.5x changes in the target P/E multiple.

MIS

WACC \ Terminal growth	1.50%	1.75%	2.00%	2.25%	2.50%
6.2%	137.3	143.0	149.5	156.7	164.9
6.5%	131.2	136.3	142.0	148.4	155.6
6.7%	125.7	130.3	**135.4**	141.0	147.4
7.0%	120.8	124.9	129.4	134.5	140.1
7.2%	116.2	119.9	124.0	128.5	133.5

P/E multiple \ 2023e EPS (SAR)	1.75	2.25	2.75	3.25	3.75
30.6x	125.4	130.0	134.6	139.2	143.8
31.1x	125.6	130.3	135.0	139.7	144.3
31.6x	125.9	130.7	**135.4**	140.1	144.9
32.1x	126.2	131.0	135.8	140.6	145.4
32.6x	126.4	131.3	136.2	141.1	146.0

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Peer Group Valuation

Name	Mkt Cap (SAR mn)	Last Px (SAR)	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	EV/EBITDA'23e, (x)	P/E'23e, (x)	ROE'23e, (%)	Div Yield' 23e, (%)	FCF Yield'22 (%)
IT Services										
Al Moammar Information	3,834.0	127.80	5	30	37	38.4	46.4	21.9%	1.9%	6.6%
Arab Sea Information	807.0	80.70	0	15	26	253.8	nm	-7.4%	0.6%	nm
Elm Co	37,840.0	473.00	11	20	42	32.1	39.6	31.8%	0.6%	4.2%
Perfect Presentation	3,321.0	221.40	-2	25	26	24.0	25.3	63.6%	0.3%	nm
Arabian Internet & Comm.	35,280.0	294.00	9	14	21	20.7	30.3	39.0%	2.2%	6.3%
Average						**29.3**	**35.2**	**29.8%**	**1.1%**	**5.7%**
Median						**32.1**	**34.9**	**31.8%**	**0.6%**	**6.3%**

Source: Bloomberg, U Capital Research, na – not available, nm – not meaningful; *valued as of 14 May 2023 Market-cap weighted average multiples – EV/ EBITDA, and P/E

Fig. 1: IT Services - Price to Earnings & Dividend Yield

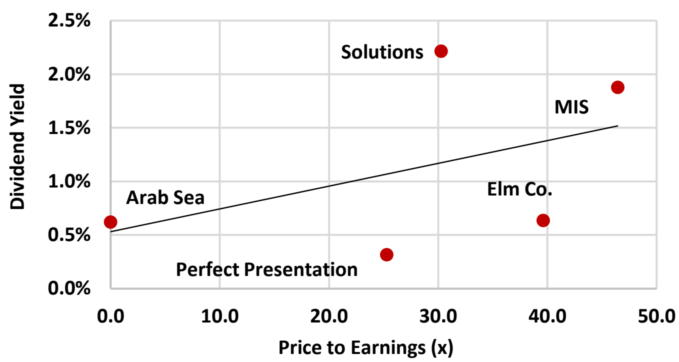
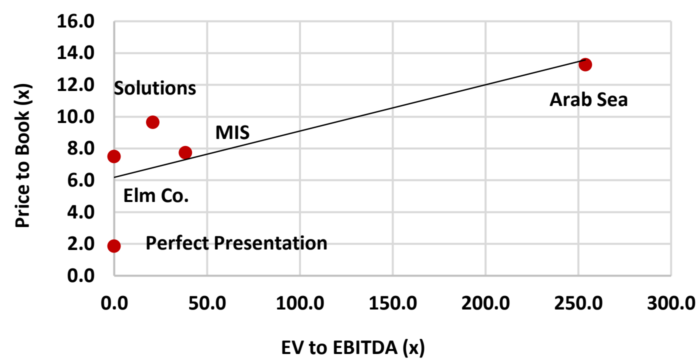


Fig. 2: IT Services – Price to book & EV to EBITDA



Source: Bloomberg, U Capital Research; As of 14 May 2023

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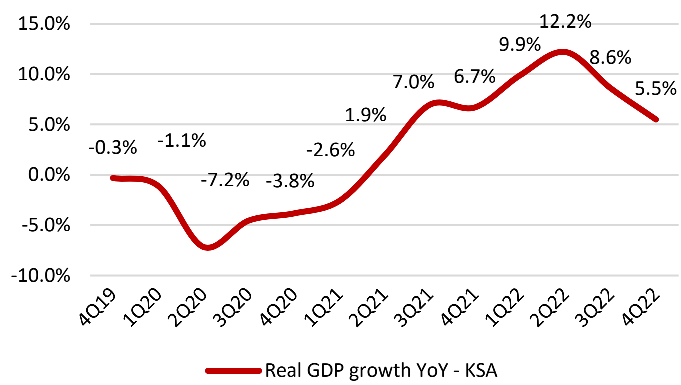
Macro-economic Overview

Saudi economy remains on a robust growth path

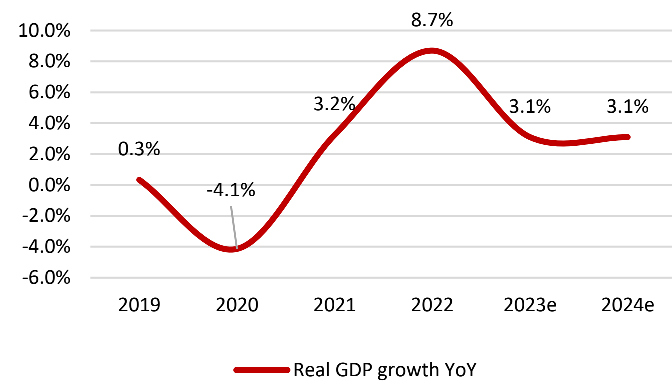
Saudi Arabian economy remained in an expansionary mode for a seventh consecutive quarter as the real gross domestic product (GDP) grew 5.5% YoY in 4Q 2022, on top of a solid 8.6% YoY growth registered in 3Q 2022. Both the non-oil sector and oil sector contributed equally to the overall GDP as they registered 6.2% YoY and 6.1% YoY growth, respectively, during 4Q 2022.

Fig. 3: GDP continues to expand at a healthy rate



Source: GASTAT, U Capital Research

Fig. 4: Real GDP growth surges in 2022 amid stable oil prices

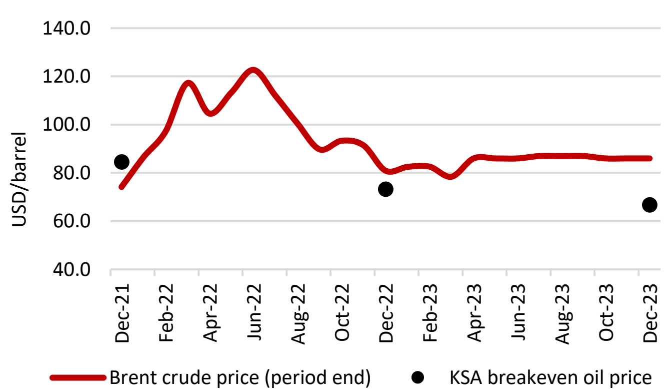


Source: GASTAT, IMF, U Capital Research

After clocking 3.2% real GDP growth in 2021, its fastest pace of expansion since 2015, the Kingdom's GDP increased at a brisk pace in 2022 by 8.7% YoY, beating the IMF's estimate of a 7.6% and clocking its highest rate in the last decade as well as the highest real GDP growth rate among the G20 countries. While the Kingdom's economic growth rate is expected to taper notably this year and next, it still is commendable given that it would come on a higher base, and amid concerns of high interest rates and a weakening global economy. This sustained economic expansion of the Kingdom will likely be supported both by hydrocarbon and non-hydrocarbon activities, in our view.

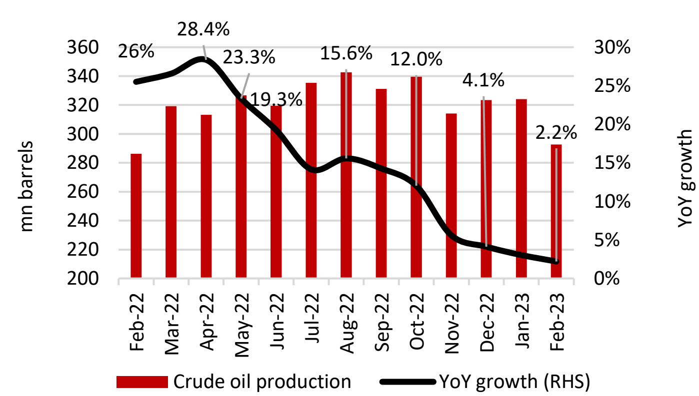
High crude oil prices have proved to be a boon for the Kingdom as they boosted the government's overall revenue by 31% YoY last year and led it to record its first budget surplus in nearly a decade. The government expects to record a surplus in 2023 as well, albeit lower than in 2022. According to the IMF, the increase in crude oil price because of the recent OPEC+ production cut will offset the revenue loss arising from the decrease in oil production, and hence the Kingdom's budget is unlikely to be adversely impacted. Stable and high level of crude oil prices are also beneficial for the Kingdom's economic diversification drive and for the growth of the non-oil sector since oil revenues account for the bulk of the government's revenue and supports its spending which is imperative for the growth of the non-oil sector.

Fig. 5: Avg. oil prices are likely to stay above KSA's breakeven price



Source: US EIA, U Capital Research; *Data from Apr'23 onwards are estimates

Fig. 6: KSA's crude oil production could fall with recent cuts



Source: JODI, U Capital Research

Sector Overview

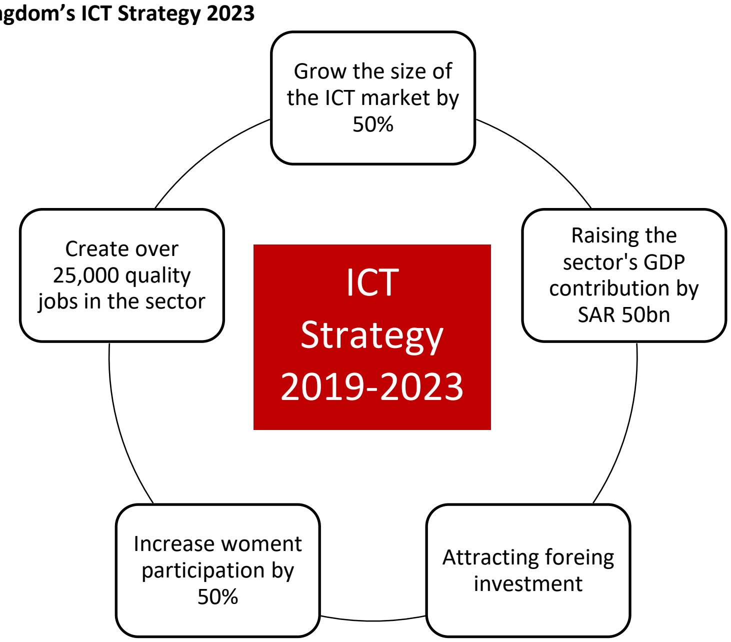
Saudi Arabia's ICT sector – an overview

The ICT (information & communication technology) sector is a combination of – 1) IT (information technology) services which includes system integration, software & hardware application and support, data center & cloud services, cybersecurity, Internet of Things (IoT), artificial intelligence (AI), robotics, etc., and 2) Communication and connectivity services, comprising wireline and wireless voice, data, and other value-added services (VAS). Saudi Arabia's Ministry of Communications & Information Technology (MCIT) is entrusted with regulating and developing the ICT sector as well as leading the digital transformation of the Kingdom, with the help of some other agencies like the Communications, Space & Technology Commission (CSTC; previously known as Communications & Information Technology Commission or CITC), Saudi Data & AI Authority (SDAIA), National Digital Transformation Unit (NDU), National Cybersecurity Authority (NCA), etc.

