Al Moammar Information Systems
Consumer – Software & Services
MIS AB: Saudi Arabia
07 June 2022

الراجحي المالية
Al Rajhi Capital

US$0.781bn	54%	US$3.072mn
Market cap	Free float	Avg. daily volume

Target price	125.0	+7% over current
Current price	117.2	as at 07/06/2022

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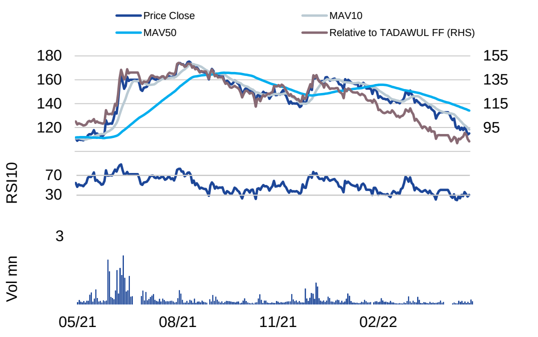
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	FY2021	FY2022E	FY2023E
Revenue*	639	566	566
Revenue growth	-5.3%	-11.4%	-0.1%
Gross profit	167	145	145
Gross margin	26.1%	25.6%	25.6%
EBITDA*	81	163	112
EBITDA margin	12.7%	28.8%	19.8%
Net profit	56	128	84
Net margin	8.8%	22.6%	14.8%
EPS	2.3	5.1	3.3
DPS	2.0	2.3	1.5
Payout ratio	88.5%	45.0%	45.0%
EV/EBITDA	40.0x	18.8x	27.1x
P/E	51.9x	22.9x	35.1x
RoE	16.9%	31.7%	18.6%

*Revenue does not include data centre operations; it is included in EBITDA on a net basis. Also, revenues are calculated on assumption of principal and agent mix of 49% and 51% in the order book, respectively.
Source: Company data, Al Rajhi Capital;

Al Moammar Information Systems

Delay in order execution, reduce TP to SAR125/share

Al Moammar Information Systems (MIS) Q1 2022 results were below our expectations, both at the top and bottom line. The company reported Q1 2022 revenue at SAR107mn (-25.7% y-o-y and -37.8% q-o-q) which was substantially lower than our estimates of SAR183mn. Lower execution of order book, due to orders not reaching revenue booking milestone, was the main reason suggested by the management for the weak financials. Due to the project-oriented nature of their operations, the company's quarterly performance shows substantial fluctuations. The strong order book of the company, in excess of SAR2 bn, that includes an order of SAR1.2 bn to build data centre, is appealing. However, concerns over execution of the order book persist, as the company's revenue booking has consistently been lower than our estimate. Added to this, the data centre execution too has been slower than expected, though we expect revenue booking to commence from H2 2022. Further, as of May 2022, new order flow for 2022 has been tepid. We revise our earnings estimates to account for the delays and the weak order inflow so far. Consequently, we reduce our target price on the stock to SAR 125/share from our previous levels of SAR182/share and downgrade the rating to Neutral from Overweight.

Recap of 1Q22 results

- Q1 2022 revenues of MIS were down 25.7% y-o-y to SAR107 mn, below our estimates of SAR183 mn. The fall in revenues was due to the projects not attaining revenue booking milestones. Revenue was impacted mainly by lower revenue booking in the business services management unit and systems unit, wherein revenue fell by 74.2% y-o-y and 79.3% y-o-y, respectively. Revenue was supported by a 50.8% y-o-y and 10.2% y-o-y growth in revenue of the maintenance and operation (41% of total revenue in Q1 2022) and networking (31% of total revenue in Q1 2022) segments, which restricted the fall in revenue to a certain extent.

- In line with the fall in revenue, operating profit fell by 42.6% y-o-y to SAR8.6 mn, as against SAR15.0 mn for the same period previous year. Gross margins improved by 4.4% on a y-o-y basis to 27.0% for Q1 2022, though operating cost increased by 15.9% y-o-y. In line with this, and lower revenue, the company registered a net income of SAR4.6 mn, lower than our estimate of SAR17.2 mn.

Figure 1 MIS: Summary of Q1 2022 results

(SAR mn)	Q1 2022	Q4 2021	Q1 2021	*ARC Est.*	*y-o-y*	*q-o-q*	*vs ARC*
Revenue	**107**	**171**	**143**	**183**	***-25.7%***	***-37.8%***	*-41.9%*
Gross Profit	**29**	**52**	**32**	**45**	***-11.1%***	***-44.9%***	***-35.9%***
G. margin	*27.0%*	*30.5%*	*22.6%*	*24.5%*			
Op. profit	**9**	**14**	**15**	**23**	***-42.6%***	***-40.2%***	***-62.1%***
Op. margin	*8.1%*	*8.4%*	*10.4%*	*12.4%*			
Net profit	**5**	**10**	**9**	**17**	***-50.5%***	***-52.1%***	***-73.2%***
Net margin	*4.3%*	*5.6%*	*6.5%*	*9.4%*			

Source: Company data, Al Rajhi Capital, Argaam

Valuation and risks: For the legacy business, we have assumed an order inflow of SAR1.0 bn and SAR1.2 bn in 2022 and 2023, respectively, and a growth rate of 10% thereafter. We are not considering the potential data centre orders that the company can get in the future. In the backdrop of weak order inflows for the legacy business, slower than expected execution of data centre order and lower expectations for the capacity utilization of the data centre as competition rises, our estimates for net income and cash flows have been revised lowered. We value the stock through DCF methodology given the nature of its business. We use a WACC of 8.8% and a 15x exit multiple on 2031e EBIT to calculate the terminal value. Our intrinsic value comes to SAR125/share, which is our new target price, lowered from earlier SAR182/share, that offers a slight upside of 7% and implies a *'Neutral'* rating. Key risks include: 1) Further delay in the execution of data centre project and the current order backlog, 2) The performance of the data centre fund not coming in line with expectation, 3) Lower than expected inflow of new orders from existing operations, and 4) Inability of the company to pass on increase in cost, resulting in margins coming lower than expected.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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