

## Engineering Services

**BUY: 12M TP @ 0.225**

### Valuation Summary (TTM)

Price (RO)	0.164
PER TTM (x)	27.7
P/Book (x)	2.1
P/Sales (x)	0.2
EV/Sales (x)	0.5
EV/EBITDA (x)	4.9
Dividend Yield (%)	0.0
Free Float (%)	59%
Shares O/S (mn)	203
YTD Return (%)	-6%
Beta	0.8

(mn)	OMR	USD
Market Cap	104	269
Enterprise Value	142	369
<b>Price performance (%)</b>	<b>1M</b>	<b>3M</b>
Galfar Engineering & Contr	-6%	-13%
MSX 30 Index	-1%	1%
Industry Index	0%	1%
<b>Trading liquidity (,000)</b>	<b>1M</b>	<b>3M</b>
Avg daily turnover (RO ,000)	69	81
Avg Daily Volume (,000)	416	452
<b>52 week</b>	<b>High</b>	<b>Low</b>
Price (RO)	0.210	0.149
		10.1

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

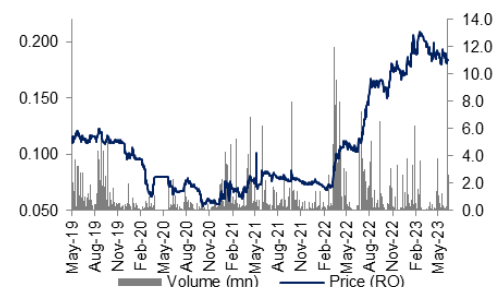
### Major shareholders

Salim Said Hamad Al Fannah	13.9%
Al-Sarraj Holding SAOG	9.2%
Rasiya Mohamm ed Ali	9.1%
Others	59.1%

### Other details

Exchange	MSX
Sector	Engineering&Construc
Index weight (%)	1.06%

Key ratios	2020	2021	2022
EPS (RO)	-0.097	0.004	0.004
BVPS (RO)	0.069	0.073	0.077
DPS (RO)	0.000	0.000	0.000
Payout ratio (%)	0%	0%	0%



## Galfar Engineering – Order book gains

GECS reported revenue for the quarter at RO 63mn which was higher by 56% on a YoY basis. The topline growth has been commendable and 13% higher than our expectation. It is also the highest revenue reported by the company over the last 17 quarters. We have been optimistic about GECS based on the ground level changes witnessed post its major “Transformation strategy”. The company has refocused on an order book that has sustainable margins while at the same time aggressively bidding for new projects. The order book position has increased by 19% YoY to reach the highest level of RO 644mn in 2Q23. This is despite the increasing competition from domestic as well as international players. More importantly, the gross margin has witnessed improvement to 6.9% and is at levels last seen in 2018. EBITDA for the quarter was at RO 4.2mn and higher by 45% during the quarter compared to the same period last year. The spoiler for the stupendous topline and superior operational performance came in the form of provisions for receivables which were at RO 1.1mn. This along with a 11% increase in finance cost during the quarter reduced the profits for 2Q23 substantially. Net profit during the quarter was lower by 31% YoY at RO 505k and 36% less than our expectation. However, profits were higher in the 1H23 by 19% compared to the previous year, due to the low base in 1Q22. In May this year, we had revised upwards our target price on the stock to RO 0.225 per share. We keep our forecasts unchanged for the year and maintain our target price. Based on our estimates the stock trades at 2023e PE of 12.5x and EV/EBITDA of 4.9x. The recent weakness in share price is providing investors an attractive entry opportunity to a turnaround business. We expect price recoveries in the coming quarters and maintain our target price of RO 0.225 and BUY rating on stock.

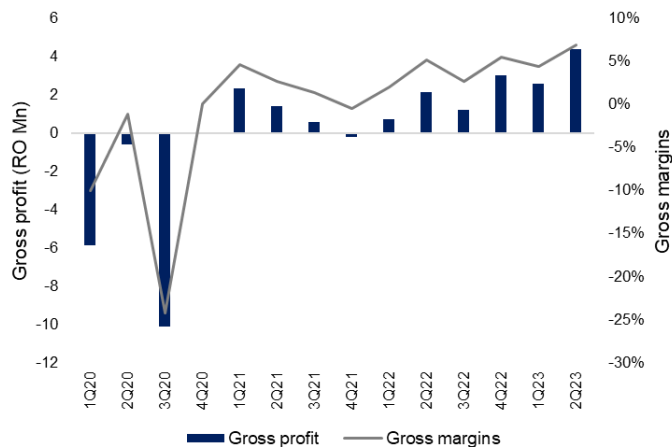
GECS embarked on a strategy to return back to profitability couple of years ago. The main areas of focus were restructuring the organization, increasing the operational efficiency, improving the financial position and liquidity situation and extensive use of technology. Over the years we have witnessed measurable improvement across all these aspects. The organization has become leaner and unnecessary overheads have been cleared. Subsidiaries have also started reporting lower losses. The financial position has improved with less than RO 10mn as long term borrowings, consistent cash position in excess RO 7-8mn. Accumulated losses have reduced to RO 6.8mn and receivables is lower by 28% from 2020 levels.