Government adopts multi-pronged strategy to develop the ICT sector, an important pillar of Kingdom's Vision 2030…

Development of the ICT sector is one of the strategic pillars of the Kingdom's Vision 2030 diversification plan which started in 2016 as the adoption of technology is a prerequisite to achieving sustainable development by improving efficiencies and increasing the competitiveness of different sectors and enhancing the overall quality of life. The government's ICT Strategy 2019-2023 is a stepping stone in the government's long-term journey to grow the ICT sector.

Fig. 7: Major Objectives of the Kingdom's ICT Strategy 2023



Source: KSA MCIT, U Capital Research

Some of the salient objectives of the ICT strategy are — i) improving regulation & policies to foster emerging technologies, ii) enhancing the Ease of Doing Business in the ICT sector, iii) stimulating demand for IT products and services from the private sector, iv) attract multinational technology companies to Saudi Arabia to localize their presence, v) increase local content & support the growth of local IT businesses, vi) enable 5G adoption, vii) increase female participation in the ICT sector, viii) the scale-up skill set of the ICT workforce, ix) enhance digital literacy, among others. Further in 2021, a National Technology Development Program (NTDP) was established with a budget of SAR 2.5bn. The program, with the coordination of government agencies, primarily intends to stimulate research, build digital skills, and groom technical capabilities, innovation, as well as scientific research. By 2026, NTDP is estimated to create 10,000 jobs in the technology sector and generate SAR 10bn in revenue.

Apart from formulating strategies, the government has also started organizing various technology events/meets in the last couple of years. For instance:

- The MCIT co-hosted an event named "Launch" in 2021, wherein various technology programs amounting to over USD 1.2bn were launched, aiming to improve the digital skills of the younger generation by 2030.
- MCIT along with two partners launched two technology events – LEAP and @HACK. The LEAP event was held in Riyadh in February 2022 and again in February 2023, whereas @HACK was held in 2021 and its iteration Black Hat MEA, focusing on cybersecurity, was hosted in November 2022.
- LEAP23 witnessed deals worth over USD 9bn, which reflected a 32% YoY increase from USD 6.8bn worth of transactions announced during LEAP22.
- In addition to the USD 9bn deals, a series of investments amounting to USD 580mn were announced on the sideline of the event, which included:
    - A package of financing programs totaling USD 170mn by Ignite, which is a program from Saudi Arabia's Digital Content Council
    - A USD 300mn investment over 10 years from India-based Zoho to support startups in the Kingdom
    - UAE-based Damac Group to expand its investments in large data centers in Saudi Arabia

We contend such events and programs will help the Kingdom to showcase its technical capabilities, attract new ideas, talents, and investments from local and international players, create new business alignments and partnerships, increase participation of the local players, nurture relevant skills among locals, etc., thereby ensuring a well-rounded development of the ICT sector.

…which seems to be having a profound impact as the sector growth accelerates

At the recently held ICT Indicators Forum in Riyadh, CSTC revealed that it invested close to USD 25bn (~SAR 90bn) over the past six years to develop the Kingdom's digital infrastructure. Consequently, the size of Saudi's ICT sector has swelled significantly over the past 4-5 years. According to the International Data Corporation (IDC), Saudi Arabia's ICT sector's size grew at an 8% average annual rate between 2019 to 2021 to reach about USD 32bn. Further, CSTC pegs the Kingdom's ICT sector's value to have hit nearly USD 41bn (slightly over SAR 150bn) in 2022. While these investments have led to a significant improvement in the Kingdom's ICT infrastructure over the period, they have also alleviated Saudi Arabia's ranking in several ICT-related parameters, which certainly is a positive sign for the Kingdom's ambition to be counted among the top 20 digital nations worldwide by 2030.

Fig. 8: Some metrics showing the ICT sector's progress in Saudi Arabia	Fig. 9: KSA has moved up in global rankings related to the ICT space
1. The digital economy's contribution to Saudi's GDP rose from 14.5% in 2021 to 15.8% in 2022	1. Ranked 31st in digital government programs in 2022 (vs. 52nd in 2018) among 193 member states of the UN
2. Mobile internet coverage increased from 97% of the Kingdom in 2021 to 99% in 2022	2. UN's International Telecommunication Union (ITU) ranked KSA 4th globally and 2nd among G20 nations in its readiness for digital systems
3. Around 53% of KSA under 5G coverage in 2022, over double the global average	3. The World Bank placed the Kingdom 3rd globally and at the top regionally in the GovTech Maturity Index 2022
4. Median mobile internet speed reached c. 95 Mbps in 2022 vs. c. 16 Mbps in 2017	4. Secured 51st position in 2022 among 132 economies as compared to 66th position in 2021 in the Global Innovation Index (GII)
5. 1,200 megabytes per day average per capita mobile data consumption, about 3x the daily global rate	5. IMD's 2022 World Digital Competitiveness Rankings placed Saudi Arabia at 24th position (vs. 36 in 2021)
6. Over 170% current mobile subscription rate, 36% more than the global average	6. The Kingdom secured 35th position in the 2022 Network Readiness Index as compared to 40th rank in 2021
7. Jobs in the ICT sector: 340 thousand in 2022 vs. 246 thousand in 2017	

Source: KSA MCIT, Various media reports, U Capital Research

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Long-term vision and favorable industry dynamics to ensure the ICT sector remains on a sustained growth path

While the ICT application and services are being deployed across the sectors for the Kingdom to achieve sustainable growth, some of the sectors and/or activities have been accorded a preference as part of the government's digital transformation drive as listed in the table below:

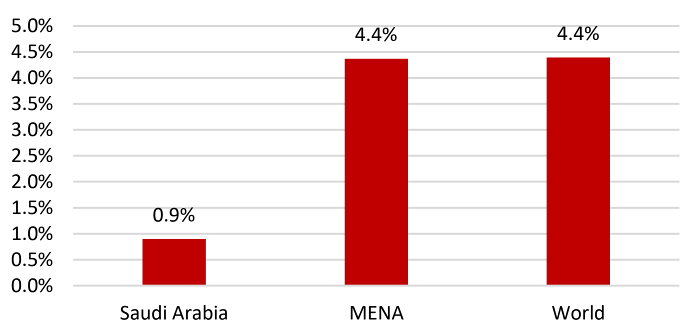
Fig. 10: Sectors/activities and some of the benefits accruing from the adoption of ICT applications and services

Some of the priority sectors/activities enabling the ICT sector growth					
Healthcare	Education	Manufacturing, mining & logistics	Religious and general tourism	E-commerce	Smart cities
⬇	⬇	⬇	⬇	⬇	⬇
Interconnected healthcare, telehealth, etc.	Smart and connected teaching system, digital curriculum, etc.	Effective and efficient manufacturing, smooth supply chains, etc.	Digital transformation of Hajj and Umrah pilgrimage, smoother travel and touring experience	Better inventory & logistics management, improved customer experience, data, and information access	Smart environment, services, and transport

Source: KSA MCIT, U Capital Research

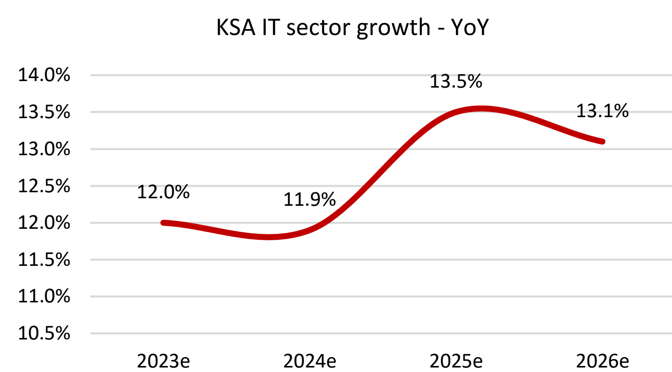
We believe that while the adoption of ICT services and applications is a must for achieving Saudi Arabia's sustainable growth and diversification agenda, this also suggests demand for ICT services would remain high going forward, which is a positive for the sector's growth prospects. Further, despite an increase in ICT-related spending, it still is estimated to account for a mere 0.9% of Saudi's GDP in 2022 (vs. 0.7% of GDP in 2018), below the MENA and global average of over 4%. Even the neighboring UAE is also forecasted to spend about 1.3%-1.5% of its GDP on technology, according to our assessment, based on the Boston Consulting Group's (BCG) latest forecast that the UAE is expected to spend USD 20bn on the IT sector over the next three years. Hence, there remains considerable scope for further increase in the size of the Kingdom's ICT sector, which is expected to keep the ICT sector on a solid growth trajectory in the near-to-medium term.

