Al Moammar Information Systems Co
Consumer – Software & Services
MIS: AB: Saudi Arabia
5 July 2021

US$0.877bn	53.72%	US$8.23mn
Market cap	Free float	Avg. daily volume

Target price	180.00	37% over current
Current price	131.60	as at 04/07/2021

Existing rating

Underweight	Neutral	Overweight

Performance

Earnings

(SARmn)	FY2020	FY2021E	FY2022E
Revenue	1,017	1,172	1,328
Revenue growth	1.9%	15.3%	13.3%
Gross profit	180	227	316
Gross margin	17.7%	19.4%	23.8%
EBITDA	109	162	243
EBITDA margin	10.7%	13.8%	18.3%
Net profit	90	132	204
Net margin	8.9%	11.2%	15.4%
EPS	3.6	5.3	8.2
DPS	1.7	2.4	3.7
Payout ratio	46.5%	45.0%	45.0%
RoE	29.3%	34.6%	41.5%

Source: Company data, Al Rajhi Capital

Valuation

Valuations	2020A	2021E	2022E
P/E	36x	25x	16x
EV/EBITDA	33x	22x	15x
P/B	11x	9x	7x

Source: Company data, Al Rajhi Capital

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Al Moammar Information Systems

Initiating coverage with a TP of SAR180/sh

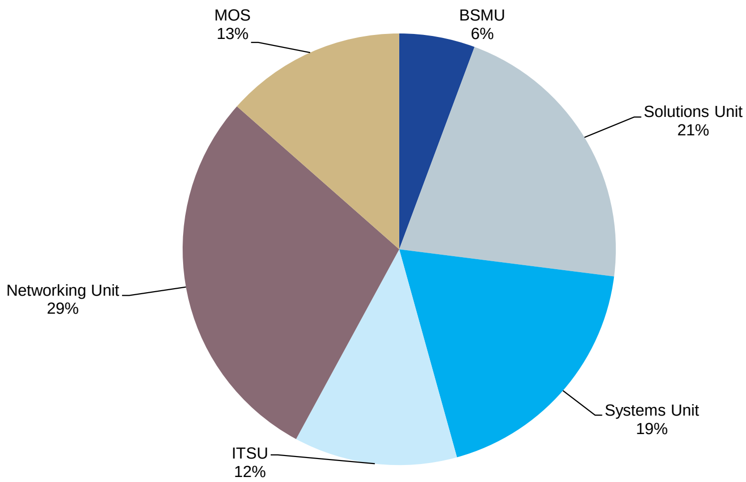
MIS is one of the leading information and communication technology (ICT) company listed on Saudi stock exchange. The company's revenue and net income has grown at a CAGR of 10% and 15% respectively, and we expect similar growth rate to continue, driven by increasing IT spend by large corporates in the kingdom, as digitization remains the structural theme amidst COVID 19. The company's key clientele are government organizations, ministries and large corporations. It is one of the prominent players in the cloud space and recently, the company has entered into an agreement with SFC to establish a private investment fund to develop, own, and operate data centers across the Kingdom. This fund is expected to have an initial size of SAR1.2bn and is expected to reach SAR3.5bn. MIS will be receiving 10% of the development budget as the designing fees during the construction phase and 7% of the total revenue generated from the data centers as operation fees. As there is negligible cost involved in generating these revenues, we expect majority of it to flow to net income and boost the company's margins and thereby ROE and ROCE significantly. The company has recently entered into several other agreements, which provides us a strong revenue visibility in the near term. Accordingly, we are extremely bullish on MIS given the near- and long-term prospect of the company. We value MIS at a tp of SAR180/sh arrived using DCF and PE based relative valuation. The stock is currently trading at a FY 2022E of 16x which is cheap in our view, thus we initiate coverage on MIS with an upside of 37%.

MIS to set up a private investment fund with Saudi Fransi Capital (SFC): MIS has signed an MoU with SFC to establish a private investment fund to develop, own, and operate data centers across the Kingdom. The fund is expected to have an initial size of SAR1.2bn, which is targeted to grow to SAR3.5 bn. We expect the fund to commence construction of data centers by the end of 2021 and we expect income from the operation of data centers to commence from 2023. Accordingly, from Q4 2021- FY 2022 we expect MIS to receive SAR120mn (10% of SAR1.2bn) in revenue for developing these data centers; since there is no cost involved from MIS perspective this entire SAR120mn will flow to the bottom-line. As per the announcement on Tadawul this SAR120mn will be paid in cash as well as units of the proposed fund, (the units will not exceed 10% of the total outstanding units of the proposed funds). From FY 2023e, once the data centers become operational, MIS will receive 7% of the total revenue that the data centers generate. As per our calculations (fig 2), we expect MIS to receive a SAR23mn in 2023e which again will directly flow to the bottom-line. Apart from this, MIS will also receive dividend paid out by the fund, since it will be holding 10% in the fund.

Valuation: We value MIS using an equal weight of DCF and relative valuation methodologies (P/E). Our DCF based target price based on 3.0% terminal growth and 6.4% cost of capital comes to SAR176/sh, and P/E-based relative valuation based on 27x multiple gives us a target price of SAR184/sh. Thus, the target price stands at SAR180/sh which implies an upside of 37% from the current market price of SAR131.6/sh". The company is trading at 25x 2021e eps. We initiate coverage on MIS with an "Overweight" rating.

Company Overview: MIS is one of the largest information and communication technology (ICT) companies in the Kingdom. The company has been in operation since 1979, with branches in Jeddah and Al Khobar, and was the first publicly listed company in the information technology space in the country. MIS provides end-to-end integrated ICT solutions and services, with a full range of solutions, including consulting and development, technical consulting, implementation, project and program management, and support and maintenance. Added to this, the company has also entered into various tie-ups and partnerships with leading international ICT systems and solutions suppliers and has non-exclusive rights to supply products and services in Saudi Arabia developed by them. The company operates through six segments, including networking unit, which accounted for 29% of 2020 revenue, solutions unit (21% of revenue), systems unit (19% of revenue), maintenance and operation sector (MOS; 13% of revenue), information technology security unit (ITSU; 12% of revenue) and business services management unit (BSMU; 6% of revenue). The company works closely with some of the major government and semi-government entities in the country and in 2020, these accounted for c.80% of total revenue.

Figure 1. Revenue breakup



Source: Company data, Al Rajhi Capital

Investment Thesis:

Diversifying presence through new contracts and verticals: The company over the period has diversified its service base and has been entering into agreements with various companies and service providers in the field of cloud computing, maintaining the digital infrastructure of hospitals, providing data center services, etc. These in turn are likely to help the company register strong growth in revenue and improve its overall profitability as these services are in high demand globally and in kingdom.

