

## Contract Services

BUY: 12M TP @ 0.519

### Valuation Summary (TTM)

Price (RO)	0.388
PER TTM (x)	7.3
P/Book (x)	1.1
P/Sales (x)	0.7
EV/Sales (x)	1.4
EV/EBITDA (x)	5.6
Dividend Yield (%)	5.2
Free Float (%)	64%
Shares O/S (mn)	236
YTD Return (%)	-17%
Beta	0.8

(mn)	OMR	USD	
Market Cap	92	238	
Enterprise Value	166	430	
<b>Price performance (%)</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Renaissance Services SAO	2%	4%	-25%
MSX 30 Index	-1%	1%	3%
Services Index	-2%	-3%	-1%
<b>Trading liquidity (,000)</b>	<b>1M</b>	<b>3M</b>	<b>6M</b>
Avg daily turnover (RO ,000)	5	18	41
Avg Daily Volume (,000)	12	48	101
<b>52 week</b>	<b>High</b>	<b>Low</b>	<b>CTL*</b>
Price (RO)	0.528	0.356	9.0

\* CTL is % change in CMP to 52wk low

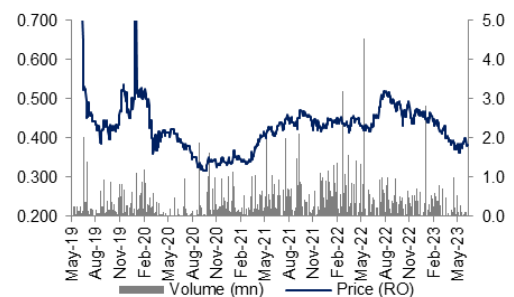
### Major shareholders

Al Douia	14.6%
The Peacock LLC	11.6%
Tawoos industrial	9.7%
Others	64.1%

### Other details

Exchange	MSX
Sector	Services
Index weight (%)	2.18%

Key ratios	2020	2021	2022
EPS (RO)	0.036	0.043	0.053
BVPS (RO)	0.290	0.314	0.313
DPS (RO)	0.020	0.020	0.020
Payout ratio (%)	56%	47%	38%



