

Target Price: SAR222/share  
Current Price: SAR173/share  
Upside: 28.3%  
Rating: Overweight

## Saudi Azm for Communication and Information Technology Company (Azm)

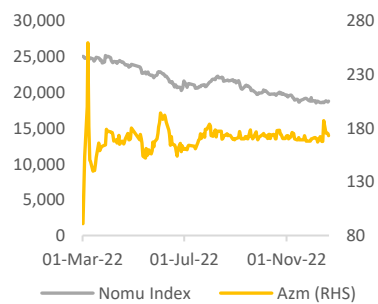
### Small cap with significant potential

#### Stock data

TASI ticker	9531.SE
Mcap (SARmn)	519
Trd. Val (3m) (SARmn)	0.3
Free float	58%
QFI holding	0.2%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

- Azm's revenues witnessed a CAGR of 75% during 2018-22, with net income growing by 59% during the same period. The management has further guided a net income growth of 25% in 2023e.
- With ambitious management, the potential appears to be immense, given the currently small base as Azm builds up a track record to bid for larger projects in a sole capacity.
- We initiate coverage on Saudi Azm with a target price of SAR222/share (average of DCF and P/E valuation) and an Overweight rating.

**Sustained growth, strong guidance:** In 2018, the group's revenue was a meagre SAR15mn with a bottom-line of SAR3mn but has grown exponentially since then. The group's market share in Consulting and Platform sectors combined has grown from less than half a percent in 2018 to more than 1% in 2022. Given the ambitions and capabilities, we believe this could increase to more than 2% in the next five years. The group has already developed nearly 14 platforms and products over the years. As the company builds up a track record and becomes sizeable, this will help the company to bid for larger Government projects. The company could also leverage its existing products and platforms to create additional revenue streams via maintenance, operations, and upgradation activities.

**Products focus:** Currently, more than 50% of the group's revenues come from the Manpower segment, which has single-digit margins. However, the group's focus is more on Platforms & Products, and IT services and over the years is expected to see lower contribution from Manpower. Group's average gross margin for the period 2020-22 is c.20%, but we expect it to widen to 250bps by 2025e as the products have much higher margins and become sizeable.

**Risks:** Being a technology-driven company, the major risk is failure to keep up with technological changes in the sector. Lack of diversity in clientele, ability to maintain talent, execution risks leading to inability to bid for future projects, increase in competition, unfavorable changes in regulations are some of the risks.

Figure 1: Key financial metrics

SARmn	2021a	2022a	2023e	2024e	2025e
Revenue	135	153	189	228	270
Revenue growth	31%	13%	24%	20%	19%
Gross Profit	29	31	39	47	57
Gross Profit margin	21.6%	20.2%	20.5%	20.8%	21.0%
EBITDA	19	21	21	28	34
Op. income	17	20	20	26	32
Net profit	16	18	18	24	29
Net profit margin	11.5%	11.9%	9.6%	10.4%	10.8%
EPS (SAR)	5.2	6.1	6.0	7.9	9.7
P/E	32.7x	27.8x	28.0x	21.5x	17.4x

Source: Company data, GIB Capital

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## Investment case

Azm is a fast-growing IT and consulting services company listed on Nomu on 01<sup>st</sup> March 22. The group employs more than 250 people with an average age of ~30 years. The group has been building its track record, with the company has grown from a small player with SAR50k capital five years ago into a listed company with a market cap of SAR508mn today.

Saudi Azm has three main sources of revenue – 1) IT services, 2) Executive Services, 3) Products and PPP. The majority of the group’s revenues come from IT and Executive services. The group, however, also classifies its business according to the nature of business viz. Manpower, Platform, Subscription, and Services. The revenue mix is around 55% from Manpower, 35% Services and 15% Products. The manpower segment involves providing consultants as employees to clients and is not its core area of business, as per the company. Despite being large in terms of revenue, the business has thin margins and thus in terms of profits is less important as per the company. As per the management, net margins are around 8%, 30-40%, and likely 60%+ for the three business segments, respectively. Products is where the revenue is expected to jump significantly and the company is focusing on.

With the successful launch of some unique products, the company has gained credibility to participate in larger Govt projects and is confident to continue its growth trajectory. The company conservatively has been guided to grow by 26% in revenue and 25% in profits in 2023. The company has ambitious management and envisions becoming bigger than Elm in the next five years. The group also plans to move to the main market by 2024. Given that the size is small, the growth can be much higher than some of its peers for at least the next few years and thus commands a premium multiple.

The company’s topline growth in the last five years has outgrown the sector by a good margin with a CAGR of 75%. The bottom line has also been healthy, with a CAGR of 59% in the same period. For example, Azm grew by 107% over 2018-21 as compared to Elm’s growth of 26% and Perfect Presentation’s growth of 54% (though they are not completely comparable). In terms of margins, Azm has an average 14% net margin (2018-21) as compared to 15% for Elm and 11% for Perfect in the same period. Most recently, the group witnessed 25.5% earnings growth in the year ending June 2022. Azm has also established software development offices in Poland, Jordan, and Egypt, employing approximately 250 employees (~75+ employees in Saudi). This helps the group engage a larger talent pool and bring down the cost of employees. As per our understanding, these offshore centres help in research and developmental activities.