The recent order from PDO indicates that the company is back to offering its services to the O&G sector post a hiatus. The PDO order is also significant in terms of size at RO 280mn (additional RO 120mn in the event of extension) and re-iteration of its conviction in GECS. The company is venturing into new areas such as construction technology, energy, minerals and other such sectors which will diversify the order book and bring long term sustainable opportunities. We remain optimistic that the company will revert to reporting consistent growth in profits going forward based on the improvements seen so far.

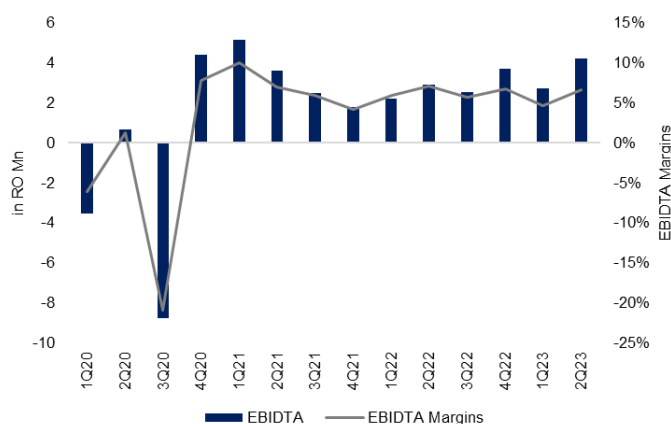
Revenue growth continues unabated



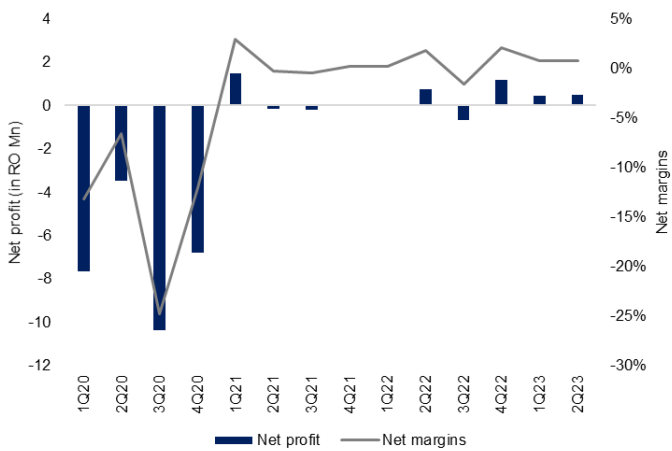
Quality order book leads to higher gross margins



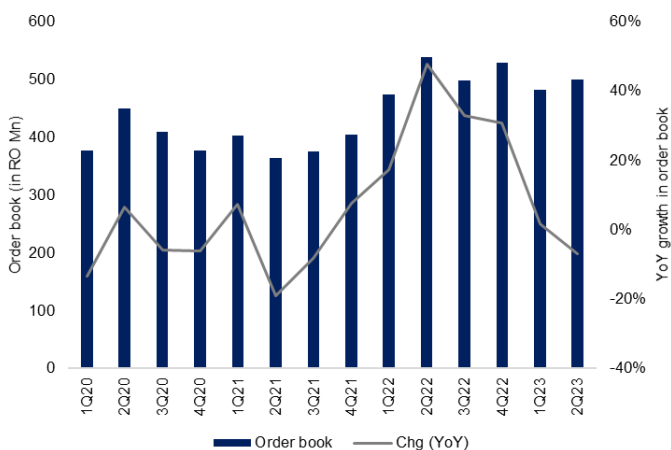
EBIDTA moves in line with revenue with steady margins