MIS to set up a private investment fund with Saudi Fransi Capital (SFC): MIS has signed an MoU with SFC to establish a private investment fund to develop, own, and operate data centers across the Kingdom. The fund is expected to have an initial size of SAR1.2bn, which is targeted to grow to SAR3.5 bn. MIS is expected to own a minimum of 10% of this fund and will be the main developer of all the data centers associated with the fund. MIS will develop, operate, manage and market these centers exclusively and will receive an annual percentage (7%) of the revenue in return. We expect the fund to commence construction of data centers by the end of 2021 and we expect income from the operation of data centers to commence from 2023. Accordingly from Q4 2021- FY 2022 we expect MIS to receive SAR120mn (10% of SAR1.2bn) in revenue for developing these data centers, since there is no cost involved from MIS perspective this entire SAR120mn will flow to the bottom-line. As per the announcement on Tadawul this SAR120mn will be paid in cash as well as units of the proposed fund, (the units will not exceed 10% of the total outstanding units of the proposed funds). From FY 2023e once data centers become operational MIS will receive 7% of the total revenue the data centers generate. As per our calculations (see below), we expect MIS to receive a SAR23mn in 2023e which again will directly flow to the bottom-line. Apart from this MIS will also receive dividend paid out by the funds since it will be holding 10% in the fund.

Figure 2. MIS revenue from data centers construction and operations

Data Center Operations	2021E	2022E	2023E	2024E	2025E	2026E
Revenue from data centers	**30**	**90**	**23**	**24**	**26**	**27**
Total RACKS Constructed	0	0	2,400	2,400	2,400	2,400
Total capacity (KW)	0	0	24,000	24,000	24,000	24,000
Capacity utilization	0	0	18,000	19,200	20,400	21,600
Fees charged @USD400 per month	0	0	324	346	367	389
MIS share of fees @7%	**0**	**0**	**23**	**24**	**26**	**27**

Source: Company data, Al Rajhi Capital (In FY 2021e and 2020e the revenue from data centers is from development and design fees, 10% of 1.2bn)

Assumptions used for arriving at the revenue above (based on regional industry experts)

1) The fund will be constructing 6 PODS, 1 POD is equal to 4MW, which is equal to 400 RACKS. 1 RACK=10KW, therefore total capacity will be 24,000KW.

2) Rates charged for per KW will be SAR18,000 per annum.

3) We have assumed a capacity utilization of 75% in 2023e and increased it gradually.

4) MIS share will be 7% of the total revenue.

5) As fund size grows MIS share of income from construction will rise (at SAR3.5bn MIS will gain SAR350mn, we have not included this in our model), its operation revenue will also increase accordingly with increasing capacity.

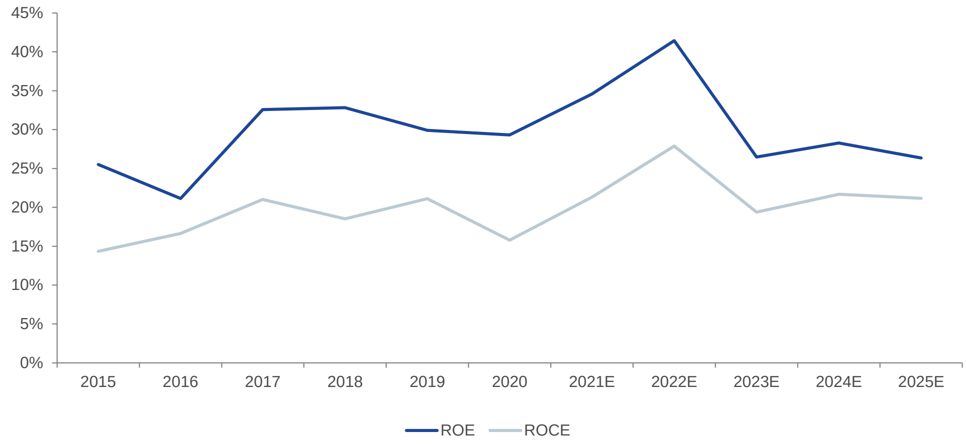
6) Fund will pay dividends, which MIS will receive by virtue of it owning 10% of the funds, for our valuation we have ignored any dividend income from funds from the time being.

Strong upside from the new data center operations

Why are we excited about the Data center ?

In recent years, the growth in demand for data has grown exponentially across the globe. Accordingly, the need for data centers has grown in proportionate to the demand in data-driven by increasing cloud-based services. Specifically in KSA according to our conversation with industry experts the total requirement for data space in the next 5-6 years would be 360MW and currently it is only 60MW, with 1.71MW per POP the availability of data space in KSA is pretty low compared to global averages (45.05MW per POP in east Asia and 105.99MW per POP). We expect this data center agreement to be a game changer for MIS as post construction there is negligible cost involved in operating the centres while the entire revenue or fees charged flows to the bottomline thereby improving ROCE and ROE for MIS significantly.

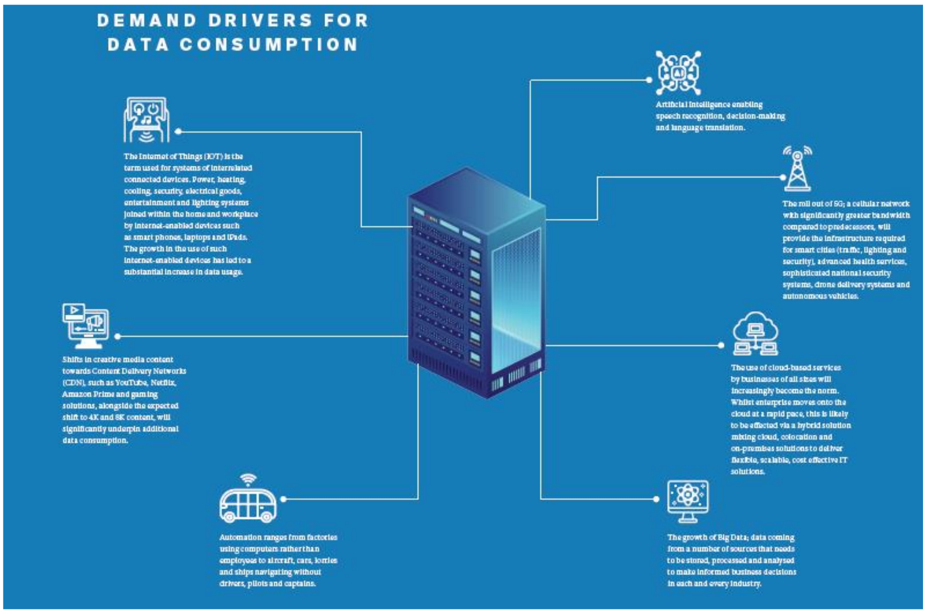
Figure 3. ROE and ROCE trend



Source: Company data, Al Rajhi Capital

We have currently assumed the funds budget to be SAR1.2bn, once it grows to SAR3.5bn the designing income for MIS will increase, accordingly with rising capacity and its utilization the operating fees will also increase thereby leading to a rise in overall ROCE and ROE. We are conservative currently in our valuations.