Owing to its size, the company had to participate in one of the key Govt. projects in association with partnering (shadowing) with a larger firm to prove its capabilities. Not just this, the company has been displaying its capabilities by working on some unique products. On the product front, recently the group launched the National Real Estate Platform Company (Aqarek) in January 2021, which is fully developed and managed by Azm. The Platform provides user experience (UX) for buyers and sellers of lands and properties, fragmentation marketing, and off-pans sales activities. The platform fulfills the need for companies to make land deals. The Platform has witnessed nearly 300 land deals being made in a day with GMV c.SAR550mn for the first seven months and still has a pipeline of deals worth SAR9bn. Azm has sold 3.4% of its stake for c.SAR4.7mn, despite this, Azm has a substantial influence over the Platform and has raised an investment of SAR200mn for the same. Azm currently controls 30% of the Platform.

Amid rising interest rates, Azm reduced its dependency on bank facilities, lowering debt from SAR9mn to c.SAR2mn given the strong cash flow generation. The remaining bank loans are outstanding due to no early settlement options. The company has been actively hiring and incentivizing, offering stock options to the employees, and prefers this over paying dividends to retain and hire talent. The company also plans to buy back 20mn from the market reflecting the belief in the growth of the company.

## Peer Analysis

Azm which is only one-tenth the size of Elm has the highest revenue CAGR of 107% in the period of 2018-21 far more than any of its peers but aims to grow to the size of Elm as per the management. Group's average gross and operating margins are 21% and 24%, respectively. While it's lower than its peer Elm, this is because c.60% of the group's revenue comes from a low-margin business, Manpower. As the group's share of revenues from other business lines increases, the margins too are likely to improve. Moreover, the group's receivables days are lowest at ~67 days compared to its peers, despite having Government as a major client.

Figure 2: Comparison of financial metrics of Saudi peers

Revenues (SARmn)	2018	2019	2020	2021	1H22	CAGR (2018-21)
Elm	1,926	2,102	2,466	3,828	2,131	26%
STC Solutions	4,041	5,257	6,891	7,816	4,673	25%
MIS	889	998	675	639	278	-10%
Azm	15	67	103	135	153	107%
ArabSea	41	39	24	57	17	12%
Perfect	180	298	482	655	432	54%

Gross Margin %	2018	2019	2020	2021	1H22	Avg (2018-21)
Elm	37%	32%	34%	31%	37%	34%
STC Solutions	24%	16%	21%	22%	21%	21%
MIS	15%	16%	26%	26%	28%	21%
Azm	28%	27%	20%	22%		24%
ArabSea	61%	58%	22%	65%	30%	52%
Perfect	16%	18%	19%	18%	17%	18%

Op. Profit margin %	2018	2019	2020	2021	1H22	Avg (2018-21)
Elm	19%	14%	14%	16%	24%	16%
STC Solutions	14%	8%	11%	12%	13%	11%
MIS	10%	10%	15%	12%	11%	12%
Azm	21%	12%	14%	13%		15%
ArabSea	-25%	62%	-34%	19%	-36%	5%
Perfect	8%	8%	13%	13%	13%	11%

Net Profit margin	2018	2019	2020	2021	1H22	Avg (2018-21)
Elm	19%	15%	12%	15%	21%	15%
STC Solutions	15%	7%	10%	11%	12%	11%
MIS	7%	8%	13%	10%	8%	10%
Azm	20%	12%	12%	11%		14%
ArabSea	-25%	62%	66%	38%	-32%	35%
Perfect	10%	8%	13%	12%	12%	11%

Receivable days	2018	2019	2020	2021		Avg (2018-21)
Elm	207	194	203	158		190
STC Solutions	165	183	148	141		159
MIS	153	135	334	222		211
Azm		99	11	91		67
ArabSea	24	73	119	54		68
Perfect	134	86	92	54		92

Source: Company, GIB Capital

## Assumptions

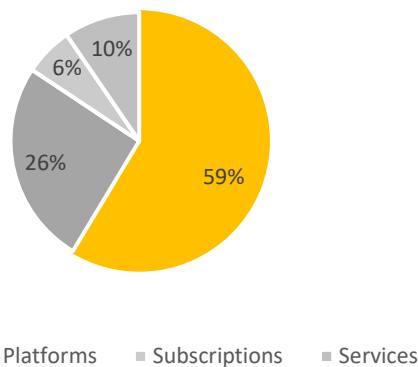
### Revenue

During 2023-2028 we expect revenue to increase at a CAGR of 13%, with Platforms/Products and IT services being major growth centers. We believe the contribution from Platform could increase to 60% by 2024 as compared to c.26% in 2022 and c.11% in 2021. While the revenue share of Manpower would go down, the group intends to continue catering to this segment as it helps maintain long-term relations with Banks and Governmental departments, which may be important in securing projects in the long-term. The group has excellent links with government ministries which account for close to 80% of the group’s revenues. Furthermore, the management is exploring more opportunities in the government sector as they tend to be more profitable.

### Recent Deals:

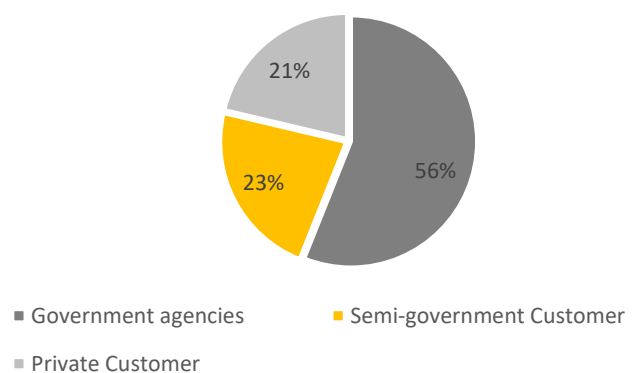
1. SAR14.3mn project from Small & Medium Enterprises General Authority (Monsha’at) which includes operation and provision of the third class of program to support the growth of SMEs.
2. Contract with National Center for Government Resource Systems (NCGR) spanning over a period of 24 months to develop digital portals and smart applications for the ministry, at a value of SAR16.5mn.
3. General Commission for the Guardianship of Trust Funds for Minors and Their Counterparts granted a contract worth SAR8.1mn to maintain and operate government resource systems, update databases, and secure advisory cadres for commission over the period 2023-25.

