

## Contract Services

### STRONG BUY: 12M TP @ 0.519

#### Valuation Summary (TTM)

Price (RO)	0.416
PER TTM (x)	7.1
P/Book (x)	1.1
P/Sales (x)	0.7
EV/Sales (x)	1.5
EV/EBITDA (x)	NM
Dividend Yield (%)	4.9
Free Float (%)	69%
Shares O/S (mn)	236
YTD Return (%)	-11%
Beta	0.9

(mn)	OMR	USD
Market Cap	98	255
EV	176	458

Price performance (%)	1M	3M	12M
Renaissance Services SAO	1%	6%	-16%
MSX 30 Index	-2%	-4%	4%
Services Index	-5%	-6%	2%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	22	71	45
Avg Daily Volume (,000)	107	348	203

52 week	High	Low	CTL*
Price (RO)	0.494	0.356	16.9

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

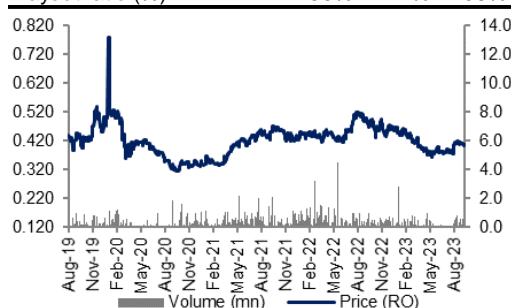
#### Major shareholders

Tawoos LLC	11.6%
Al Douriah Services LLC	9.7%
Tawoos Industrial Services LLC	9.7%
Others	69.1%

#### Other details

Exchange	MSX
Sector	Transportation
Index weight (%)	2.76%

Key ratios	2020	2021	2022
EPS (RO)	0.036	0.043	0.053
BVPS (RO)	0.290	0.314	0.453
DPS (RO)	0.020	0.020	0.020
Payout ratio (%)	56%	47%	38%



## Renaissance Services – cost control mode

Renaissance Services (RNSS) reported 3Q23 net income of RO 2.5 mn, in line with estimates, and lower by 11.8% y/y. The revenue for the quarter came in at RO 25.3mn which was lower by 13.6% as compared to the same period the previous year (-5% vs estimates). For the 9M23 revenue was reported at RO 77.4mn which was lower by 12.7% YoY and net income for the period was at RO 7.75mn a decline of 22.6%. Renaissance has been facing lower occupancy in RSVD since last year as several large projects were completed in Duqm and new projects have been delayed. The current occupancy at Duqm stood at around 30% significantly lower than expected. Envisaging a low period of occupancy, the management has proactively controlled costs to maintain margins. During the 9M23 direct expenses declined in line with the revenue by 11.9% YoY, thereby keeping gross margins at the same levels as the previous year (19.1% in 9M23 vs 19.9% in 9M22). EBITDA margins also stood at 21.6% in 9M23 (vs 21.4% in 9M22) in line with the gross margin trends. Finance cost declined by 15.7% during the nine-month period on the back of a 9.2% decline in gross debt. Lower operating costs have reduced the breakeven PAC occupancy levels for the company. Based on the lower than expected revenue and muted occupancy levels we revise our top line forecast downwards to RO 103mn and net profit to RO 10.4mn. We believe it is likely to take more time for RSVD to revert to a decent level of operations and contribute to growth. We are positive on the cost control measures and the industry under which RNSS operates. Hence we retain our target price at RO 0.519 per share and update our rating on the stock to **STRONG BUY** on account of ~25% upside potential.

### Key highlights of the earnings call:

The management believes, Duqm will witness several renewable energy companies coming in soon especially in the green hydrogen space, green steel by Jindal group and petrochemical projects leading to higher occupancy levels going forward. 4Q23 will witness improvement in occupancy levels as certain companies have contracted during the period.