Figure 4. Demand driver for data consumption



Source: Knight Frank

With the increasing adoption of the Internet of Things (IOT), automation, 5G, and artificial intelligence the demand for cloud-based services is expected to rise significantly as most of the service providers move from locally stored content to cloud-based platforms. This in turn will lead to more data production, the need for data storage, and ultimately the need for data centers. Currently, there is an increasing trend towards localization of data centers across key geographies and as per the market reports, MEASA (Middle East, Africa, and South Asia region) is one of the underserved regions in terms of Datacenters (DC) provisions.

Figure 5. Global distribution of hyperscale data centers

Source: Knight Frank

With the rising use of cloud-based services and rampant technological advancement in the MENA region, there are ample opportunities for players involved in the construction of data centers in the kingdom. As per the reports, the availability of DC per million people is 45.05MW per POP in major Asia Pacific markets while in European markets it is

105.99MW per POP. Surprisingly this number is very low for Saudi Arabia with 1.71MW per POP this shows a strong opportunity for data centers in the kingdom.

Who are the key players currently in data centers in KSA?

STC, Mobily, Abunayyan, and Edarat are the key players in the maintenance and operation of data centers. As per our conversation with industry experts STC's capacity is 40MW which is fully utilized and their key area of focus is 5G.

Once data centers are constructed, the key customers would be government, large corporations while telecom companies might use it as a white label to serve to their customers. What we understand is the government wants to make KSA the hub of the regional data centers.

Figure 6. Mega Watts per million consumed (Estimates by Knight Frank)

Major Asia Pacific Markets				
Asia Pacific	**Population**	**DC Market**		**MW PER POP**
Singapore	5,600,000	450	MW	80.36
Hong Kong	7,392,000	320	MW	43.29
Tokyo	9,273,000	220	MW	23.72
Sydney	4,600,000	220	MW	47.83
Totals	**26,865,000**	**1,210**	**MW**	**45.05**
Major European Markets				
Europe	**Population**	**DC Market**		**MW PER POP**
London	8,900,000	700	MW	78.65
Amsterdam	2,800,000	550	MW	196.43
Frankfurt	5,500,000	450	MW	81.82
Paris	2,141,000	350	MW	163.48
Totals	**19,341,000**	**2,050**	**MW**	**105.99**
GCC Markets				
GCC	**Population**	**DC Market**		**MW PER POP**
Dubai	3,200,000	60	MW	18.75
Abu Dhabi	1,300,000	20	MW	15.38
UAE	9,400,000	90	MW	9.57
Saudi Arabia	35,000,000	60	MW	1.71
Bahrain	1,600,000	12	MW	7.5
Kuwait	4,100,000	10	MW	2.44
Oman	4,700,000	15	MW	3.19
Totals	**54,800,000**	**187**	**MW**	**3.41**
Middle East (& Africa) Markets				
MEA	**Population**	**DC Market**		**MW PER POP**
Egypt	98,000,000	25	MW	0.26
Jordan	9,800,000	12	MW	1.22
Pakistan	200,000,000	50	MW	0.25
India	1,400,000,000	350	MW	0.25
Kenya	50,000,000	15	MW	0.3
Ethiopia	112,000,000	15	MW	0.13
Morocco	36,000,000	35	MW	0.97
Totals	**1,905,800,000**	**502**	**MW**	**0.26**

Source: Knight Frank, Al Rajhi Capital

MIS to participate as a founding member to establish Sharia-compliant digital bank: MIS, along with a consortium of several companies, is planning to set up a Sharia-compliant digital bank in the Kingdom and towards this will be contributing SAR25 mn as capital. Though, the initial contribution looks small but this is a high growth business and provides several synergies to MIS by virtue of it being one of the leading IT players in the kingdom.

MIS signs contract with the MOH to maintain the digital infrastructure of hospitals: MIS on Apr-2021, signed a contract with the Ministry of Health (MOH) towards the operation and maintenance of the digital network of 72 hospitals in the Eastern and Northern regions for three years from the date of handing over of the property. The value of the contract is estimated at SAR58 mn. The company had also signed a contract with the MOH to maintain the digital infrastructure of 48 hospitals in the Central Region at a contract value of SAR40 mn for three years. These contracts ensures strong pipeline of orders and provides revenue visibility for a near future.

MIS to set up a company with Abunayyan Holding and Mobily towards building and developing green data centers based on renewable energy: MIS on Feb-2021, had signed an MOU with Abunayyan Holding Company, to set up a joint-stock company to establish green data centers with renewable energy. Further to this, MIS and Abunayyan Holding, along with Etihad Etisalat Company (Mobily) have signed a joint MOU to set up green data centers.

MIS sets up a fully owned subsidiary to provide technical solutions in medical and health technology: MIS is planning to set up a 100% subsidiary to provide solutions in medical and health technologies and equipment. The company has received approval from official authorities to establish company and to complete the official registration procedures. Company also intends to launch a mobile application, which would enable patients to consult with doctors online.

MIS signed an agreement with BMC software to offer cloud information technology management services in Saudi: MIS has signed an agreement with BMC Software, Inc, whereby the company will provide BMC programs and solutions through cloud computing, which will be managed by MIS within the country. The commercial operation of the cloud solution of BMC, through the MIS platform, will commence from Q3 2021.

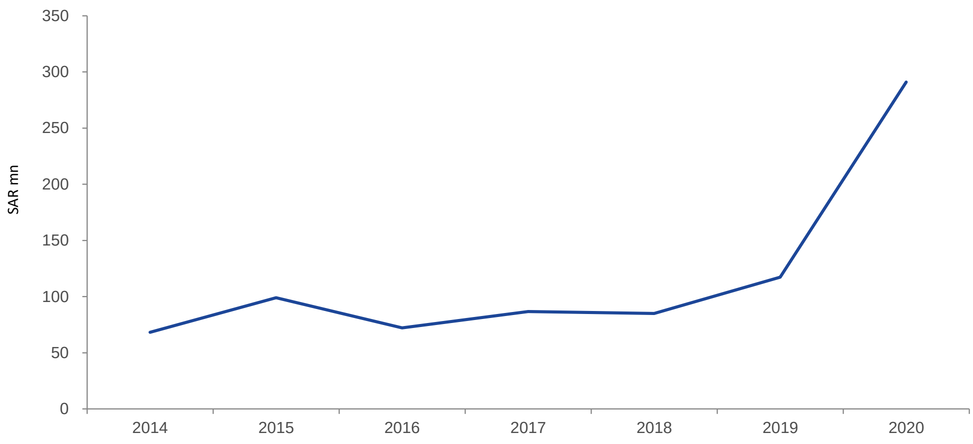
MIS receives contract to operate and maintain King Saud Medical City: MIS had won a contract to maintain and operate King Saud Medical City for five years, from the date of handing over of the site. The contract value is estimated at SAR186 mn.

MIS signs MOU to set up virtual clinics: MIS has signed an MOU with King Saud University Health Company to set up and operate virtual clinics to provide a platform, to individuals (reviewers), facilities, and health practitioners to interact and communicate with health care providers, towards remote treatment. The company had also signed an agreement with In Touch Health, one of the largest health service providers globally, to establish virtual clinics by building a digital system using cloud technology.