Figure 3: Revenue mix (2022) – based on operations



Source: Company data

Figure 4: Revenue mix (2021) – based on clients



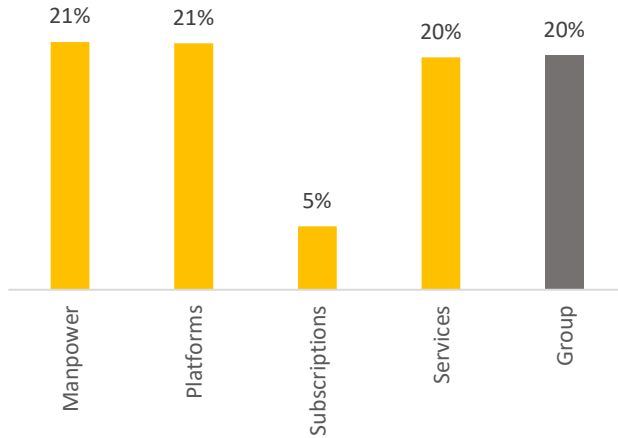
Source: Company data

### Margins:

The cost of sales consists mainly of employee salaries, which accounted for 81.2% of total costs in 2022; other components are IT services and consulting. We expect the total number of employees to increase by 8% in 2023, and for the period thereafter, we assume an annual increase of ~5% and annual growth in salaries of ~10%.

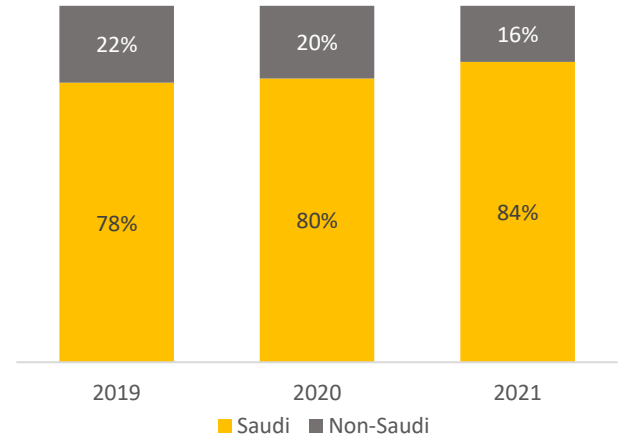
Employee Salaries is the biggest cost component

Figure 5: Gross Margins (2022) – based on operations



Source: Company data

Figure 6: Employee split between Saudi and Non-Saudi



Source: Company data

#### Capex:

Most IT companies have low Capex as most of the revenues are non-asset based but are based on employee billables. We forecast a Capex of 1-2% of sales for 2023 and beyond.

#### Balance sheet - notable points:

Cash and financial assets at fair value accounted for 41% of the balance sheet size at the end of 2022. Apart from having SAR27m in cash the company has also parked SAR17m in mutual funds. Less than 4% of gross receivables are due for more than a year. In terms of subsidiaries, Saudi Azm owns 75% of Azm Tajrubah for Information Technology Company. The subsidiary is engaged in general information technology services with a specialization in user experience (UX) and user interface (UI) development-related services.

Figure 7: Receivables due break-up by period

SAR '000	Gross amount	Impairment Loss	Loss Allowance
Not Due	2,235	7	0.3%
Past due 1-90 days	5,941	77	1.3%
Past due 91-180 days	1,420	75	5.3%
Past due 181-270 days	2,355	589	25.0%
Past due 271 - 365 days	0	0	
More than 365 days	450	450	100%

Source: Company Data

### Vision

Azm's vision is to provide solutions in the field of information technology by utilizing their consulting and technical expertise and providing value-effective services to clients.

### Strategy

The company's strategy can be summarised as the following:

- Targeting long-term projects which can create sustainable revenue streams through a partnership with the public and private sectors in building and operating projects.
- Focusing on the latest technologies to help with business development activities.
- For client acquisitions, the group's target is mostly other businesses and government projects.
- Building and operating platforms and linking them with integrated management consultancy services.
- Activating low-code software development techniques in building systems and applications.

### SWOT Analysis



## Valuation and risks

**Relative valuation:** For P/E valuation, we use a 25x multiple on SAR7.9 (EPS) and arrive at a target of 208/share. The discount to what could be an even higher multiple is because of its small size and liquidity.

**DCF:** As for DCF, we get a valuation of SAR236/share as a target based on a terminal growth of 5% and a WACC of 8.8% with a target capital structure of 5% debt to asset.

We use equal weights of 50% each for DCF and P/E valuation, which gives us a weighted average target price of ~SAR222/share and initiate on the company with an OW rating.

