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شركة العرض المتقن
Perfect Presentation

Perfect Presentation for Commercial Services

Initiation Coverage Report

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Contents

Perfect Presentation for Commercial Services (2P): Initiate with "Overweight" rating and a TP of SAR 196/share

2P has delivered very strong growth in revenue as well as net profit during FY19-21, recording CAGR of 48.3% and 87.2%, respectively. The growth was led by increase in number of projects for all three segments viz. Customer Experience, Operation and Maintenance and Software Development. The company's strong hold on Customer Experience business and experience of catering to government sector clients, in addition to expected increase in IT spending in KSA and ongoing digitization drive would help the company deliver healthy growth in coming years and expand its market share. Moreover, at current valuation, 2P with strong return profile (ROE and ROA) seems attractive. Thus, we initiate our coverage on the stock with "Overweight" rating and a TP of SAR 196/share.

Robust growth in topline to continue: We expect 2P's momentum in the topline will continue on account of a further growth in revenue-generating projects. The company is likely to benefit from an expected growth in IT spending in Saudi Arabia (FY19-26E CAGR: 5.2%) and government emphasis on digitization. The company can leverage its experience of serving government sector clients and gain from demand for customer care services and IT solutions from this sector. Thus, we believe the company has potential to expand its market share in fragmented IT services market in KSA. We forecast revenue to increase at a CAGR of 24.6% during FY22-24E to reach SAR 1.3bn in FY24E, while net income is expected to register CAGR of 26.8% during the same period.

Ability to generate high returns differentiates 2P from its peers: The company recorded very high return on equity and return on assets in past two years, surpassing its listed peers by a wide margin. We expect the company to maintain its healthy return profile in coming years driven by healthy margins and efficient use of capital. We forecast ROAE to average at 53.8% and ROAA at 16.4% during FY22E-24E, and the company is likely to continue to lead the sector on these metrics.

Current valuation seems attractive after the decline post IPO: 2P's stock has fallen 25% below its IPO price as against 10% decline in TASI and 0.3% decrease in Software and Services sector index during same period. The stock is currently at 37.0% below its high and closed at a new low this week. At this valuation we believe it is a good opportunity to enter the stock. The stock now trades at TTM P/E of 16.4x and FY23E P/E of 14.8x based on our estimates.

Spike in trade receivables is a manageable concern (in line with the sector norm): The company's trade receivables increased to reach SAR 342mn as of September 2022 from SAR 98mn as of December 2021. However, average receivable days are in line with the sector's average ~144 days (peers' median collection period). Further, the company seems to be comfortable managing the increase in receivables through short term financing, by rolling over at maturity. In addition, the firm's FY23 initiative to penetrate a 'business to consumer' cloud based smart home segment could result in mitigating 2P's collection days to some extent, as in this segment consumers pay in advance for the services provided.

AJC View and Valuation: 2P operates in a sector which possesses a wide headroom for expansion further in future. The firm is still experiencing increased momentum in the amount of revenue generating projects it manages. 2P has historically displayed efficient capital deployment at an ROIIC of 65.9% from FY18 to FY21, which can be seen as positive for investors. We value 2P with 50% weightage to DCF (Rfr = 4.0%, terminal growth = 2.5%, average WACC = 7.4%) and 25% weightage to FY23E P/E (22.0x) and EV/EBITDA (15.6x) multiples each. This yields a TP of **SAR 196/share**. Thus, we initiate our coverage on the stock with "**Overweight**" rating.

Upside risks: 1) Higher-than-expected spending on IT services in the Kingdom, 2) faster-than-anticipated technological adoption 3) Innovation of new technology or product by the company.

Downside risks: 1) Competition from a fragmented sector 2) inability to manage working capital challenges 3) tighter GP margin compared to its peers as a result of increase in wages, as COGS is centered around salaries for the company.

Recommendation	**Overweight**
Target Price (SAR)	**196.0**
Upside / (Downside)*	**41.2%**

Source: Tadawul *prices as of 12th of December 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	482	655	905	1,134
Growth %	61.8%	35.9%	38.1%	25.3%
Gross Profit	91	116	166	210
Net Profit	65	81	114	141
Growth %	179.4%	25.2%	41.4%	23.1%
EPS	32.25	40.37	7.61	9.37

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	18.9%	17.7%	18.3%	18.5%
Net Margin	13.4%	12.3%	12.6%	12.4%
P/E (x)	NM	NM	18.2	14.8
P/B (x)	NM	NM	9.1	7.0
EV/EBITDA (x)	NM	NM	18.4	13.6
Dividend Yield	NM	NM	2.2%	3.4%

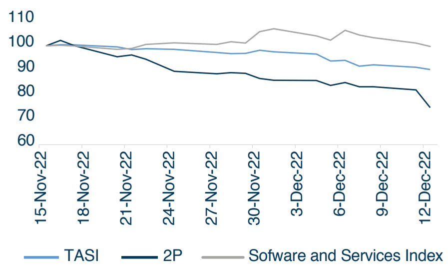
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR mn)	2,082
Change since IPO	-25.0%
52-week (High)/(Low)	222.0/137.8
Share Outstanding (mn)	15.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, AlJazira Capital

Company Overview

Perfect Presentation for Commercial Services (2P) was established in 2003 under a similar name and recently listed on the Tadawul main market to become the fifth participant in the publicly traded company in Software & Services sector. The firm operates in the Information and Communication's Technology (ICT) industry through its three main revenue segments: Customer Experience, Operation and Maintenance, and Software Development. 2P services its revenue segments through several product lines that fall under the three overarching segments, including a bulk messaging service called Yamamah, an internal communications infrastructure product called Wesal, and other services such as providing outsourced technical maintenance, and application development. Government clients account for approximately 88.7% of total revenues, wherein private sector clients account for the remaining 11.3%.