MIS signs SAR54 mn contract to supply and install systems with Albawani Ltd and Shibh Al-jazira: MIS has entered into a one-year contract to design, supply, install and undertake all UPS works in 2021 for Albawani Ltd and Shibh Al-jazira joint venture. The total value of the contract is SAR54 mn and will be executed in 2021.

Networking unit the strongest growth driver: Networking unit with a revenue of SAR291 mn is the largest segment for the company accounting for c29% of the revenue in 2020. This segment has also been one of the strongest growth drivers for the company, with the revenue growing by c.25% in the past five years (2015-20). In this segment, the company offers network and communication solutions. In this segment, the company has established relationships with Cisco, F5, Schneider Electric, and Netnuvem. The company offers network security, unified communication, routing & switching, wireless services, datacentre, building management and SMART building, WAN performance optimization, consultancy, design, delivery, implementation, project management, operation, and support. Going forward, we expect this segment to continue to drive revenue growth, at the back of steps taken by the company to strengthen the business units. We expect revenue from this segment to grow at an average rate of 20% in the medium term.

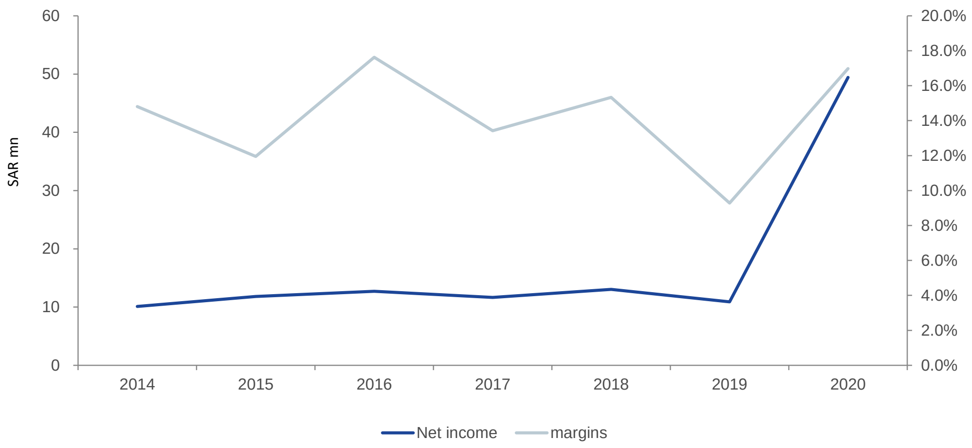
Figure 7. Networking revenue trend



Source: Company data, Al Rajhi Capital

In line with revenue growth, the profitability of the segment to have registered strong momentum, growing by more than 30% in the past five years. Margins, however, have been volatile in this segment, though the same improved in 2020 to 17.0% from 9.3% in 2019. Going forward, we expect profitability in this segment to stabilise and we expect gross income to grow at an average rate of 13% in the medium term.

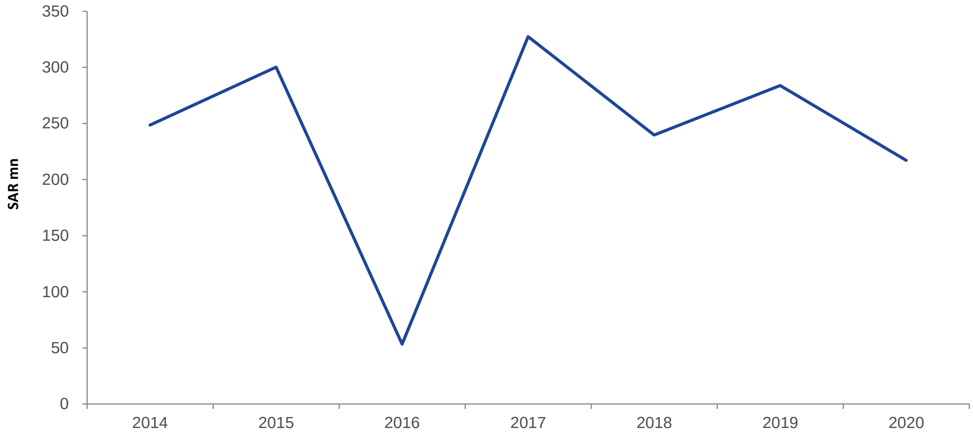
Figure 8. Networking profitability trend



Source: Company data, Al Rajhi Capital

Solutions unit has come under pressure: Solutions unit with a revenue of SAR217 mn is the second largest segment for the company accounting for c21% of the revenue in 2020. This segment performance has come under pressure over the period, with the revenue falling by c.6% in the past five years. In this segment, the company offers business and software solutions, including geospatial and information technology solutions, to cater to the requirement of various government and private companies. The company, in this segment, especially caters to the requirements of Central government, utility, education, municipalities, healthcare, and E-governance. In this segment, the company has established relationships with Oracle, ESRI, IBM, Link, eProceed, and SAP. The company offers E-government and E-services, banking solutions and services, hospital information systems, ID and passport issuing solutions, asset management solutions, enterprise automated vehicle tracking (AVL) solutions, dispatch and field team automation solutions, and GIS solutions for infrastructure assets management. Going forward, we expect this segment to continue to remain under pressure due to increasing competition in this segment. However, this pressure could be alleviated to a certain extent by the steps taken by the company to improve its service offerings to hospitals and banking and an overall increase in investment in the country's infrastructure. We expect revenue from this segment to grow at an average rate of 5% in the medium term.

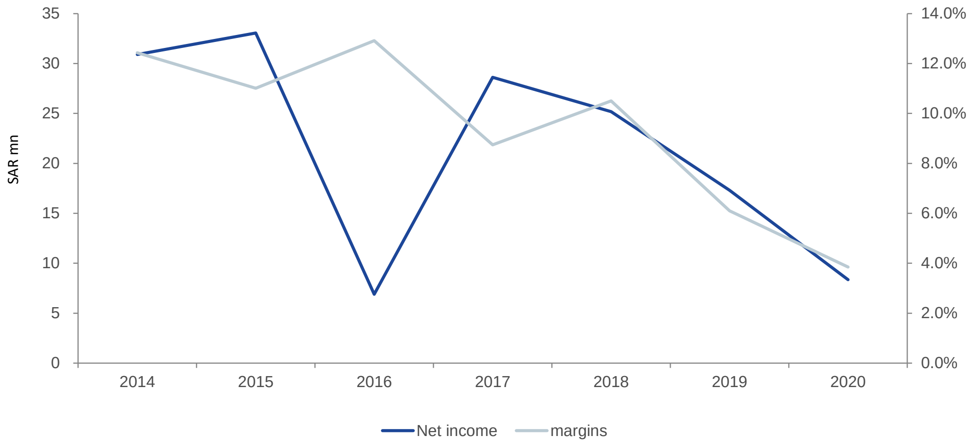
Figure 9. Solutions revenue



Source: Company data, Al Rajhi Capital

In line with revenue, the profitability of the segment too has come under pressure, falling by c.25% in the past five years. Net margins, too have consistently come under pressure and have fallen from 11.0% in 2015 to 3.8% in 2020. Going forward, we expect profitability in this segment to stabilize, with the steps taken by the company to improve its service offerings to banks and hospitals, which could have a favorable impact. In the medium term, we expect gross profits from this segment to grow by 5%.