Figure 8: DCF Valuation

DCF model (SARmn)	2023e	2024e	2025e	2026e	2027e	2028e
EBIT	20	26	32	40	49	61
tax	-1	-2	-2	-3	-4	-5
Change in WC	-2	-11	-9	-4	-5	-5
Dep & Amort	2	2	3	3	4	5
Capex	-3	-3	-4	-5	-5	-6
<b>FCF</b>	<b>16</b>	<b>12</b>	<b>19</b>	<b>31</b>	<b>38</b>	<b>48</b>
<b>Terminal Value</b>						<b>897</b>
Enterprise value of explicit period	<b>103</b>					
PV of Terminal Value	<b>540</b>					
<b>Total Enterprise Value</b>	<b>643</b>					
(-)Debt, incl. lease liabilities	-15					
(-) Pension/liabilities	-4					
(+) Cash	42					
(+) Associate	4					
(-) Minority	0					
<b>Market value</b>	<b>670</b>					
Number of shares	3					
<b>DCF -Target Price (1 year from today)</b>	<b>236</b>					
Cost of Equity	11.0%					
Cost of debt	4.5%					
Target D/A	5%					
<b>WACC</b>	<b>10.7%</b>					

Source: GIB Capital

Figure 9: Relative valuation

Relative valuation	
EPS (2023E)	7.9
P/E multiple	25.0
<b>PE - Target Price (1 year from today)</b>	<b>207.8</b>

Source: GIB Capital



Figure 10: Valuation

Average Valuation	Methods	Weightage
Relative Valuation	207.8	50%
DCF	235.8	50%
<b>Target Price per share</b>		<b>222</b>

Source: GIB Capital

Figure 11: Peer Valuation

Ticker	Name	Market Cap (SARmn)	P/E (TTM)	P/E (FY1)	P/E (FY2)
<b>IT Product Companies</b>					
SAP GR Equity	SAP SE	389,753	39.0	23.7	19.8
INTU US Equity	Intuit Inc	416,360	61.1	29.8	26.2
CRM US Equity	Salesforce Inc	564,940	761.6	29.5	25.6
WDAY US Equity	Workday Inc-Class A	147,117		48.6	36.8
VEEV US Equity	Veeva Systems Inc-Class A	96,795	71.4	41.9	38.9
SGE LN Equity	Sage Group Plc/The	29,618	31.5	26.8	23.9
OTEX CN Equity	Open Text Corp	26,788	37.3	9.3	8.9
ADSK US Equity	Autodesk Inc	158,015	60.5	30.5	27.4
ADBE US Equity	Adobe Inc	504,643	33.5	25.1	22.2
SNPS US Equity	Synopsys Inc	176,467	54.6	33.8	29.4
DSY FP Equity	Dassault Systemes Se	167,849	58.3	32.6	30.5
CDNS US Equity	Cadence Design Sys Inc	163,584	55.6	40.8	37.1
ANSS US Equity	Ansys Inc	71,448	46.7	33.3	30.6
PTC US Equity	Ptc Inc	48,646	41.6	27.8	23.6
CSU CN Equity	Constellation Software Inc	109,184	46.2	33.9	27.8
<b>IT Service Companies</b>					
WPRO IN Equity	Wipro Ltd	102,919	20.0	19.9	17.1
HCLT IN Equity	Hcl Technologies Ltd	119,228	22.1	21.3	19.0
MTCL IN Equity	Mindtree Ltd	25,191	29.9	28.2	24.9
CTSH US Equity	Cognizant Tech Solutions-A	113,842	13.9	14.0	13.3
TCS IN Equity	Tata Consultancy Svcs Ltd	520,482	31.7	29.6	26.2
WNS US Equity	Wns Holdings Ltd-Adr	14,901	31.9	22.3	20.2
G US Equity	Genpact Ltd	30,458	24.7	16.8	15.3
EXLS US Equity	Exlservice Holdings Inc	19,515	44.7	30.9	27.7
MPHL IN Equity	Mphasis Ltd	18,250	27.9	23.5	20.3
INFO IN Equity	Infosys Ltd	280,726	30.0	28.1	24.3
TECHM IN Equity	Tech Mahindra Ltd	45,691	19.3	18.6	15.8
<b>Saudi IT companies</b>					
ELM AB Equity	ELM CO	25,968	30.9	27.6	24.3
SOLUTION AB Equity	STC Solutions	32,040	29.2	27.1	23.0
Azm AB Equity	Azm	522	26.8		
MIS AB Equity	MIS	3,162	50.5		
<b>Median</b>		<b>111,513</b>	<b>33.5</b>	<b>28.0</b>	<b>24.3</b>

Source: Bloomberg

**Risks:**

- The Information, Communication, and Technology (ICT) sector is inherently exposed to rapid technological changes. The group needs to keep up with the rapid technological advancements, in case of failing to do so puts company's ability to stay relevant in the industry at risk.
- High contribution from two major clients representing ~57% of revenues in 2021 and high wage inflation.
- Customer requirements in ICT are sensitive, and the company needs to stay aligned with the same. A failure to comply with customer requirements shall put the company's ability to retain its customers at risk.
- The company depends on its key employees' technical expertise to deliver client output and develop its products. The group needs to maintain and upgrade its workforce. Otherwise, it puts the company's ability to deliver at risk.
- The entrance of new players could increase competition and result in pricing pressure which may harm group's ability to maintain its profitability.
- Any default at payment or contract termination from the client's end could severely impact the group's source of revenue.
- Azm is dependent upon contractors and suppliers, any failure on the part of suppliers in fulfilment of their contract can harm group's ability to deliver.
- The group is subject to law and regulations in its respective geographies. Any unfavorable changes in regulations may impact group's ability to continue its ability to stay in business.

