Perfect Presentation for Commercial Services Co.

Investment Update

Venture into new healthcare focused segment, ramp up of new LOBs, and contract activities, provide layers of growth atop the visibility of record high SAR 2.4bn backlog

2P's Q1-25 was a display of the solid backlog that stands at SAR 2.4bn (highest ever reported since 2020) as revenue grew to SAR 289.4mn for the quarter (up 31.9% Y/Y and down only 2.1% Q/Q from the conventionally strong Q4). This supported a net income reaching SAR 32.3mn at growth of 8.8% Y/Y (down 14.9% Q/Q). 2P displayed flat like performance in FY24, as its net profit of SAR 163.3mn (26.3% Y/Y growth) was supported by almost 42.1mn in non-recurring incomes. However, we expect a strong FY25 ahead (SAR 166.6mn) for 2P at a normalized growth of 37.4% Y/Y. As over the already visible SAR 1bn in revenue recognition for FY25, 2P possesses growth drivers stemming from ramping up of two new business lines, the inclusion of a new healthcare focused offering by Q4-25 to Q1-26, as well as key contract activity displayed in early FY25 from the ICT provider. Demand from Mega and Gega projects as well as sector growths further extend our growth forecasts for 2P summarized by revenue and net income CAGRs of 8.8% and 11.0%, respectively (FY24-30E). We revise our TP up to SAR 13.3 per share at an 'Overweight' recommendation for the stock which currently trades at a forward PE of 20.1x.

Flat-like FY24 performance, if it wasn't for SAR 42.1mn in one-off incomes. Year ended standing at highest backlog to date (SAR 2.4bn); Q1-25 evident of backlog recognition to come: 2P ended FY24 at a net income of SAR 163.3mn, up 26.3% over past year. Yet adjusting for one off gains from capital gains from government expropriation, fire insurance claims, and write offs amounting to SAR 42.1mn in FY25, 2P would have recorded a 6.2% Y/Y decline. Top line for the year was also lackluster as 2P recorded a 5.2% decline Y/Y to reach SAR 1.1bn. Gross profit, however, reached SAR 250.9mn (up 19.3%), outpacing revenues as a result of agent sales, and later-stage engagements supporting gross margins in the Software and Development (SWD). In a sign of a strong FY25, 2P ended FY24 standing at its highest backlog reported at SAR 2.4bn, with SAR 1bn to be recognized in FY25. Further into FY25, 2P has announced new contract activities worth over SAR 400mn from MoH, Ministry of Commerce, Sports Boulevard, and others; and we expect some of those engagements to have partial recognitions in FY25 atop the SAR 1bn to be recognized from FY24's backlog. We expect a strong year ahead for 2P for FY25, driven by solid backlog, and momentum in key contract awardations. Q1-25 has been evident of a strong year ahead as 2P posted a bottom line of SAR 32.3mn up 8.8% Y/Y, and down 14.9% Q/Q; adjusting for SAR 8.3mn in one off gains made in Q4-24, 2P would have posted a normalized 9% growth Q/Q. Results were top line driven, which reached SAR 289.4mn; up 31.9% Y/Y and down only 2.1% Q/Q, against the conventionally revenue strong Q4. We expect a strong FY25 ahead, summarized by a bottom line of SAR 166.6mn, up 37.4% Y/Y when adjusting for SAR 42.1mn in one off gains in FY24, and a revenue reaching SAR 1.3bn (up 23.4% Y/Y).