Fig. 11: KSA lags in terms of IT spending as % of GDP



Source: Gartner, Solutions by STC's presentation, U Capital Research; * as of 2022

Fig. 12: The IT sector is estimated to remain on a strong growth path



Source: Solutions by STC's presentation, U Capital Research

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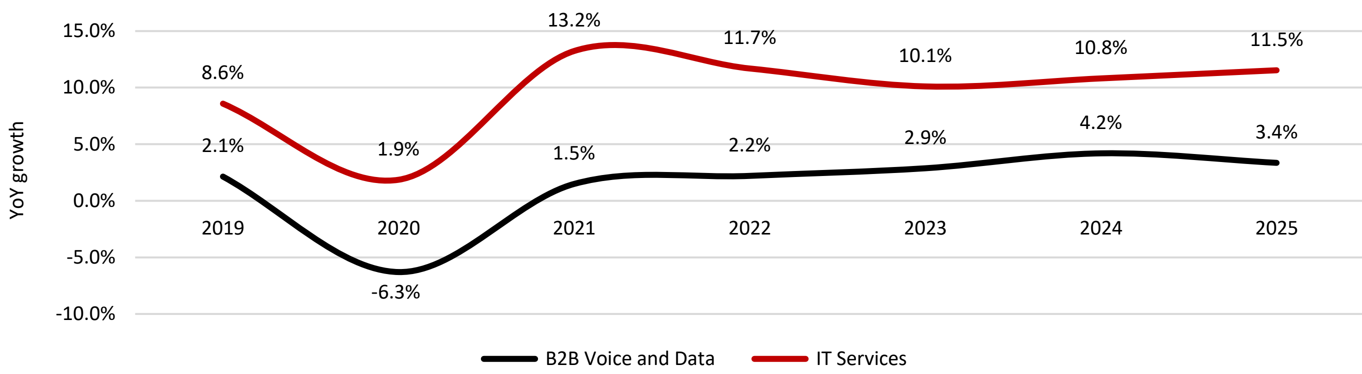
The IT sector is expected to lead the overall ICT sector growth

The ICT services market can be divided into the IT sector and business-to-business (B2B) Voice & Data sector. Within this, the IT sector is forecasted to expand at a faster rate as compared to the B2B voice & data sector, which is understandable in the backdrop of the Kingdom's ambition to become a digital hub of the region. B2B Voice & Data sector, on the other hand, is estimated to grow at a nominal rate of around 3-4%, which still would provide a good business opportunity for the players like Solutions, in our view, as it expands its BPO offerings through a recent acquisition of a firm in this business line.

Fig. 13: IT Services are expected to drive overall ICT sector growth

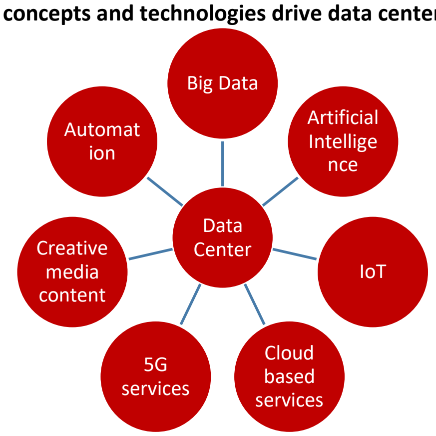


Source: Solutions IPO Prospectus, U Capital Research

Systems integration is the largest sub-segment of the overall ICT market, while IoT & Digital, and Cloud & Data Centers markets are estimated to be among the fastest-growing segments

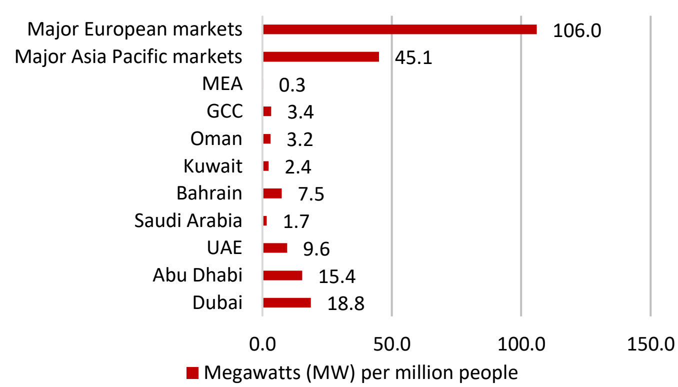
Systems integration, which includes infrastructure & network integration, and IT consulting & training, accounts for the biggest pie of the overall ICT market with a share of between 25% and 30%. The digitization exercise of the government and companies, large projects, smart cities such as NEOM, etc., are some of the primary drivers of this segment. The systems integration segment is forecasted to expand at about mid-single digits. On the other hand, Cloud & Data Centers and IoT and Digital are estimated to grow at strong double-digit growths. According to a report from Knight Frank, the available data storage space capacity in Saudi Arabia at 1.71 MW per million people lags behind the GCC average of 3.41 MW. Meanwhile, driven by the government's digital transformation push and its goal to transform the Kingdom into a regional data center hub, the demand for cloud and data storage is estimated manifold. In this regard, MCIT launched a USD 18bn data center strategy for setting up large-scale data centers in 2022 as it aims to lift the capacity of data centers in Saudi Arabia to 1,300 MW by 2030 as compared to only 90 MW in 2021, which explains the sharp growth expected in the Cloud & Data Centers segment over the coming years.

Fig. 14: New concepts and technologies drive data centers demand



Source: Knight Frank, U Capital Research

Fig. 15: KSA falls behind GCC average in per capita data storage space



Source: Knight Frank, U Capital Research

Drivers for the fast growth expected for the IoT & Digital segment are e-classrooms, remote health monitoring, industrial robotics, mega projects like the Red Sea project, Qiddiya, Riyadh metro, smart energy management, etc. Recently in April 2023, Saudi Arabia launched four new special economic zones (SEZs) focusing on growth sectors of advanced manufacturing, cloud computing, medical

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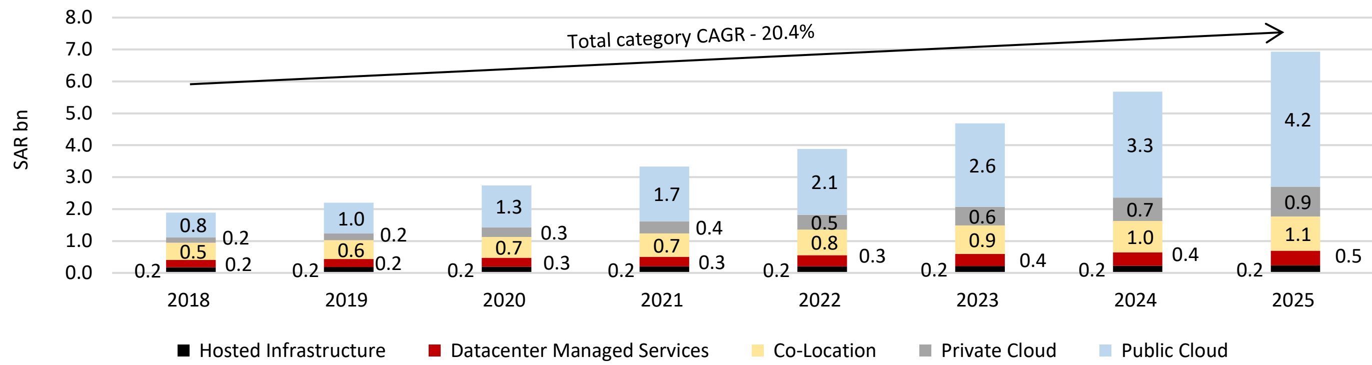
technology, and maritime which bodes well for the demand of this segment. Cybersecurity is another segment that is estimated to witness decent growth, as cyber frauds, and threats are also rising manifold along with the increasing influx of technology in day-to-day life.

Fig. 16: Public cloud space market value to grow at a rapid clip



Source: Solutions IPO Prospectus, U Capital Research

Fig. 17: IoT is expected to swell the most in its segment

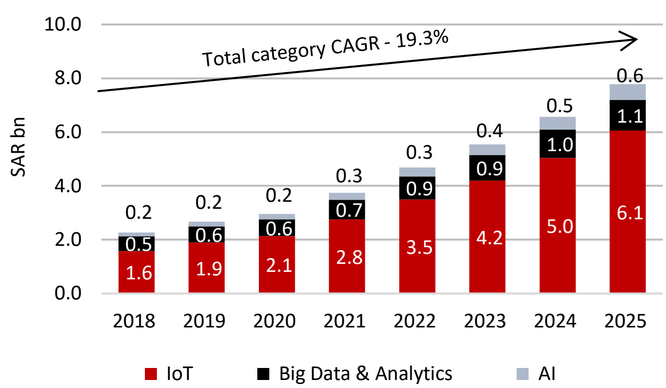
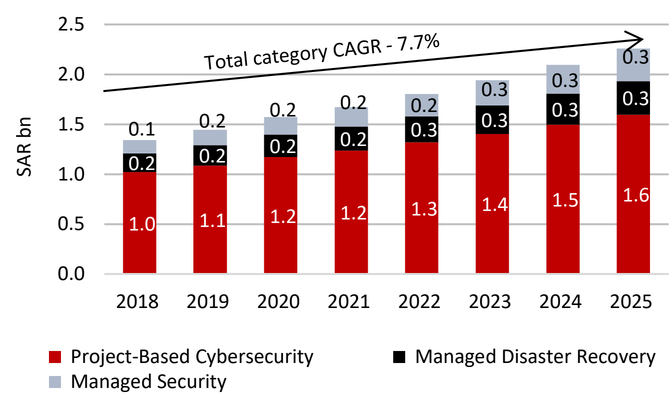


Fig. 18: With technological advancements, cyber threats are rising

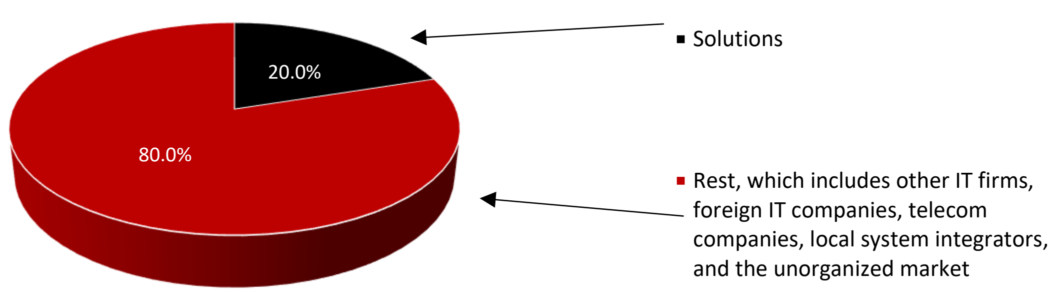


Source: Solutions IPO Prospectus, U Capital Research

Fragmented market structure

Another point worth highlighting here is that Saudi Arabia's IT Services sector is a fragmented one, where the Solutions had the highest market share of ~20% in 2022 (a gain of ~7 percentage points since 2018), while the rest is divided among other IT companies, local system integrators, telecom companies, foreign players, and the unorganized sector. The unorganized sector is generally involved in trading i.e., it buys and sells software and hardware with minimal professional support, which makes the case strong for the organized players like Solutions by STC and MIS as they provide end-to-end solutions and support.