## Company Profile

Saudi Azm Company was established in the year 2017 by Saudi Holding Company and Mr. Ali Mohammed Rashid Albalaa, with the aim to provide IT services, Executive Consulting services, and developing products and platforms. The group was listed on 1 March 2022 with an offer price of SAR70/share. The group has a substantial number of Government projects leading to Government as the largest source of revenues till FY22. The company has a 5-year target to beat Elm in terms of size by building partnerships with the Government. In 2022, the company became one of the youngest firms to be listed on Nomu.

Figure 12: AZM's operating segments

IT Services	Executive Consulting	Products and PPP
<ul style="list-style-type: none"> <li>Developing software and platforms for the top government and banking entities in KSA.</li> <li>Operation and maintenance for the technical projects.</li> <li>Consulting and research services in the field of information technology.</li> </ul>	<ul style="list-style-type: none"> <li>Strategic and management consulting.</li> <li>Secondment and long-term engagements.</li> <li>Establishing and operating vision realization offices</li> <li>Supporting clients' operations and recruitment requirements.</li> <li>Consulting in market studies and business models.</li> </ul>	<ul style="list-style-type: none"> <li>Design, develop and operate platforms and innovative business solutions in collaboration with government agencies.</li> <li>Designing, developing, and operating new products utilizing our market reach and expertise.</li> </ul>

Source: Company Data

Figure 13: Evolution of Azm over the years

Year	Event
2017	Established as a limited liability company
2018	Capital increased to SAR500,000
2019	Amending the company's articles of association
2020	Establishment of Nafith and Rsd
2021	Increased capital to SAR30mn and IPO offering
2022	Launched Aqarek platform and listed in NOMU

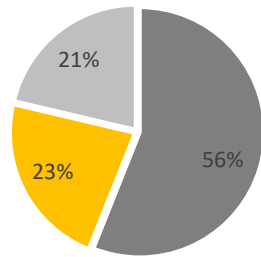
Source: Company Data

Figure 14: Azm: Key Personnel

Board of Directors	Designation
Majed Saad Alousaimi	Chairman
Ahmed Abdulazizi Alhakbani	Deputy Chairman - Non Executive
Ali Mohammad Albalaa	Executive
Feras Khalid Aljuraywi	Non - Executive
Omer Abdulrahman Aljeraisay	Non - Executive
Management	Designation
Ali Mohammad Albalaa	CEO
Muhammad Hammad	CFO

Source: Tadawul

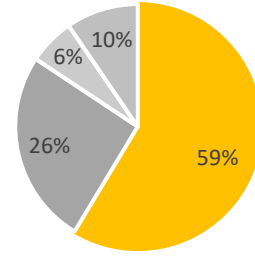
Figure 15: Revenue by type of client (2021)



■ Government agencies ■ Semi-government Customer  
 ■ Private Customer

Source: Company Data

Figure 16: Revenue by product/ service line (2021)



■ Manpower ■ Platforms ■ Subscriptions ■ Services

Source: Company Data

### Overview of the company's products

The below list highlights group's major products:

**Joud Alaskan:** A crowdfunding charity platform for the Private Institute for Developmental Housing (SAKANI), which contributes to bridging the gap between the donor and families in need of housing. Raising more than SAR2bn, the Platform has managed to cover more than 28,000 families for housing needs.

**Nafaqah Fund:** The group developed this product for the Ministry of Justice to cover family's basic needs in which the spender refrained from fulfilling alimony during the period of litigation, payment of litigation and expense of litigation. Azm has helped establish the fund from its inception by providing consulting services, studying the project, building targets, and drawing a full concept for it, and up to the stage of providing a technical service platform.

**Aqarek:** Aqarek, Azm's latest product, is a national real estate platform used in marketing the real estate services of the National Real Estate Platform Company. With linking buyers and sellers of lands and properties, marketing and off-pan sales activities, the Platform has witnessed 300+ land deals with SAR550mn as the size of GMV. We note that the group has sold 20% of the Platform's stake for SAR200mn.

**Waqfy:** It's a crowdfunding platform developed by Azm for the General Authority for Awqaf that aims to create a unifying channel between nonprofit organizations and the public. The number of products on the Platform is more than 200 in the various fields targeted by the Platform. The Platform has more than 640,000 contributors contributing a total amount of SAR172mn.

**Ejar:** It is an integrated electronic network that regulates the real estate rental sector in the Kingdom of Saudi Arabia by protecting the rights of the parties to the rental process (lessor, lessee, broker).

**Support and Operating of NDTU:** Azm provides support and operation for the national digital transformation unit in the Ministry of Communications and Information Technology, which is a centre of excellence established in 2017 by a royal order as an independent entity, which works

to accelerate digital transformation in the Kingdom and achieve the goals of Vision 2030 through strategic direction, expertise, and supervision through cooperation with the public and private sectors.

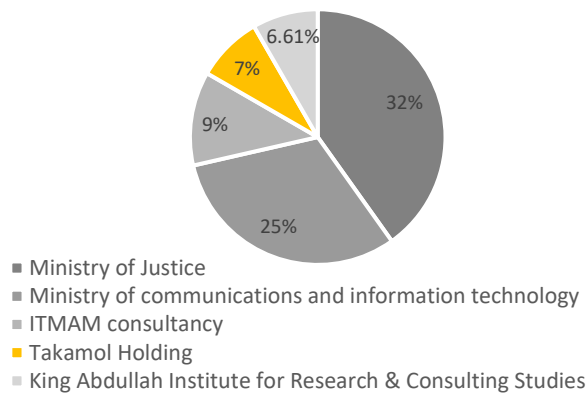
**Nafith:** A digital platform developed for the Ministry of Justice that enables dealers to issue and manage the commercial Sadar easily and safely and aims to provide market management services for commercial transactions.