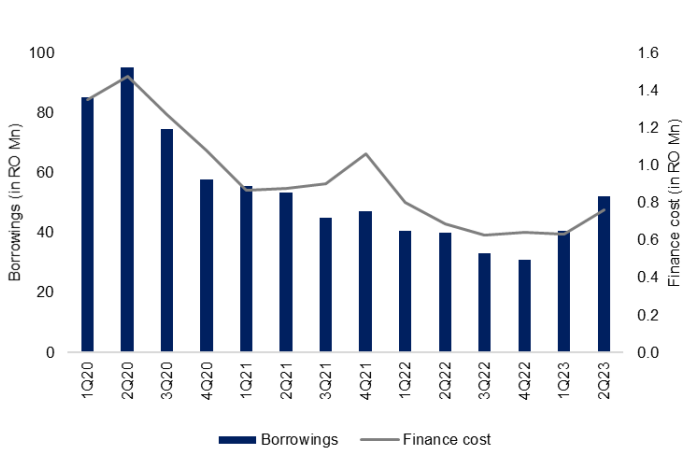
Consistent net profit over the last three quarters



Orderbook holding steady above RO 500mn



Short term borrowings increase during the quarter



P&L (in '000 OMR)	2019	2020	2021	2022	2023e	2024e	2025E	2026E	2027E
Total Revenue	248,808	208,922	187,949	177,621	228,000	233,471	241,313	266,856	293,541
Cost of Goods & Services	239,842	225,458	183,871	170,583	220,020	224,132	231,057	255,381	280,332
<b>Gross profit</b>	<b>8,966</b>	<b>-16,536</b>	<b>4,078</b>	<b>7,038</b>	<b>7,980</b>	<b>9,339</b>	<b>10,256</b>	<b>11,475</b>	<b>13,209</b>
Other income	2,581	4,010	5,316	2,284	6,150	5,119	5,276	5,787	6,320
Admin exp	8,136	7,582	7,243	7,659	7,980	8,171	7,843	8,673	9,540
Operating profit	3,411	-20,108	2,151	1,663	6,150	6,286	7,689	8,589	9,990
<b>EBIDTA</b>	<b>17,898</b>	<b>-7,205</b>	<b>13,747</b>	<b>11,017</b>	<b>15,013</b>	<b>15,933</b>	<b>22,771</b>	<b>24,600</b>	<b>27,602</b>
Provision for impairment of receivables	18,146	3,073	-2,999	-1,651	0	0	0	0	0
Finance costs	6,846	5,173	3,705	2,756	2,191	2,468	2,614	852	787
Share of profit from associates	-167	-174	166	402	100	150	200	250	300
Operating expense	32,961	15,654	8,115	9,166	10,271	10,789	10,657	9,775	10,627
Profit/Loss Before Tax	-21,414	-28,180	1,279	156	3,858	3,669	4,875	7,486	8,902
Taxation	95	88	24	-1,127	58	55	73	112	134
<b>Net Profit/Loss from cont ops</b>	<b>-21,509</b>	<b>-28,268</b>	<b>1,255</b>	<b>1,283</b>	<b>3,800</b>	<b>3,613</b>	<b>4,802</b>	<b>7,374</b>	<b>8,769</b>

Balance Sheet (RO '000)	2019	2020	2021	2022	2023e	2024e	2025E	2026E	2027E
PPE	47,032	35,922	25,544	24,933	22,297	22,098	22,584	24,203	27,867
Intangibles	294	372	317	215	215	215	215	215	215
Right to use asset	1,862	1,104	4,289	6,197	6,970	7,622	8,144	8,524	8,752
Investment in associates	4,943	5,099	4,965	4,496	4,496	4,496	4,496	4,496	4,496
Trade non current receivables	8,042	11,060	12,418	11,551	13,680	14,008	11,583	12,809	14,090
Other non-current assets	145	145	145	145	145	145	145	145	145
<b>Total Non-Current Assets</b>	<b>62,318</b>	<b>53,702</b>	<b>47,678</b>	<b>47,537</b>	<b>47,803</b>	<b>48,585</b>	<b>47,167</b>	<b>50,392</b>	<b>55,565</b>
Current Inventories	10,712	12,417	11,521	13,785	17,602	17,931	18,485	17,877	19,623
Trade and current receivables	167,360	137,889	104,350	87,023	123,120	126,074	104,247	115,282	126,810
Cash and bank balance	6,575	6,790	17,479	11,135	3,839	13,738	11,893	18,373	12,403
Other current non fin assets	57,466	35,195	43,723	57,686	57,000	46,694	48,263	53,371	58,708
<b>Total current assets</b>	<b>242,113</b>	<b>192,291</b>	<b>177,073</b>	<b>169,629</b>	<b>201,561</b>	<b>204,436</b>	<b>182,887</b>	<b>204,902</b>	<b>217,544</b>
<b>Total Assets</b>	<b>304,431</b>	<b>245,993</b>	<b>224,751</b>	<b>217,166</b>	<b>249,364</b>	<b>253,021</b>	<b>230,055</b>	<b>255,294</b>	<b>273,109</b>