Fig. 19: IT Services are expected to drive overall ICT sector growth



Source: Solutions IPO Prospectus, U Capital Research

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ICT Sector Benchmarking

In the section below, we benchmark major Saudi IT companies, namely, Solutions by STC (Accumulate), MIS (Accumulate), Arab Sea Information (Not covered), Elm Co. (Not covered), and 2P (Perfect Presentation, Not covered). We conclude that Solutions has generated consistent top-line increases, margin expansion, and cash flow growth even during the pandemic period, which is commendable, and explains its market share gain. MIS' financial performance has been a bit volatile, but the company registered good growth last year driven by the data centers business. Among the remaining, Elm Company has also largely maintained good financial metrics.

Fig. 20: Solutions' revenue is nearly 40% more than the combined revenue of the other four companies

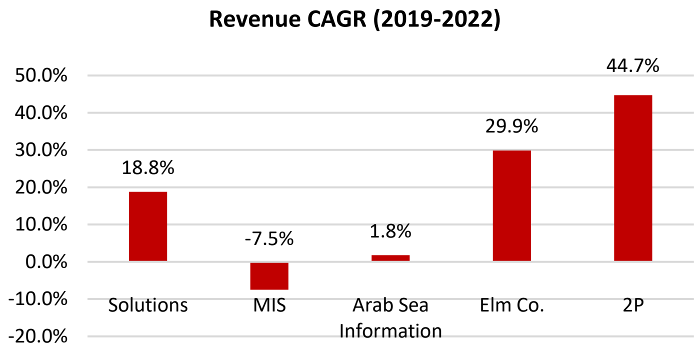
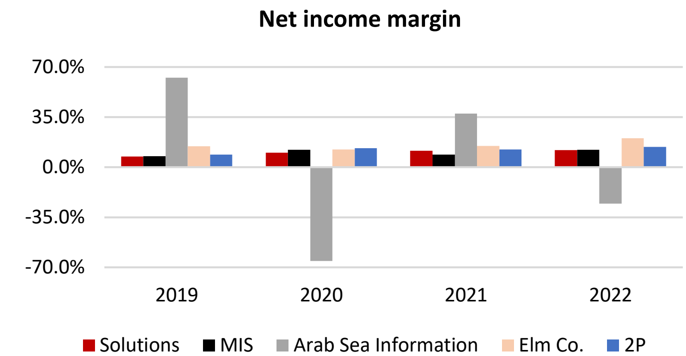


Fig. 21: Only Solutions posted consistent YoY net margin expansion during 2019-2022



Source: Company filings, U Capital Research

Fig. 22: Solutions' OCF/net income has consistently risen

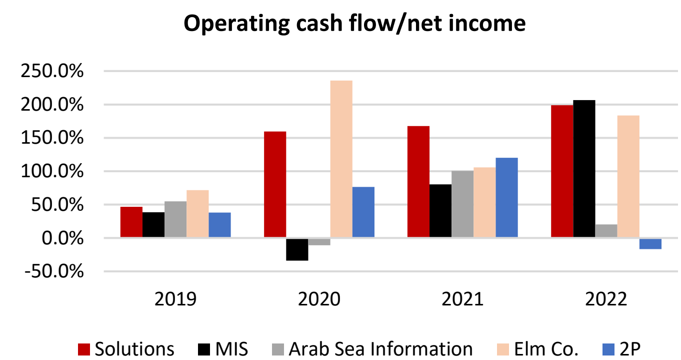
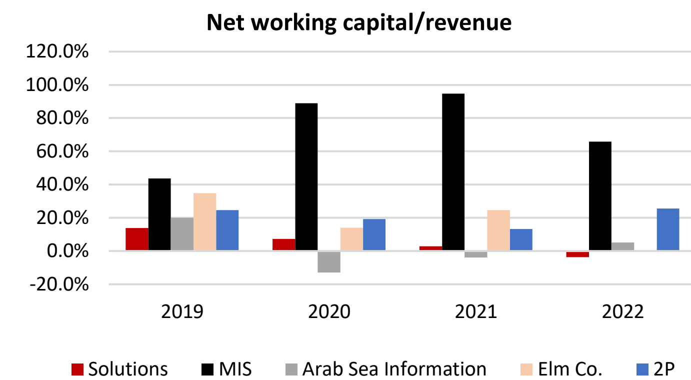


Fig. 23: MIS has the highest net working capital/revenue ratio



Source: Company filings, U Capital Research

Fig. 23: Solutions has largely remained debt free

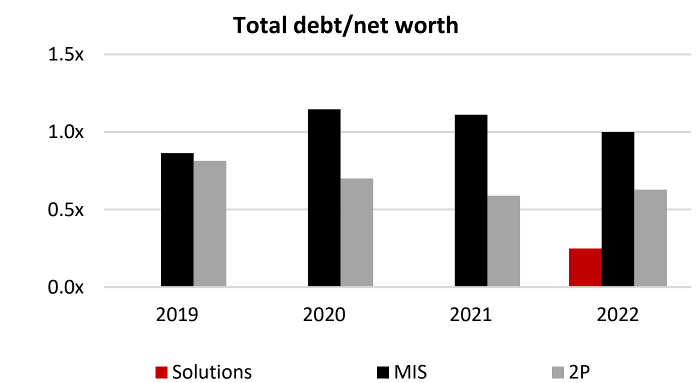
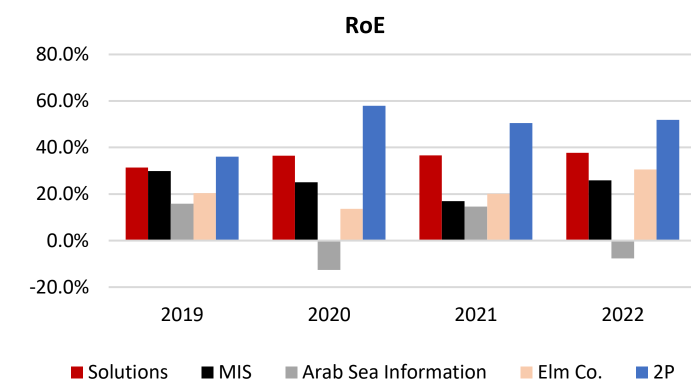


Fig. 24: 2P's return to shareholders is the most, followed by Solutions



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Source: Company filings, U Capital Research, **Arab Sea, and Elm have remained debt free during 2019-2022**

Fig. 25: 2P had the largest revenue share of the government (over 80%), with MIS standing in second place (over 70%) in 2022

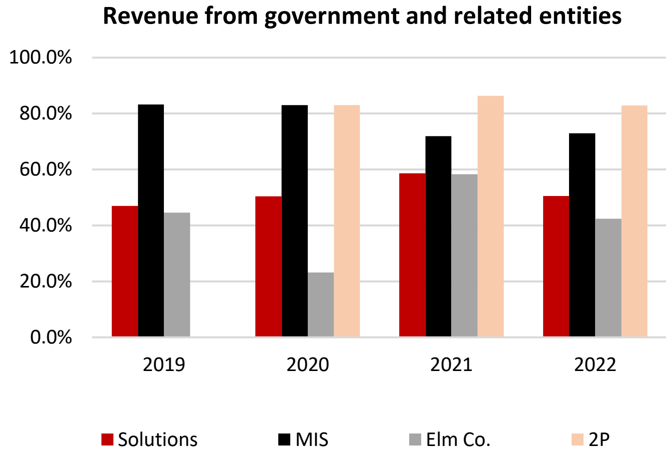
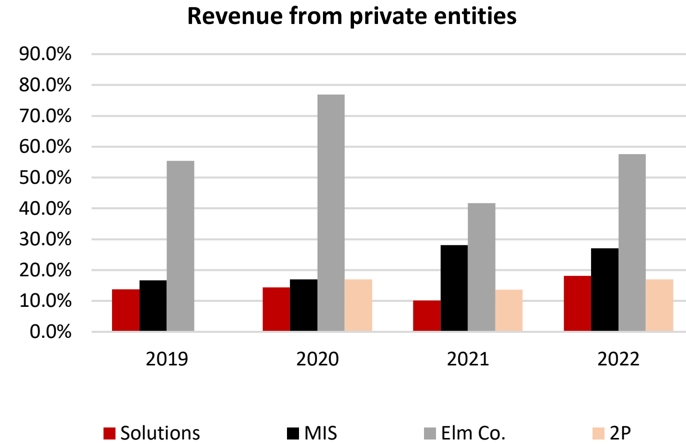


Fig. 26: Elm has the largest share of the private sector in its revenue



Source: Company filings, U Capital Research; *information for Arab Sea is not available, though it says most of the revenue is from the private sector

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Solutions by STC

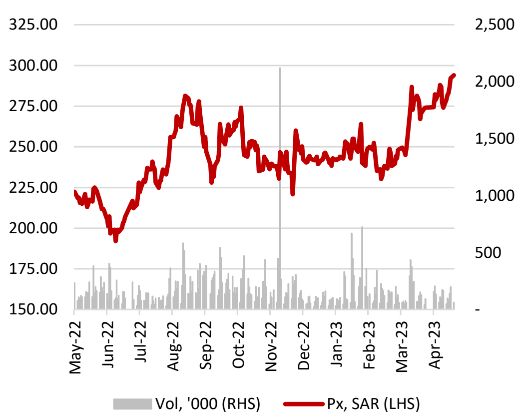
Target Price: SAR 330.0/share
Upside: 12.2%

Recommendation	Accumulate
Bloomberg Ticker	SOLUTION AB
Current Market Price (SAR)	294.00
52wk High / Low (SAR)	298.000/190.200
12m Average Vol. (000)	184.9
Mkt. Cap. (USD/SAR mn)	91,728/35,280
Shares Outstanding (mn)	120.0
Free Float (%)	20%
3m Avg Daily Turnover (SAR'000)	40,894.1
6m Avg Daily Turnover (SAR'000)	42,840.6
P/E'23e (x)	30.3
P/B'23e (x)	11.1
Dividend Yield '23e (%)	2.2%

Price Performance:	
1 month (%)	8.6
3 month (%)	13.7
12 month (%)	30.1

Source: Bloomberg, valued as of 14 May 2023

Price-Volume Performance



Source: Bloomberg

- **Solutions by STC has further strengthened its position in the Kingdom's gradually crowding ICT space, which is commendable, growing its market share from 13% in 2018 to 20% in 2020**
- **Close association with government entities (50.5% of total revenue in 2022) positions Solutions well for future opportunities planned for ICT sector growth**
- **Recent acquisitions expand the scope of offerings for the company and offer diversification benefits**
- **Accordingly, we raise our target price and rating on the company**

We review our coverage on **Solutions by STC (Solutions)** and raise the target price and rating to **Accumulate** and SAR 330.00 (previously, Hold and SAR 233.5 per share), respectively, offering an upside of 12.2%. Currently, the stock trades at a P/E of 30.3x, based on our FY23 estimates as compared to the historical average of ~27x over the last two years. Solutions further cemented its position last year in fast-growing Saudi Arabia's ICT sector with its diverse offerings, as its overall market share increased to ~20% in FY22 from c.19% in FY21. We believe Solutions' association with its parent STC, and government entities will benefit it as the Kingdom continues to take initiatives like implementing mega projects, smart cities, etc., under its economic diversification plan, thereby creating ample opportunities for the local IT players.