In addition to all these products, Azm has several other products such as Saudi Codes, Najiz Platform, Digital Citizenship Project, Rsd, support and operating the initiatives of the Vision Realization Office and supporting the digital government in NEOM.

### IPO details

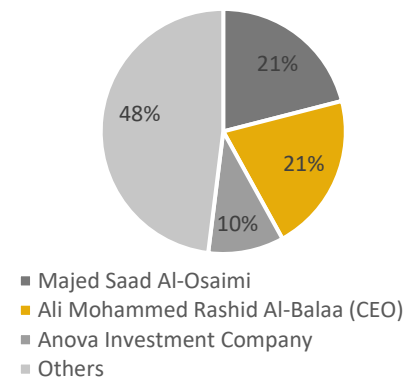
On 29 December 2021, the group received an approval from CMA to list its shares on NOMU. The company set its IPO price at SAR70/share in January 2022. The share was listed on 1 March 2022. The IPO was limited to Qualified investors only.

Figure 17: Azm major client as % of revenue (2021)



Source: Company Data

Figure 18: Current ownership (2022)



Source: Tadawul

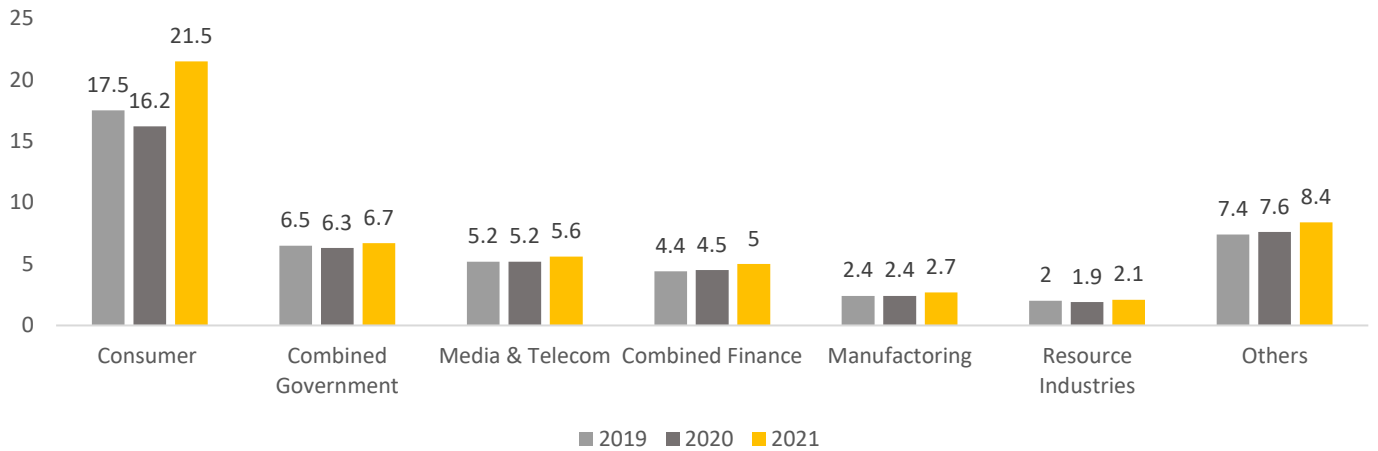
### Market dynamics

The Information and Communication Technology (ICT) sector is witnessing large growth in Saudi Arabia. The expected spending on ICT sector in the Kingdom is expected to reach SAR123.3bn resulting in a ~4% CAGR and is further expected to increase in the coming years. Digital transformation has been an integral part of the broader policy framework in the Kingdom since 2006 wherein the Kingdom adopted the National Strategy for Digital Transformation under three five-year action plans. In addition, the Government of the Kingdom of Saudi Arabia recently announced the program “Shareek”, which aims to increase domestic investments of private sector companies (listed and non-listed companies) to reach SAR5trn by 2030 through Government support and incentives.

The National Strategy for Digital Transformation is expected to allow KSA’s AI market to reach USD135.2bn by 2030 and contribute 12.4% of GDP. There is also an ICT Sector Strategy 2023 in place from the ministry, which targets creating 23,000 quality jobs in the sector, increasing the

market size of IT and emerging technologies by 50%, raising women participation by 50%, and taking the sector's contribution to the overall economy to SAR50bn.

Figure 19: Spendings on the ICT sector in Saudi Arabia 2019-2021 (SARbn)



Source: Company Data

One of the primary goals of the National Transformation Program is that the digital economy should account for 20.2% of the GDP by 2025. NTP aims to digitize more than 92% of government services, among other goals. Also, by the end of 2020, the National Committee for Digital Transformation of Saudi Arabia launched the Kingdom's digital economy policy. This policy is expected to develop the digital economy in the Kingdom by aligning public and private sectors to national programs for digitization. It will also ensure the alignment of government entities' approaches to achieve diversified and sustainable economic growth and create competitive advantages for the Kingdom.