Revenue Collection Management for healthcare sector, a new line of business, to add new channels for growth along with the latest Cybersecurity and Network Infrastructure segments: 2P plans to horizontally expand into a new segment, Revenue Collection Management (RCM), with licensing for the business activity already awarded. This segment serves the Saudi Arabian Healthcare sector, amid the Kingdom's healthcare sector's transformation, to manage and automate revenue recognitions and costs for healthcare providers. There are considerable potentials in this segment, as the healthcare sector faces constant regulatory changes on revenue recognitions, and transaction management, such as the awaited 'DRG' mandated pricing change, as well as the mandated NPHIES healthcare-insurance transaction platform which still challenge some unlisted healthcare providers. We see 2P having strengths in this sector due to experience and relationship with MoH. The RCM segment is expected to contribute to 2P by late FY25 to early FY26. Furthermore, the latest Cybersecurity (CS) and Network Infrastructure (NI) segments have yet to ramp up its contributions, with management expecting more to come for the new CS and NI segments which contributed only 3%, and nil, respectively to FY24 top line. We forecast 2P's top line to grow at a CAGR of 8.8% across FY24-30, with a bottom line CAGR of 11.0% across the same; driven by the Kingdom's transformation projects and 2P's involvement in key government projects as well as developments in its lines of businesses.

Recommendation	**Overweight**
Target Price (SAR)	**13.3**
Upside / (Downside)*	**19.0%**

Source: Tadawul *prices as of 19th of May 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenue	1,071	1,321	1,450	1,562
Growth %	-5.2%	23.4%	9.8%	7.7%
Gross Profit	250.9	300.1	332.3	359.4
EBIT	213	220.2	251	276
Net Income*	163.3	166.6	202.8	236.5
Growth %	26.3%	2.0%	21.8%	16.6%
EPS	0.54	0.56	0.68	0.79
DPS	0.00	0.00	0.00	0.20

Source: Company reports, Aljazira Capital Research *FY24 includes SAR 42.1mn in one-off gains

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	23.4%	22.7%	22.9%	23.0%
OP Margin	19.9%	16.7%	17.3%	17.7%
Net Margin	15.3%	12.6%	14.0%	15.1%
EBITDA Margin	20.6%	17.0%	17.7%	18.1%
RoE	35.2%	26.5%	24.9%	23.6%
P/E (x)	25.8	20.1	16.5	14.2
P/B (x)	7.7	5.1	3.9	3.2
EV/EBITDA (x)	20.6	16.4	14.0	12.2
Dividend Yield	0%	0%	0%	1.8%

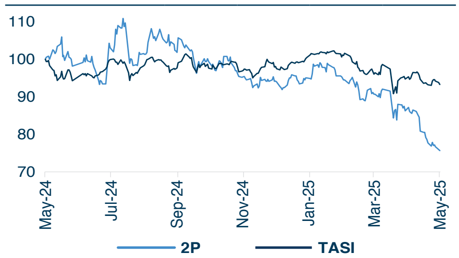
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	3.4
YTD%	-20.4%
52 weeks (High)/(Low)	16.78/11.16
Share Outstanding (mn)	300

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, AlJazira Capital Research

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COGS to face costs of deploying resources into expected new SWD engagements; Cybersecurity agency contracts, transition into MS, and RCM segment to be GPM accretive in medium term: 2P recorded its highest gross profit margin from since FY19 during FY24 at 23.4% driven by gross profit accretive agent sales and likely due to high margin engagements at the CX segment during late stages of contracts. While these levels could be sustainable due to business fundamentals, we expect FY25's GPMs to be challenged by expected new engagements in the CX and SWD segments. We expect higher early stage SWD engagements as the segment is set to absorb 20%, of FY25's backlog recognitions, up from the 10% scheduled recognition for FY25, at H1-24. While new contracts are expected to weigh on margins by 70bps during FY25; dynamics at 2P's business segments, however, offer margin assertiveness in the medium term. Supporting margin expansion in the longer term are 1) O&M segment client transitioning into more cost efficient Managed Services (MS) segment 2) Software focused Cybersecurity segment 3) RCM's 'digital services' nature with revenue share and subscription model 3) Contract cycles and agency sales at SWD segment. We estimate GPMs to face a 50bps contraction in FY25 to reach 22.9%, before appreciating to 23.5% by FY30.