Fig 2: Ownership structure (top 3 shareholders)

Shareholder	Post-Offering	
	No. of Shares	Shareholding
The Ideal for Business and Investment Trade Company	3,423,000	22.8%
Saleh Ibrahim Hamad Al Mazroua	1,365,000	9.1%
Nasser Abdullah Mohamed Albassam	1,365,000	9.1%
Public	4,500,000	30.0%
Total	**15,000,000**	**100.0%**

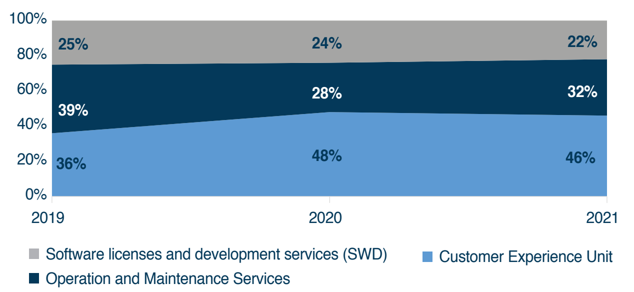
Sources: Company reports, AlJazira Capital

Saleh Ibrahim Hamad Al Mazroua and Nasser Abdullah Mohamed Albassam are 2P's ultimate beneficiaries as The Ideal for Business and Investment Trade Company, is half owned by Saleh Ibrahim Hamad Al Mazroua and Nasser Abdullah Mohamed Albassam. Both are the two largest individual owners of the 2P, each with a 9.1% share in 2P, rendering them the ultimate beneficiaries of the firm. Besides their technological activities, The Ideal for Business and Investment Trade Company also operates in real estate and construction activities.

Business Segments:

The firm's operational exposure is most centered around the Customer Experience unit; which as of the latest annual, and quarterly releases is the firm's chief business activity, leading the Operations and Maintenance unit which was previously the most contributor to the firm's revenues during 2019. As of FY21, the contribution to revenues was majorly from Customer Experience Unit (at 46% of revenues), followed by Operation and Maintenance Services (32% of revenues), and Software Licenses and Development (22%).

Fig 3: 2P's business segments (FY19-21)



Sources: Company reports, AlJazira Capital

Below mentioned are activities in each of the segments and sub-segments

1. **Software Development Unit:** Through this unit, the company provides services such as software design, development, and management services as well as specialized electronic platforms to clients.
   - **Customer Application Development (CAD):** With the help of CAD, the company provides software development services through various technologies. The Company is a Gold Partner of the largest software technology providers in the world, including Microsoft, Oracle and Software AG.
   - **Decision Support System:** Through configuration and installation of specialized software packages, the company provides data collection and analysis services for decision making.
2. **Operation and Maintenance Unit:**
   - **Business Support services:** Qualified and Experienced IT professionals manage and operate the client's IT unit. Such qualified technical cadre are trained to meet demand in the labor market, responding to changes in the labor market and client requirements.
   - **Managed IT Services:** The company manages software by providing and implementing management needs, including preventive and corrective maintenance of data centers by assigning the entire client information technology work to the Company's technical team.
   - **Preventive Maintenance:** IT assets including infrastructure, networks, applications and off-the-shelf software are maintained to sustain the readiness and efficiency and proactively prevent any unplanned outages, including scheduled maintenance

- **Corrective Maintenance:** A dynamic approach to maintain IT assets using methods that rely on live and historical data which analyze the state of equipment, infrastructure and software components to predict problems before they occur.

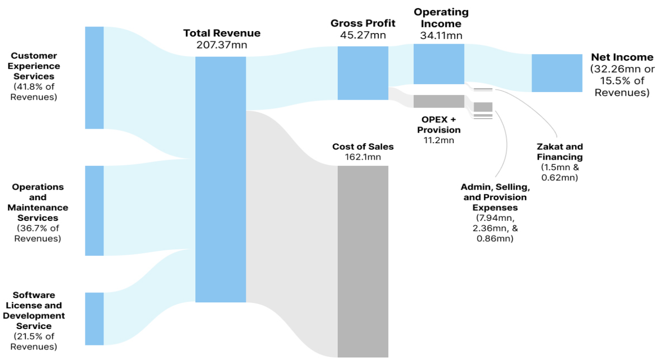
3. **Customer Experience Unit:**
   - **Business Process Outsourcing (BPO):** Through this service, the company enhances customer experience and protects client's brand. The BPO service helps in managing and executing customer service activities across all channels including phone calls, social media, interactive chat, web, and email channels.
   - **Technology Solutions:** 2P has Gold Partnership status with Genesys, a leading company in the global market, which provides the Company with a customer experience platform as a technical provider that provides technology allowing communication with customers and evaluation of customer experience.

Financial Analysis:

Robust revenue growth, gross margins set to expand further amid increasing market share, new opportunities and set costs

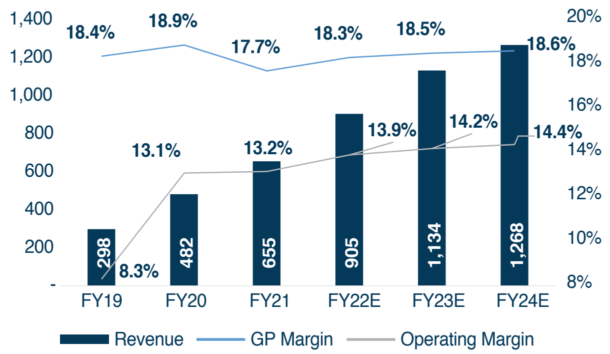
Revenue increased to SAR 655mn in FY21 from SAR 298mn in FY19 at a CAGR of 48.3%. The rise in revenue was driven by healthy growth in number of revenue-generating projects across business units. In 9M-22, revenue grew 49.5% Y/Y to SAR 639mn.

Fig 4: Visualizing 2P's latest results (SAR) (Q3-21)



Sources: Company reports, AlJazira Capital

Fig 5: Revenue (SAR mn) and Margins Trends

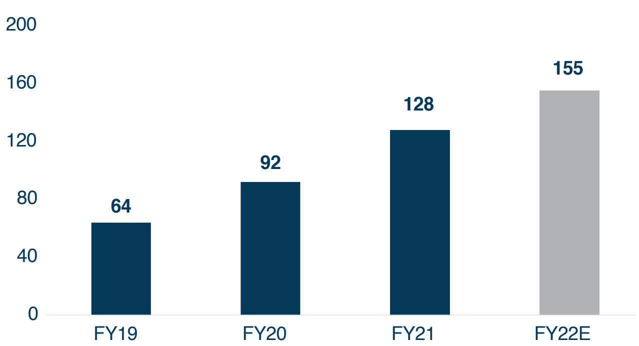


Source: IPO Prospectus, Aljazira Capital Research

The number of projects won by the company rose sharply; revenue per project improved for Customer Experience unit