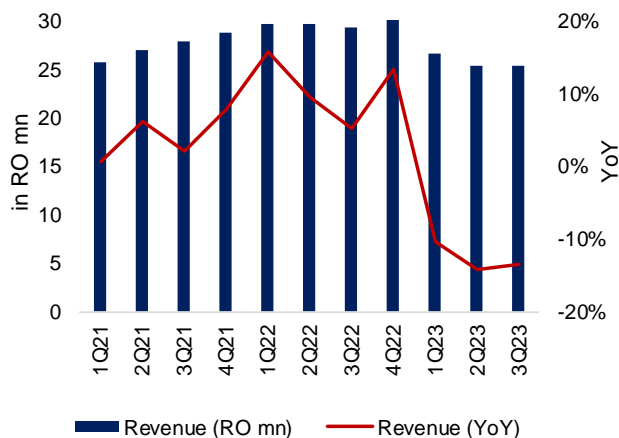
Some of the illegal PACs have been dismantled and government has taken action against subpar contractors. This will auger well for RNSS which maintains high standards of operation.

Cost control measures to continue and margins will remain at current levels despite pressure on top line.

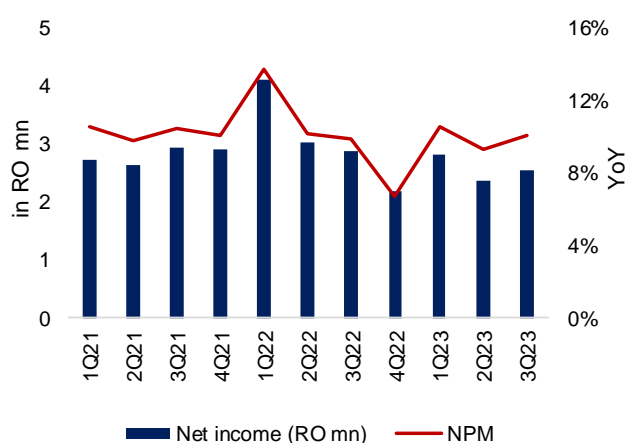
Leverage levels to decrease over a period, using cash levels to pay off debt, current cash levels at RO 10mn

**Outlook and Valuation:** We believe there is excessive pessimism surrounding the sector and the company, it remains undervalued at current levels. At current price the stock trades attractively at 7.5x 2023e EPS and a dividend yield of 5.1%.

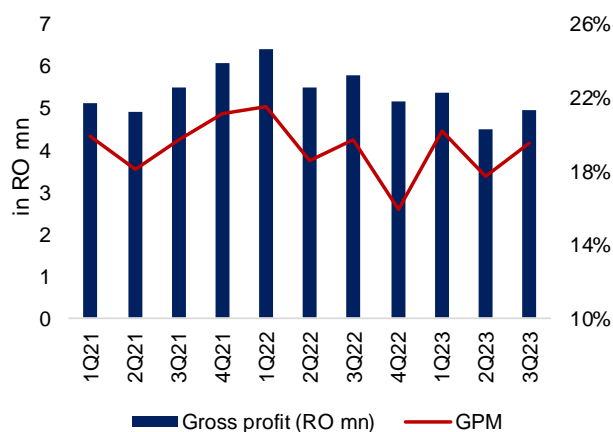
### Revenue declines on lower RSVD occupancy



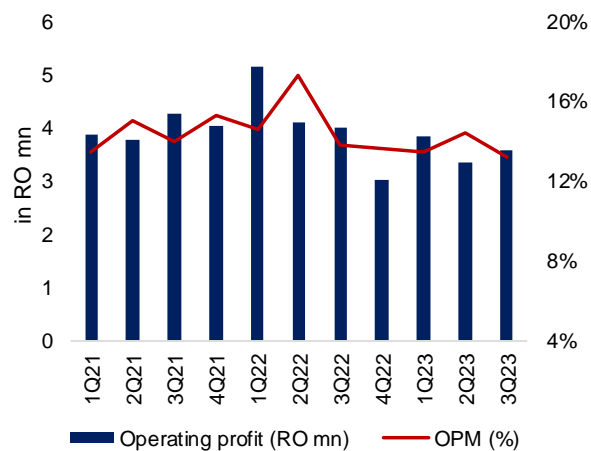
### Net margin holds despite stress in top line