Investment Thesis

Set to remain on a strong growth path driven by favorable macro factors: i) Solutions is expected to be a preferred partner in the government's drive to develop the ICT sector, ii) Top-line is estimated to keep growing at a decent rate (FY22-27 revenue CAGR: 11%), though the pace is likely to reduce on a higher base ii) Improvement in margins to sustain (OPM: 12.6% in FY23e vs. 8.0% in FY19) aided by cost optimization and focus on high-margin products iii) free cash flow generation to remain healthy with the expected improvement in profitability and low capex requirements (in the range of 1-2% of revenue) iv) solid balance sheet with over SAR 3bn net cash as at FY22-end to help achieve inorganic growth plans, v) Ample liquidity to ensure sustained dividend payments (average dividend payout during FY20-22 ~57%).

Valuation and risks: Our target price is based on blended valuation methodologies – (i) Discounted Cash Flow (DCF) and (ii) Relative Valuation (using P/E multiple). Key downside risks to our valuation include i) below-expected growth of the business verticals, ii) less-than-estimated improvement or deterioration in profitability, and iii) higher-than-forecasted impairments. Key upside risks to our valuation include i) more-than-expected gain in market share of different verticals, ii) higher-than-forecasted growth of business segments, and iii) better-than-estimated margins.

Year	FY20	FY21	FY22	FY23e	FY24e	FY25e
Revenues (SAR mn)	6,891.4	7,208.3	8,805.1	10,251.8	11,234.6	12,274.2
Net income (SAR mn)	701.8	832.9	1,052.9	1,165.5	1,329.7	1,494.1
Gross margin	20.6%	23.7%	22.8%	23.5%	23.7%	24.0%
Net profit margin	10.2%	11.6%	12.0%	11.4%	11.8%	12.2%
RoE	44.1%	39.7%	41.6%	39.0%	39.0%	38.2%
FCF (SAR/share)	3.4	8.4	15.4	10.8	14.1	14.1
DPS (SAR/share)	3.3	4.0	5.0	6.5	7.2	8.0
Dividend Yield	NA	2.1%	2.1%	2.2%	2.5%	2.7%
P/E (x)		27.1x	27.7x	30.3x	26.5x	23.6x
P/BV (x)		9.9x	10.4x	11.1x	9.7x	8.5x

Source: Company Reports, U Capital Research **P/E and P/B from 2023 onwards calculated on current price*

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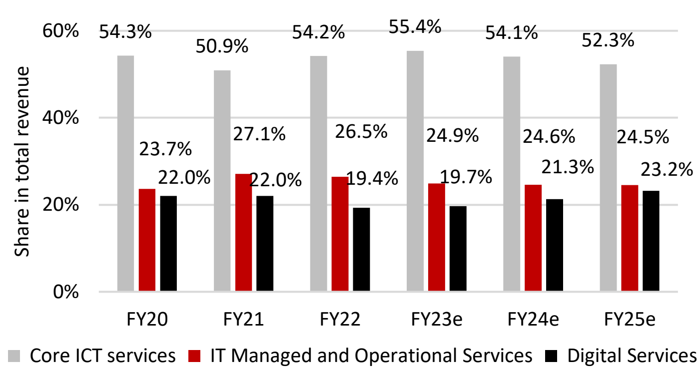
Top-line growth is expected to be supported equally by different verticals, with the ICT services retaining the lion's share

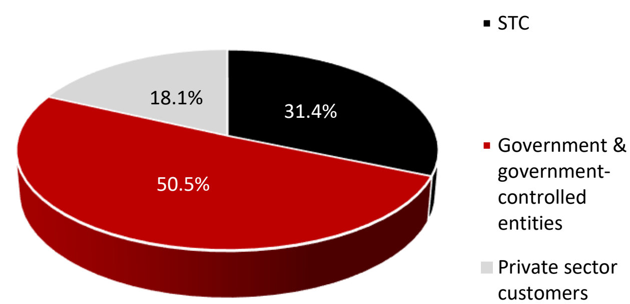
Spearheaded by its LEAP strategy, the company posted healthy growth rates in its three business segments in FY 2022, namely Core ICT Services (+30% YoY), IT Managed & Operational Services (+19.4% YoY), and Digital Services (+7.4% YoY), with 82% revenue coming from STC and government combined. We believe an expanding ICT market in Saudi Arabia will entail ample growth opportunities for all the domains of the sector, and Solutions, with its market-leading position, has the right ingredients to capitalize on the available and upcoming opportunities. The Core ICT services segment is likely to continue contributing over 50% of the overall revenue. However, we estimate Digital Services vertical to clock the fastest growth rate among the three verticals (FY 2022-27e CAGR: +19%) since it encompasses offering like data centers, cloud services, IoT, and cybersecurity, which are in heavy demand. Further, the recently completed acquisition of the Contact Center Company (CCC) is expected to enhance Solutions' BPO offerings, and its financial impact will likely start reflecting from 2Q 2023. Accordingly, we have raised IT Managed & Operational Services segment's FY 2023 growth rate to between 9% and 10% (previously: ~4%). Consequently, and after incorporating 1Q 2023 preliminary results, our FY 2023e top-line growth rate now comes to around 16% vs. ~8.0% forecasted in our 'Earnings Estimates – 1Q23-FY23' report.

Fig. 27: Core ICT services to continue over half of the top line



Source: Company Filings, U Capital Research

Fig. 28: Government and STC account for the bulk of revenue

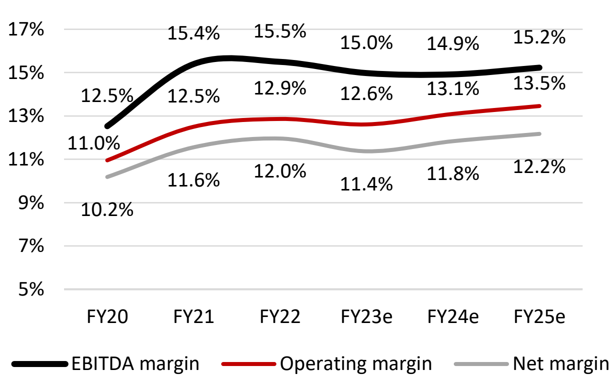


Source: Company Filings, U Capital Research

Margins to remain in an expansionary mode

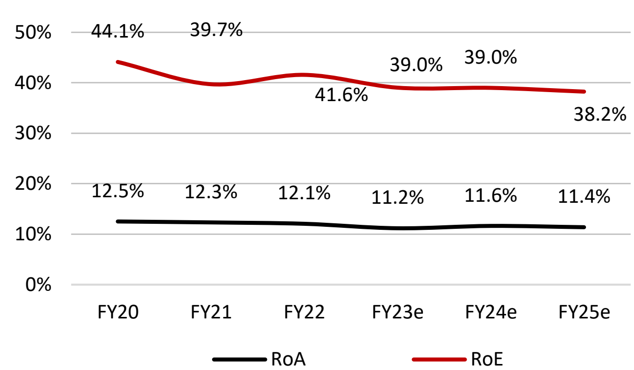
Solutions' margins have largely remained in an uptrend since FY 2019. We expect this trend to continue with the company focusing on cost optimization and including more high-margin products and services in its portfolio. In FY 2023e, we estimate a relatively lower EBITDA margin (15.0%; around 100 bps below our previous estimate and as compared to 15.5% in FY 2022), to factor in likely higher operating costs resulting from the integration of CCC. Accordingly, the operating profit margin (OPM) is also estimated to edge lower to 12.6% in FY 2023e from 12.9% in FY 2022. However, we expect margins to remain largely in a rising trend over the medium-to-long term, with OPM expanding between 100 and 150 bps by the end of our forecast period in FY 2027.

Fig. 29: Margins in an uptrend



Source: Company Reports, U Capital Research

Fig. 30: RoE and RoA to remain largely stable over the next 2-3 years



Source: Company Reports, U Capital Research

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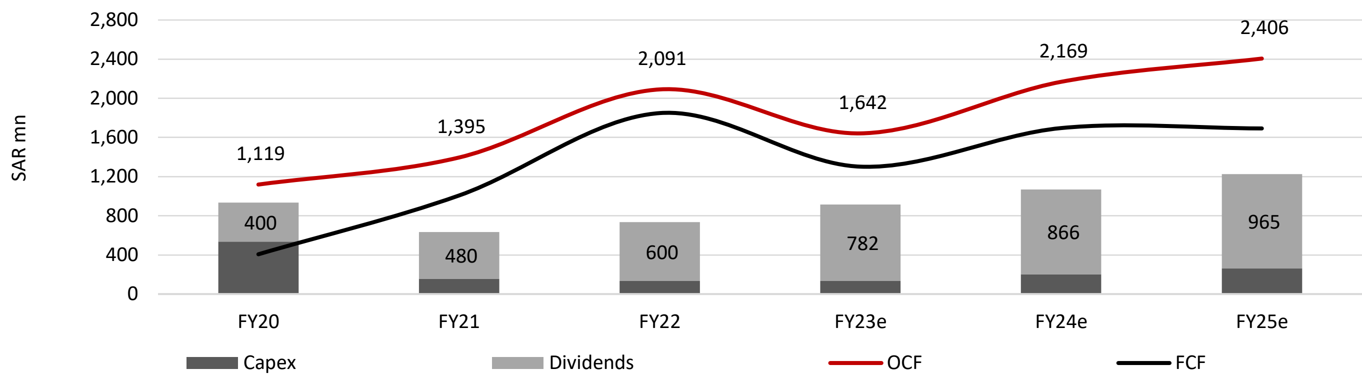
Expansion in margins with low capex requirements to aid in sustained strong free cash flow generation

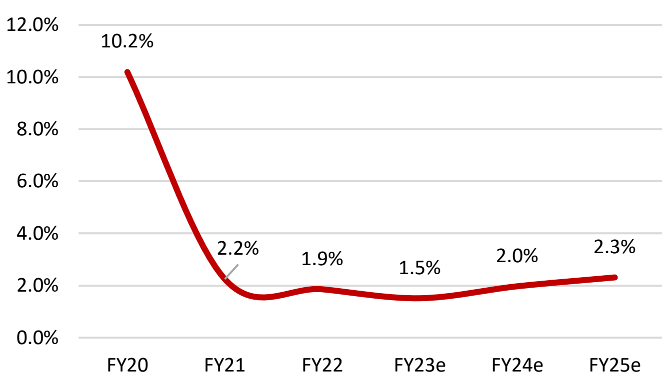
Solutions' capital expenditure (capex) requirements have remained low and hovered around 2% of the revenue over the last two years. We estimate the company's future capex requirements to remain in a similar range, considering the management's capex intensity guidance for FY 2023e. Given our expectations for profitability to remain in an uptrend, and with relatively stable and low capex requirements, we estimate the business to generate strong free cash flows of between SAR 1.5-2.0bn over our forecast period. This would further strengthen Solutions' coffers, thereby supporting it to fulfill its organic and inorganic business expansion plans.