Automating invoice cycle and clarity on collections from Etimad platform to potentially aid in better receivable days management; less need for CAPEX to further support cash position: Receivable days reached a peak during FY24 at 209 days, up from 164 days Y/Y, for 2P which has a 90% client concentration to government clients. Consequently, cash conversion cycle increased from 88 days to 129 days. Management expects automating service level agreement management and operating level agreements could improve collection periods from current levels, and as government institutions offer more visibility on account receivable aging and cycles. We expect cash conversion cycles to wind down gradually from 129 days to 111 days by FY29E on the back of improved collections. Furthermore, cash & equivalents position for the year nearly doubled to SAR 100mn, highest since FY19, net D/E down from 68.5% to 60.7% in FY24; and we expect cash and debt position to improve gradually on the back of working capital improvements and little need for CAPEX ahead, after incurring costs for new office and for data center. CAPEX intensity expected to remain near 1.4% for our forecast period, assisting cash position further for the company which did not payout a dividend since FY22. We expect a potential ability to payout to investors by FY27E at a payout ratio of 25%, as a result of limited CAPEX obligations and improved operating cash flows. Quicker than expected cash conversion cycles could materialize should consumer segments such as 'Perfect Home' pick up pace.

AJC view and valuation: Q1-25 displayed of things to come for 2P, which stands at a backlog of SAR 2.4bn (its highest reported since FY20), and as it expects a backlog collection of almost SAR1bn in FY25 from FY24 backlogs. Atop the visibility on revenues from backlogs, 2P has been announcing a momentous business activity since the start of the year, with some of those engagements expected to contribute to FY25 results. Developments at 2P's business segments further shape our outlook on the stock: 1) Venturing into the RCM segment amid the Kingdom's healthcare transformation, DRG, and other constant regulatory changes presents a prominent opportunity for 2P, which has experience with MoH and Healthcare engagements, 2) Ramp up of Cybersecurity and Network Infrastructure segments, 3) 'Digital services' nature of Cybersecurity and RCM, along with O&M migration to MS to further support margins, 4) Mega and Giga projects and sector growth. All of which drive our forecasted FY24-29E revenue and net income CAGRs for the stock at 8.8% and 11.0%, respectively. We upwardly revise our TP to **SAR 13.3 per share** by way of 50% PE valuation (24.5x on FY25E) blended with 50% DCF (terminal growth rate=3.0% and WACC=10.0%). We maintain an '**Overweight**' recommendation on the stock which currently trades at a forward PE of 20.1x.

Valuation Summary (SAR /share):

	Target Price	Weight	Weighted TP
PE (24.5x on FY25E)	13.60	50%	6.80
DCF	13.00	50%	6.50
(SAR/share):			**13.30 /share**

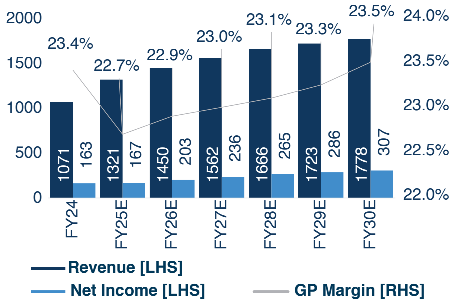
Upside risks to valuation:	Downside risks to valuation:
Quicker contribution from RCM segment	Slowdown in government expenditure on project halts
Material success from consumer segments on cash position	Intensified competition pressuring awardations
Upticks in MoI service contract orders	Slower than expected ramp ups from new LOBs
Higher than expected contract additions	

Fig 1: Momentum in key contract activity announcements since start of 2025 to date to support annual performance

Counterparty	Value	Description
Ministry of Commerce	SAR 87.2mn	Customer care
Sports Boulevard	SAR 20mn	24/7 Operations & Maintenance
Ministry of Health	SAR 86mn	Digital infrastructure for 48 hospitals
Ministry of Islamic Affairs	SAR 38.4mn*	Administrative IT & server management
National Water Company	SAR 66.6mn	Establishing and managing contact center
Ministry of Investments	SAR 62.7mn	Call center management
Saudi Red Crescent	SAR 60.6mn	Equipment and digital infrastructure
Eastern Health Cluster	SAR 122.2mn	Operations and maintenance of digital health systems
Ministry of Health	SAR 63.3mn	Maintaining electronic files for health cluster