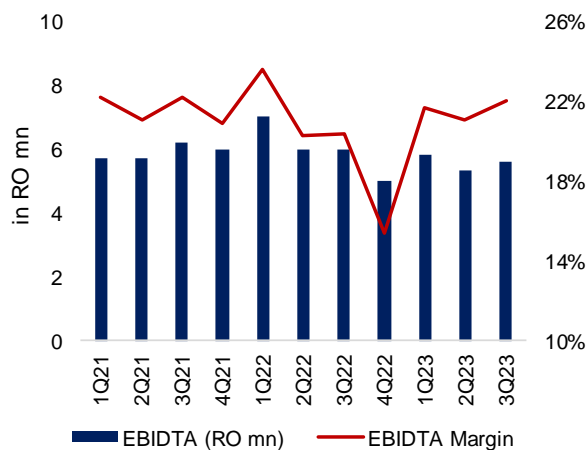
### Cost control measures prop up gross margins



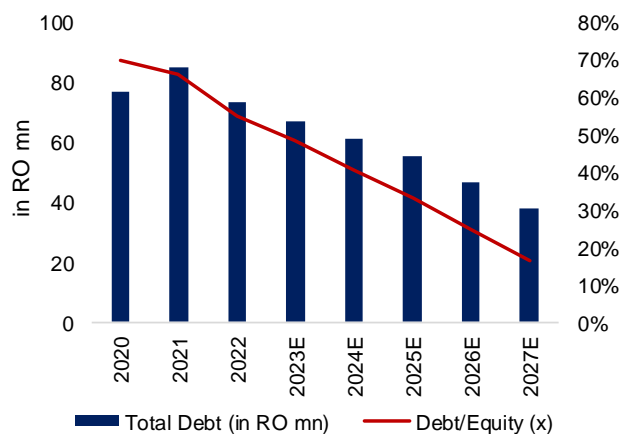
### Operating margins steady at 12%



### EBIDTA in line with gross profits



### Debt Equity trend to decline



INCOME STATEMENT (RO '000)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	105,030	109,438	121,266	103,171	108,330	119,163	132,270	148,143
Operating costs	84,334	87,878	98,437	83,569	87,205	96,522	107,800	121,477
<b>Gross profit</b>	<b>20,696</b>	<b>21,560</b>	<b>22,829</b>	<b>19,602</b>	<b>21,124</b>	<b>22,641</b>	<b>24,470</b>	<b>26,666</b>
Admin exp	7,058	6,032	7,246	6,190	6,229	6,852	7,606	8,518
Investment Income	501	397	669	622	500	500	500	500
<b>EBIDTA</b>	<b>21,413</b>	<b>23,578</b>	<b>23,985</b>	<b>22,002</b>	<b>23,395</b>	<b>24,329</b>	<b>25,444</b>	<b>26,797</b>
<b>Operating profit</b>	<b>14,139</b>	<b>15,925</b>	<b>16,252</b>	<b>14,034</b>	<b>15,395</b>	<b>16,289</b>	<b>17,364</b>	<b>18,647</b>
Finance costs	4,548	5,462	4,801	3,972	4,163	3,773	3,302	2,749
<b>Profit Before Tax</b>	<b>9,591</b>	<b>11,239</b>	<b>12,099</b>	<b>10,470</b>	<b>11,632</b>	<b>12,916</b>	<b>14,463</b>	<b>16,298</b>
Taxation	16	31	-119	31	35	39	43	49
<b>Net income</b>	<b>9,575</b>	<b>11,208</b>	<b>12,218</b>	<b>10,439</b>	<b>11,597</b>	<b>12,877</b>	<b>14,419</b>	<b>16,249</b>
<i>Less: Minority interest</i>	<i>1,902</i>	<i>2,071</i>	<i>840</i>	<i>-729</i>	<i>580</i>	<i>644</i>	<i>721</i>	<i>812</i>
<b>Profit to shareholders</b>	<b>7,673</b>	<b>9,421</b>	<b>11,378</b>	<b>11,168</b>	<b>11,017</b>	<b>12,233</b>	<b>13,698</b>	<b>15,437</b>