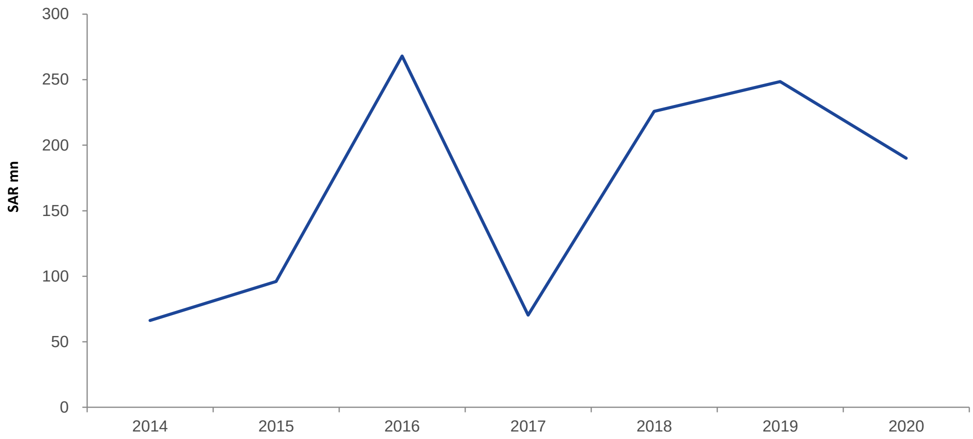
Figure 10. Solutions profitability



Source: Company data, Al Rajhi Capital

Systems unit revenue has been volatile: Systems unit with a revenue of SAR190 mn is the third-largest segment for the company accounting for c19% of the revenue in 2020. Though this segment has registered a growth of c.15% in the past five years, the overall performance has been volatile. In this segment, the company offers infrastructure solutions and technologies for data centers, through leading vendors. In this segment, the company has established tie-ups with HPE, Aruba, VMWARE, Microsoft, Dell EMC, and Veeam. The company offers storage, servers, software, networks, data center infrastructure services, and integration and support services. Going forward, we expect this segment to stabilize. We expect revenue from this segment to grow at an average rate of 5% in the medium term.

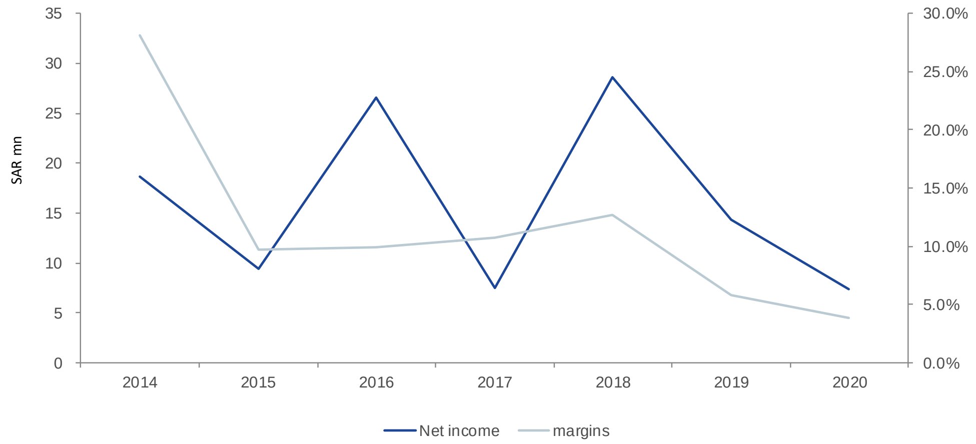
Figure 11. Systems revenue



Source: Company data, Al Rajhi Capital

Profitability in this segment has come under pressure and has fallen at an average rate of c.5%, as net margins have fallen from 9.7% in 2015 to 3.9% in 2020. In the medium term, we expect gross profits from this segment to grow by 2.5%.

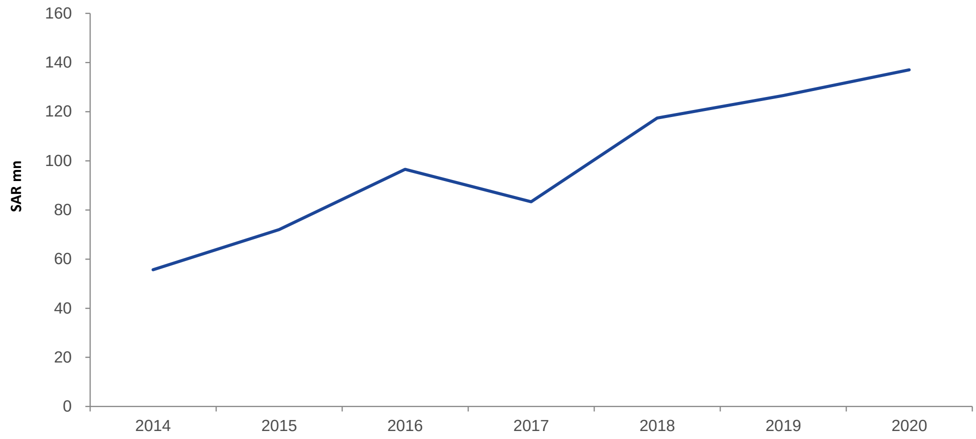
Figure 12. Systems profitability



Source: Company data, Al Rajhi Capital

MOS sector revenue has grown consistently: MOS with revenue of SAR137 mn is the fourth largest segment for the company accounting for c.13% of the revenue in 2020. This segment has registered consistent growth, averaging c.14% in the past five years. In this segment, the company manages, maintains, and upgrades the software, hardware, and network infrastructure of its customers through service agreements and the deployment of skilled employees at customer sites. In this segment, the company has established tie-ups with Column IT and Vyom Labs. Going forward, we expect this segment to continue to grow. We expect revenue from this segment to grow at an average rate of c.20% in the medium term.

