الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

KSA Education Sector Report
Aiming For Higher Grades

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The education sector in Saudi Arabia is developing and thus has a huge growth potential. Furthermore, the Saudi government's emphasis on improving the education system, coupled with significant expenditure on this sector over the past few years, which has created a strong base for growth. Additionally, the Kingdom's sizable young population indicates imminent high demand for education. In the past, public education has been dominant in Saudi Arabia. However, changes in consumer preference and opening up of the education sector to 100% foreign investment have helped private education gain traction. Moreover, the rising popularity of international curriculum is prompting consumers to shift to private education. Encouragement to private sector participation under Vision 2030 has also boded well for private education. Also, new regulatory requirements under Tadarruj system provide opportunity to bigger private players to expand their presence through M&As, targeting smaller players that are unable to stand costs for adhering new requirements. In FY20, the education sector was impacted by the COVID-19 pandemic. Educational institutions had to switch to online education and provided discounts on fees, which adversely affected their finances. However, for academic year starting September 2021, return-to-school mechanisms is being implemented in step-wise manner and thus fees are also likely to return to pre-pandemic levels gradually. These factors indicate the sector is poised for recovery in the academic year 2021-22.

Macro environment conducive to education sector

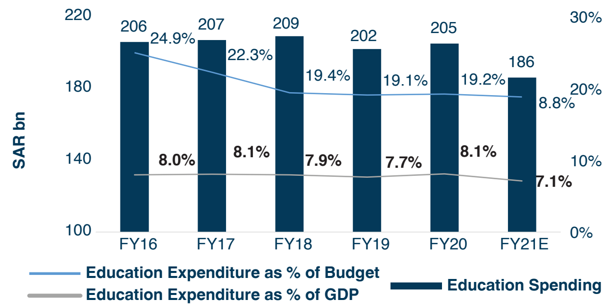
Saudi Arabia's government has consistently emphasized on developing a high-quality education system in the country. The government's focus on education is reflected in the high expenditure on the sector over the past five years. During this period, approximately one-fifth of the budget was allocated to the education sector. For the same period, KSA's expenditure on education as a percentage of real GDP, has been stable in the range of 7–8%, which is better than in several developed countries. High investment by the government, coupled with increasing private sector participation, is likely to boost growth in the education sector. Moreover, education demand is also expected to remain healthy driven by population growth.

KSA's demographic structure indicates prospects for the sector are bright. The country's population aged 0–14 years increased at a CAGR of 2.1% during 2016-20. This age group constituted a significant 24.4% of the total population in 2020. The sizable school age population, in addition to the Kingdom's focus on improving curricula, teaching methods, recruitment, training and development of teachers, bodes well for the education sector. Additionally, female participation in the workforce increased to 33% in FY20 from 19% in FY16. This trend would help the growth in housholds' disposable income and in turn would increase demand for private education.

Disposable income level expected recover

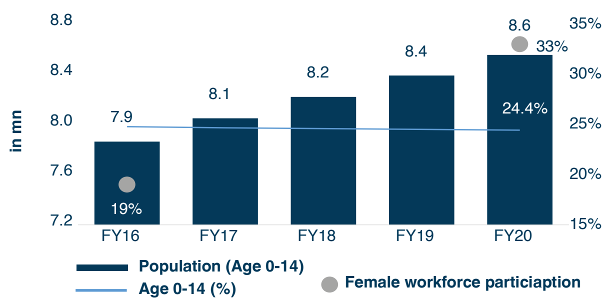
In the past few years, lower oil prices have had a negative impact on the Saudi economy, reflecting in a decrease in GDP per capita. Moreover, subsidy cuts by the government, VAT increase, and impact of COVID-19 have affected people's disposable incomes. However, the Kingdom's decision to extend the subsidy cut target to FY25 from FY20, momentum in the non-oil sector, receding COVID-19 pressure, and possibility of reduction in VAT in future are likely to boost disposable incomes in the next few years. This would result in a higher household expenditure, including expenditure on education.

Figure 1. KSA Education Expenditure Trend



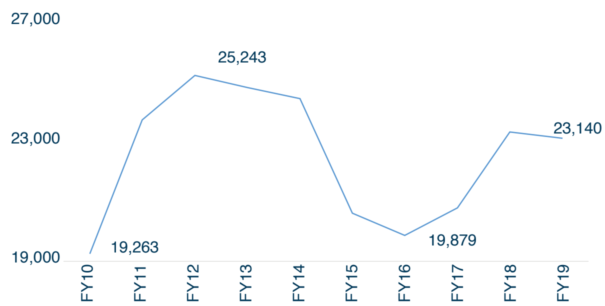
Source: The Ministry of Finance, General Authority for Statistics

Figure 2. KSA Demographic Structure



Source: General Authority for Statistics (mid-year data), Bloomberg.com

Figure 3. KSA GDP Per Capita



Source: World Bank

Regulatory changes to have mixed impact on private education sector

Foreign investment in private schools: In FY17, KSA allowed 100% foreign ownership in private schools. This helped in increasing international investor participation in the education sector. The policy is also in line with the Ministry of Education's objective to take the participation of the private sector up to 25% in enrollment in the K-12 segment from current 12.5%, adding around 900K students. Moreover, foreign investments would enable private players, looking to expand operations internationally, deploy their funds effectively.

Tadarruj system and potential for M&As: Another regulatory development in the education sector in FY17 was the implementation of the Tadarruj system. Under it, buildings that were not originally built for educational purposes but are being used as schools currently as well as schools not complying with the required infrastructure standards are first identified and thereafter made structurally compliant. Up to 30% of the private schools are estimated to be non-compliant with infrastructure norms; these schools may face closure if they do not meet compliance requirements in the stipulated time frame. Although the schools have received an extended grace period of two years to comply with the norms due to the pandemic, some small schools may find it difficult to handle the burden of costs related to improvement of school infrastructure or transferring to a new building. This would provide M&A opportunities for larger players such as Ataa Educational Co. (Ataa) and National Company for Learning and Education (NCLE). The recent trend also shows that these companies are opting for inorganic growth to expand their network of schools. Thus, we see potential for consolidation in the Saudi education sector that is likely to benefit large companies in the sector.

Date	Company	M&A Activity
May 07, 2020	NCLE	Completed full acquisition of Al-Ghad Private Schools Company for SAR 37mn
July 05, 2020	Alkhaleej	Signed a binding MoU to purchase 60% stake in Al-Raqi National Schools Co. Ltd.
January 19, 2021	Ataa	Inked an agreement to acquire 52% stake in Al Wasat National Schools
January 28, 2021	NCLE	Completed full acquisition of Refan Company for Operation & Maintenance at SAR 0.9mn
February 10, 2021	NCLE	Completed full acquisition of Al-Khwarizmi Co. for Education for SAR 30mn
June 20, 2021	Ataa	Completed full acquisition of Al-Elm International Schools Co. for SAR 40mn
June 29, 2021	Alkhaleej	Signed a non-binding MoU to acquire 85% stake in Al-Enjaz National Schools Co. Ltd.
August 09, 2021	Ataa	Completed acquisition of Arabian Education and Training Group for SAR 138mn

Source: Tadawul, Argaam

Withdrawal of HRDF funding of teachers by end of 2022: During 2012-17, a minimum wage limit was set for Saudi teachers and half of the salary of Saudi teachers at private schools was paid by Human Resource Development Fund (HRDF). With removal of support from HRDF (full implementation by 2023), Saudi teachers who are employed by private schools would need to be paid fully by these schools. This would hike expenses for the private schools, as they need to keep salaries competitive with public schools.