Share capital	41,522	41,522	29,065	29,065	29,065	29,065	29,065	29,065	29,065
Share premium	18,337	18,337	0	0	0	0	0	0	0
Statutory reserve	14,426	14,427	1,051	1,514	1,514	1,590	1,590	1,590	1,590
Other reserves	-320	-338	-306	-440	-440	-440	-440	-440	-440
Retained earnings	-25,695	-53,965	-8,516	-7,675	-3,875	-3,697	-2,058	7,374	8,769
Non controlling interest	906	907	883	862	862	863	863	863	863
<b>Total equity</b>	<b>49,176</b>	<b>20,890</b>	<b>22,177</b>	<b>23,326</b>	<b>27,126</b>	<b>27,381</b>	<b>29,020</b>	<b>38,452</b>	<b>39,847</b>

Non-current provisions for employee benefits	15,020	13,154	12,212	12,300	13,965	14,300	13,725	15,177	16,695
Borrowings	11,713	10,819	11,561	5,968	8,726	9,726	10,226	10,476	10,726
Non-current lease liabilities	1,288	948	1,335	2,449	2,449	2,449	2,449	2,449	2,449
Deferred tax liabilities	323	363	361	347	347	347	347	347	347
Other non current liabilities	7,411	5,530	6,743	7,542	7,980	8,171	8,446	9,340	10,274
<b>Total non-current liabilities</b>	<b>35,755</b>	<b>30,814</b>	<b>32,212</b>	<b>28,606</b>	<b>33,467</b>	<b>34,993</b>	<b>35,192</b>	<b>37,789</b>	<b>40,491</b>

Current provisions for employee benefits	0	6,271	5,682	4,674	5,985	6,129	5,882	6,505	7,155
Trade and other current payables	141,619	96,157	93,223	95,201	114,410	116,549	92,423	102,152	112,133
Borrowings, current	75,729	47,015	35,666	25,109	21,502	20,002	18,002	15,752	13,502
Current lease liabilities	644	886	815	1,149	1,149	1,149	1,149	1,149	1,149
Current tax liabilities, current	1,508	1,428	1,406	125	125	125	125	125	125
Other current non-financial liabilities	0	42,532	33,570	38,976	45,600	46,694	48,263	53,371	58,708
<b>Total current liabilities</b>	<b>219,500</b>	<b>194,289</b>	<b>170,362</b>	<b>165,234</b>	<b>188,771</b>	<b>190,647</b>	<b>165,843</b>	<b>179,054</b>	<b>192,772</b>

<b>Total liabilities</b>	<b>255,255</b>	<b>225,103</b>	<b>202,574</b>	<b>193,840</b>	<b>222,237</b>	<b>225,640</b>	<b>201,035</b>	<b>216,842</b>	<b>233,262</b>
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<b>Total equity and liabilities</b>	<b>304,431</b>	<b>245,993</b>	<b>224,751</b>	<b>217,166</b>	<b>249,364</b>	<b>253,021</b>	<b>230,055</b>	<b>255,294</b>	<b>273,109</b>
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Cash Flow (RO '000)	2019	2020	2021	2022	2023e	2024e	2025E	2026E	2027E
Cash from operations	50,494	36,766	28,586	21,201	-10,954	13,776	22,892	20,239	20,425
Investing cash flow	2,457	-1,996	-3,967	-5,923	-7,500	-10,000	-11,000	-12,500	-15,000
Financing cash flow	-49,147	-34,646	-16,897	-20,475	-6,191	-13,524	-26,591	25,375	23,440
Change in cash	3,804	215	10,689	-6,344	-7,296	9,898	-1,844	6,480	-5,970
Beginning cash	2,771	6,575	6,790	17,479	11,135	3,839	13,738	11,893	18,373
<b>Ending cash</b>	<b>6,575</b>	<b>6,790</b>	<b>17,479</b>	<b>11,135</b>	<b>3,839</b>	<b>13,738</b>	<b>11,893</b>	<b>18,373</b>	<b>12,403</b>