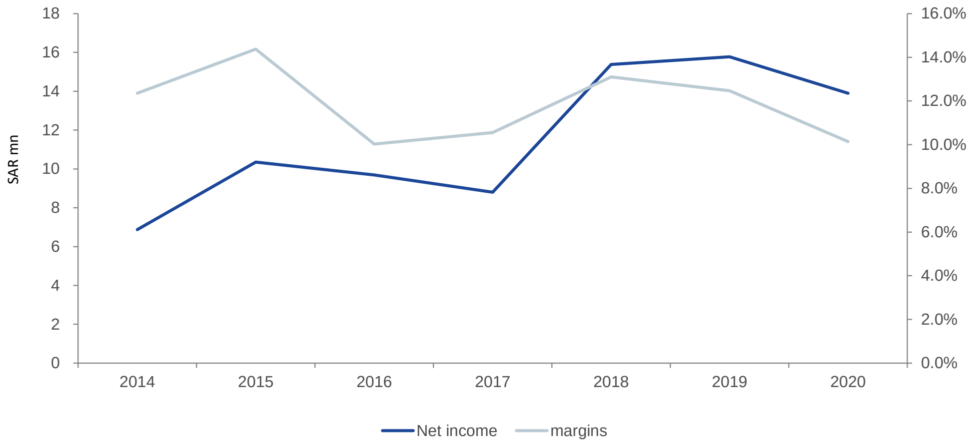
Figure 13. MOS revenue



Source: Company data, Al Rajhi Capital

Profitability in this segment has grown at an average rate of c.6%, though net margins have fallen from 14.4% in 2015 to 10.1% in 2020. This segment is highly competitive and requires the management of existing manpower effectively. Going forward, we expect profitability in this segment to stabilise. In the medium term, we expect gross profits from this segment to grow at c.23% in the medium term.

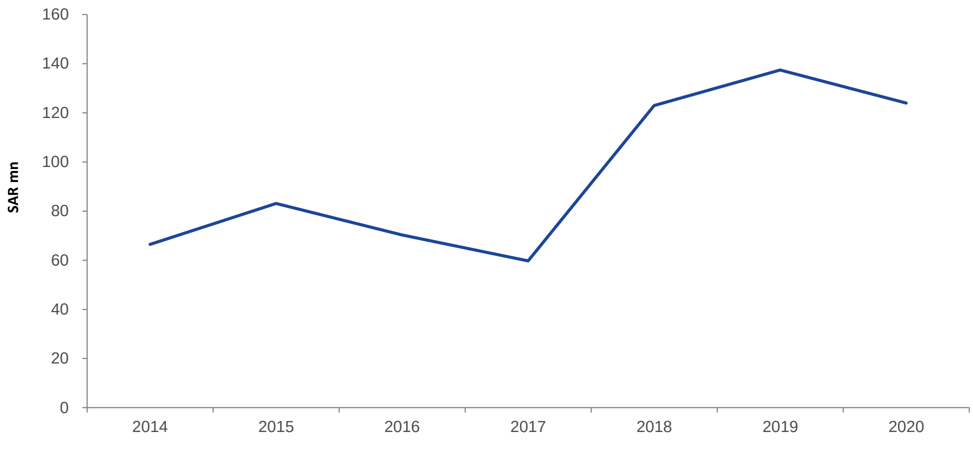
Figure 14. MOS profitability



Source: Company data, Al Rajhi Capital

ITSU revenue and profitability to stabilize: ITSU with revenue of SAR124 mn is the fifth largest segment for the company accounting for c.12% of the revenue in 2020. This segment has registered a growth averaging c.8% in the past five years. In this segment, the company offers effective solutions to the various domains of IT security. In this segment, the company has established tie-ups with Palo Alto, Symantic, Intel Security, Fire Eye, and Zinad. Its services in this segment include secure emails & correspondence, data-at-rest encryption, WAN encryptors, multi-factor authentication, firewalls, secure web portals, smart cards and USB codes, content security & management, gateway security solutions, vulnerability management solutions, and others. Going forward, we expect this segment to grow at an average rate of c.8% in the medium term.

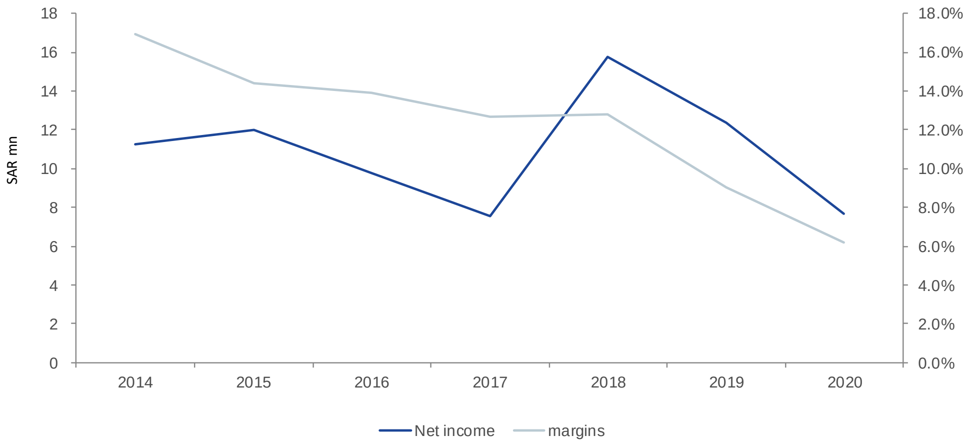
Figure 15. ITSU revenue



Source: Company data, Al Rajhi Capital

Profitability in this segment has come under pressure and has fallen at an average rate of c.9%, as net margins have fallen from 14.4% in 2015 to 6.2% in 2020. Going forward, we expect profitability in this segment to stabilize. In the medium term, we expect gross profits from this segment to grow by 7%.

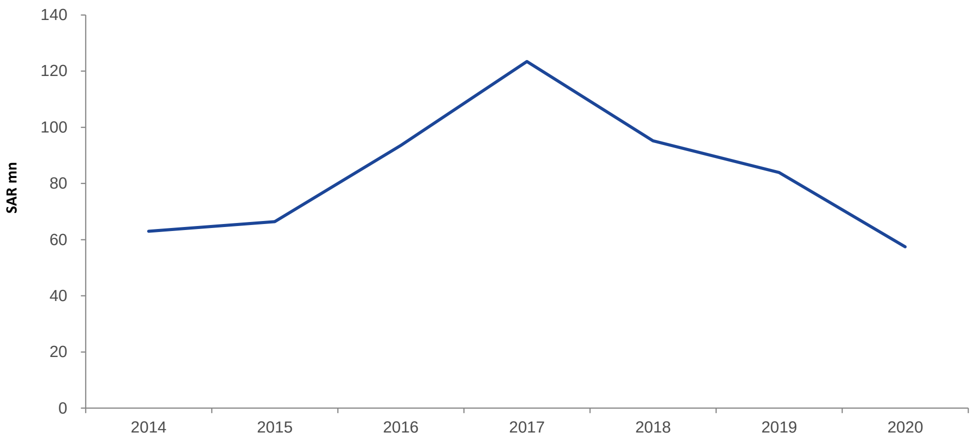
Figure 16. ITSU profitability



Source: Company data, Al Rajhi Capital

Revenue and profitability of BSMU to recover: BSMU with revenue of SAR57 mn is the sixth-largest segment for the company accounting for c.6% of the revenue in 2020. Revenue from this segment, on average has fallen by c.3% in the past five years. In this segment, the company provides tailored-made solutions to improve the efficiency and operation of the IT function of the client. The key solutions offered in this segment include mainframe cost optimization and performance monitoring, remote support solutions & network management solutions, IT business management & IT service management, cloud computing & data center automation, data center infrastructure and management solutions, and data center capacity and management. In this segment, the company has established tie-ups with BMC, FLEXERA, and BDNA. Going forward, we expect this segment growth to recover substantially, aided by new contracts. In the medium term, we expect revenue from this segment to grow by 17%.