Initiatives under Vision 2030 crucial for bringing education sector on par with global standards

Despite substantial spending on education, KSA still has scope to improve education standards to stand on par with global peers. As per the Programme for International Student Assessment (PISA) 2018 survey report, the kingdom's ratings in proficiency of students in reading, mathematics, and science were lower than regional peers' and the OECD average. Nevertheless, under Vision 2030, the Kingdom has been focusing on transformation of the education sector, that help it in improving overall education standards and increase the sector's competitiveness with respect to regional as well as global peers.

Key objectives of Vision 2030 specific to the education sector are as follows:

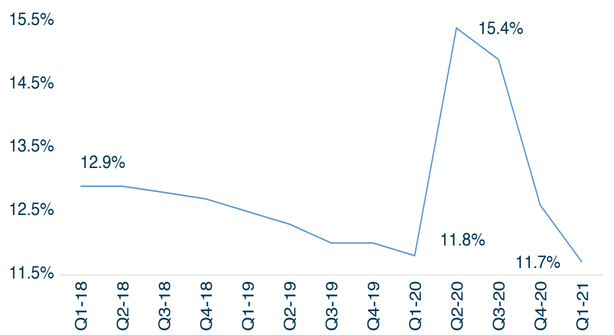
- Improving recruitment, training, and development of teachers
- Improving the learning environment to stimulate creativity and innovation
- Improving curricula and teaching methods
- Improving students' values and core skills
- Developing financing methods and improving financial efficiency
- Educating students to address national development requirements and labor market's demands
- Increasing private sector participation in the education sector by doubling private school student enrollment to 25% of total by 2030
- K-12-specific objectives:
    - Increasing kindergarten enrollment by developing programs and expanding services across the Kingdom
    - Developing primary education
    - Encouraging family participation in children's education
    - Promoting digital learnings

Implementation of all these initiatives is likely to result in all-round development in the education sector and improvement in KSA's standing globally based on education parameters. Additionally, the government's emphasis on increasing private schools' participation would encourage private education companies to expand their presence across the Kingdom.

Saudization drive, higher per capita income to boost demand for higher-quality education

Under the Saudization program, Saudi Arabia aims to increase the employment of Saudi nationals across sectors. As this would open up ample opportunities for Saudi citizens in various professions, the demand for higher or skill-based and vocational education among Saudis is expected to increase. The preference for international curricula among Saudi is also likely to increase. Furthermore, Saudization would decrease unemployment (Saudis), which is targeted at 7% under Vision 2030. The employment scenario is already beginning to improve, following the implementation of Saudization—unemployment fell from 12.9% in Q1-18 to 11.8% in Q1-20. The rate increased above 15% due to the pandemic, before easing to 11.7% in Q1-21. The unemployment rate is expected to ease further going forward driven by rising Saudization rate coupled with improving macro factors. The rise in employment would translate into increase in per capita income. As income increases, so would the demand for high quality education, which in turn would push tuition fees up. On the other hand, requirement of 60% Saudization for male schools and 90% for female schools, to be implemented during academic year 2021-22, is expected to add to personnel expenses of schools.

Figure 4. Unemployment Rate (Saudis)



Source: General Authority for Statistics

Private education gaining momentum in Saudi Arabia, higher growth expected

The public sector has always dominated education in Saudi Arabia. Of late, however, a shift in preference toward private education is discernible. Private schools in Saudi Arabia are concentrated mostly in the Riyadh area. The Riyadh market is highly fragmented and thus provides opportunity for larger private companies such as Ataa, NCLE, and Alkhaleej with strategies focused on expansion through mergers and acquisitions. Furthermore, private players can also seek opportunities to expand their footprints outside Riyadh, where private education is less penetrated. Furthermore, the government's efforts to increase private participation to 65% of GDP (from current 40%) and to above 25% in education sector (from current 12.5%) bode well for the private sector. Moreover, higher foreign investment favors the growth prospects of private players. Under "Independent Schools" program, government intends to make 2,000 public schools independent, providing them autonomy in terms of administration, financials and syllabus. In May 2018, government announced to handover 25 public schools to private education companies. The program would help reduce government spending, given that per student cost to the government is much lower in private schools (~SAR 15,000) as compared to public schools (~SAR 25,000-30,000). Thus, there is possibility of more schools being handover to private companies. Thus, opening up new opportunities for those companies.

School segment more resilient to economic headwinds; continues to generate profit amid COVID-19

The school segment provides steady earnings and is likely to be less impacted by the economic headwinds compared to several other sectors. In academic year 2020–21, although Ataa and NCLE provided heavy discounts (up to 50-60%) on tuition fees for both semesters across grades and witnessed a drop in number of students, both companies registered profits during this period. Thus, it is evident that earnings of schools are likely to be robust despite the difficult economic conditions.

Pricing to trend upward

With inflation trending higher and schools required to incur higher costs related to meeting reform requirements, educational institutes' operating expenses are likely to increase. Moreover, the targeted increase in the rate of Saudization would inflate expenses further, as salaries constitute ~70% of schools' expenses. Once the COVID-19 outbreak ends and situation normalizes, educational institutes are expected to partially transfer higher costs to consumers through hike in fees to maintain the margins. Furthermore, schools are concentrating on increasing the students to teacher ratio to 14–15 from the current level of around 12. This would also help improve/ maintain the margins.

COVID-19 outbreak and lockdown adversely impact the sector

Restrictions related to COVID-19 and lockdown in Q2-20 severely impacted revenues in the education sector. However, the sector responded well with education going online which ensured continuity of learning. Nevertheless, schools had to offer discounts on fees amid the economic impact of the pandemic. Thus, the toplines of companies in the sector remained subdued, while fixed costs took a toll on the bottom line. However, the situation is improving now, and as per latest announcement from the Ministry of Education, in-person attendance will gradually resume from the academic year 2021-22, first for students aged 12 years & above and then for the age group of less than 12 years, provided the vaccination requirements are met. Thus, revenues and earnings are expected to improve gradually during the next academic year.

We initiate coverage on Ataa Educational Co. (Ataa) with a TP of **SAR 70.0/share** and "**Overweight**" recommendation, representing a potential upside of 9.4%.

We initiate coverage on National Company for Learning and Education (NCLE) with a TP of **SAR 56.0/share** and "**Neutral**" recommendation, representing a downside of 14.9%.

We initiate coverage on Alkhaleej Training and Education Co. (Alkhaleej) with a TP of **SAR 29.0/share** and "**Neutral**" recommendation, representing a downside of 0.1%..

Table 2. Price target and recommendation

Company Name	Recommendation	TP (SAR/share)	CMP (SAR/share)	Upside/(Downside)
Ataa Educational Co.	**Overweight**	70.0	64.0	9.4%
NCLE	**Neutral**	56.0	65.8	-14.9%
Alkhaleej Training	**Neutral**	29.0	29.4	-0.1%

*Prices as of 30th August 2021; Source: Tadawul, Aljazira Capital Research

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Ataa Educational Company: Acquisition strategy to drive growth

Being the second largest player in Riyadh with a total of ~25,000 students, Ataa is focusing on expanding mostly through acquisitions. The company's results during FY21 (ending 31st of July 2021) were adversely affected due to the heavy discounts provided amid COVID-19 pandemic. With the acquisition of Arabian Group and two other schools, a ~60% addition to the current capacity is expected, reaching ~64,000 students, enabling the company to absorb the expected increase in demand for private schools. Tadarruj program remains a concern for the company. However, it could open an opportunity to acquire smaller players. We initiate coverage on Ataa with a TP of SAR 70.0/share and an "Overweight" rating.

Significant growth potential driven by new acquisitions: During 2021, Ataa has completed 100% acquisition of Education International School for SAR 40mn, and also signed an agreement to acquire 52% of Al-Wasat Schools in exchange of a land owned by Ataa. Moreover, in August 2021, the company announced the acquisition of Arabian Education and Training Group for cash value of SAR 138mn, excluding Naba'a Educational Company which is expected to be completed in exchange for issued shares in Ataa. These acquisitions are expected to significantly increase the company's student capacity by 60%, also adding ~12,000 students to the current student count of ~25,000 students. Thus, achieving Ataa's 5-year strategy to reach 37,000 students.

Revenues to more-than-double in FY22, with slower margins recovery: Following the recently announced acquisitions, we expect FY22 revenues to increase by 124.0% Y/Y, as we estimate the new acquisitions will add a total of SAR 252.0mn to the top-line in FY22; in addition to the impact of the pandemic on the previous year. Furthermore, we expect revenues to grow at a CAGR of 6.7% during FY22-26 due to the expected recovery in enrollments and the promising growth in the sector. However, margins are expected to remain under pressure in the short and medium-term due to the costs associated with the Ministry of Human Resources and Social Development's decision to increase the Saudization rate and minimum wage for Saudi employees in private schools. Nevertheless, schools are expected to pass some portion of these costs to the end consumer through increasing tuition fees.

Distance learning amid COVID-19 pandemic to have a major impact on FY21 results (ending 31st of July 2021): Following the Ministry of Education's decisions to start both semesters online during FY21, the company has provided discounts of up to 60% to maintain the students base, in addition to an 8% Y/Y decline in number of students. However, Ataa has succeeded in its cost-cutting initiatives during this period, as they managed to increase the student-to-teacher ratio to 13.4 in 9M-21 from 12.5 in 9M-20. We expect Ataa to post a net income of SAR 29.7mn in FY21, a decline of 60.8% Y/Y.

AJC view and valuation: We believe Ataa has strong growth potential, supported by the government's efforts to increase the private participation and improving the education system, in addition to the overall economic recovery. With the size of the recent acquisitions, Ataa will have a stronger presence in the sector with larger and more diverse student base. The stock is currently trading at a forward PE of 29.0x, based on our FY22 estimates (after capital adjustment from Naba'a deal). However, we believe the company has strong fundamentals to be reflected on the stock. We value Ataa based on DCF (3.25% terminal growth and 6.6% WACC) to arrive at a TP of SAR 70.0/share, implying a 9.4% upside from current market level. We initiate coverage on the stock with an "**Overweight**" rating.

Overweight

Target Price (SAR)	**70.0**
Upside / (Downside)*	**9.4%**

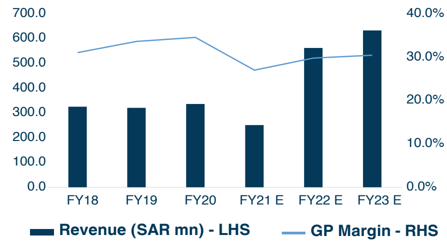
Source: Tadawul *prices as of 30th of August 2021

Key Financials

SARmn (unless specified)	FY20	FY21E	FY22E
Revenue	336.4	251.0	562.2
Growth %	4.9%	-25.4%	124.0%
Gross Profit	116.3	67.8	167.5
Net Profit	75.8	29.7	87.0
Growth %	-8.4%	-60.8%	192.8%
EPS	1.90	0.74	2.07*

Note: Fiscal year ends 31st of July
* EPS adjusted for the expected capital increase
Source: AlJazira Capital, Company reports

Revenue (SAR mn) and GP Margin



Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21E	FY22E
GP Margin	34.6%	27.0%	29.8%
Operating Margin	29.8%	19.9%	23.1%
Net Margin	22.5%	11.8%	15.5%
P/E (x)	19.4	High	31.0
Dividend Yield	2.7%	0.8%	1.6%

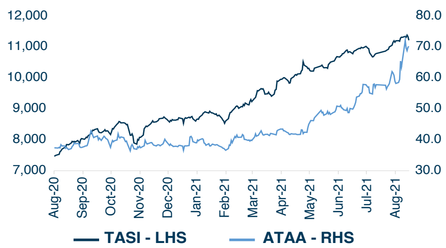
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(SAR bn)	2.8
YTD%	77.2%
52 week (High)/(Low)	73.5/35.0
Share Outstanding (mn)	40.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Table 3. Ataa School Portfolio Across Curricula (Q3-21)

School	Rowad Allzdihar	Rowad AlRawabi	Rowad AlMansoura	Rowad Ishbilia	Rowad AlAndalus	Nokhba AlKharj	Al-Fikr	Rowad Ishbilia Int'l-2	Al-Oruba International	Middle East Int'	Sulaimaniya Int'l	New Middle East	Modern Middle East
Curriculum	KSA	KSA	KSA	KSA	KSA	KSA	KSA	USA	USA	UK	French	Indian	Indian
Ownership	Owned / leased	Owned	Owned	Owned	Owned	Leased	Leased	Owned	Leased	Leased	Leased	Leased	Leased
Capacity	6,125	4,350	2,875	4,375	1,600	920	980	2,700	3,550	3,600	880	4,660	3,550
Number of students	3,083	1,981	1,711	1,549	819	714	550	409	2,572	2,600	639	4,611	2,749
Utilization	50%	46%	59%	58%	51%	78%	56%	15%	72%	72%	73%	99%	77%
Avg. net tuition (SAR)	19,404	14,297	10,826	11,675	12,200	8,386	13,786	16,085	16,448	14,229	13,333	6,919	5,421
"Student -to teacher ratio"	12.2	12.5	14.1	16.0	11.4	14.0	14.5	10.0	16.8	12.0	7.5	15.2	13.4

Source: Company's Data

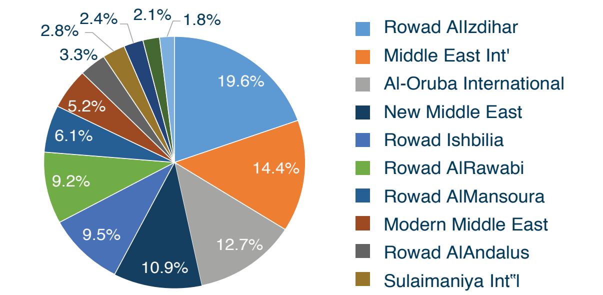
Strong student base with a diverse curriculum

As of Q4-21, Ataa operates 14 schools categorized into national, international (US & UK), French, and Indian curricula. The total number of students stood at 24,987 in Q3-21, an 8% decline Y/Y due to the impact of COVID-19 pandemic. The company is operating at a utilization rate of 60% as of Q3-21, showing significant room to grow. National schools represents 51.9% of Ataa's revenues in Q3-21. However, margins seem to be in favor of international schools in FY21 due to lower discounts provided compared to the national ones, given that there is no alternative for students in the international schools as public schools do not provide an international curriculum. Ataa recently acquired Education International Schools for a value of SAR 40.0mn and is expected to be consolidated in Ataa's financials from Q4-FY21 (ending 31st of July 2021), which are not yet released. The school has a capacity of 2,000 students with a leased school building. We estimate the school to add revenues of SAR 18.9mn in FY22. Furthermore, Ataa signed an agreement to acquire 52% of Al Wasat National Schools in exchange for a land provided by Ataa. Al Wasat Schools operates at ~52% utilization rate of the total capacity of 2,424 students. These acquisitions, along with Arabian Group, are expected to boost revenue growth and add ~60% to the current capacity to reach ~64,000 students, enabling the company to absorb the expected increase in demand for private schools.

Tadarruj program: A concern, yet an opportunity

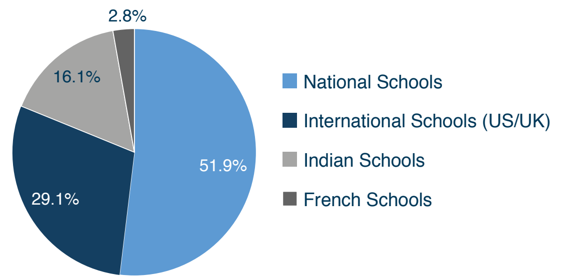
Tadarruj is a program developed to assess school buildings and provide recommendations to upgrade those that do not meet Tadarruj standards. Schools that do not meet the standards are given a grace period to implement the recommended upgrades. If a school fails to meet the standard by the end of the period, it will be closed. As of August 2021, Ataa has four schools that are non-compliant under Tadarruj: Sulaimaniah International Schools, New Middle East International Schools, Al-Fikr International Schools, and Al-Nokhba Educational Schools. However, Al-Fikr is set to transfer to a new school building in the second semester for the current academic year. The schools were given a grace to the end of the academic year of 1445H (except for Al-Nokhba "Boys" to the end of 1444H). However, due to the impact of the pandemic on the private schools, the grace was extended for two years for all schools. We believe Ataa is able to deal with these issues as the company already has transitional plans to move to new buildings. However, a major risk in transferring to a new building is that it could result in a loss of number of students. On the other hand, Tadarruj can be seen as an opportunity, as it provides larger players such as Ataa the opportunity to acquire smaller schools that cannot handle costs related to Tadarruj requirements, thus expanding their student base.

Figure 5. Revenue Breakdown Per School (Q3-21)



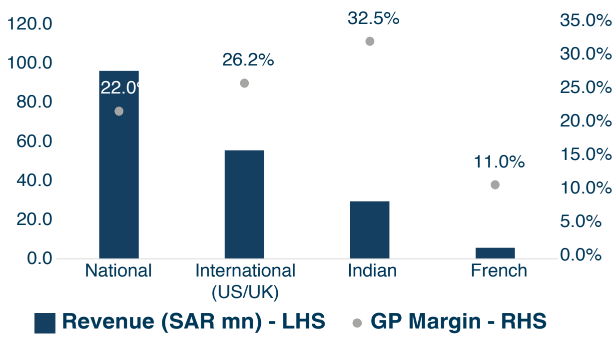
Source: Company's Reports

Figure 6. Revenue Breakdown Per-Curriculim (Q3-21)



Source: Company's Reports

Figure 7. Revenue (SAR mn) and GP Margin Per-Curriculum (9M-21)



Source: Company's Reports

Consolidation of Arabian Group

In FY21, Ataa signed an MoU to acquire full shares of Arabian Education and Training Group in exchange for a cash amount of 60% of the total value and a share issuance in Ataa for the remaining 40%. Moreover, in Q1-22, Ataa signed an agreement to acquire Arabian Group for a value of SAR 138.0mn that represent the 60% cash portion of the deal. The cash portion includes Arabian Group and its following subsidiaries: Academic Company for Educational Services, Al Yasmeen International Co., Glory Generation International National Schools, Creative Development Co., Al Faisal International Academy Institutes Training Co., Al Alson International Schools, and Amjad Qurtoba Company. On the other hand, the remaining 40% of the deal will include the acquisition of Naba'a Educational Co. in exchange for shares issue in Ataa evaluated at SAR 44/share for a total value of SAR 92.0mn (2.1mn shares), thus bringing the total value of the deal to SAR 230mn. The issue shares portion is expected to complete in H1-22, as it requires CMA approval for the capital increase.

Arabian Education and Training Group has six schools with a total capacity of 19,500 students (~46% of Ataa's current capacity) and a utilization rate of 51%. The company also owns Alfaisal International Academy and Creative Development Company. We believe the acquisition will be highly beneficial for Ataa as it will greatly increase its student base and market share, and widen catchment area. The acquisition will also help Ataa achieve its goal of reaching 37,000 students. Arabian Group posted revenues of SAR 228.6mn and net profit of SAR 4.7mn in FY20. In the 7 months ended in July 2019, it posted a net profit of SAR 11.7mn. We estimate the Group to add SAR 220.2mn to Ataa's top-line in FY22, and SAR 28.0mn to the bottom-line.

Table 4. Ataa's FY22e Pro Forma Income Statement (Arabian Group)

"Amount in SARmn, unless otherwise specified (Fiscal year ending July 31st)"	"FY22 E (Before Acquisition)"	"Additions From Arabian Group"	"FY22 E (After Acquisition)"
Sales	342.0	220.2	562.2
Cost of Sales	(235.4)	-159.4	(394.7)
Gross Income	**106.6**	60.9	**167.5**
Operating Expenses	(30.5)	-41.9	(72.4)
Other Income	14.7	16.4	31.1
Operating Income	**90.9**	48.9	**139.8**
Financing Expense	(21.6)	-11.3	(32.9)
Zakat & Tax	(1.5)	-0.8	(2.4)
Net Income Before Minority Interest	**67.8**	36.8	**104.5**
Minority Interest	(1.3)	-8.7	(10.0)
Net Income After Minority Interest	**66.6**	28.0	**94.5**
Shares Outstanding (Million)	40.0	2.1	42.1
Earning Per Share	**1.92**		**2.25**

Source: Aljazira Capital Research

Valuation:

We value Ataa based on DCF (3.25% terminal growth and 6.6% WACC)

Key upsides on our valuation:

- New government initiatives to support the private education sector.
- Better than expected enrollment rate and margins recovery.
- Higher than expected contribution from Arabian Group.

Key downsides on our valuation:

- Slower recovery in enrollments after the pandemic.
- Delay in the completion of Naba'a Educational Company deal.
- Unexpected costs related to the acquisition of Arabian Group.

We believe that Ataa has a strong potential to grow and be the leader in the sector supported by its recent acquisitions. Based on DCF valuation we arrive at a TP of **SAR 70.0/share,** implying a 9.4% upside from current market level. We initiate coverage on the stock with an "**Overweight**" rating.

Valuation Table	2020	2021	2022	2023	2024	2025	2026
FCF	**117.86**	**75.81**	**(57.42)**	**196.12**	**204.98**	**217.75**	**226.92**
Terminal Value							**4,266.07**
No of Year	-	-	1.00	2.00	3.00	4.00	5.00
Discount Factor	1.00	1.00	0.94	0.88	0.82	0.77	0.73
Present Value	117.86	75.81	(53.86)	172.51	169.10	168.48	164.67
PV of Terminal Value							3,095.75
Sum of FCF							3,716.65
Net Debt							(629.09)
							3,087.56
TP (after adjustment to the capital increase)							**70.0**

Key Financial Data

" Amount in SARmn, unless otherwise specified (Fiscal year ending July 31st) "	FY18	FY19	FY20	FY21E	FY22E	FY23E
Income statement						
Revenues	325.2	320.6	336.4	251.0	562.2	633.1
YoY growth	**-3.9%**	**-1.4%**	**4.9%**	**-25.4%**	**124.0%**	**12.6%**
Cost	(224.2)	(212.7)	(220.1)	(183.2)	(394.7)	(440.3)
Gross profit	**101.0**	**107.8**	**116.3**	**67.8**	**167.5**	**192.9**
Operating expenses	**(19.6)**	**(22.4)**	**(29.6)**	**(24.3)**	**(68.6)**	**(73.8)**
Other income	7.6	10.0	13.7	6.3	31.1	32.1
Operating profit	**89.0**	**95.4**	**100.4**	**49.9**	**130.0**	**151.1**
YoY growth	**-14.0%**	**7.2%**	**5.2%**	**-50.3%**	**160.7%**	**16.2%**
Financial charges	(5.0)	(11.0)	(22.8)	(19.5)	(31.5)	(31.8)
Zakat	(1.5)	(1.7)	(1.8)	(0.7)	(2.1)	(2.7)
Net income before minority interest	**82.5**	**82.7**	**75.8**	**29.7**	**96.4**	**116.6**
Minority interest	-	-	-	-	(9.5)	(10.6)
Net income after minority interest	**82.5**	**82.7**	**75.8**	**29.7**	**87.0**	**106.0**
YoY growth	**-12.6%**	**0.3%**	**-8.4%**	**-60.8%**	**192.8%**	**21.9%**
Key fundamental ratios						
Profitability ratios						
Gross profit margin	31.1%	33.6%	34.6%	27.0%	29.8%	30.5%
Operating margin	27.4%	29.8%	29.8%	19.9%	23.1%	23.9%
EBITDA margin	31.5%	34.7%	42.3%	40.7%	34.4%	34.7%
Net profit margin	25.4%	25.8%	22.5%	11.8%	15.5%	16.7%
Market/valuation ratios						
EPS (SAR)	2.06	2.07	1.90	0.74	2.07	2.52
Market price (SAR)*	-	31.9	36.7	64.0	64.0	64.0
Market-Cap (SAR mn)	-	1,276.0	1,468.0	2,560.0	2,693.8	2,693.8
Dividend yield	-	4.7%	2.7%	0.8%	1.6%	1.6%
P/E ratio (x)	-	15.4	19.4	86.2	31.0	25.4

Source: Company Reports, Aljazira Capital Research

National Company for Learning and Education (NCLE): Over six decades of experience in the education sector

Establishing its first school "Tarbya Namouthajiya Schools (TNS)" in 1958, NCLE is currently ranking third in market share in Riyadh with a capacity of ~29,000 students. Moreover, the Company is focusing on further expansions through acquisitions or establishing new campuses across the Kingdom. In-spite of the company's promising future, we believe that the positives are already priced in at current market price, with an increase of ~160% from its bottom in March 2020. We initiate coverage on NCLE with TP of SAR 56.0/share and an "Neutral" rating.

Opening of Qairawan, Al-Aarid, and Tilal Al-Doha Schools, are key drivers to boost revenue growth: As of Q1-21, Qairawan Campus has commenced operations with 955 enrolled students out of the maximum capacity of 5,200 students. The school is expected to add SAR 11.0mn to the top-line in FY21. Moreover, Al-Aarid Campus in Riyadh and Tilal Al-Doha Campus are scheduled to open in FY22 and FY23, respectively, with capacity of 3,200 and 3,000 students, respectively. Furthermore, NCLE has the capacity to absorb the increase in demand for private schools, as the company is currently operating at an overall utilization rate of ~52%.

New school openings to weigh on margins in the upcoming years: Despite the partial lifting of discounts that were provided in FY21, and the gradual expected recovery in student enrollments; margins are likely to remain under pressure due to: i) Low utilization rate for Buraidah Schools (14.7% in Q3-21), as the school was opened beginning of FY20. ii) Opening of Qairawan Campus in FY20. iii) The expected launch of Tilal Al-Doha Campus in 2022. However, the acquisition of "Refan Company for Operation & Maintenance" is expected to partially reduce the impact on the operating margins for NCLE.

Heavy discounts and decline in number of students to adversely impact FY21 results; quick recovery expected in FY22: For the academic year 2020-2021, NCLE has provided discounts on both semesters starting from 50% for the kindergarten and first grade and 10% to 30% for the remaining grades due to the COVID-19 pandemic. The company also witnessed a 9% decline in the total number of students, with 80% of the decrease coming from the decline in enrollments of kindergarten and first grade students. As a result, in 9M-21, revenues and net income plunged by 19% Y/Y and 53% Y/Y, respectively. The drop in top-line was partially offset by the opening of Qairawan Campus in Q1-21. Nevertheless, with the lifting of discounts in FY22 and the recovery in enrollments, we expect the company to post net income of SAR 48.4mn in FY22 Vs. SAR 57.8mn recorded pre-covid in FY20. Moreover, we expect the company's top-line to grow at a CAGR of 15.1% in FY22-26.

AJC view and valuation: We believe NCLE, with a low-debt balance sheet, is in good position to expand its presence and increase the market share further. A quick recovery is expected for the education sector amid increasing vaccination rates in KSA. We expect dividend levels to start growing from FY22 going forward, supported by strong expected FCFs after the recovery. However, dividends growth could be limited by any future expansions. NCLE's stock has surged ~160% from its bottom in March 2020, as it's currently trading at a high forward PE of 58.1x, based on our FY22 estimates. Therefore, despite the promising future for the company, we believe that all the fundamentals are fully priced-in. We value NCLE based on DCF (3.25% terminal growth and 7.7% WACC) to arrive at a TP of SAR 56.0/share, implying a 14.9% downside from current market level. We initiate coverage on the stock with an "**Neutral**" rating.

Neutral

Target Price (SAR)	**56.0**
Upside / (Downside)*	**-14.9%**

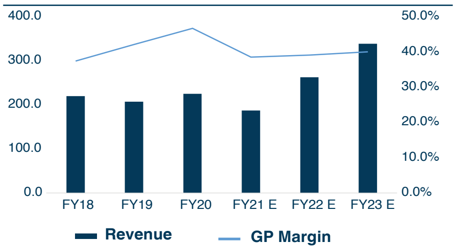
Source: Tadawul *prices as of 30th of August 2021

Key Financials

SARmn (unless specified)	FY20	FY21E	FY22E
Revenue	225.3	187.2	262.6
Growth %	8.7%	-16.9%	40.2%
Gross Profit	105.2	72.2	102.7
Net Profit	57.8	29.6	48.4
Growth %	14.7%	-48.9%	63.9%
EPS	1.34	0.69	1.13

Note: Fiscal year ends 31st of August
Source: AlJazira Capital, Company reports

Revenue (SAR mn) and GP Margin



Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21E	FY22E
GP Margin	46.7%	38.6%	39.1%
Net Margin	25.7%	15.8%	18.4%
P/E	38.4x	High	High
P/B	3.6x	4.4x	4.3x
EV/EBITDA (x)	26.6x	49.7x	34.3x
Dividend Yield	1.6%	0.8%	1.2%

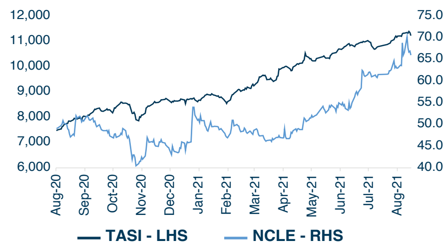
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(SAR bn)	2.8
YTD%	28.2%
52 week (High)/(Low)	72.4/40.1
Share Outstanding (mn)	43.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Table 5. NCLE's School Portfolio Across Curricula

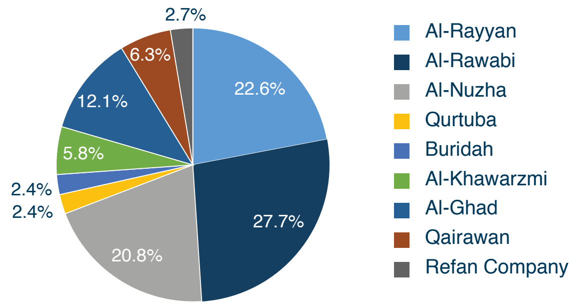
School	TNS – Al-Rayyan	TNS – Al-Rawabi	TNS – Al-Nuzha	TNS – Qurtuba	TNS – Buridah	Al-Khawarzmi	Al-Ghad	TNS – Qairawan	TNS – Al-arid	TNS – Tilal Al-Doha
Establishment	1958	2009	2013	2017	2019	2010	1990	2020	2021	2022 under construction
Location	Riyadh	Riyadh	Riyadh	Riyadh	Qassim	Riyadh	Riyadh	Riyadh	Riyadh	Riyadh
Curriculum	KSA/US	KSA/US	KSA/US	KSA/US	KSA/US	KSA	KSA	KSA/US	KSA/US	KSA/US
Optimal capacity	5,250	4,375	4,375	1,050	2,625	1,220	2,200	4,550	3,200	2,625
Enrolled Students	3,145	3,466	2,411	405	386	1,120	1,408	979	NA	NA
Utilization	60%	79%	55%	39%	15%	92%	64%	22%	NA	NA

Source: NCLE's Investors Presentation

Capacity expansion plans provide good revenue visibility in medium to long term

The company currently operates eight schools, seven of them located in Riyadh, and one in Qassim; with a total number of 13,320 enrolled students as of Q3-21. The company also established a new segment by acquiring "Refan Company for Operation & Maintenance". The deal was to reduce operating expenses for the company, as NCLE had an operating and maintenance contract with Refan Company. As of Q3-21, Al-Rayyan, Al-Rawabi, and Al-Nuzha Schools contributed in 71.1% of the company's revenues. Moreover, two campuses are scheduled to commence operations in the next two years (Al-Aarid and Tilal Al-Doha Campuses), adding 3,000 students to the current total capacity of 29,000 students. Furthermore, another two campuses are under progress in Al-Khobar (Al-Qasr 1 and Al-Qasr 2) with a total capacity of 6,550 students. However, the company still hasn't announced the timeline for the two projects. Thus, given the company's expansion pipeline, strong revenue growth is expected in next few years

Figure 5. NCLE's Revenue Breakdown (Q3-21)



Source: Company's Reports

Valuation:

We value NCLE based on DCF (3.25% terminal growth and 7.7% WACC).

Valuation Table	2021	2022	2023	2024	2025	2026
FCF	27.48	34.00	82.00	107.07	132.35	150.61
Terminal Value						3,042.05
No of Year	-	1.00	2.00	3.00	4.00	5.00
Discount Factor	1.00	0.93	0.86	0.80	0.74	0.69
Present Value	27.48	31.57	70.69	85.70	98.35	103.92
PV of Terminal Value						2,098.90
Sum of FCF						2,489.13
Net Debt						(80.80)
Equity Value						2,408.33
TP						**56.0**

Key upsides on our valuation:

- New government initiatives to support the private education sector.
- Better than expected margins recovery.
- New mergers and/or acquisitions.

Key downsides on our valuation:

- Slower recovery in enrollments after the pandemic.
- Unexpected delays in the upcoming projects.
- Lower enrollment rates in Al-Aarid and Tilal Al-Doha Campuses.

We believe that the upside potential seem to be factored in at the current market value. Based on DCF valuation we arrive at a TP of **SAR 56.0/share**, implying a 14.9% downside from current market level. We initiate coverage on the stock with "**Neutral**" rating.

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Income statement						
Revenues	220.0	207.3	225.3	187.2	262.6	338.8
YoY growth	**-7.1%**	**-5.7%**	**8.7%**	**-16.9%**	**40.2%**	**29.0%**
Cost	(137.6)	(120.0)	(120.0)	(115.0)	(159.9)	(203.1)
Gross profit	**82.3**	**87.3**	**105.2**	**72.2**	**102.7**	**135.7**
Operating expenses	(27.6)	(38.2)	(40.1)	(35.2)	(48.0)	(60.0)
Other income	2.1	4.9	1.1	1.7	1.8	1.8
Operating profit	**56.8**	**54.0**	**66.2**	**38.8**	**56.5**	**77.6**
YoY growth	**-25.6%**	**-5.0%**	**22.6%**	**-41.5%**	**45.8%**	**37.3%**
Financial charges	(6.4)	(1.7)	(3.7)	(5.4)	(5.0)	(4.5)
Income before zakat	**50.4**	**52.3**	**62.5**	**33.4**	**51.5**	**73.1**
Zakat	(1.5)	(1.9)	(4.7)	(3.8)	(3.1)	(4.3)
Net income	48.9	50.4	57.8	29.6	48.4	68.8
YoY growth	-28.0%	3.1%	14.7%	-48.9%	63.9%	41.9%
Balance sheet						
Assets						
Cash & equivalent	37	240	108	84	60	85
Other current assets	50	49	58	48	59	67
Property plant & equipment	390	441	517	532	544	531
Other non-current assets	12	12	154	151	223	212
Total assets	**489**	**742**	**837**	**815**	**886**	**895**
Liabilities & owners' equity						
Total current liabilities	55	59	66	58	58	55
Long-term loans	45	34	25	12	3	1
Total other non-current liabilities	**47**	**43**	**121**	**111**	**177**	**167**
Paid -up capital	**300**	**430**	**430**	**430**	**430**	**430**
Statutory reserves	18	23	29	32	37	44
Retained earnings	25	51	65	71	80	98
Shares premium	-	101.0	101.0	101.0	101.0	101.0
Total owners' equity	**343**	**606**	**625**	**634**	**648**	**673**
Total equity & liabilities	489	742	837	815	886	895
Key fundamental ratios						
Liquidty ratios						
Current ratio (x)	1.6	4.9	2.5	2.3	2.0	2.8
Cash ratio (x)	0.7	4.1	1.6	1.4	1.0	1.6
Profitability ratios						
Gross profit margin	37.4%	42.1%	46.7%	38.6%	39.1%	40.1%
Operating margin	25.8%	26.0%	29.4%	20.7%	21.5%	22.9%
EBITDA margin	32.1%	31.6%	37.0%	31.0%	32.9%	32.6%
Net profit margin	22.2%	24.3%	25.7%	15.8%	18.4%	20.3%
Return on assets	10.0%	8.2%	7.3%	3.6%	5.7%	7.7%
Return on equity	14.3%	10.6%	9.4%	4.7%	7.6%	10.4%
Leverage ratio						
Debt / equity (x)	0.2	0.1	0.2	0.1	0.2	0.2
Market/valuation ratios						
EV/sales (x)	-	2.9	9.9	15.2	11.1	8.5
EV/EBITDA (x)	-	9.3	26.6	48.9	33.8	26.0
EPS (SAR)	1.63	1.17	1.34	0.69	1.13	1.60
BVPS (SAR)	11.4	14.1	14.5	14.7	15.1	15.7
Market price (SAR)*	-	26.6	51.6	65.8	65.8	65.8
Market-Cap (SAR mn)	-	796.5	2,218.8	2,829.4	2,829.4	2,829.4
Dividend yield	-	1.5%	1.6%	0.8%	1.2%	1.5%
P/E ratio (x)	-	22.7	38.4	95.7	58.4	41.2
P/BV ratio (x)	-	1.9	3.6	4.5	4.4	4.2

Source: Company Reports, Aljazira Capital Research

Alkhaleej Training and Education Co.

Alkhaleej Training and Education Co. (Alkhaleej): School segment to play pivotal role in future growth

Alkhaleej, being a leading contact center service provider in the Middle East, enjoys a strong position in the BPO/contact center business. Moreover, the company is one of the largest independent training service providers, with a large client base in the government and private sector. Recently, Alkhaleej has also been expanding presence in the school segment. Given the company's expansion strategy and the Saudi education sector's growth potential, the school segment is expected to play a key role in the company's growth. We initiate coverage on Alkhaleej with TP of SAR 29.0/share and a "Neutral" rating.

Upcoming school projects, acquisition strategy suggest robust growth prospects: Alkhaleej plans to acquire new educational facilities in FY21. The company has already signed a binding agreement to acquire 60% stake in Al-Raqi National Schools Co. Alkhaleej seeks to increase the number of students at a high CAGR of 19% in the next five years, supported by acquisitions as well as own upcoming projects such as three kindergartens at Riyadh (capacity: 1,500 students), and one education facility each at Khobar (capacity: 1,900 students) and King Abdullah city (capacity: 1,500 students).

Training segment to rebound once the pandemic subsides: Alkhaleej's revenue from the training segment (computer, language, and financial & administrative) was the most affected due to the COVID-19 pandemic, among revenue from all segments. Training revenue plunged 32% in FY20. The pressure is expected to continue in H1-21, while the situation is likely to improve in the second half of the year. Considering the expected recovery in the economy due to the increase in oil prices and continued momentum in non-oil sector, corporate as well as consumer spending on training programs is anticipated to rise.

Rights issue to boost expansion strategy: Alkhaleej filed an application with CMA for a capital hike of SAR 200mn through a rights issue. The rights issue if successful would support the company's expansion strategy, as it plans to deploy the funds raised to finance growth plans, expand operations, and acquire assets in the education field. The capital hike would strengthen the company's balance sheet.

High receivables an area of concern: As of March 2021, Alkhaleej's gross receivables stood at SAR 441mn (net: SAR 393mn), up 15% Y/Y and representing more than 25% of total assets. Of the total gross receivables, 73% are owed to government and quasi-government institutions, down 78% Y/Y. Receivable days also increased to 155 in FY20 from 121 in FY19. Failure to collect some of these receivables could impact the company's earnings adversely in the future.

Current valuation seems slightly expensive after the recent rally in the stock: Alkhaleej's stock has surged ~130% from its bottom in March 2020. It currently trades at a PE of 25.9x and EV/EBITDA of 20.2x, based on our FY22 estimates. Thus, at the current market value, most of the positives seem to be factored in.

AJC view and valuation: We believe Akhaleej's focus on education (schools and universities) and planned investments in this sector would pay off in the medium to long term and help in the diversification of revenue streams. With the return of pre-pandemic conditions, the company's topline is expected to pick up, supported by its solid client base. Moreover, recently won contracts with King Saud University worth SAR 66mn would further boost the topline. We value Alkhaleej based on DCF (3.0% terminal growth and 6.7% WACC) to arrive at a TP of **SAR 29.0/share,** implying a 0.1% downside from current market level. We initiate coverage on the stock with "**Neutral**" rating.

Neutral

Target Price (SAR)	**29.0**
Upside / (Downside)*	**-0.1%**

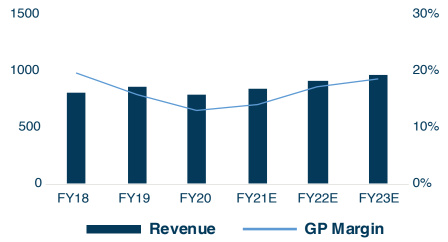
Source: Tadawul *prices as of 30th of August 2021

Key Financials

SARmn (unless specified)	FY20	FY21E	FY22E
Revenue	787	842	908
Growth %	-8.9%	7.0%	7.8%
Gross Profit	104	119	156
Net Profit	11	22	52
Growth %	-81.9%	108.1%	133.9%
EPS	0.24	0.50	1.16

Source: AlJazira Capital, Company reports

Revenue (SAR mn) and GP Margin



Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21E	FY22E
GP Margin	13.2%	14.1%	17.2%
Net Margin	1.4%	2.7%	5.8%
P/E	High	High	25.9x
P/B	1.7x	2.2x	2.1x
EV/EBITDA (x)	32.1x	30.8x	20.2x
Dividend Yield	1.1%	0.7%	1.2%

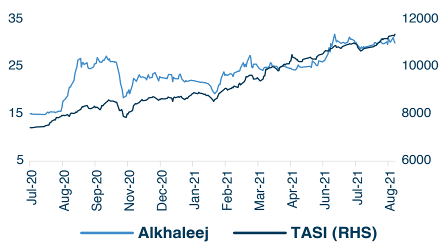
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(SAR bn)	1.4
YTD%	34.2%
52 week (High)/(Low)	32.3/15.4
Share Outstanding (mn)	45.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Well-planned strategic shift to education sector ensuring high revenue visibility

Alkhaleej currently operates three chains of K-3 and K-12 schools (Rowad Alkhaleej International School, Baraem Rowad Alkhaleej International School and Pingu's Kindergarten) that offer both Arabic and international curricula. The company operates eight schools across the three major cities of Riyadh, Dammam and Jeddah, with over 4,000 students as of the academic year 2020-21. Alkhaleej plans to double the number of students by the academic year 2024-25 at its existing facilities. Additionally, the company plans to add new facilities and expand presence in Tier-2 and Tier-3 cities. Furthermore, Alkhaleej recently signed a non-binding MoU to acquire 85% stake in Al-Enjaz National Schools. If the deal is materialized, it would help the company expand its presence in the city of Makkah.

Table 3. Estimated No. Students by Facilities

	2020-21	2021-22	2022-2023	2023-2024	2024-2025
Dammam 1	1,913	2,050	2,200	2,200	2,200
Dammam 2	440	650	700	700	700
Dammam 3	138	210	330	400	400
Riyadh 1	788	950	1,300	1,800	2,100
Riyadh 2	147	180	200	200	500
Riyadh 3	0	100	200	300	400
Jeddah 1	867	1,050	1,400	1,700	2,000
Jeddah 2		0	0	100	100
Khobar 1	0	0	0	0	200
TOTAL	**4,293**	**5,190**	**6,330**	**7,400**	**8,600**

Source: Company filings

Exploring new business models to accelerate its growth and enter new markets

Alkhaleej is exploring two new models for its schools: operator and REIT. In the operator model, the company will seek private investors who will invest in land, development of school building, furniture, and equipment. School operations will be managed by Alkhaleej; for this, the private investor will pay management fees to the company. This model will enable the company to concentrate on its core competency of operating the educational institution, without any heavy capital investments. In the REIT model, Alkhaleej will sell its portfolio of schools to a REIT and leaseback the land and building against rental payments. This model, by unlocking the value of existing assets, will provide the company the capital it requires for future expansion.

Strong client base, existing franchise agreements to help in maintaining market leading position

Alkhaleej has 80 training branches across KSA, and serves more than 2,500 companies and over 50,000 individual clients annually. Moreover, the company's master franchise agreements with international brands for KSA and the Middle East region allow it to offer training across verticals. Going forward, Alkhaleej plans to leverage on the same business model to expand products/service offerings. Furthermore, the company has clientele across consumers (55%) and corporate sector (45%). Corporate clients are also equally divided into private and government entities. Additionally, the company's contact center business boasts a strong client base of 60 across different segments. Thus, a broad customer base and diverse service offerings are likely to help the company in maintaining its leading position in the market.

Valuation:

We value Alkhaleej based on DCF (3.0% terminal growth and 6.7% WACC).

DCF Valuation	FY21E	FY22E	FY23	FY24	FY25
NOPLAT	11.9	41.7	59.4	66.7	74.7
Depreciation & Amortization	51.5	53.6	56.2	58.9	61.8
Change in working capital	94.8	-10.0	-12.2	-9.0	-6.4
CFO	**158.2**	**85.3**	**103.4**	**116.6**	**130.1**
Capex	-36.2	-38.0	-39.9	-41.9	-44.0
FCFF	**122.0**	**47.3**	**63.5**	**74.7**	**86.1**
Discounting factor	1.0	0.9	0.8	0.8	0.7
Present value of FCFF	**117.7**	**42.8**	**53.8**	**59.3**	**64.0**

Sum of the PV (mn)	**337.6**
Terminal Value	2,379.3
PV of terminal value	1,769.2
Enterprise Value	**2,106.8**
Cash and cash equivalents	18.7
Debt	808.1
FV to common shareholders	**1,317.4**
No outstanding shares (mn)	45.0
Fair value per share	**SAR 29.0**

We believe there is strong growth potential across Alkhaleej's business segments. The company's focus on expanding business and diversifying revenue stream is likely to result in consistent and robust growth in earnings. Especially, the K-12 education business is likely to be a key growth driver for the company in forthcoming years. Furthermore, economic recovery and improved consumer as well as corporate spending bode well for the company's growth prospects. However, most of the positives seem to be factored in at the current market value. Based in DCF valuation we arrive at a TP of **SAR 29.0/share,** implying a 0.1% downside from current market level. We initiate coverage on the stock with "**Neutral**" rating.

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Income statement						
Revenues	802.5	864.2	787.3	842.3	907.7	970.6
YoY growth	**13.0%**	**7.7%**	**-8.9%**	**7.0%**	**7.8%**	**6.9%**
Cost	(644.7)	(727.0)	(683.7)	(723.5)	(751.6)	(789.2)
Gross profit	**157.8**	**137.2**	**103.6**	**118.8**	**156.1**	**181.4**
Selling & distribution expense	(41.6)	(44.7)	(44.0)	(43.4)	(47.5)	(50.8)
General & administration expense	(50.1)	(50.7)	(50.9)	(51.7)	(54.3)	(58.0)
Operating profit	**57.6**	**20.5**	**4.5**	**12.8**	**43.4**	**61.9**
YoY growth	**-20.8%**	**-64.3%**	**-78.3%**	**186.7%**	**239.5%**	**42.5%**
Other income	5.5	74.4	23.2	27.7	28.0	28.3
Financial charges	**(26.7)**	**(27.9)**	**(14.6)**	**(14.5)**	**(14.4)**	**(14.2)**
Goodwill impairment	(0.7)	(0.2)	-	-	-	-
Income before zakat & minority interest	**35.7**	**66.8**	**13.0**	**26.0**	**57.1**	**75.9**
Minority interest	(1.3)	(2.7)	(2.0)	(1.8)	(2.3)	(3.0)
Net income before Zakat	**33.7**	**62.0**	**12.7**	**24.2**	**54.6**	**73.2**
Zakat	(1.3)	(2.7)	(2.0)	(1.8)	(2.3)	(3.0)
Net income	**32.4**	**59.4**	**10.7**	**22.4**	**52.3**	**70.2**
YoY growth	**-37.4%**	**83.4%**	**-81.9%**	**108.1%**	**133.9%**	**34.2%**
Balance sheet						
Assets						
Cash & equivalent	38	182	28	115	139	173
Other current assets	428	452	433	376	393	414
Property plant & equipment	807	499	459	475	490	506
Other non-current assets	59	310	313	313	314	314
Total assets	**1,424**	**1,781**	**1,522**	**1,557**	**1,602**	**1,660**
Liabilities & owners' equity						
Total current liabilities	529	511	361	384	391	399
Long-term loans	137	99	161	163	164	166
Total other non-current liabilities	203	542	72	72	72	72
Paid -up capital	450	450	450	450	450	450
Statutory reserves	77	83	84	84	84	84
Retained earnings	23	70	45	56	92	140
Others	(2.6)	15.7	17.9	17.9	17.9	17.8
Total owners' equity	**547**	**619**	**597**	**608**	**644**	**692**
Minority interest	8	11	8	8	8	9
Total equity & liabilities	**1,424**	**1,781**	**1,522**	**1,557**	**1,602**	**1,660**
Cashflow statement						
Operating activities	25	128	(16)	166	93	111
Investing activities	(38)	(147)	(63)	(58)	(57)	(60)
Financing activities	25	162	(75)	(22)	(12)	(18)
Change in cash	12	144	(154)	86	24	34
Ending cash balance	38	182	28	115	139	173
Key fundamental ratios						
Liquidty ratios						
Current ratio (x)	0.9	1.2	1.3	1.3	1.4	1.5
Cash ratio (x)	0.1	0.4	0.1	0.3	0.4	0.4
Profitability ratios						
Gross profit margin	19.7%	15.9%	13.2%	14.1%	17.2%	18.7%
Operating margin	7.2%	2.4%	0.6%	1.5%	4.8%	6.4%
EBITDA margin	9.9%	7.3%	6.9%	7.6%	10.7%	12.2%
Net profit margin	4.0%	6.9%	1.4%	2.7%	5.8%	7.2%
Return on assets	2.4%	3.7%	0.7%	1.5%	3.3%	4.3%
Return on equity	5.8%	10.0%	1.7%	3.7%	8.2%	10.4%
Leverage ratio						
Debt / equity (x)	1.0	0.7	1.2	1.2	1.1	1.1
Market/valuation ratios						
EV/sales (x)	1.4	1.0	2.2	2.4	2.2	2.0
EV/EBITDA (x)	13.9	14.2	32.1	30.8	20.2	16.4
EPS (SAR)	0.72	1.32	0.24	0.50	1.16	1.56
BVPS (SAR)	12.3	14.0	13.4	13.7	14.5	15.6
Market price (SAR)*	13.0	13.9	22.5	30.2	30.2	30.2
Market-Cap (SAR mn)	585.9	624.6	1,010.7	1,356.8	1,356.8	1,356.8
Dividend yield	2.4%	2.6%	1.1%	0.7%	1.2%	1.6%
P/E ratio (x)	18.1	10.5	94.1	60.7	25.9	19.3
P/BV ratio (x)	1.1	1.0	1.7	2.2	2.1	1.9

Source: Company reports, Aljazira Capital Research

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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