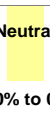


Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025E	2026E	2027E
<b>Per share</b>									
EPS (RO)	-0.052	-0.068	0.004	0.004	0.013	0.012	0.017	0.025	0.030
BVPS (RO)	0.116	0.048	0.073	0.077	0.090	0.091	0.097	0.129	0.134
DPS (RO)	-	-	-	-	-	-	-	-	-
FCF per share (RO)	0.128	0.084	0.085	0.053	-0.063	0.013	0.041	0.027	0.019
<b>Valuation Ratios</b>									
Market Cap (RO ,000)	28,235	17,024	21,217	51,445	53,480	53,480	53,480	53,480	53,480
EV (RO,000)	109,102	68,068	50,965	74,537	79,867	69,469	69,813	61,334	65,304
P/E (x)	-3.42	-2.60	40.99	40.10	14.07	14.80	11.14	7.25	6.10
EV/EBITDA (x)	6.10	-9.45	3.71	6.77	5.32	4.36	3.07	2.49	2.37
Price/Book (x)	1.52	3.68	2.42	2.29	2.04	2.02	1.90	1.42	1.37
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price to sales (x)	0.11	0.08	0.11	0.29	0.23	0.23	0.22	0.20	0.18
EV to sales (x)	0.44	0.33	0.27	0.42	0.35	0.30	0.29	0.23	0.22
<b>Liquidity</b>									
Cash Ratio (x)	0.03	0.03	0.10	0.07	0.02	0.07	0.07	0.10	0.06
Current Ratio (x)	1.10	0.99	1.04	1.03	1.07	1.07	1.10	1.14	1.13
Quick Ratio (x)	1.05	0.93	0.97	0.94	0.97	0.98	0.99	1.04	1.03
<b>Return Ratios</b>									
ROA (%)	-7.1%	-11.5%	0.6%	0.6%	1.5%	1.4%	2.1%	2.9%	3.2%
ROE (%)	-43.7%	-135.3%	5.7%	5.5%	14.0%	13.2%	16.5%	19.2%	22.0%
ROCE (%)	-25.3%	-54.7%	2.3%	2.5%	6.3%	5.8%	7.5%	9.7%	10.9%
<b>Cash Cycle</b>									
Inventory turnover (x)	23.00	19.50	15.36	13.48	14.02	12.62	12.69	14.05	14.95
Accounts Payable turnover (x)	1.59	1.90	1.94	1.81	2.10	1.94	2.21	2.63	2.62
Receivables turnover (x)	1.24	1.29	1.41	1.65	1.94	1.69	1.89	2.19	2.18
Inventory days	15.87	18.72	23.76	27.07	26.03	28.93	28.76	25.98	24.41
Payable Days	230.06	192.47	187.97	201.59	173.87	188.06	165.06	139.05	139.50
Receivables days	295.49	283.33	258.01	221.26	188.40	216.43	193.54	166.82	167.24
Cash Cycle	81.30	109.58	93.80	46.74	40.57	57.31	57.25	53.75	52.15
<b>Profitability Ratio</b>									
Gross Margins (%)	3.6%	-7.9%	2.2%	4.0%	3.5%	4.0%	4.3%	4.3%	4.5%
EBITDA Margins (%)	7.2%	-3.4%	7.3%	6.2%	6.6%	6.8%	9.4%	9.2%	9.4%
PBT Margins (%)	-8.6%	-13.5%	0.7%	0.1%	1.7%	1.6%	2.0%	2.8%	3.0%
Net Margins (%)	-8.6%	-13.5%	0.7%	0.7%	1.7%	1.5%	2.0%	2.8%	3.0%
Effective Tax Rate (%)	-0.4%	-0.3%	1.9%	-	1.5%	1.5%	1.5%	1.5%	1.5%
<b>Leverage</b>									
Total Debt (RO ,000)	87,442	57,834	47,227	34,227	30,227	29,727	28,227	26,227	24,227
Net Debt (RO ,000)	80,867	51,044	29,748	23,092	26,388	15,989	16,334	7,854	11,824
Debt/Capital (x)	2.11	1.39	1.62	1.18	1.04	1.02	0.97	0.90	0.83
Debt/Total Assets (x)	0.29	0.24	0.21	0.16	0.12	0.12	0.12	0.10	0.09
Debt/Equity (x)	1.64	2.44	1.34	0.99	0.97	0.58	0.56	0.20	0.30

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## Rating Criteria and Definitions

Rating	Rating Definitions
 <b>Strong Buy</b>	<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>	<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>	<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>	<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>	<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>	<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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