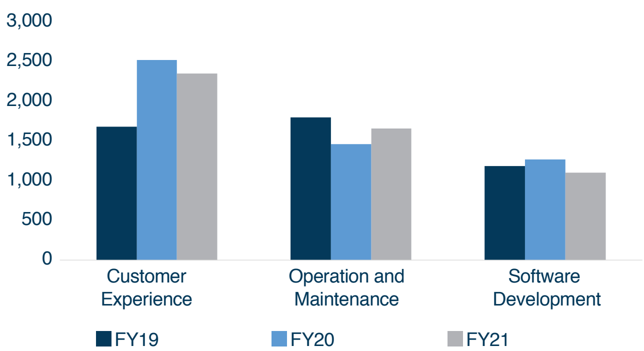
2P witnessed its weighted average number of projects growing 2x between FY19 to FY21 from 64 to 128. The increase in number of projects was driven by project from some of the key government entities. Weighted average revenue per project for Customer Experience unit rose from SAR 1.7mn in FY19 to SAR 2.3mn in FY21. However, Operation and Maintenance and Software Development units witnessed decline in weighted average revenue per project.

Fig 6: Weighted average number of projects



Source: IPO Prospectus, Aljazira Capital Research

Fig 7: Weighted average revenue per project (SAR '000)



Source: IPO Prospectus, Aljazira Capital Research

On a yearly basis, 2P's financial specifications have historically displayed efficiency in its capital deployment through its return on incremental invested capital (ROIIC). With a change in invested capital at SAR 105.1mn through FY18 to FY21 (mostly in the form of CAPEX on PP&E), the firm saw a change in NOPAT for the period of SAR 69.3mn- registering a capital efficient 65.9% ROIIC (above its WACC of 7.4%).

Peer Analysis:

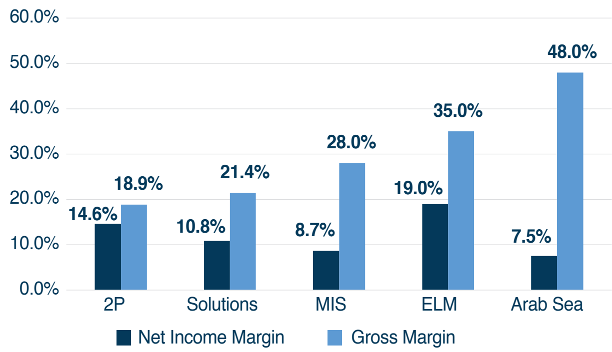
2P maintains a number of favorable financial specifications, starting with a ranking as having the second highest average net income margin among its index peers from FY18 to FY21 at an average of 10.8% (tying with Solutions on the leaderboard during the period, yet the definite second highest during FY21). The firm also led with the having the highest return on average assets (ROAA) as for the last fiscal year, as well as the highest average ROAA from FY19 till FY21 at 19.5% (compared to the firm's peers' average ROAA for the same period at 13.2%).

Fig 8: Index peers comparable (TTM)

	ROAA	ROE	Total Debt/ Equity	P/B	Receivables/ Revenue*
2P	**19.5%**	**67.0%**	**128.58%**	**9.5**	**26.8%**
Solutions	12.3%	40.3%	18.63%	9.9	30.4%
MIS	4.9%	17.9%	149.5%	8.4	71.9%
ELM	12.3%	29.9%	0%	9.1	49.8%
Arab Sea	13.9%	2.8%	0%	4.5	46.7%

Sources: Company reports, AlJazira Capital.
All figures are on a TTM basis. Debt/Equity as of Q3-22. *Excluding provisions on receivables impairment.

Fig 9: Margins Comparable (TTM)



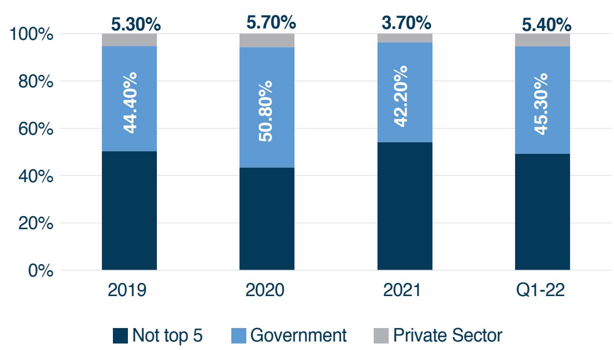
Sources: Company reports, AlJazira Capital.

Working Capital Conditions, Client Specifications, and Debt:

Long receivable days from government clients, and the firm's makeup of cost of sales being centered around employee wages (which constituted 62.0% of cost of sales in FY21) govern the working capital structure of 2P. As of the firm's latest reporting, 2P's receivables days stand at 97.7 days on a TTM scale. Which sits above par against the sector's median receivable days of 143.7 days. On the other hand, 2P's collection days are set to extend to match their peers' in the coming periods; should their client segmentation and the nature of their clients' repayment durations persist.

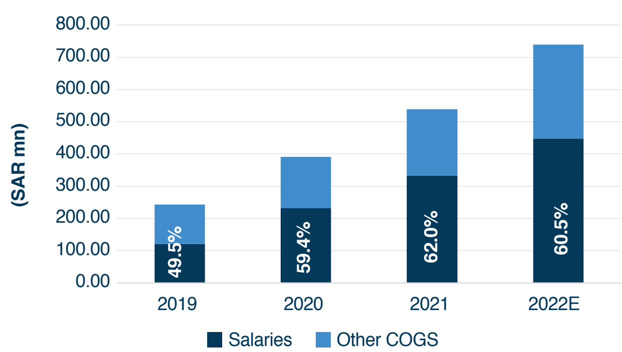
Currently, 2P's receivables from the firm's government clients (which constituted around 88.7% of the firm's revenues by Q2-22) are reportedly collected within a duration period of 120 and 180 days. Repayments from 2P's corporate clients, however, range from 30 to 90 days. At a duration weighted by 2P's client makeup and their collection periods, 2P's collection period is set to range c.144 days; to be on par with the sector's median of 143.7 days (at almost one fiscal quarter and a half). Yet this poses a challenge for the firm, as the large majority of 2P's cost of revenue is constituted of salaries to be paid monthly, amounting to 61.7% of their cost of revenues (as of Q2-22). The recently elevated debt undertaken is then a result of needing to meet working capital requirements, where short term debt constitutes almost 98.0% of 2P's total debt. Financing terms are priced at a SAIBOR borrowing rate plus a fixed margin and are due within 120 to 360 days. In a measure to curtail the naturally elevated receivable days, 2P is targeting kicking off a 'business to consumer' segment in Q3-23 centered around cloud based smart home services. With instant collections from the consumer segment, management expects the segment's contribution to dampen the receivables period for the firm.