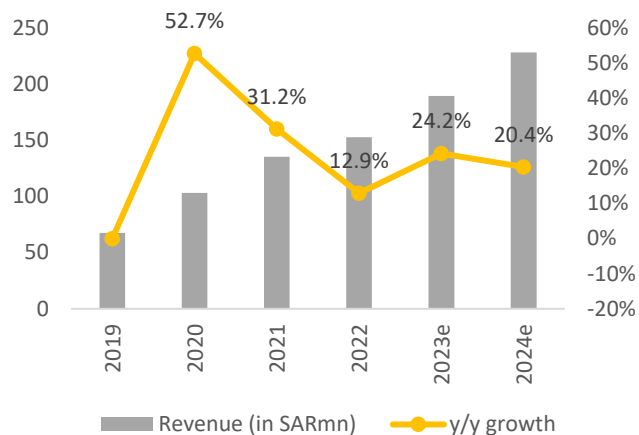
The spending on ICT sector is expected to see more healthy growth rates in the future, especially from the private sector, due to: 1) The growth of the Saudi economy in general, which is expected to be focused on industries with high added value, such as the ICT sectors; 2) the centralization of information technology by the Saudi government is expected to be led by the private sector such as private entities may be contacted to link technical systems between government agencies and private companies; 3) to fulfil the need to align businesses (both public and private) with the latest technologies to compete with international companies entering the local market.

The number of internet users in the Kingdom increased from 91% in 2014 to about 96% at the end of 2020. The population coverage of Internet services reached nearly 99% in the Kingdom. The Kingdom's rank jumped 40 in the International Digital Infrastructure Index, reaching 27th globally and 8th at the level of the G20 countries. The Kingdom of Saudi Arabia is the largest economy among the GCC countries and the Arab world, with an expected GDP growth of 7.6% and 3.1% by 2022 and 2023, respectively.

Overall, KSA is expected to achieve its digital transformation objectives on the back of support from a strong policy framework, improving digital infrastructure (high and rising internet and mobile penetration), favorable demographics (young and growing population), higher private sector participation, and increasing investments from domestic and international players.

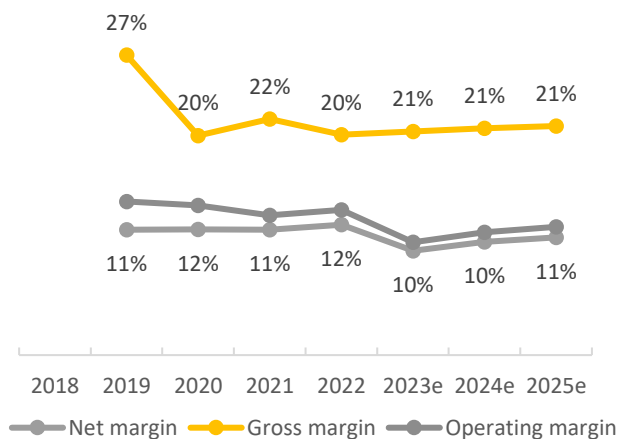
## Financial analysis in charts

Figure 20: Annual revenues (SARmn)