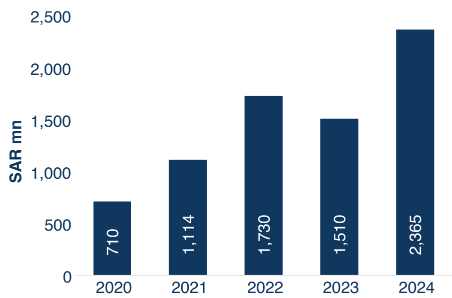
Source: Argaam, AlJazira Capital Research *Expected to be signed on June 1st

Fig 2: New LOBs along with sector growth from Mega and Giga projects to drive performance



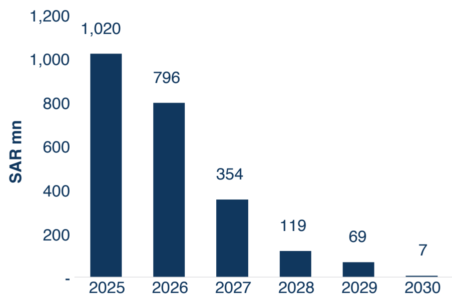
Source: Company reports, Aljazira Capital Research

Fig 3: Backlog expanded 3.3x from FY20-24



Source: Company reports, Aljazira Capital Research

Fig 4: Current backlog of SAR 2.4bn provides visibility on coming revenue recognitions