Fig 10: Top 5 client's breakdown (% of revenue)



Sources: Company reports, AlJazira Capital.

Fig 11: Salaries as of COGS



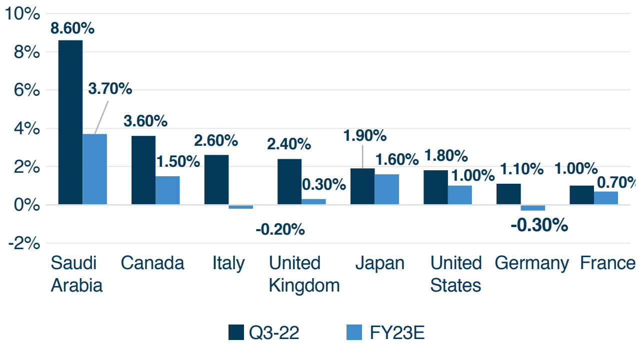
Sources: Company reports, AlJazira Capital.

Sector Overview

Expanding economic conditions to continue nurturing the domestic ICT sector:

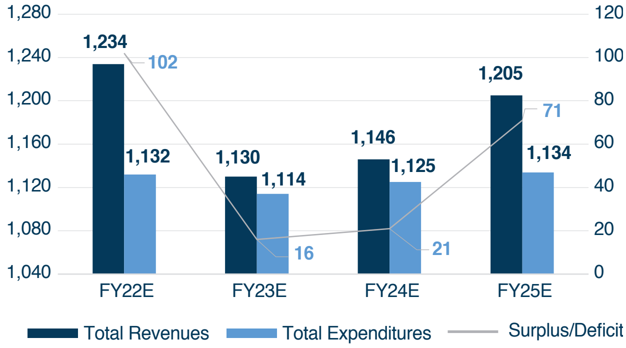
The KSA ICT sector is subject to the underlying economic environment it operates in; which as of today is in its economic expansionary phase as KSA's oil, non-oil, and government activities grew by 14.2%, 6.0%, and 2.5% respectively, to drive the GDP to expand 8.6% Y/Y by Q3-22. Saudi Arabia's upbeat economic conditions are forecast to continue despite economic uncertainties on the global economic stage. KSA revised its estimated budget surplus in FY23 from SAR 9 billion to almost double at SAR 16 billion in the latest budget report. Revenues are estimated to reach an upwardly revised SAR 1.13 trillion, while expenditures are expected to be set at SAR 1.114 trillion in FY23.

Fig 12: GDP comparable vs G7 nations (Y/Y) *



Sources: General Authority for Statistics, OECD, AlJazira Capital, *FY23 forecasts cited from IMF Outlook Report.

Fig 13: KSA budget forecasts (SAR bn)



Sources: General Authority for Statistics, AlJazira Capital.

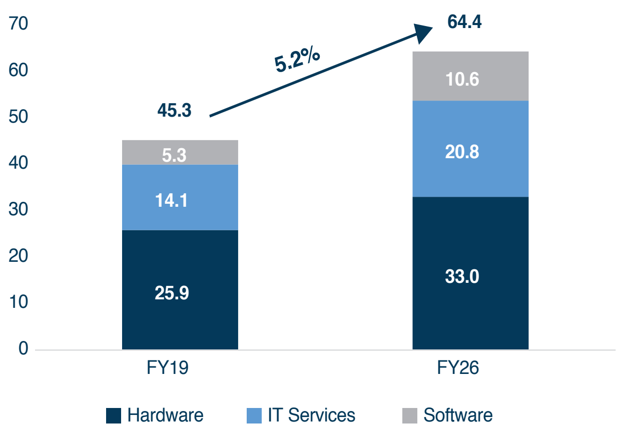
The government is expected to use revenue surpluses to boost domestic reserves, support national development funds and initiatives and grow the Kingdom's sovereign wealth fund, PIF. It is also expected that such funds will be directed towards accelerating strategic programs and projects that will support the economic and social dimensions of the Kingdom. The digital transformation of the Saudi economy has created many opportunities in recent years. With the government moving towards digitization across different sectors, creating the underlying digital infrastructure to enable the digital economy has been a vital goal of the Kingdom. It is expected that Vision 2030 will transform the Kingdom into an economy, society and nation that relies more on digitization, with a continuous expansion in the scope of e-Government.

IT sector in KSA expected to grow on solid government support and adoption of new technologies:

KSA IT spending to rise at CAGR of 5.2% during FY19-26:

The spending on IT services in the Kingdom is expected to reach SAR 20.8bn by FY26 from SAR 14.1bn in FY19 (CAGR: 5.7%), according to IDC. Expenditure on hardware is expected to exceed SAR 33.0bn by FY26 from SAR 25.9bn in FY19 (CAGR: 3.5%). Software spending totaled at SAR 5.3bn in FY19 and is expected to reach SAR 10.6bn by FY26 at a CAGR of 10.4%. Therefore, the IT market in Saudi Arabia is expected expand at CAGR of 5.2% during FY19-26. Saudi Arabia is quickly moving up the IT adoption curve, especially in the professional services space. Apart from the traditional deployment and support services, some of the other emerging IT services include IT consulting, hosting and data center services and managed and cloud services. Such services are viewed as key enablers of digital transformation.

Fig 14: IT spending by KSA technology market

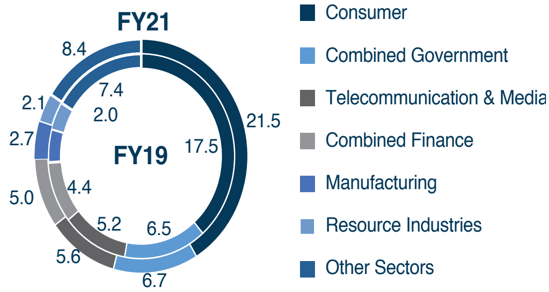


Sources: Company reports, AlJazira Capital.