BALANCE SHEET (RO '000)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PPE	135,021	139,586	134,296	136,296	138,296	140,796	143,296	145,796
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>147,912</b>	<b>149,912</b>	<b>152,412</b>	<b>154,912</b>	<b>157,412</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	4,643	4,875	5,362	5,952	6,666
Trade receivables	38,965	41,350	48,847	47,459	49,832	54,815	60,844	68,146
Cash and bank balance	20,243	26,894	20,558	16,818	15,364	14,921	13,524	13,956
<b>Total current assets</b>	<b>65,408</b>	<b>76,663</b>	<b>75,767</b>	<b>70,200</b>	<b>71,351</b>	<b>76,379</b>	<b>81,602</b>	<b>90,049</b>
<b>Total Assets</b>	<b>209,185</b>	<b>226,978</b>	<b>221,679</b>	<b>218,112</b>	<b>221,263</b>	<b>228,791</b>	<b>236,514</b>	<b>247,461</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	2,159	2,159	2,159	2,159	2,159
Retained earnings	7,007	12,366	20,957	27,397	33,686	41,191	50,161	60,870
Equity to shareholders	61,862	67,012	73,947	80,133	86,422	93,927	102,897	113,606
Non controlling interest	18,953	21,024	21,704	23,936	25,814	28,056	30,735	33,934
<b>Total equity</b>	<b>80,815</b>	<b>88,036</b>	<b>95,651</b>	<b>104,068</b>	<b>112,236</b>	<b>121,983</b>	<b>133,632</b>	<b>147,540</b>
Borrowings	71,026	78,168	65,345	60,345	55,345	50,345	42,845	35,345
Other Liabilities	10,464	10,443	10,662	10,678	9,855	9,845	9,830	9,815
<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>52,675</b>	<b>45,160</b>
Trade payables	41,244	43,344	42,105	36,110	37,915	41,707	46,295	51,850
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>43,021</b>	<b>43,826</b>	<b>46,618</b>	<b>50,206</b>	<b>54,761</b>
<b>Total liabilities</b>	<b>128,370</b>	<b>138,942</b>	<b>126,028</b>	<b>114,044</b>	<b>109,027</b>	<b>106,808</b>	<b>102,881</b>	<b>99,921</b>
<b>Total equity and liabilities</b>	<b>209,185</b>	<b>226,978</b>	<b>221,679</b>	<b>218,112</b>	<b>221,263</b>	<b>228,791</b>	<b>236,514</b>	<b>247,461</b>

Cash Flow (RO '000)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	19,373	21,591	18,584	10,261	14,635	15,465	17,166	19,190
Investing cash flow	-22,982	-13,297	4,009	-2,000	-2,000	-2,500	-2,500	-2,500
Financing cash flow	-17,906	-635	-23,929	-14,700	-14,891	-14,501	-16,530	-15,978
Change in cash	-13,535	6,651	-6,336	-3,740	-1,455	-442	-1,397	432
Beginning cash	33,778	20,243	26,894	20,558	16,818	15,364	14,921	13,524
<b>Ending cash</b>	<b>20,243</b>	<b>26,894</b>	<b>20,558</b>	<b>16,818</b>	<b>15,364</b>	<b>14,921</b>	<b>13,524</b>	<b>13,956</b>