Source: Company reports, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY28E	FY28E
Income statement								
Revenues	1,130	1,071	1,321	1,450	1,562	1,666	1,723	1,778
Y/Y	**21.8%**	**-5.2%**	**23.4%**	**9.8%**	**7.7%**	**6.7%**	**3.5%**	**3.2%**
Cost	(919)	(820)	(1,021)	(1,118)	(1,202)	(1,281)	(1,323)	(1,360)
Gross profit	**210**	**251**	**300**	**332**	**359**	**385**	**401**	**418**
GPM	**18.63%**	**23.43%**	**22.71%**	**22.91%**	**23.01%**	**23.12%**	**23.26%**	**23.52%**
Operating Expenses								
Selling and distribution expenses	(7)	(7)	(8)	(9)	(9)	(9)	(9)	(10)
General and administrative expenses	(26)	(44)	(49)	(52)	(54)	(56)	(56)	(57)
Impairment loss in trade receivables	(13)	(31)	(25)	(24)	(23)	(23)	(23)	(22)
Other income/expenses	9	12	3	3	3	4	4	4
PPE Disposals		32						
Operating profit	**174**	**213**	**217**	**248**	**273**	**297**	**312**	**329**
Y/Y	**7.7%**	**22.5%**	**2.1%**	**14.0%**	**10.2%**	**8.8%**	**5.1%**	**5.4%**
OPM	**15.4%**	**19.9%**	**16.7%**	**17.3%**	**17.7%**	**18.0%**	**18.3%**	**18.7%**
Financing Expense (net)	(38)	(42)	(46)	(39)	(29)	(23)	(17)	(11)
Other income/expenses	-	-	-	-	-	-	-	-
Income before zakat	**135**	**171**	**172**	**209**	**244**	**274**	**296**	**318**
Zakat	(6)	(8)	(8)	(10)	(11)	(13)	(14)	(15)
Net income	**129**	**163**	**167**	**203**	**236**	**265**	**286**	**307**
Net Margin	**11.4%**	**15.3%**	**12.6%**	**14.0%**	**15.1%**	**15.9%**	**16.6%**	**17.3%**
Y/Y	**-1.6%**	**26.3%**	**2.0%**	**21.8%**	**16.6%**	**12.3%**	**7.7%**	**7.4%**
EPS (SAR)	0.43	0.54	0.56	0.68	0.79	0.88	0.95	1.02
DPS	0.00	0.00	0.00	0.00	0.20	0.35	0.48	0.56
Balance sheet								
Assets								
Cash & equivalent	52	100	159	223	290	331	387	441
Contract Assets	425	487	581	623	655	682	689	702
Receivables	495	581	688	752	795	841	862	880
Other current assets	32	101	109	116	121	125	124	124
Total current assets	1,003	1,270	1,537	1,714	1,861	1,979	2,062	2,147
Property plant & equipment	149	131	143	156	170	185	200	215
Intangible Assets	27	34	36	42	46	49	52	55
Total assets	**1,178**	**1,435**	**1,717**	**1,911**	**2,077**	**2,212**	**2,313**	**2,417**
Liabilities & owners' equity								
Other current liabilities	193	190	232.14	254.09	273.36	293.10	304.95	315.97
Contract Liabilities	61	44	51	54	57	59	59	59
Payables	197	185	225	243	263	282	293	303
Short Term Debts	308	429	449	389	329	259	189	129
Total non-current liabilities	37	41	48	56	62	68	73	76
Paid -up capital	150	300	300	300	300	300	300	300
Statutory reserves	26	42	59	79	90	90	90	90
Other reserves	-	-	-	-	-	-	-	-
Retained earnings	206	203	353	535	702	861	1,004	1,142
Total equity & liabilities	**1,178**	**1,435**	**1,717**	**1,911**	**2,077**	**2,212**	**2,313**	**2,417**
Cashflow statement								
Operating activities	(114)	(64)	60	147	210	242	294	309
Investing activities	(45)	35	(19)	(23)	(24)	(25)	(25)	(26)
Financing activities	143	78	18	(60)	(119)	(176)	(213)	(229)
Change in cash	(16)	49	58	64	67	41	56	54
CAPEX	(22)	(10)	(19)	(19)	(22)	(24)	(24)	(25)
Ending cash balance	**52**	**100**	**159**	**223**	**290**	**331**	**387**	**441**
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	5.2	6.7	6.6	6.7	6.8	6.8	6.8	6.8
Quick ratio (x)	5.2	6.7	6.6	6.7	6.8	6.7	6.7	6.8
Profitability ratios								
Gross profit margin	18.6%	23.4%	22.7%	22.9%	23.0%	23.1%	23.3%	23.5%
Operating margin	15.4%	19.9%	16.4%	17.1%	17.5%	17.8%	18.1%	18.5%
EBITDA margin	15.8%	20.6%	17.0%	17.7%	18.1%	18.4%	18.7%	19.2%
Net profit margin	11.4%	15.3%	12.6%	14.0%	15.1%	15.9%	16.6%	17.3%
Return on assets	18.5%	12.5%	10.6%	11.2%	11.9%	12.4%	12.6%	13.0%
Return on equity	40.7%	35.2%	26.5%	24.9%	23.6%	22.7%	21.6%	21.0%
Leverage ratio								
Debt / equity (x)	82.0%	79.2%	63.1%	42.6%	30.1%	20.7%	13.6%	8.4%
Market/valuation ratios								
EV/sales (x)	3.5	4.2	2.8	2.4	2.2	2.0	1.8	1.7
EV/EBITDA (x)	22.1	20.6	16.2	13.7	12.0	10.7	9.8	8.9
EPS (SAR)	0.43	0.54	0.56	0.7	0.8	0.9	1.0	1.0
BVPS (SAR)	1.3	1.8	2.4	3.0	3.6	4.2	4.6	5.1
Market price (SAR)*	12.27	14.04	11.18	11.18	11.18	11.18	11.18	11.18
Market-Cap (SAR mn)	3,681	4,212	3,354	3,354	3,354	3,354	3,354	3,354
P/E ratio (x)	28.5	25.8	20.1	16.5	14.2	12.6	11.7	10.9
P/BV ratio (x)	9.6	7.7	4.7	3.7	3.1	2.7	2.4	2.2

Source: Company Reports, AJC Research

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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