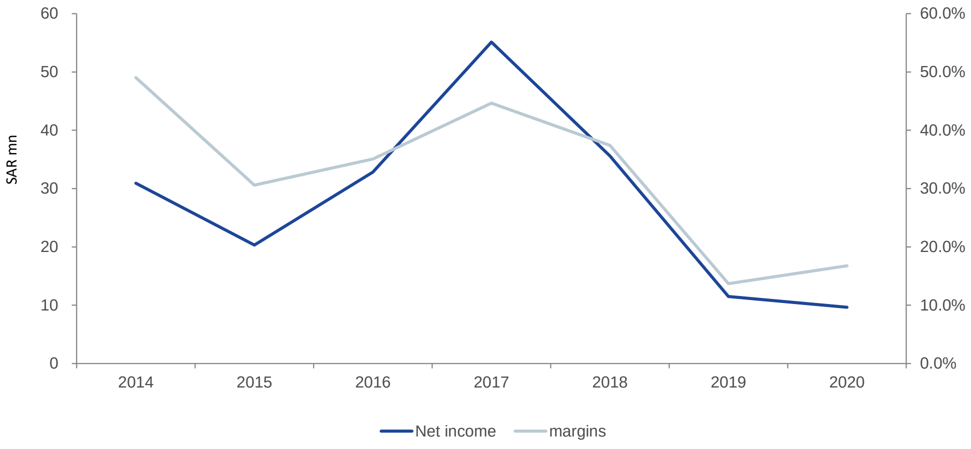
Figure 17. BSMU revenue



Source: Company data, Al Rajhi Capital

Profitability in this segment has come under pressure and has fallen at an average rate of c.14%, as net margins have fallen from 30.6% in 2015 to 16.8% in 2020. Going forward, we expect profitability to continue to come under pressure, at the back of pressure on margins. We expect gross profit from this segment to grow at c.5% in the medium term.

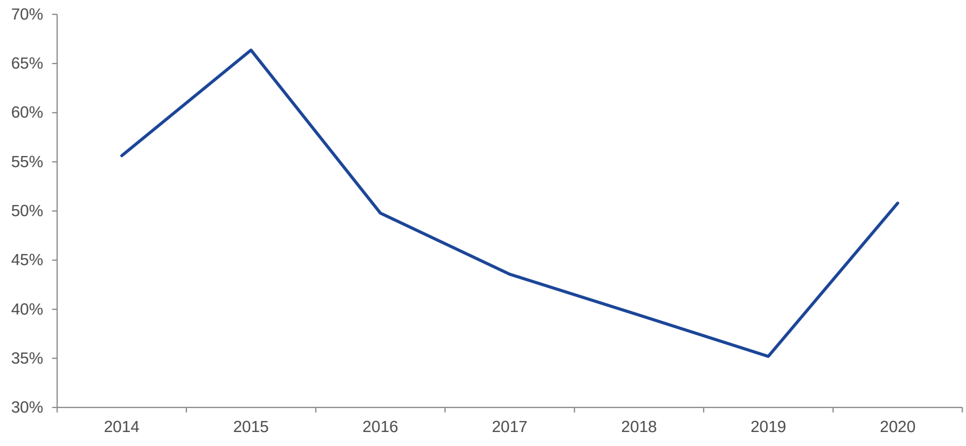
Figure 18. BSMU profitability



Source: Company data, Al Rajhi Capital

Working capital requirement to remain high due to high receivable days: c.80% of MIS revenue is from government and semi-government organizations. As a result of this, the working capital requirement of the company has been consistently high, due to high receivable turnover. In 2020, receivables were c.50% of the revenue and we expect the company's dependence on government organizations to continue; as a result of this, we expect the receivable turnover to continue to remain high.

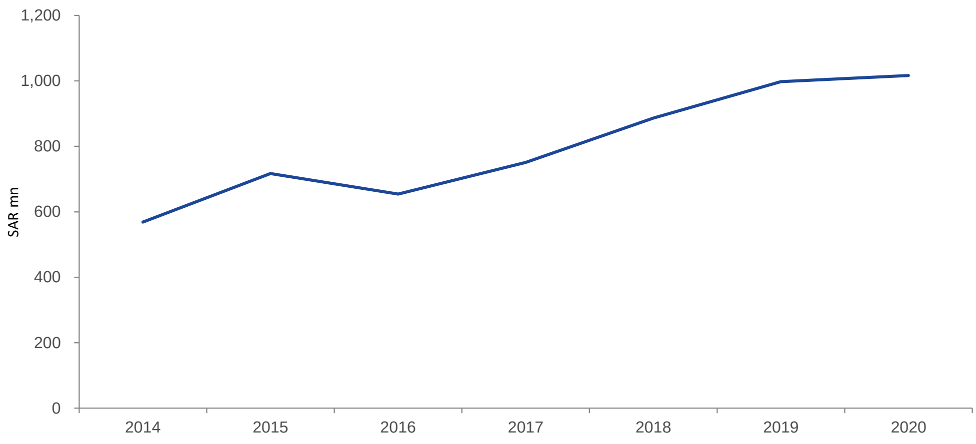
Figure 19. Receivable turnover



Source: Company data, Al Rajhi Capital

Key Financials: Total revenue of MIS on an average increased 7% between FY15-20 aided by growth in the networking unit, systems unit, maintenance and operation sector, and information technology security unit. However, FY 2020 turnover was slightly muted at 2% y-o-y. Challenges posed by covid and an increase in the competition were the main reason for this. Going forward, we expect revenue growth to recover in the medium term, aided by the proactive steps taken by the company to diversify its revenue base, by entering into new services and contracts. Given this, we expect the company to register an average revenue growth of 12% between FY20-23.