Consumer sector accounts for >40% of IT expenditure; government spending leads among enterprises:

Government spending on IT accounts for the largest share of the total enterprise IT market (excl. consumer) in the Kingdom, followed by the telecommunications and media sector, the banking, financial services and insurance sector, the manufacturing sector and the resource sector. The oil and gas sector and the banking, financial services and insurance sector have long been among the leading sectors with regard to technology adoption, and they continue to invest in advanced technologies, such as big data, analytics, cloud computing, advanced security solutions, etc.

Fig 15: IT expenditure by sector (SAR bn)



Sources: Company reports, AlJazira Capital.

Drivers and Barriers to IT Spending in the Kingdom of Saudi Arabia

Drivers	Barriers
• National policies (data centers, cloud computing, cybersecurity, artificial intelligence, information and communication technology). • Hyper expansion in the field of computing in the Kingdom. G20-led international investment influx. • Increasing investments in smart cities and mega projects. • Regulatory clarity for key technology sectors such as cloud computing, artificial intelligence and security. • Increased spending on emerging technologies, including 5G. • Innovation to keep pace with the circumstances of the COVID-19 pandemic and the resulting obstacles to communication, mobility.	• Reduced spending on technology in sectors that have been negatively impacted by COVID-19 (e.g. retail, manufacturing, etc.). • Budget cuts in the public and private sectors and oil price wars. • Availability of skills and Saudization of IT-related jobs. • The relative decline in the maturity of the ICT sector.

Source: IPO Prospectus

New dynamics in the IT sector open multiple opportunities to the company

Data Economy: A data-driven approach is being adopted to achieve higher levels of efficiency in government operations. In addition, government agencies are currently investing in data analytics to enhance mission outcomes.

Future of Work: As part the “Future of Work”, IT managers are investing in key technology areas such as unified communications, collaborative applications, endpoint security, SaaS and robotic process automation (RPA) that will facilitate efficient work.

Artificial Intelligence: Artificial intelligence (AI) and machine learning are being utilized largely to improve efficiency in many industries, resulting in the emergence of diverse AI use cases. The government is heavily focused on artificial intelligence to promote higher levels of operational efficiency and understand citizens’ behavior more closely.

Cybersecurity: As the regulatory environment related to cybersecurity evolves, the complexity of maintaining a proactive security position has become critical for businesses. Perfect Presentation for Commercial Services can play a powerful role in strengthening its position and meeting the security needs of the market.

Cloud Computing: Budgetary constraints and the need for infrastructure flexibility will drive organizations to significantly increase investment in public and hybrid cloud services. This growth has been spurred mainly by the increased adoption of public cloud workloads that include enterprise resource planning (ERP), customer relationship management and collaborative applications.

IT Services: The spending on IT services accounts for more than half of total spending on IT and is growing at a much faster rate than spending on hardware and software. The professional IT services market provides an opportunity for the sector to achieve growth and diversification of services.

Managed Services: The traditional IT outsourcing market is experiencing a significant slowdown, mainly due to a less-than-normal interest in engaging in large-scale, multi-year and comprehensive IT outsourcing deals. As a result, managed services as a standard form of IT outsourcing are expected to grow much faster, providing significant potential for revenue generation, which could be offered by Perfect Presentation for Commercial Services.

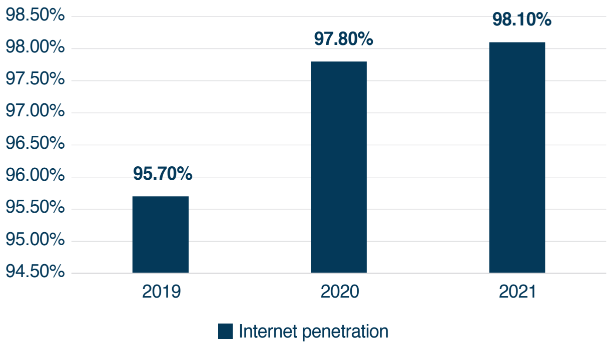
Solutions: An increasing number of organizations are willing to collaborate with service providers who are able to offer solutions, not just independent products or services. In addition, there is a significant government focus on digitizing citizen services and leveraging the power of emerging technologies to build innovative solutions. Perfect Presentation has many partnerships in the areas of infrastructure, networking, cloud computing, applications, security and revolutionary technologies to develop and deliver attractive solutions and use cases and offer them to its customers.

Small and Medium Enterprises (SMEs): SMEs are highly flexible and agile in the usage of technologies, such as cloud services, mobility and Internet of Things (IoT), which reduce ownership costs and generate multiple cost-savings on infrastructure investments. Although SMEs have limited budgets for IT, the presence of an enormous number of SMEs in the Kingdom makes them a huge opportunity to focus on.

Vision 2030 initiatives and digitalization continue to drive the sector:

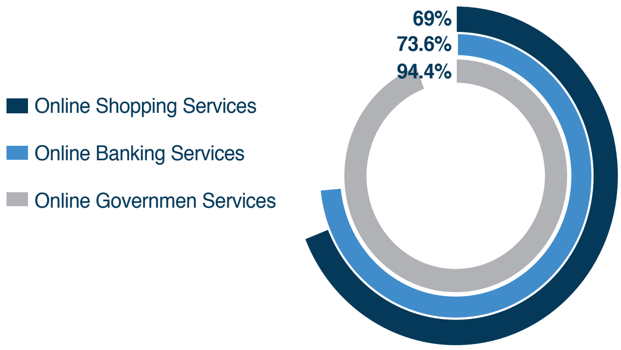
Rising numbers of smartphones and internet users is a key driver for the IT sector. The internet penetration growth has increased to reach 98.1% in Saudi Arabia for 2021. Moreover, people are using the E-Government services and Online banking services heavily, this has a positive impact on the IT sector and improve the digital infrastructure. The public investment fund owned a whole entity called Saudi Company for Artificial Intelligence, it acts as PIF's arm in the AI and emerging technologies sector to support its strategy and national priorities to innovate within the technology sector.

Fig 16: Internet usage growth



Sources: Communications & Information Technology Commission, AlJazira Capital.

Fig 17: Users usage of online services



Sources: Communications & Information Technology Commission, AlJazira Capital.