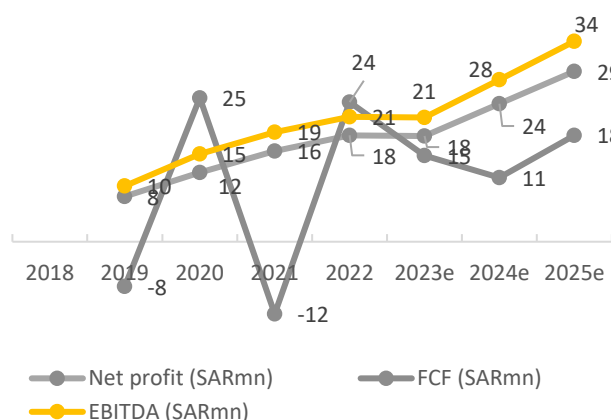
Source: Company data, GIB Capital

Figure 21: Annual gross and net margin



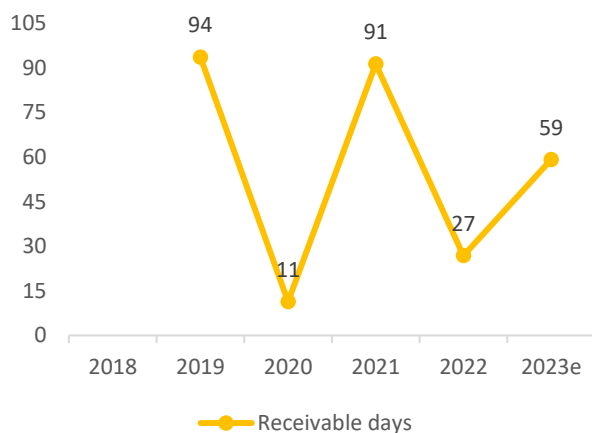
Source: Company data, GIB Capital

Figure 22: Improving FCF and net income



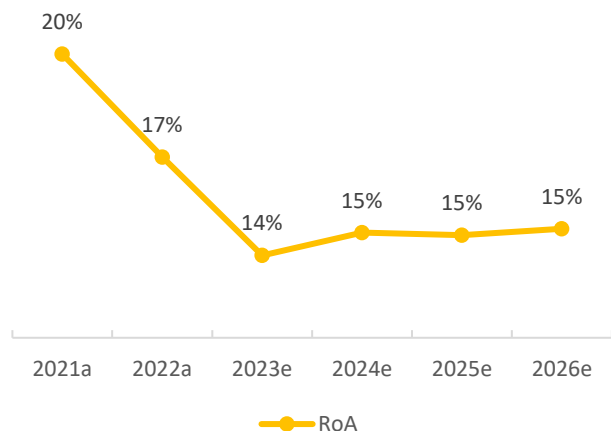
Source: Company data, GIB Capital

Figure 23: Receivables days



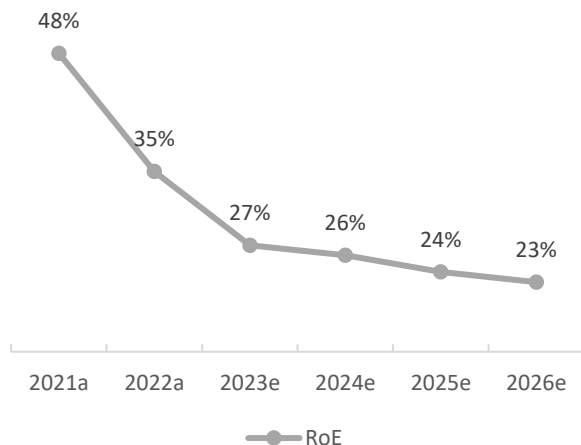
Source: Company data, GIB Capital

Figure 24: Return on assets



Source: Company data, GIB Capital

Figure 25: Return on equity



Source: Company data, GIB Capital

## Financials

Figure 26: Summarized basic financial statements (SARmn)

Income statement	2021a	2022e	2023e	2024e	2025e
<b>Revenue</b>	<b>135</b>	<b>153</b>	<b>189</b>	<b>228</b>	<b>270</b>
y/y growth	31%	13%	24%	20%	19%
Cost of Services/Goods	106	122	151	181	214
<b>Gross Profit</b>	<b>29</b>	<b>31</b>	<b>39</b>	<b>47</b>	<b>57</b>
Operating margin	22%	20%	21%	21%	21%
Selling and Marketing	0	1	2	2	2
General and Administrative	12	15	18	21	24
<b>EBITDA</b>	<b>19</b>	<b>21</b>	<b>21</b>	<b>28</b>	<b>34</b>
Depreciation, Amortization & Impairment	1	1	2	2	3
<b>Operating Profit</b>	<b>17</b>	<b>20</b>	<b>20</b>	<b>26</b>	<b>32</b>
Operating margin	13%	13%	10%	11%	12%
Finance Cost	1	1	0	0	0
Finance Income	0	0	0	0	0
Profit Before Tax	16.5	19.6	19.2	25.5	31.6
Tax	1.0	1.4	1.1	1.9	2.4
<b>Profit After Tax</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>24</b>	<b>29</b>
y/y growth	31%	17%	-1%	30%	23%
Net margin	11%	12%	10%	10%	11%
EPS	5.2	6.1	6.0	7.9	9.7
DPS	0.0	0.0	0.0	0.0	0.0
Dividend Payout	0%	0%	0%	0%	0%

Balance Sheet	2021a	2022e	2023e	2024e	2025e
Account Receivables	34	11	14	27	38
Other Current Assets	153	81	116	119	145
Cash and Equivalents	14	27	42	53	71
<b>Total Current Assets</b>	<b>75</b>	<b>81</b>	<b>99</b>	<b>129</b>	<b>165</b>
<b>Total Non-Current Assets</b>	<b>3</b>	<b>26</b>	<b>28</b>	<b>30</b>	<b>32</b>
<b>Total Assets</b>	<b>79</b>	<b>108</b>	<b>127</b>	<b>159</b>	<b>197</b>
Current Liabilities	41	40	57	65	74
Non-current Liabilities	5	16	4	4	4
Equity	33	52	66	90	119
<b>Total Equity and Liabilities</b>	<b>79</b>	<b>108</b>	<b>127</b>	<b>159</b>	<b>197</b>
BVPS	10.9	17.3	22.1	30.0	39.7

Cashflow	2021a	2022e	2023e	2024e	2025e
Cashflow from Operations	-1	33	18	15	23
Cashflow from Investing	-11	-9	-3	-4	-5
Cashflow from Financing	-1	-10	0	0	0
<b>Total Cashflows</b>	<b>-12</b>	<b>24</b>	<b>15</b>	<b>11</b>	<b>18</b>

Source: Company, GIB Capital



Figure 27: Key ratios

Key ratios	2021a	2022a	2023e	2024e
<b>Profitability ratios</b>				
RoA	20%	17%	14%	15%
RoE	48%	35%	27%	26%
Sales/Assets	172%	142%	149%	144%
Net margin	11.5%	11.9%	9.6%	10.4%
<b>Liquidity ratios</b>				
Current Assets/ Current Liabilities	1.8	2.0	1.7	2.0
Debt to Total Equity	36%	4%	3%	2%
Receivable Days	91	27	59	43
Payable days	4	34	19	26
<b>Debt ratios</b>				
Debt/Equity (w/o lease liabilities)	-0.1x	-1.2x	-1.9x	-1.8x
Debt/Equity (w/ lease liabilities)	-0.1x	-0.6x	-1.3x	-1.4x
Debt/Assets	15%	2%	2%	1%
<b>Valuation ratios</b>				
P/E	32.7	27.8	28.0	21.5
P/B	15.6	9.8	7.7	5.6
EV/EBITDA	25.6	22.5	22.6	17.3
FCF yield	-0.7%	6.0%	3.1%	2.3%
Dividend yield	0.0%	0.0%	0.0%	0.0%

Source: Company, GIB Capital

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