Fig. 31: Strong cash flows to take care of future business expansion needs



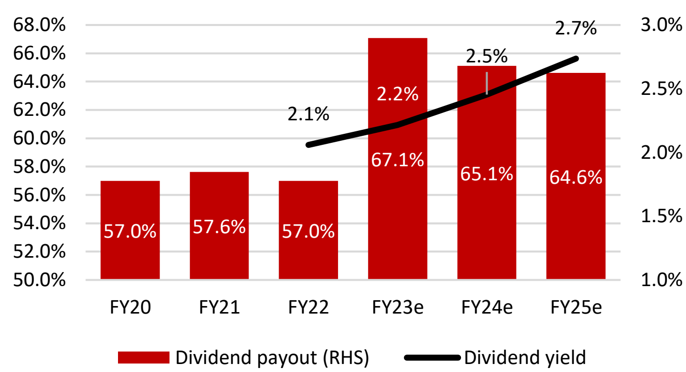
Source: Solutions IPO Prospectus, U Capital Research

Fig. 32: Capex requirements to remain stable and low



Source: Company Reports, U Capital Research

Fig. 33: Dividend payout could increase backed by solid liquidity



Source: Company Reports, U Capital Research

Solutions has paid out about 57% of its earnings in dividends on average in the past three years, and with its strengthening liquidity position, we opine the company could increase the reward for its equity shareholders. Hence, we expect the management to dole out increasing sums towards dividends over the coming years. In FY 2022, the company's dividend payout stood at 57% with the TTM dividend offering a yield of 1.7% based on the current market price.

M&A to play a key role in Solutions' growth strategy

Solutions completed two acquisitions in October 2022 and April 2023 of Egypt-based Giza Systems and KSA-based Contact Center Company (ccc), which was initially set up as STC's captive call center. While Giza's acquisition opens the door to a new geography in Egypt for STC, CCC's acquisition will aid the company in increasing the company's offerings in the Business Process Outsourcing (BPO) space. M&A is likely to remain a key strategy in achieving Solutions' business expansion ambitions and retaining its industry leader position, with the company looking to benefit from a fragmented IT industry in the MENA region.

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Raise to Accumulate

We are optimistic about Solutions' prospects given the company's strengthening market-leading position, and an expanding KSA ICT market, and believe its recent foray into Egypt will bring in some diversification benefits while also paving the way to expand in other markets. Based on our current estimates and a lower WACC owing to conservative market return expectations, we arrive at a target price of SAR 330.00 (previously, SAR 233.50), implying an upside of 12.2%. Accordingly, we raise our rating on the company to **Accumulate (**previously, Hold).

Valuation

	Solutions
(Currency)	SAR
DCF (70.0% weight)	
PV of Free Cash Flows (mn)	
Year 1	1,246
Year 2	1,515
Year 3	1,411
Year 4	1,458
Year 5	1,494
Terminal Value	40,717
PV of Terminal Value	29,564
Less: Debt	(16)
Less: Minority interest	-
Less: Employee retirement benefits	(261)
Add: Cash & bank balances	3,245
Add: Investments	-
Equity value (mn)	39,656
Outstanding Shares (mn)	120.0
Assumptions	
Risk Free Rate (%)	4.3%
Adjusted Beta	0.85
Risk Premium (%)	3.4%
Cost of Equity (Ke) (%)	7.2%
WACC (%)	7.2%
Target Price	***330.47***
P/E based Relative Valuation (30.0% weight)	
Target P/E multiple (x)	*33.9*
EPS FY 2023e	*9.71*
Target Price	***328.91***
Weighted Average Target Price	**330.00**
Current Market Price	294.00
Upside/(Downside), %	*12.2%*
Recommendation	**Accumulate**

Source: Company Financials, Bloomberg, U Capital Research

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Key financials

In SAR mn, except stated otherwise	FY20	FY21	FY22	FY23e Prev.	FY23e	FY24e Prev.	FY24e	FY25e Prev.	FY25e
Income Statement									
Revenue	6,891	7,208	8,805	9,505	10,252	10,424	11,235	11,392	12,274
Cost of sales	(5,469)	(5,500)	(6,794)	(7,334)	(7,841)	(8,079)	(8,572)	(8,806)	(9,328)
Gross profit	**1,422**	**1,708**	**2,011**	**2,172**	**2,411**	**2,345**	**2,663**	**2,586**	**2,946**
General and administration expenses	(460)	(462)	(605)	(594)	(718)	(625)	(767)	(672)	(832)
Selling and distribution expenses	(159)	(196)	(246)	(293)	(334)	(319)	(363)	(347)	(396)
(Impairment)/reversal of impairment of a/c receivable and contract	(46)	(151)	0	0	0	0	0	0	0
Operating profit	**755**	**901**	**1,132**	**1,284**	**1,293**	**1,401**	**1,471**	**1,567**	**1,652**
Interest expenses on lease liabilities	-	-	-	-	-	-	-	-	-
Finance income/(costs), net	(1)	3	38	17	(0)	4	4	17	6
Profit before zakat	**754**	**904**	**1,171**	**1,306**	**1,297**	**1,409**	**1,479**	**1,588**	**1,662**
Zakat expense	(52)	(71)	(118)	(131)	(130)	(142)	(149)	(160)	(167)
Profit attributable to shareholders of the company	**702**	**833**	**1,053**	**1,173**	**1,166**	**1,267**	**1,330**	**1,428**	**1,494**
Balance Sheet									
Cash and cash equivalents	993	1,608	544	1,161	1,292	2,416	2,399	3,716	3,588
Trade and other receivables	2,804	3,021	4,345	3,717	4,079	4,363	4,554	4,768	4,975
Contract assets	1,505	1,256	1,277	1,300	1,304	1,220	1,332	1,132	1,360
Right of use assets	72	55	41	25	25	10	29	(5)	35
Property and equipment	594	551	473	346	351	289	344	270	379
Total assets	**6,335**	**7,173**	**10,282**	**10,028**	**10,573**	**11,879**	**12,272**	**13,481**	**13,978**
Contract liabilities	336	354	488	492	540	700	774	822	907
Lease liabilities	48	31	16	10	10	4	11	(2)	14
Trade and other payables	1,974	1,931	2,573	2,193	2,426	2,647	2,756	2,910	3,025
Total liabilities	**4,411**	**4,902**	**7,459**	**6,812**	**7,366**	**8,262**	**8,599**	**9,400**	**9,775**
Share capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Retained earnings	610	960	1,432	1,707	1,699	2,107	2,163	2,569	2,692
Equity Attributable to Shareholders	**1,924**	**2,271**	**2,794**	**3,186**	**3,178**	**3,587**	**3,642**	**4,049**	**4,170**
Cash Flow Statement									
Net cash generated from operating activities	1,119	1,395	2,091	1,484	1,642	2,250	2,169	2,428	2,406
Net cash generated from investing activities	(536)	(171)	(3,191)	(96)	(105)	(127)	(202)	(174)	(260)
Net cash (used in) provided by financing activities	(4)	(610)	57	(771)	(788)	(868)	(860)	(954)	(957)
Cash and cash equivalents at the end of the period	**993**	**1,608**	**544**	**1,161**	**1,292**	**2,416**	**2,399**	**3,716**	**3,588**
Key Ratios									
Gross margin (%)	20.6%	23.7%	22.8%	22.8%	23.5%	22.5%	23.7%	22.7%	24.0%
EBITDA margin (%)	12.5%	15.4%	15.5%	16.1%	15.0%	15.3%	14.9%	15.6%	15.2%
Operating margin (%)	11.0%	12.5%	12.9%	13.5%	12.6%	13.4%	13.1%	13.8%	13.5%
Net margin (%)	10.2%	11.6%	12.0%	12.3%	11.4%	12.2%	11.8%	12.5%	12.2%
ROA	12.5%	12.3%	12.1%	11.6%	11.2%	11.6%	11.6%	11.3%	11.4%
ROE	44.1%	39.7%	41.6%	39.2%	39.0%	37.4%	39.0%	37.4%	38.2%
Current Ratio (x)	1.4x	1.4x	1.4x	1.6x	1.5x	1.6x	1.6x	1.7x	1.6x
Capex/Sales	7.8%	2.1%	1.5%	1.3%	1.3%	1.5%	1.8%	1.8%	2.1%
Debt-Equity Ratio	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
EPS	5.8	6.9	8.8	9.8	9.7	10.6	11.1	11.9	12.5
BVPS	16.0	18.9	23.3	26.5	26.5	29.9	30.3	33.7	34.8
DPS	3.3	4.0	5.0	6.5	6.5	7.2	7.2	8.0	8.0
Dividend Payout Ratio	57.0%	57.6%	57.0%	66.6%	67.1%	68.4%	65.1%	67.6%	64.6%
Dividend Yield (%)	NA	2.1%	2.1%	2.5%	2.2%	2.7%	2.5%	3.0%	2.7%
P/E (x)	0.0x	27.1x	27.7x	27.0x	30.3x	25.0x	26.5x	22.2x	23.6x
P/BV (x)	0.0x	9.9x	10.4x	9.9x	11.1x	8.8x	9.7x	7.8x	8.5x
EV/EBITDA (x)	0.0x	19.1x	19.2x	18.6x	20.7x	17.1x	18.5x	14.9x	16.2x
Price as at period end*	-	188.2	242.8	264.0	294.0	264.0	294.0	264.0	294.0

Source: Company Reports, U Capital Research

*Current market price is used for forecast periods

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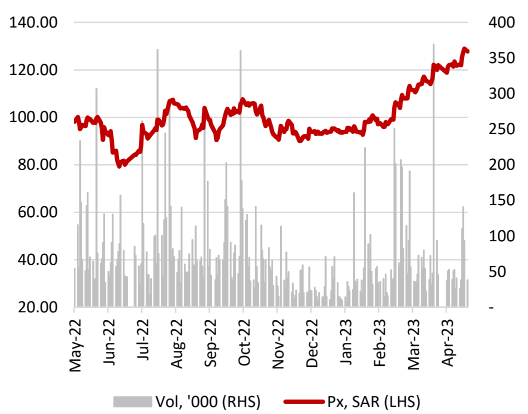
Al Moammar Information