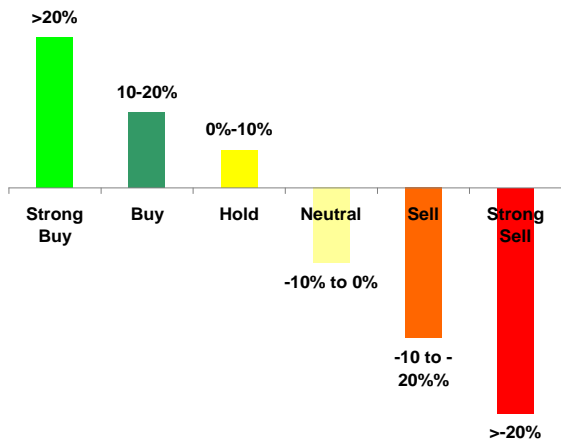
Ratio Analysis	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<b>Per share</b>								
EPS (RO)	0.036	0.044	0.053	0.052	0.052	0.057	0.064	0.072
BVPS (RO)	0.262	0.283	0.313	0.339	0.366	0.397	0.435	0.481
DPS (RO)	0.020	0.020	0.020	0.020	0.020	0.020	0.020	0.020
FCF per share (RO)	-0.015	0.035	0.096	0.035	0.053	0.055	0.062	0.071
<b>Valuation Ratios</b>								
Market Cap (RO ,000)	70,923	80,379	110,167	92,200	92,200	92,200	92,200	92,200
EV (RO,000)	127,142	138,432	162,657	142,430	137,884	132,327	125,224	116,292
P/E (x)	10.5	8.5	7.1	7.5	7.6	6.8	6.1	5.4
EV/EBITDA (x)	5.9	5.9	6.8	6.5	5.9	5.4	4.9	4.3
Price/Book (x)	1.4	1.3	1.2	1.2	1.1	1.0	0.9	0.8
Dividend Yield (%)	6.7%	5.9%	4.3%	5.1%	5.1%	5.1%	5.1%	5.1%
Price to sales (x)	0.7	0.7	0.9	0.9	0.9	0.8	0.7	0.6
EV to sales (x)	1.2	1.3	1.3	1.4	1.3	1.1	0.9	0.8
<b>Liquidity</b>								
Cash Ratio (x)	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Current Ratio (x)	1.4	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Quick Ratio (x)	1.3	1.4	1.4	1.5	1.5	1.5	1.5	1.5
<b>Return Ratios</b>								
ROA (%)	4.6%	4.9%	5.5%	4.8%	5.2%	5.6%	6.1%	6.6%
ROE (%)	11.8%	12.7%	12.8%	10.0%	10.3%	10.6%	10.8%	11.0%
ROCE (%)	5.9%	6.3%	7.1%	6.0%	6.5%	7.1%	7.7%	8.4%
<b>Cash Cycle</b>								
Inventory turnover (x)	19.6	18.7	20.0	17.2	18.3	18.9	19.1	19.3
Accounts Payable turnover (x)	2.1	2.1	2.3	2.1	2.3	2.4	2.4	2.5
Receivables turnover (x)	2.7	2.7	2.7	2.1	2.2	2.3	2.3	2.3
Inventory days	18.7	19.6	18.3	21.2	19.9	19.4	19.2	19.0
Payable Days	176.3	176.7	158.8	171.3	155.4	150.9	149.3	147.7
Receivables days	135.1	133.9	135.7	170.4	163.9	160.3	159.6	158.9
Cash Cycle	-22.5	-23.3	-4.8	20.3	28.4	28.7	29.4	30.2
<b>Profitability Ratio</b>								
Gross Margins (%)	19.7%	19.7%	18.8%	19.0%	19.5%	19.0%	18.5%	18.0%
EBITDA Margins (%)	20.4%	21.5%	19.8%	21.3%	21.6%	20.4%	19.2%	18.1%
PBT Margins (%)	9.1%	10.3%	10.0%	10.1%	10.7%	10.8%	10.9%	11.0%
Net Margins (%)	9.1%	10.2%	10.1%	10.1%	10.7%	10.8%	10.9%	11.0%
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	46,548	38,048
Net Debt (RO ,000)	56,219	58,053	52,490	50,230	45,684	40,127	33,024	24,092
Debt/Capital (x)	3.2	3.6	3.1	2.8	2.6	2.3	2.0	1.6
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	0.4	0.3	0.2	0.2

## Key contacts

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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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