Vision 2030 programs in place supporting the sector from the bottom-up support a long term demand creation as well as enabling the technical abilities of the sector. One program aims to enable the technological start up environment in the Kingdom through a series of initiatives as announced by the General Authority for Small and Medium Enterprises. One initiative in line with the program is the SAR 2.8bn government owned Saudi Venture Capital Company, focusing on seeding SME's in the Kingdom. The PIF's role in the series initiatives supporting the sector also includes the launch of Jada Investments, to also support seeding the Kingdom's SMEs, and is expected to generate 58,000 jobs to the economy by FY27. The creation and nurturing of new entities should directly support the demand for ICT services. The skill base and technological quality of service is also set to improve as a result of programs to develop the digital abilities of the population such as the Digital Giving, ThinkTech, Saudi Digital Academy, Misk Academy, and the National Information Technology Academy (who are among some of the entities behind the initiatives). These development programs (amounting to SAR 4.5bn) are designed to enable the digital abilities of 100,000 Saudis by FY30. Among the programs are Ministry of Communications and Information Technology's National Technology Development Program (NTDP) with a budget of SAR 2.5bn to provide intensive training in artificial intelligence, blockchain, data science, information security and other digital skills that can translate into better quality of service in the sector. The Quality of Life is yet another program which aims to enhance the ecosystem of lifestyle choices ranging from entertainment to participation in sports, cultural and other activities which will require user experience facilities to monitor and manage user and customer satisfaction, as well as other technological infrastructures.

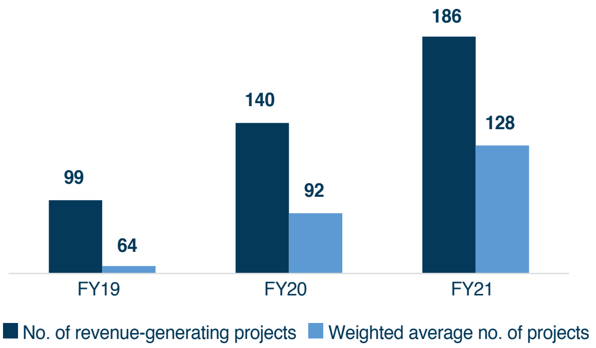
Vision 2030 programs, directly and indirectly support demand for ICT services with the establishment of new entities and attracting regional entities into the Kingdom. The Kingdom is targeting FY24 as the year to take into effect a regulatory requirement to only permit entities with headquarters in Saudi Arabia to be able to conduct business with the government. Blue-chip firms have already begun to relocate their regional headquarters to the Kingdom with a growing number of firms setting plans to become based in the kingdom; a program that will result in direct demand for ICT services and infrastructures. Besides the relocation of entities into the kingdom, numerous new establishments of government entities, and non-government entities will be created as a result of mega city and mega projects that will also directly create demand for ICT infrastructure services and solutions. NEOM's high technological integration in the city's infrastructure, and other large scale projects such as The Red Sea project (set to employ 70,000 people by 2030) will boost the demand for ICT infrastructures and services as well.

Healthy growth in no. of projects, strong return profile and attractive valuation

Projects doubled in last two years supported by favorable regulatory changes, driving exponential top-line growth; strong project pipeline, renewals, and signing of new projects with key accounts to pave future growth

2P won multiple projects across segments during FY19-21, doubling weighted average number of contracts from 64 in FY19 to 128 in FY21. This led to a revenue CAGR of 48.3% during this period. The company benefited from regulatory changes related to procurement process for government entities that has brought in more transparency and created an equal ground for players such as 2P. The top-line continues to grow further with 49.5% Y/Y increase in 9M-22. The key projects since FY19 included establishment of call center for a government client, renewal contract and expansion of capacity of this call center, acquisition of two new call center projects, a project for operation and maintenance of fiber-optic networks.

Fig 18: No. of Projects Trend



Source: IPO prospectus

Additionally, the company has signed some more contracts which are expected to generate revenue in next few years. Below are few contracts mentioned by the company with different government clients:

Fig 19: Ongoing and upcoming projects with government entities

Client	Tenure	Value
Government Entity No. 1	October 2021 – October 2023	SAR 213mn
Government Entity No. 3	Two projects to be completed in FY23	SAR 86mn (value for total five projects including already completed projects)
Government Entity No. 16	Two projects in FY23 One project in FY24 One project in FY25 One project in FY26 One project in FY27	SAR 118mn (value for total nine projects)
Government Entity No. 20	One project by February 2023 Two projects by FY24	SAR 70mn (value for total four projects)

Source: IPO prospectus

2P has signed a contract for one of the mega/giga projects, and is expected to add 2-3 more contracts for mega/giga projeects, in a sign of involvement in the Kingdoms flagship projects. In the past few years the company was able to win, retain, renew and expand scope of contracts with some its key clients in the government sector. This indicates the company's good rapport with its clients and growing presence in the government sector. Moreover, we believe that the ongoing digitization drive, increasing spending on IT and growing requirements for customer experience solutions among government entities is expected to bode well for 2P's prospects. 2P is also entering into consumer market focusing specifically on smart home cloud services and to resume services by Q3-23. As per our estimate, 2P has project pipeline of ~SAR 4.5bn. Historically, the company's win percentage i.e., conversion of pipeline into revenue generating projects has been high. Thus, revenue is expected to display growth in the medium term as they take on more projects.

Fig 20: No. of Projects Trend

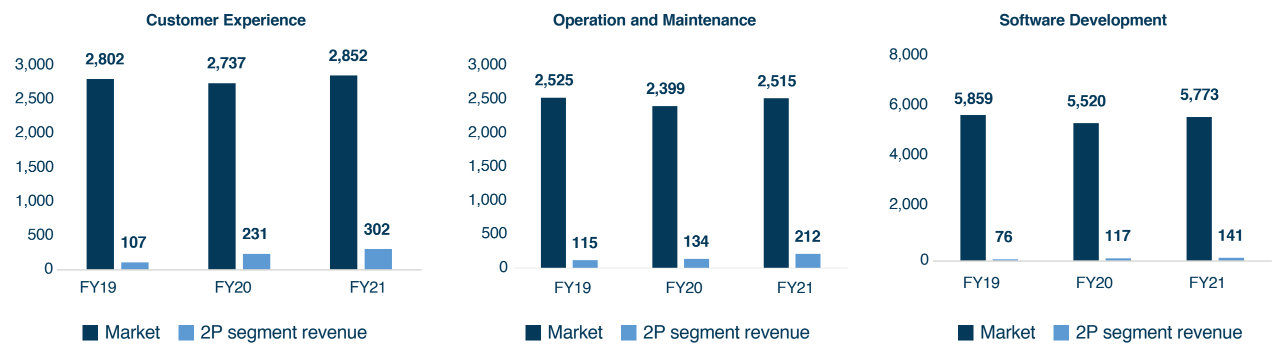
Source: Company website

Strong grip on customer experience business; seems to have expanded market share across all three segments

Customer experience unit is a crucial segment of the company contributing 46% of the total revenue in FY21. The company has gained a good foothold in this business in past few years. 2P has partnership with Genesys, one of the world's largest call center services companies, which enables it to provide high quality services to its customers. The company singed some high value contracts with public sector organizations to establish and operate call centers; was also able to retain and expand scope of work with some of them. We expect demand from the government clients to continue in future driven by the government's "Quality of Life" program as part of Vision 2030, which requires government entities to improve their interaction with citizens to provide high quality services.