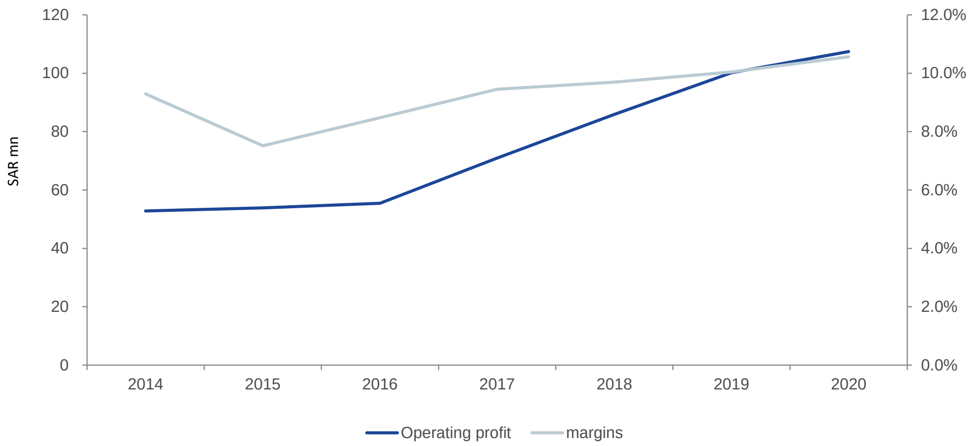
Figure 20. Revenue trend



Source: Company data, Al Rajhi Capital

Operating profits (EBIT) increased by an average of more than 15% between FY15-20; higher revenue and the resultant increase in the operating scale was the main reason for this. Profitability growth continued to be strong in 2020, with operating profit growing by 11% y-o-y. Improvement in the margins of the networking unit, systems unit, and BSMU were the main reason for this. We expect this trend to continue, as we expect operating profits to increase on an average of c.20% for the next three years. Margins will further be aided by the income from data centers and their operations.

Figure 21. Operating profit and margins



Source: Company data, Al Rajhi Capital

Figure 22. Income Statement

(SAR mn)	FY2020	FY2021E	FY2022E	FY2023E
Sales	1,017	1,172	1,328	1,442
YoY %	*1.9%*	*15.3%*	*13.3%*	*8.6%*
Revenue from data centers	0	30	90	23
Cost of Sales	(836)	(975)	(1,102)	(1,201)
Gross Income	**180**	**227**	**316**	**264**
GM Margin %	*17.7%*	*19.4%*	*23.8%*	*18.3%*
YoY %	*10.1%*	*26.1%*	*38.9%*	*-16.4%*
Operating expenses	(73)	(67)	(74)	(80)
Operating Income	**107**	**161**	**241**	**184**
OP Margin %	*10.6%*	*13.7%*	*18.2%*	*12.8%*
YoY %	*7.2%*	*49.6%*	*50.3%*	*-23.8%*
Earnings on time deposits	0	0	0	0
Others	5	0	0	0
Financing Expense	(16)	(15)	(15)	(15)
Income from Affiliate	2	0	1	1
Net Income before Tax	**99**	**146**	**227**	**170**
Zakat & Tax	(8)	(15)	(23)	(17)
Net Income	**90**	**132**	**204**	**153**
PAT Margin %	*8.9%*	*11.2%*	*15.4%*	*10.6%*
YoY %	*18.9%*	*45.6%*	*55.3%*	*-25.3%*
Earning Per Share (EPS)	3.6	5.3	8.2	6.1

Source: Company data, Al Rajhi Capital

Figure 23. Balance Sheet

(SAR mn)	FY2020	FY2021E	FY2022E	FY2023E
Cash & Cash Equivalents	81	85	127	149
Receivables, Net	516	595	675	732
Contract Assets	336	387	439	477
Deferred Costs and Others	111	111	111	111
Other	19	19	19	19
Total Current Assets	**1,064**	**1,198**	**1,371**	**1,488**
Non Current Assets				
Fixed Assets (PPE)	37	38	38	38
Investment in associates	5	5	6	7
Intangibles	2	3	3	4
Contract assets	24	24	24	24
Trade receivables, non-current	1	1	1	1
Total Non Current Assets	**69**	**70**	**72**	**74**
Total Assets	**1,133**	**1,268**	**1,443**	**1,561**
Current Liabilities				
Trade Payables	212	247	279	304
Short term Debt	372	372	372	372
Contract liabilities	140	161	183	198
Zakat payable	8	15	23	17
Other Liabilities	38	38	38	38
Total Current liabilities	**771**	**833**	**895**	**930**
Non Current Liabilities				
Long Term Debt	0	0	0	0
Long term lease liabilities	1	1	1	1
Other	53	53	53	53
Total Non Current Liabilities	**54**	**54**	**54**	**54**
Total Liabilities	**825**	**887**	**949**	**984**
Equity				
Capital	200	250	250	250
Statutory reserve	9	9	9	9
Retained earnings	92	114	227	311
Other	7	7	7	7
Total Shareholders' Equity	**308**	**381**	**493**	**577**
Total liabilities and equity	**1,133**	**1,268**	**1,443**	**1,561**

Source: Company data, Al Rajhi Capital

Figure 24. Cash Flow

(SAR mn)	FY2020	FY2021E	FY2022E	FY2023E
Cash flow from operation	-30	80	151	108
Cash flow from investment	-18	-2	-3	-3
Cash flow from financing	100	-74	-107	-84
Net changes in cash flow	52	4	42	22
Cash at the end of the year	81	85	127	149

Source: Company data, Al Rajhi Capital

Valuation Summary:

Figure 25. DCF Summary

DCF Method (SAR mn)		FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Operating profit		161	241	184	202	219	232
Growth(%)			*50%*	*-24%*	*10%*	*8%*	*6%*
Tax rate		*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Post-tax operating profit (NOPAT)		**145**	**217**	**166**	**182**	**197**	**208**
Add: Depreciation & amortization		1.6	1.7	1.8	1.9	2.0	0.0
Less: Change in working capital		(67.5)	(69.1)	(60.7)	(62.7)	(59.4)	(16.0)
Less: Capex		(2.3)	(2.7)	(2.9)	(3.1)	(3.4)	(3.6)
Free Cash Flow to Firm		**76.3**	**147.3**	**103.9**	**118.1**	**136.6**	**188.9**
FCF growth			*93%*	*-29%*	*14%*	*16%*	*38%*
Discount factor		*0.97*	*0.91*	*0.86*	*0.81*	*0.76*	*0.71*
PV of Free Cash Flows		74	134	89	95	103	134
Sum of present values of FCFs	**630**						
Free cash flow (t+1)	195						
Terminal value	**5,722**						
Present value of terminal value	**4,070**						
EV	**4,700**						
Less: Net debt	(291)						
Equity value	**4,409**						
Fair value per share (SAR)	**176.4**						
Shares O/s (mn)	25						
Upside/Downside	34.0%						
Current Price (as on 31st Dec, 2020)	131.6						

Source: Company data, Al Rajhi Capital

Valuation: We value MIS using an equal weight of DCF and relative valuation methodologies (P/E). Our DCF based target price based on 3.0% terminal growth and 6.4% cost of capital comes to SAR176/sh, and P/E-based relative valuation based on 27x multiple gives us a target price of SAR184/sh. Thus, the target price stands at SAR180/sh which implies an upside of 37% from the current market price of SAR131.6/sh". The company is trading at 25x 2021e eps. We initiate coverage on MIS with an "Overweight" rating.

Key Risks:

1) Since data center market is under penetrated and extremely attractive competitors might enter into the business, this stands a downside risk to our valuations.

2) The overall business is highly exposed to government and if oil prices go down then the company's revenue might suffer and will affect our valuations.

3) The rising receivables is concerning and might lead to impairments in future which could lead to a dilution of operating margins and our valuations.

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

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