Target Price: SAR 135.4/share
Upside: 5.9%

Recommendation	**Hold**
Bloomberg Ticker	MIS AB
Current Market Price (SAR)	127.80
52wk High / Low (SAR)	129.800/79.000
12m Average Vol. (000)	73.8
Mkt. Cap. (USD/SAR Mn)	9,968/3,834
Shares Outstanding (mn)	30.0
Free Float (%)	51%
3m Avg Daily Turnover (SAR'000)	8,124.9
6m Avg Daily Turnover (SAR'000)	5,789.9
P/E'23e (x)	46.4
P/B'23e (x)	10.0
Dividend Yield '23e (%)	1.9%
Price Performance:	
1 month (%)	4.6
3 month (%)	30.0
12 month (%)	27.2

Source: Bloomberg, valued as of 14 May 2023

Price-Volume Performance



Source: Bloomberg

- **The value of new contracts and projects reached SAR 3bn in FY22 from under SAR 2bn in FY21, which gives excellent revenue visibility.**
- **As per our calculations, till mid of Apr'23, MIS has already been awarded over SAR 1bn worth of contracts, which suggests the IT sector is witnessing heightened activity**
- **MIS has registered a rapid increase in income from data centers during FY22, though we expect it to taper during FY23 with the likely completion of phase I.**
- **We maintain the target price with a Hold rating (previously, Buy)**

We review our coverage on **Al Moammar Information Systems (MIS)** and retain our SAR 135.40 target price, which offers an upside of 5.9%. Accordingly, we lower our rating on the stock to **Hold** (previously, Buy). MIS posted a turnaround performance in FY22, in line with our expectations, mostly driven by sizeable income from data centers (~22% of the core revenue). Core revenue, though, rose only marginally by around 2%. We expect core revenue growth to accelerate in FY23e, though it is expected to be more than offset by a decline in income from data centers as the first phase of development of data centers is expected to be completed by 1H 2023. Accordingly, we expect MIS' earnings to take a dip in FY23e. However, the bottom-line is estimated to rebound from FY24e onwards as the share of recurring income from data centers increases.

Investment Thesis

Good revenue visibility as backed by healthy order book: i) Cumulative value of the company's WIP contracts reached SAR 3bn by FY22-end vs. ~SAR 2.5bn during 1H22, which has further improved revenue visibility ii) Value of the new contracts secured during Jan-Apr'23 has already surpassed total value of contracts won during entire FY22 iii) Top-line in FY22 was boosted by income from data centers' development. Hence, we expect revenue to dip in FY23 as 1st phase development of data centers is likely nearing completion iv) Accordingly, margins and bottom-line are also estimated to contract in FY23, though we expect gradual improvement thereafter, v) significant improvement in net debt/equity (FY21: 4.3x; FY22: 2.0x) vi) FY22 dividend payout at ~75%; significantly higher than the minimum 45% committed till FY23.

Valuation and risks: Our target price is based on blended valuation methodologies – (i) Discounted Cash Flow (DCF) and (ii) Relative Valuation (using P/E multiple). Key downside risks to our valuation include i) below-expected performance of the business units ii) lower-than-estimated income stream from data centers, iii) less-than-estimated expansion in margins, iv) higher than forecasted leverage levels, and/or the associated debt costs. Key upside risks include i) better-than-estimated revenue growth, especially in the data center segment ii) above-expected expansion in margins, and iii) below-estimated leverage levels and/or debt servicing costs.

Year	FY20	FY21	FY22	FY23e	FY24e	FY25e
Revenues (SAR mn)	674.8	638.8	649.1	687.9	771.8	870.0
Net income (SAR mn)	81.3	56.5	95.9	82.6	114.4	147.9
Gross margin	25.7%	26.1%	31.2%	29.0%	30.4%	31.3%
Net profit margin	12.0%	8.8%	14.8%	12.0%	14.8%	17.0%
RoE	28.1%	17.2%	27.2%	21.9%	28.5%	32.9%
FCF (SAR/share)	(2.7)	(0.2)	6.2	7.7	1.9	5.6
DPS (SAR/share)	2.1	2.0	2.4	2.4	2.6	3.0
Dividend Yield	2.7%	2.1%	2.6%	1.9%	2.0%	2.3%
P/E (x)	23.7x	80.4x	29.2x	46.4x	33.5x	25.9x
P/BV (x)	4.7x	13.6x	7.5x	10.0x	9.1x	8.0x

Source: Company Reports, U Capital Research **P/E and P/B from 2023 onwards calculated on current price*

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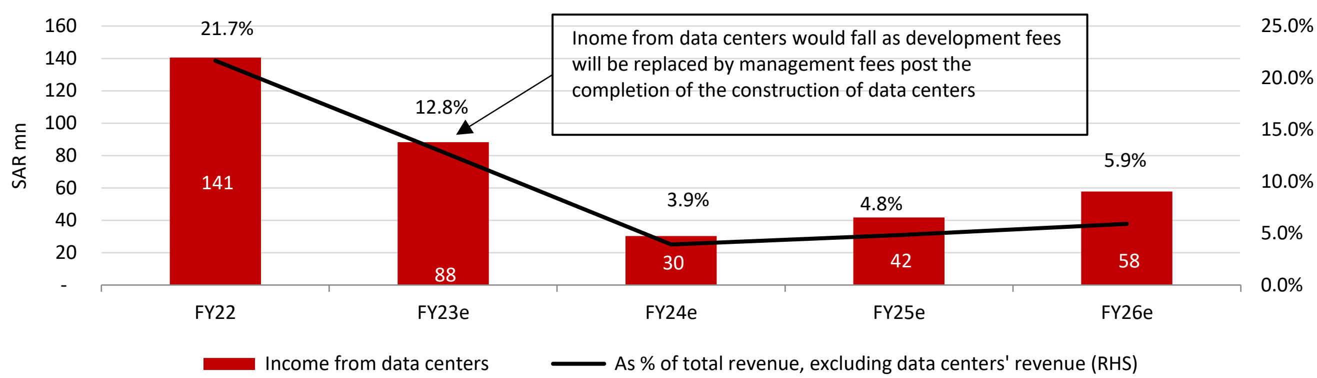
Top-line growth is expected to be equally supported by different verticals, with the ICT services retaining the lion's share

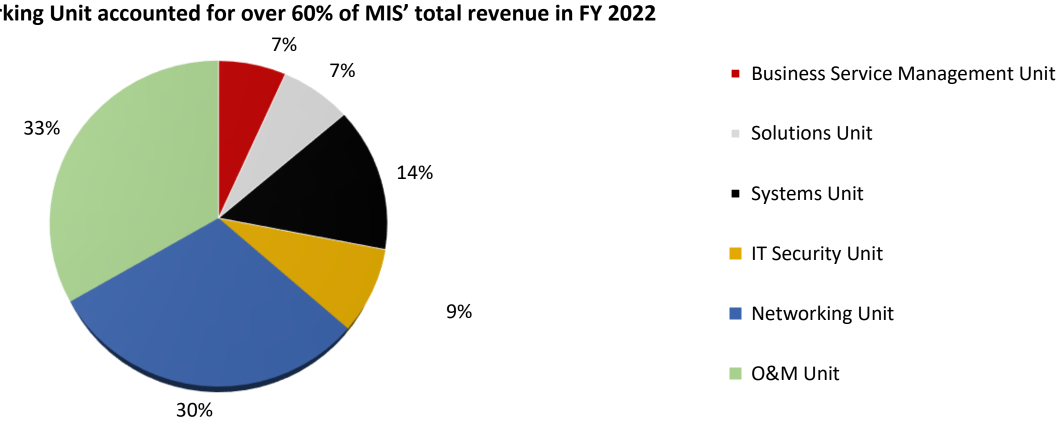
MIS earnings rebound in FY 2022, particularly at the operating level, which we contend was aided by an increase in the ICT sector spending, given the government's resolve to raise the ICT sector's share of the GDP as part of its long-term diversification vision. It is worth noting that the government and related entities account for the bulk of the revenue (between 70% and 75% in FY 2021 and FY 2022) for MIS. New contracts secured by MIS also corroborate the rapidly expanding ICT market as the company got new contracts worth over SAR 1.1bn during Jan-Apr'23 (FY 2022: +SAR 900mn; FY 2021: +SAR 400mn). Of these contracts, more than half (in terms of value) were awarded by the government or semi-government entities, as per our calculations, which suggests MIS enjoys good recognition among these entities. This bodes well for the company's future growth as the government is expected to remain a major spender in the ICT space over the next several years. According to the management, the value of new contracts won in FY 2022, including projects like data centers, medical equipment, etc. amounted to c. SAR 3bn in FY 2022 vs. SAR 1.92bn in FY 2021, which provides long-term revenue visibility. Having said that, we expect MIS to register a lower top-line in FY23 primarily dragged down by a lower income from data centers, as we believe a majority of the SAR 120mn revenue based on the phase I development of data centers has already been earned in FY 2022 and the remaining is expected to be received during 1H 2023. Going forward, the revenue stream from the incremental development of data centers and facility management is anticipated to be more evenly spread. Accordingly, we have revised our FY 2023 data centers' revenue estimate lower by ~47% to close to SAR 90mn. Consequently, we now expect overall revenue in FY 2023e to edge down between 1% and 2% YoY vs. about 8% growth estimated previously (FY 2023e core revenue growth: ~+6% YoY). Nevertheless, post the normalization of revenue from data centers, we expect revenue to rebound from FY 2024e onwards, clocking ~8% CAGR during FY 2022-FY 2027e (FY17-22: -1% CAGR).