As of FY20 the company held 8.1% market share in Saudi Arabia's customer experience business market. We believe the company's market share has improved further in this segment given that its growth has outperformed overall KSA market growth. Similarly, in other two segments where 2P's market share is relatively lower (Operation and maintenance: 5.1%; Software Development: 1.2%), it seems to have increased its market share.

Fig 21: 2P outperformed broader market trends (Addressable market in KSA vs. Segment revenue)



Source: IPO Prospectus

Opportunity to increase share of the pie

The IT services market in the Kingdom being fragmented with multiple small players. Thus, we believe 2P being relatively more established player has scope for increasing its market share, despite the presence of large domestic players such as Solutions by STC and global players. The company has shown significant growth in its top line from Operation and maintenance (+66.6% Y/Y) and Software development (+67.5% Y/Y) segments in 9M-22. Additionally, the company can leverage its position in government sector to cross sale its products and services, expand its offerings and acquire new clients.

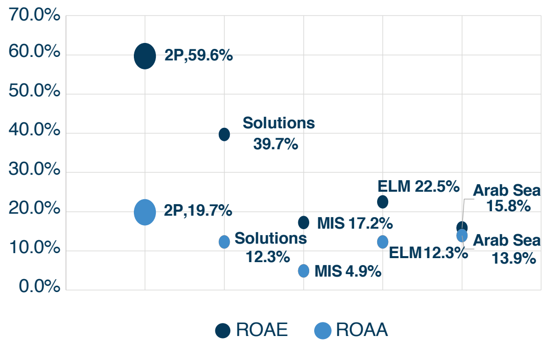
CISCO moving to subscription based model another potential opportunity for 2P

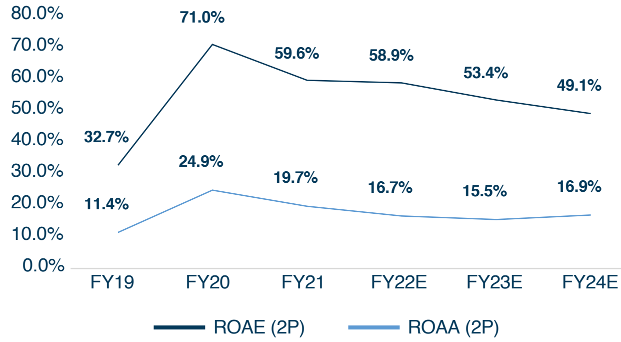
CISCO is moving its business model to a subscription based offering. Thus, the company will stop providing services to current clients not buying the subscription. This would potentially create an opportunity for other companies such as 2P to acquire new clients.

Impressive return profile vis-à-vis peers, expected to continue to generate strong returns in next few years

2P has delivered impressive return on average equity (ROAE) and return on average assets (ROAA) in last two years. The company leads the sector by far on these metrics, when compared with other listed peers. Going forward as well we expect the company's return to remain strong.

Fig 22: ROAE and ROAA comparison with peers





Source: Company reports, Aljazira Capital Research

Good opportunity for investors to enter the stock at current valuation

2P's stock currently trades at P/E (TTM) of 16.4x, which at a significant discount to its peers such as Solutions by STC (27.3x), MIS (48.1x) and Elm Co. (30.3x). Even if we take into account concerns about recent spike in trade receivables and negative operating cash flow, we believe at current market price (25% below the IPO price) investors have good opportunity to enter the stock given healthy ROE and strong revenue growth. Additionally, high level of trade receivable is not unique to the company and its peers also have high level of receivables.

Fig 23: Comparative analysis of relative valuation and receivables among peers

Company	P/E (TTM)	Receivables/Revenue (TTM)
2P	**16.4x**	**26.8%**
Solutions	27.3x	30.4%
MIS	48.1x	71.9%
ELM	30.3x	49.8%
Arab Sea	Neg	46.7%

Source: Company reports, Aljazira Capital Research

Key Risks

1. The sharp increase in trade receivables during 9M-22 by SAR 245mn to SAR 342mn (92% from government agencies) indicates increased credit risk. Additionally, this has led to negative operating cash flow and raising a short term debt to manage working capital.
2. Further increase in debt level to cover rise in receivables may lead to higher finance cost amid higher interest rates, weighing on the company's earnings.
3. The company's revenue is highly dependent on government clients. Sales to government entities comprised of 76.4%, 83.0%, 86.3% and 88.7%, in FY19, FY20, FY21 and Q1-22, respectively. High concentration of government entities among the company's clients poses risk to the company from any changes in budget, regulatory restrictions, changes in government policy and public spending restrictions.
4. ICT services market being highly dynamic and continuously evolving with new technologies, inability of the company to keep the pace with changing market requirements may impact its growth in future.
5. Inability to renew existing large size contracts with government entities may affect negatively.

DCF Valuation

Our valuation of 2P based on DCF (Rfr = 4.0%, terminal growth = 2.5%, average WACC = 7.4%) yielded a value of SAR 3.2bn (TP of SAR 210.6).

Relative Valuation

We valued 2P using the relative valuation methodology based on the FY23E P/E and EV/EBITDA multiples.