## Renaissance Services – Year of transition

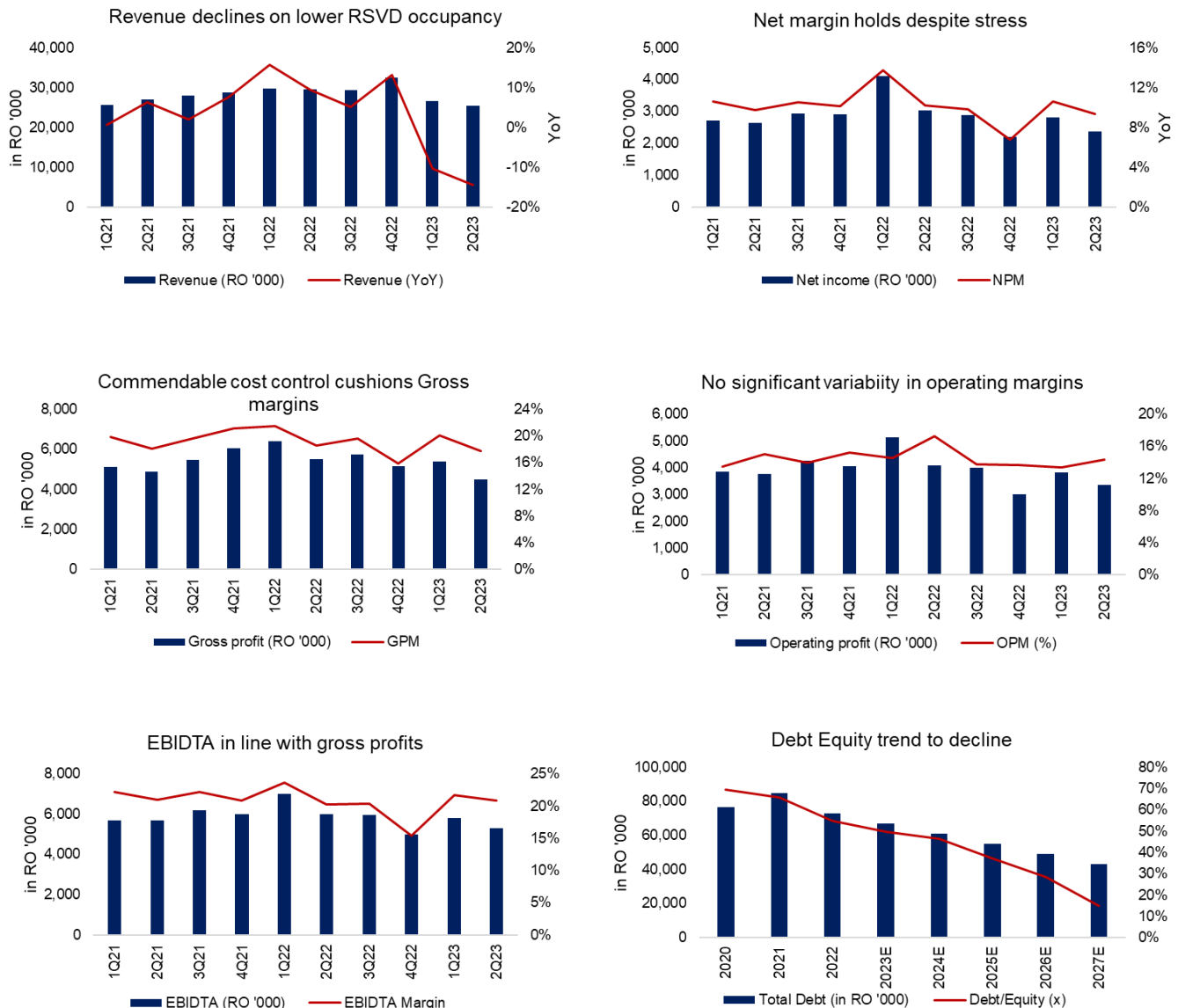
Renaissance Services (RNSS) reported 2Q23 net income of RO 2.4 mn, missing our estimates by 10%, and was lower 21.6% y/y. The revenue for the quarter came in at RO 25.4mn which was less 14.3% as compared to the same period the previous year. For the 1H23 revenue was reported at RO 52mn which was lower by 12.3% YoY and net income for the period was at RO 5.2mn a decline of 27.2%. Renaissance has been facing lower occupancy in RSVD since the mid of last year as several large projects were completed in Duqm and new projects have been delayed. Despite the significant decline in top line the company has managed to be resilient on the margin front. Both gross margins and EBITDA margins have remained steady at 39% and 43% respectively for the 1H23. The biggest expense item, administrative expenses declined by 12.6% during the quarter indicating the successful implementation of cost cutting measures undertaken by the management. Finance cost also declined during the quarter by 12.7% as the company managed to reduce long term borrowings by RO 9.2mn. Considering the linear decline in RSVD occupancy rates we had reduced our 2023 forecasts in our 1Q23 update. We believe there is stability emerging and the management has been proactively taking steps to arrest the downside. Hence we do not see a reason for further revision. We maintain our 12M target price of RO 0.519 and BUY recommendation on the stock. The BUY recommendation despite 32% potential upside is due to the bleak short-term outlook on the company's performance.

**RS Villages business slowdown evident:** Management commentary has changed during the quarter and the ground reality in Duqm has been emphasized to be slow and lull. Some of the major projects in Duqm have been completed, leading to construction workers leaving the site, while several projects that were lined up have been delayed. This has left RNSS in a limbo with occupancy levels in RSVD declining to 27%. However, the management indicated that 3 green-steel projects with cumulative manpower requirement of 15K are expected to start construction during 4Q23, which will help improvement in occupancy levels. RNSS is expecting to exit FY23 with 38% occupancy at Duqm, and further improvements in FY24. In order to compensate for the loss of business and maintain profitability, focus has shifted to managing costs and improving operational efficiencies. RSVD has rebalanced the room mix which resulted in average breakeven occupancy lowering further to 4,000 per annum. Temporary expansion of RS villages in PDO with 1,860 beds will be commissioned in 3Q23, and overall occupancy levels of 95% is anticipated for the RS Villages. We expect this segment to witness revenue growth of 22% during FY24. RNSS has reduced both admin and finance costs thereby keeping consolidated net margins in the range of 9-10%.

**Other segments to become less cyclical and more defensive:** RNSS has been able to renew its IFM contracts on a regular basis. While the existing contracts have average tenure less than 3 years, the company shifts its focus to bid for long term contracts in the other business areas such as smart meter supplies and education sector PPPs initiated by the government, the contract awards for which is expected over the next 6-12 months. Management estimates the total value of these contracts to be around RO 800mn for contract tenures between 15-25 years. Winning these contracts would give the company a stable revenue streams over a long period of time. This segment will have lesser volatility, and stable margins which will also auger well for the group profits.

**Overseas operations to find traction in FY24:** The company mentioned it received new contracts in UAE during the 1H23. However, we assume these are low value contracts, but believe there is traction in its operations across the border. There has also been progress in establishing a new company in KSA which is the most lucrative market in the region. While no major projects have been awarded in Qatar post the FIFA, management commentary is positive for the 2H23. While international operations are yet to move the needle, building associations with regional players can provide significant growth opportunities that may not be available locally. We believe this would take time and we are positive on the progress made thus far.

**Outlook and Valuation:** RNSS is a unique company with operations that are integral to several sectors such as hydrocarbon, construction, healthcare etc. There are very few players in Oman and in the region operating at such scale and efficiency. The current down cycle has resulted in slowdown in awarding new projects and loss of revenue. The company has managed this well by re-organizing itself and bringing higher levels of efficiencies. We believe there is excessive pessimism surrounding the sector and company which causes share prices to remain undervalued. Considering the company's new strategy to focus on a healthy mix of long and short term contracts, we remain optimistic on the long term prospects of RNSS and believe in the management's capability to overcome this low phase. The stock currently trades at 7.9x FY24E earnings, and offers attractive dividend yield of 5.2%. We maintain our target price RO 0.519 per share which offers an upside potential of 32% from current price. We retain our BUY rating on the stock.



INCOME STATEMENT (RO '000)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	105,030	109,438	121,266	129,755	140,135	154,148	171,105	191,637
Operating costs	84,334	87,878	98,437	105,750	114,911	126,402	140,306	157,143
Gross profit	20,696	21,560	22,829	24,005	25,224	27,747	30,799	34,495
Admin exp	7,058	6,032	7,246	6,812	7,357	7,707	8,555	9,582
Investment Income	501	397	669	552	552	552	552	552
EBIDTA	21,413	23,578	23,985	26,341	27,759	30,858	34,191	38,228
Operating profit	14,139	15,925	16,252	17,744	18,419	20,591	22,796	25,465
Finance costs	4,548	4,686	4,801	4,378	3,843	3,483	3,123	2,763
Profit Before Tax	9,591	11,239	12,099	13,366	14,576	17,108	19,673	22,702
Taxation	16	31	-119	40	44	51	59	68
<b>Net income</b>	<b>9,575</b>	<b>11,208</b>	<b>12,218</b>	<b>13,326</b>	<b>14,533</b>	<b>17,057</b>	<b>19,614</b>	<b>22,634</b>
<i>Less: Minority interest</i>	1,902	2,071	840	2,665	2,907	3,411	3,923	4,527
<b>Profit to shareholders</b>	<b>7,673</b>	<b>9,137</b>	<b>11,378</b>	<b>10,661</b>	<b>11,626</b>	<b>13,646</b>	<b>15,691</b>	<b>18,107</b>

BALANCE SHEET (RO '000)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PPE	135,021	139,586	134,296	144,296	151,796	156,796	161,796	166,796
Right to use asset	4,259	4,161	4,064	4,064	4,064	4,064	4,064	4,064
Intangibles	1,968	1,952	1,934	1,934	1,934	1,934	1,934	1,934
Long term investments	2,529	4,616	5,618	5,618	5,618	5,618	5,618	5,618
<b>Total Non-Current Assets</b>	<b>143,777</b>	<b>150,315</b>	<b>145,912</b>	<b>155,912</b>	<b>163,412</b>	<b>168,412</b>	<b>173,412</b>	<b>178,412</b>
Short term investments	1,549	3,655	1,281	1,281	1,281	1,281	1,281	1,281
Inventories	4,651	4,764	5,081	5,450	6,306	6,937	7,700	8,624
Trade receivables	38,965	41,350	48,847	48,009	51,850	57,035	64,164	67,073
Cash and bank balance	20,243	26,894	20,558	17,289	11,185	10,845	12,114	21,833
<b>Total current assets</b>	<b>65,408</b>	<b>76,663</b>	<b>75,767</b>	<b>72,028</b>	<b>70,622</b>	<b>76,097</b>	<b>85,259</b>	<b>98,811</b>
<b>Total Assets</b>	<b>209,185</b>	<b>226,978</b>	<b>221,679</b>	<b>227,940</b>	<b>234,034</b>	<b>244,509</b>	<b>258,671</b>	<b>277,223</b>
Share capital	23,641	23,641	23,641	23,641	23,641	23,641	23,641	23,641
Share premium	26,936	26,936	26,936	26,936	26,936	26,936	26,936	26,936
Reserves	4,278	4,069	2,413	3,069	3,319	3,319	3,319	3,319
Retained earnings	7,007	12,366	20,957	26,890	33,788	42,705	53,668	67,047
Equity to shareholders	61,862	67,012	73,947	80,536	87,684	96,601	107,564	120,943
Non controlling interest	18,953	21,024	21,704	24,056	26,191	28,855	32,129	36,126
<b>Total equity</b>	<b>80,815</b>	<b>88,036</b>	<b>95,651</b>	<b>104,592</b>	<b>113,875</b>	<b>125,456</b>	<b>139,693</b>	<b>157,068</b>
Borrowings	71,026	78,168	65,345	60,345	55,345	50,345	45,345	40,345
Other Liabilities	10,464	10,443	10,662	10,678	9,855	9,845	9,835	9,825
<b>Total non-current liabilities</b>	<b>81,490</b>	<b>88,611</b>	<b>76,007</b>	<b>71,023</b>	<b>65,200</b>	<b>60,190</b>	<b>55,180</b>	<b>50,170</b>
Trade payables	41,244	43,344	42,105	45,414	49,047	53,952	59,887	67,073
Other current liabilities	5,636	6,987	7,916	6,911	5,911	4,911	3,911	2,911
<b>Total current liabilities</b>	<b>46,880</b>	<b>50,331</b>	<b>50,021</b>	<b>52,325</b>	<b>54,958</b>	<b>58,863</b>	<b>63,798</b>	<b>69,984</b>
<b>Total liabilities</b>	<b>128,370</b>	<b>138,942</b>	<b>126,028</b>	<b>123,348</b>	<b>120,159</b>	<b>119,053</b>	<b>118,978</b>	<b>120,155</b>
<b>Total equity and liabilities</b>	<b>209,185</b>	<b>226,978</b>	<b>221,679</b>	<b>227,940</b>	<b>234,034</b>	<b>244,509</b>	<b>258,671</b>	<b>277,223</b>

Cash Flow (RO '000)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	19,373	21,591	18,584	21,318	18,966	22,930	25,929	35,988
Investing cash flow	-22,982	-13,297	4,009	-10,000	-7,500	-5,000	-5,000	-5,000
Financing cash flow	-17,906	-635	-23,929	-15,106	-14,571	-14,211	-13,851	-13,491
Change in cash	-13,535	6,651	-6,336	-3,269	-6,104	-340	1,270	9,719
Beginning cash	33,778	20,243	26,894	20,558	17,289	11,185	10,845	12,114
<b>Ending cash</b>	<b>20,243</b>	<b>26,894</b>	<b>20,558</b>	<b>17,289</b>	<b>11,185</b>	<b>10,845</b>	<b>12,114</b>	<b>21,833</b>

Ratio Analysis	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<b>Per share</b>								
EPS (RO)	0.036	0.044	0.053	0.046	0.053	0.062	0.072	0.083
BVPS (RO)	0.262	0.283	0.313	0.334	0.362	0.398	0.443	0.498
DPS (RO)	0.020	0.020	0.020	0.020	0.020	0.020	0.020	0.020
FCF per share (RO)	-0.015	0.035	0.096	0.044	0.046	0.074	0.086	0.128
<b>Valuation Ratios</b>								
Market Cap (RO ,000)	70,923	80,379	110,167	90,309	90,309	90,309	90,309	90,309
EV (RO,000)	127,142	138,432	162,657	141,250	141,679	136,018	128,749	113,030
P/E (x)	10.5	8.5	7.1	8.2	7.2	6.1	5.3	4.6
EV/EBITDA (x)	5.9	5.9	6.8	5.6	5.2	4.5	3.8	3.0
Price/Book (x)	1.4	1.3	1.2	1.1	1.1	1.0	0.9	0.8
Dividend Yield (%)	6.7%	5.9%	4.3%	5.2%	5.2%	5.2%	5.2%	5.2%
Price to sales (x)	0.7	0.7	0.9	0.7	0.7	0.6	0.5	0.5
EV to sales (x)	1.2	1.3	1.3	1.1	1.0	0.9	0.8	0.6
<b>Liquidity</b>								
Cash Ratio (x)	0.4	0.5	0.4	0.3	0.2	0.2	0.2	0.3
Current Ratio (x)	1.4	1.5	1.5	1.4	1.3	1.3	1.3	1.4
Quick Ratio (x)	1.3	1.4	1.4	1.3	1.1	1.2	1.2	1.3
<b>Return Ratios</b>								
ROA (%)	4.6%	4.9%	5.5%	5.5%	6.1%	6.9%	7.5%	8.1%
ROE (%)	11.8%	12.7%	12.8%	12.1%	12.8%	13.7%	14.1%	14.5%
ROCE (%)	5.9%	6.3%	7.1%	7.1%	8.0%	9.1%	9.9%	10.8%
<b>Cash Cycle</b>								
Inventory turnover (x)	19.6	18.7	20.0	20.0	19.5	19.1	19.2	19.3
Accounts Payable turnover (x)	2.1	2.1	2.3	2.4	2.4	2.4	2.5	2.5
Receivables turnover (x)	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.9
Inventory days	18.7	19.6	18.3	18.2	18.7	19.1	19.0	19.0
Payable Days	176.3	176.7	158.8	151.9	150.4	149.0	148.3	147.6
Receivables days	135.1	133.9	135.7	137.5	130.0	128.9	129.3	125.0
Cash Cycle	-22.5	-23.3	-4.8	3.9	-1.7	-1.0	0.0	-3.7
<b>Profitability Ratio</b>								
Gross Margins (%)	19.7%	19.7%	18.8%	18.0%	18.0%	18.0%	18.0%	18.0%
EBITDA Margins (%)	20.4%	21.5%	19.8%	19.8%	19.8%	20.0%	20.0%	20.0%
PBT Margins (%)	9.1%	10.3%	10.0%	9.7%	10.4%	11.1%	11.5%	11.8%
Net Margins (%)	9.1%	10.2%	10.1%	9.7%	10.3%	11.0%	11.4%	11.8%
Effective Tax Rate (%)	0.2%	0.3%	-1.0%	0.3%	0.3%	0.3%	0.3%	0.3%
<b>Leverage</b>								
Total Debt (RO ,000)	76,462	84,947	73,048	67,048	61,048	55,048	49,048	43,048
Net Debt (RO ,000)	56,219	58,053	52,490	50,941	51,370	45,710	38,440	22,721
Debt/Capital (x)	3.2	3.6	3.1	2.8	2.6	2.3	2.1	1.8
Debt/Total Assets (x)	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2
Debt/Equity (x)	0.7	0.7	0.5	0.5	0.5	0.4	0.3	0.1

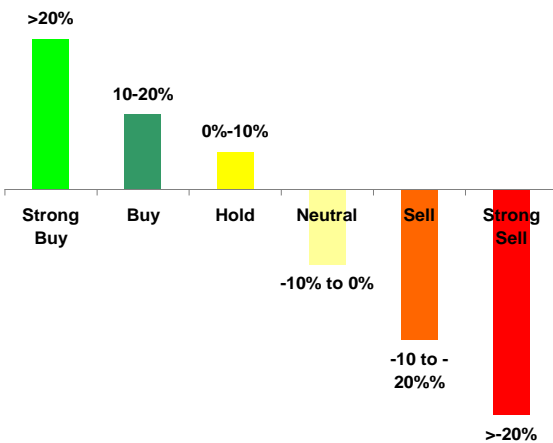
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## Rating Criteria and Definitions

### Rating



### Rating Definitions

<b>Strong Buy</b>	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
<b>Buy</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
<b>Hold</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
<b>Neutral</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
<b>Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
<b>Strong Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe

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