Fig. 34: Overall revenue to dip in FY 2023 on a likely decrease in income from data centers, and nudge up gradually thereafter



Source: Company Reports, U Capital Research

Fig. 35: O&M and Networking Unit accounted for over 60% of MIS' total revenue in FY 2022



Source: Company Reports, U Capital Research

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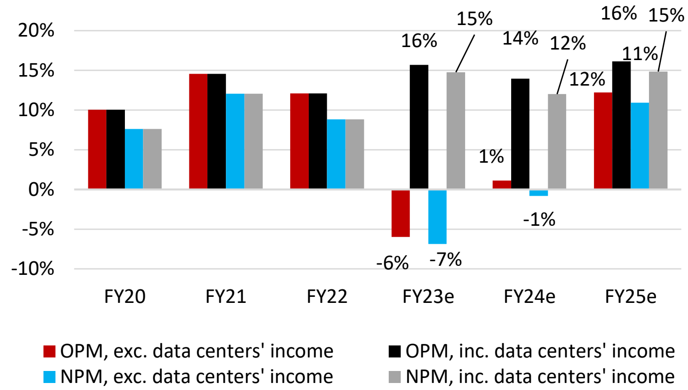
Improved liquidity with lower debt to aid in sustained dividend payout

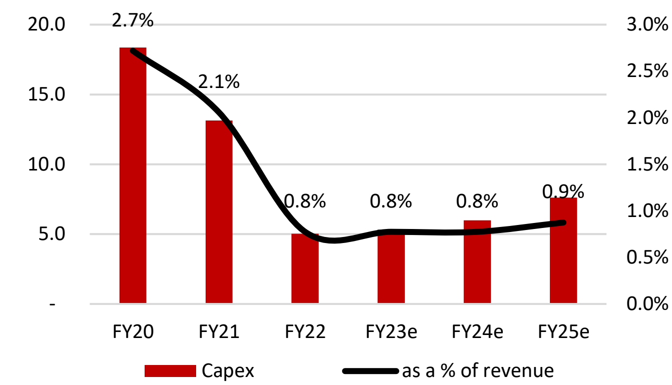
We expect MIS' profitability to fare largely better than its pre-COVID average, despite contracting briefly in FY 2023 owing to reduced data centers' income. This is expected to further boost its liquidity which improved significantly in FY 2022 (cash balance: SAR 152mn, highest since FY 2016), which, in our opinion, should suffice MIS' capex and debt servicing requirements, which we estimate to reduce going forward. Overall, this should aid MIS in maintaining its current high dividend payouts.

Fig. 36: Profitability expected to recover from FY24e onwards



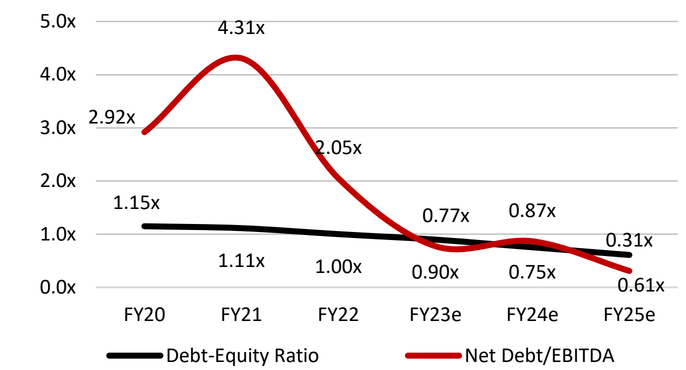
Source: Company Reports, U Capital Research

Fig. 37: The business' capex needs to remain low



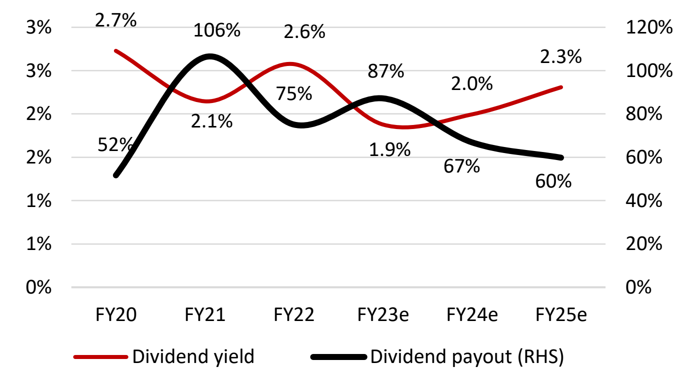
Source: Company Reports, U Capital Research

Fig. 38: Debt/equity ratio estimated to ease going forward



Source: Company Reports, U Capital Research

Fig. 39: Dividend payout to remain well above 45% committed



Source: Company Reports, U Capital Research

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Maintain target price

Post our assessment of a dip in revenue stream from data centers, we maintain our target price at SAR 135.40, indicating an upside of 5.9% from the current stock price, which has already appreciated ~37% since FY22-end. Hence, we lower our rating on the stock to **Accumulate** (previously, Buy). Currently, the stock trades at a P/E of 46.4x, based on our FY23 estimates.

Valuation

	MIS
(Currency)	SAR
DCF (70.0% weight)	
PV of Free Cash Flows (mn)	
Year 1	222
Year 2	51
Year 3	140
Year 4	166
Year 5	191
Terminal Value	5,586
PV of Terminal Value	4,135
Less: Debt	(371)
Less: Minority interest	-
Less: Employee retirement benefits	(23)
Add: Cash & bank balances	152
Add: Investments	34
Equity value (mn)	4,697
Outstanding Shares (mn)	30.0
Assumptions	
Risk Free Rate (%)	4.3%
Adjusted Beta	0.80
Risk Premium (%)	3.4%
Cost of Equity (Ke) (%)	7.0%
WACC (%)	6.7%
Target Price	***156.58***
P/E based Relative Valuation (30.0% weight)	
Target P/E multiple (x)	*31.2*
EPS FY 2023e	*2.75*
Target Price	***85.99***
Weighted Average Target Price	**135.40**
Current Market Price	127.80
Upside/(Downside), %	*5.9%*
Recommendation	**Hold**

Source: Company Financials, Bloomberg, U Capital Research

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Key financials

In SAR mn, except stated otherwise	FY20	FY21	FY22	FY23e Prev.	FY23e	FY24e Prev.	FY24e	FY25e Prev.	FY25e
Income Statement									
Revenue	675	639	790	856	776	784	802	885	912
Cost of sales	(502)	(472)	(587)	(629)	(577)	(625)	(568)	(703)	(639)
Gross profit	**173**	**167**	**203**	**227**	**199**	**159**	**234**	**181**	**273**
General and administration expenses	(55)	(61)	(87)	(90)	(88)	(93)	(90)	(103)	(101)
Selling and distribution expenses	(10)	(10)	(13)	(13)	(13)	(15)	(15)	(16)	(16)
(Impairment)/reversal of impairment of a/c receivable and contract	(10)	(18)	(2)	(3)	(2)	(7)	(5)	(7)	(6)
Operating profit	**98**	**77**	**102**	**120**	**96**	**45**	**124**	**54**	**149**
Finance costs	(18)	(19)	(24)	(23)	(23)	(21)	(21)	(19)	(19)
Finance income	2	1	3	3	3	4	4	2	3
Profit before zakat	**89**	**65**	**105**	**113**	**89**	**45**	**123**	**64**	**159**
Zakat expense	(8)	(8)	(10)	(8)	(6)	(3)	(9)	(4)	(11)
Profit attributable to shareholders of the company	**81**	**56**	**96**	**105**	**83**	**42**	**114**	**59**	**148**
Balance Sheet									
Cash and cash equivalents	81	22	152	371	264	184	203	112	243
Trade and other receivables	516	388	507	596	536	630	563	667	592
Contract assets	375	568	650	738	737	834	809	931	873
Contract costs	139	90	32	32	32	32	32	32	32
Property and equipment	37	42	41	39	39	37	37	35	37
Total assets	**1,148**	**1,152**	**1,609**	**2,072**	**1,873**	**2,058**	**1,952**	**2,176**	**2,130**
Contract liabilities	139	123	323	369	317	366	324	413	364
Loans and borrowings	373	371	371	342	342	316	316	291	291
Trade and other payables	243	265	502	635	510	632	517	712	575
Total liabilities	**823**	**818**	**1,238**	**1,667**	**1,491**	**1,688**	**1,533**	**1,832**	**1,651**
Share capital	200	250	300	300	300	300	300	300	300
Retained earnings	108	71	52	75	54	36	81	4	125
Equity Attributable to Shareholders	**324**	**334**	**371**	**405**	**382**	**370**	**420**	**344**	**479**
Cash Flow Statement									
Net cash generated from operating activities	(28)	45	198	348	240	(57)	69	63	180
Net cash generated from investing activities	(18)	(38)	14	(5)	(5)	(6)	(6)	(6)	(8)
Net cash (used in) provided by financing activities	98	(67)	(81)	(123)	(123)	(124)	(124)	(129)	(132)
Cash and cash equivalents at the end of the period	**81**	**22**	**152**	**371**	**264**	**184**	**203**	**112**	**243**
Key Ratios									
Gross margin (%)	25.7%	26.1%	31.2%	33.0%	29.0%	20.6%	30.4%	20.8%	31.3%
EBITDA margin (%)	14.8%	12.7%	16.4%	18.2%	14.7%	6.6%	16.8%	6.9%	17.9%
Operating margin (%)	14.6%	12.1%	15.7%	17.5%	14.0%	5.8%	16.1%	6.3%	17.2%
Net margin (%)	12.0%	8.8%	14.8%	15.3%	12.0%	5.4%	14.8%	6.8%	17.0%
ROA	7.8%	4.9%	6.9%	5.7%	4.7%	2.0%	6.0%	2.8%	7.2%
ROE	28.1%	17.2%	27.2%	27.2%	21.9%	10.8%	28.5%	16.6%	32.9%
Current Ratio (x)	1.4x	1.3x	1.3x	1.4x	1.5x	1.4x	1.5x	1.4x	1.6x
Capex/Sales	2.7%	2.1%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.9%
Debt-Equity Ratio	1.1x	1.1x	1.0x	0.8x	0.9x	0.9x	0.8x	0.8x	0.6x
EPS	3.3	1.9	3.2	3.5	2.8	1.4	3.8	2.0	4.9
BVPS	16.2	11.1	12.4	13.5	12.7	12.3	14.0	11.5	16.0
DPS	2.1	2.0	2.4	2.4	2.4	2.6	2.6	2.9	3.0
Dividend Payout Ratio	51.7%	106.2%	75.1%	68.3%	87.2%	183.3%	66.9%	144.2%	59.8%
Dividend Yield (%)	2.7%	2.1%	2.6%	2.4%	1.9%	2.6%	2.0%	2.9%	2.3%
P/E (x)	23.7x	80.4x	29.2x	28.3x	46.4x	71.5x	33.5x	50.4x	25.9x
P/BV (x)	4.7x	13.6x	7.5x	7.4x	10.0x	8.1x	9.1x	8.7x	8.0x
EV/EBITDA (x)	22.4x	60.2x	28.2x	23.4x	38.4x	60.9x	30.2x	51.4x	24.6x
Price as at period end*	77.0	151.4	93.2	99.5	127.8	99.5	127.8	99.5	127.8

Source: Company Reports, U Capital Research

*Current market price is used for forecast periods

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Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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