Peer Comparison Table (FY23E):

Company Name	EV/EBITDA	P/E
Solutions by STC	15.6	23.0
Elm Co.	18.8	24.3
Infosys	16.7	24.3
TCS	18.4	26.4
Sector Median	**17.4**	**24.5**

EV/EBITDA (FY23)	
All Figures in SAR mn, unless specified	
Sector EV/EBITDA (FY23)	17.4
Premium/(Discount) to peers	-10.0%
Implicit EBITDA Value	2,575
Net Debt	235
Net Worth	2,340
Shares (Mn)	15
Relative Value (SAR/share)	**156.0**

P/E (FY23)	
All Figures in SAR mn, unless specified	
Sector P/E (FY23)	24.5
Premium/(Discount) to peers	-10.0%
Implicit Market Cap	3,097
Net Worth	3,097
Shares (Mn)	15
Relative Value (SAR/share)	**206.5**

Blended Valuation

Valuation Summary	Fair Value	Weight	Weighted Avg
DCF	210.6	50%	105.3
EV/EBITDA	156.0	25%	39.0
P/E	206.5	25%	51.6
Weighted Avg 12-month TP			**196.0**
Current Market Price (SAR /share)			138.8
Expected Capital Gain			41.2%

Source: Bloomberg, Tadawul, Company Prospectus, Aljazira Capital Research

We assigned 50.0% weightage to DCF, and 25.0% weightage each to FY23E EV/EBITDA (15.6x) and P/E (22.0x) multiples. Based on the combined valuation, we arrived at a TP of **SAR 196/share**. As per our derived TP, the implied P/E multiple based on FY23E earnings is 20.9x vis-à-vis a current P/E of 16.4x based on TTM EPS.

Financial summary

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Income statement								
Revenues	298	482	655	905	1,134	1,268	1,401	1,542
Y/Y		**61.8%**	**35.9%**	**38.1%**	**25.3%**	**11.8%**	**10.5%**	**10.1%**
Cost	(243)	(391)	(539)	(740)	(924)	(1,032)	(1,139)	(1,252)
Gross profit	**55**	**91**	**116**	**166**	**210**	**236**	**262**	**290**
Operating Expenses								
Selling and distribution expenses	(4)	(5)	(8)	(9)	(11)	(12)	(13)	(15)
General and administrative expenses	(16)	(20)	(20)	(26)	(33)	(37)	(40)	(44)
Impairment loss in trade receivables	(10)	(3)	(2)	(5)	(5)	(5)	(5)	(5)
Operating profit	**25**	**63**	**86**	**126**	**161**	**182**	**203**	**226**
Y/Y		**155.1%**	**36.6%**	**45.9%**	**27.9%**	**13.2%**	**11.6%**	**11.3%**
Financing Expense (net)	(2)	(2)	(4)	(8)	(15)	(11)	(8)	(6)
Other income/expenses	2	5	2	1	1	1	1	1
Income before zakat	**24**	**66**	**84**	**119**	**147**	**172**	**197**	**222**
Zakat	(1)	(2)	(4)	(5)	(6)	(8)	(9)	(10)
Net income	**23**	**65**	**81**	**114**	**141**	**165**	**188**	**212**
Y/Y		**179.4%**	**25.2%**	**41.4%**	**23.1%**	**17.2%**	**14.2%**	**12.7%**
Balance sheet								
Assets								
Cash & equivalent	3	11	69	38	122	184	226	292
Trade receivables	70	121	98	401	365	340	339	311
Other current assets	65	86	216	295	301	292	288	283
Total current assets	138	218	383	733	788	816	853	886
Property plant & equipment	64	98	117	134	157	184	213	246
Other non-current assets	-	1	2	2	2	2	2	2
Total assets	**202**	**317**	**501**	**868**	**947**	**1,002**	**1,067**	**1,134**
Liabilities & owners' equity								
Total current liabilities	124	182	313	603	603	575	542	510
Total non-current liabilities	7	24	28	37	45	54	67	81
Paid -up capital	20	20	20	150	150	150	150	150
Statutory reserves	3	6	6	-	14	31	49	62
Other reserves	7	7	7	-	-	-	-	-
Retained earnings	41	78	127	78	134	192	258	330
Total owners' equity	71	111	160	228	299	373	457	542
Total equity & liabilities	**202**	**317**	**501**	**868**	**947**	**1,002**	**1,067**	**1,134**
Cashflow statement								
Operating activities	10	49	97	(206)	234	238	233	283
Investing activities	(45)	(37)	(22)	(20)	(28)	(31)	(34)	(39)
Financing activities	32	(5)	(16)	194	(123)	(145)	(157)	(177)
Change in cash	(4)	7	59	(32)	84	62	42	67
Ending cash balance	**3**	**11**	**69**	**38**	**122**	**184**	**226**	**292**
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.1	1.2	1.2	1.2	1.3	1.4	1.6	1.7
Quick ratio (x)	1.1	1.2	1.2	1.2	1.3	1.4	1.6	1.7
Profitability ratios								
Gross profit margin	18.4%	18.9%	17.7%	18.3%	18.5%	18.6%	18.7%	18.8%
Operating margin	8.3%	13.1%	13.2%	13.9%	14.2%	14.4%	14.5%	14.7%
EBITDA margin	9.1%	13.6%	13.6%	14.3%	14.5%	14.7%	14.9%	15.1%
Net profit margin	7.7%	13.4%	12.3%	12.6%	12.4%	13.0%	13.4%	13.8%
Return on assets	11.4%	24.9%	19.7%	16.7%	15.5%	16.9%	18.2%	19.3%
Return on equity	32.7%	71.0%	59.6%	58.9%	53.4%	49.1%	45.3%	42.5%
Leverage ratio								
Debt / equity (x)	0.9	0.7	0.6	1.5	0.9	0.6	0.4	0.2
Market/valuation ratios								
EV/sales (x)	NM	NM	NM	2.6	2.0	1.7	1.4	1.2
EV/EBITDA (x)	NM	NM	NM	18.4	13.6	11.4	9.7	8.2
EPS (SAR)	11.5	32.3	40.4	7.6	9.4	11.0	12.5	14.1
BVPS (SAR)	35.3	55.6	79.9	15.2	19.9	24.8	30.5	36.1
Market price (SAR)*	NM	NM	NM	139	139	139	139	139
Market-Cap (SAR mn)	NM	NM	NM	2,082	2,082	2,082	2,082	2,082
P/E ratio (x)	NM	NM	NM	18.2	14.8	12.6	11.1	9.8
P/BV ratio (x)	NM	NM	NM	9.1	7.0	5.6	4.6	3.8

Source: Company Reports, AJC Research

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer