Al Moammar Information Systems Co.

Software & Services
MIS AB: Saudi Arabia
14 December 2023

US$1.0bn	51.2%	US$5.8mn
Market Cap.	Free Float	Avg. Daily Value traded

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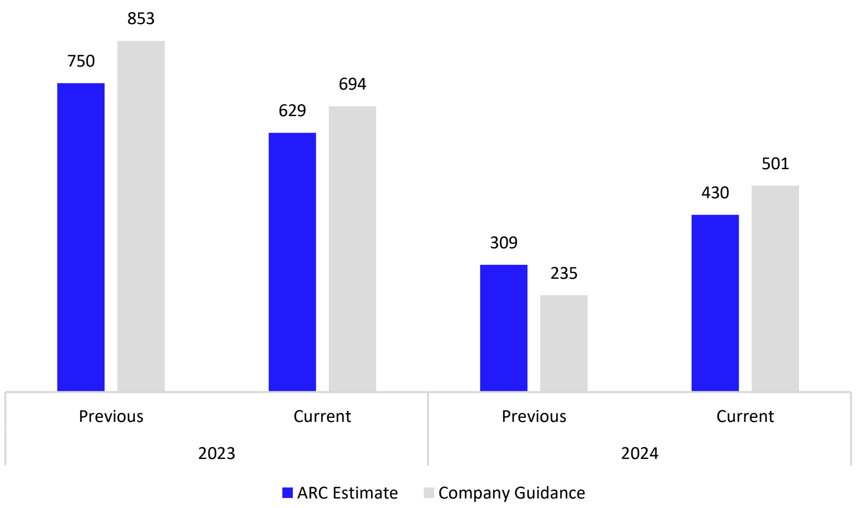
Al Moammar Info. Systems

TP revised to SAR120/sh; maintain neutral.

MIS 3Q23 result was one of the worst quarters for the company, with the bottom line moving into the red zone as the company recorded a loss of SAR69mn (LPS: SAR2.3). The primary reason for the loss was a change in MIS's ECL model, where the default period for receivables/contract assets was reduced to industry practices of 360/90 days for receivables from government/private customers, respectively. This resulted in provisions worth SAR93mn (SAR3.1/sh) turning the bottom-line negative. However, adjusting for the impairment losses, the company recorded a profit of SAR24mn. Apart from this, the Data center revenues slowed down significantly to only SAR102mn in 3Q23 (SAR252/175mn in 1Q & 2Q), taking the 9M23 revenue figure to SAR529mn. At the start of the year, we were conservative and had forecasted the revenues from the data center at SAR750mn as against the company's guidance of SAR853mn. Post-9M23, we believe the data center revenues will fail to meet even our conservative estimates, and hence we tone it down further to SAR629mn for FY23e as against the company's expectation of SAR694mn. The remaining revenue of SAR430mn, we believe, will now be booked in FY24e, increasing our estimate. Apart from the data center project, MIS's core business has thrived this year, and the company has managed to win plenty of new contracts, exceeding our expectations by 24%. Hence, we revise up our FY24 and FY25 earnings by 13 and 12%, respectively. The updated earnings have also incorporated higher impairment losses going forward. Consequently, our TP increased by 15%, providing a downside of 5.4% to last close, and our rating on the company still remains "Neutral".

Figure 1 **Data Center revenues**



Source: Company data, Al Rajhi Capital

Neutral

Price Target (SAR): 120.0

Current: 126.8
Upside/Downside: 5.4% below current

Valuation Multiples	23E	24E	25E
P/E (x)	78.6	30.4	33.5
P/B (x)	10.2	9.4	8.8
EV/EBITDA (x)	42.5	23.3	24.5

Major Shareholders	% Ownership
Ibrahim Abdullah	27.00
Khalid bin Abdullah	22.10

Price Performance	1M	3M	YTD
Absolute	1.6%	-13.4%	36.1%
Relative to TASI	-4.7%	-16.9%	25.9%

Earnings

(SARmn)	2022	2023E	2024E
Revenue	790	1,509	1,315
Revenue growth	23.6%	91.1%	-12.9%
Gross profit	203	284	294
Gross margin	25.7%	18.8%	22.4%
EBITDA*	107	96	172
EBITDA margin	12.9%	6.0%	11.8%
Net profit	96	48	125
Net margin	12.1%	3.2%	9.5%
EPS	3.20	1.61	4.18
DPS	2.40	1.50	3.14
Payout ratio	75.1%	92.9%	75.1%
EV/EBITDA	37.4x	42.5x	23.3x
P/E	39.7x	78.6x	30.4x
RoE	25.8%	12.9%	30.9%

Source: Company data, Al Rajhi Capital

3Q23/9M23 Results: In 3Q23, MIS experienced a significant 82% y-o-y surge in revenue, reaching SAR361mn. This remarkable growth stemmed from consistent expansions across all product lines and services, driven by a robust backlog of orders and the acquisition of new ones. While the gross profits increased by 11% y-o-y to SAR58mn, the margin contracted to 16% (compared to 26% in 3Q22), due to a higher revenue contribution from the low-margin Data Center business. Unexpectedly, the operating result revealed a SAR58mn loss alongside a substantial net loss of SAR69mn, marking a notable decline from the SAR25mn net profit in the corresponding quarter of the previous year. This loss primarily resulted from a one-off increase in provision expenses amounting to SAR93mn.

Over the span of 9M23, the top-line surged to SAR1.2bn compared to SAR476mn in 9M22, largely attributed to the inclusion of Data Center revenues. However, the low-margin nature of the Data Center business caused gross margins to shrink to 18% in 9M23, contrasting with 27% in a similar period in the previous year. Both operating and net profits in 9M23 declined by 8% and 43%, respectively, mainly due to the one-off impact in 3Q23.

Adjusted Operating and Net profits: In 3Q23, the group revised its ECL model, resulting in a significant rise in impairments. This adjustment led to a one-off expense of SAR93mn, impacting the group's profits noticeably. To ensure a fair comparison, we computed adjusted profit by excluding the impact of allowances for credit losses or provision expenses. The adjusted operating profit displayed a 20% y-o-y increase. However, adjusted net income saw a 5% y-o-y decline, with the adjusted net margin shrinking to 7% from 13% in 3Q22. This shift was mainly due to decreased gross margins and higher finance costs. Over the span of 9M23, adjusted operating profit surged by 1.3 times y-o-y, while adjusted net income increased by 1.4 times compared to the same period in the previous year.

Figure 2 **Earnings Summary Q3 2023**

SAR mn	Q3 2023	Q3 2022	y-o-y	Q2 2023	q-o-q	9M23	9M22	y-o-y
Revenue	361	199	82%	373	-3%	1,171	476	146%
Gross Profit	58	52	11%	79	-26%	214	129	65%
Gross Margin	16%	26%		21%		18%	27%	
Operating Profit	(58)	29	NM	59	NM	55	60	-8%
Operating Margin	-16%	15%		16%		5%	13%	
Adj. Operating Profit*	35	29	20%	55	-36%	145	61	*135%*
Adj. Operating Margin	10%	15%		15%		12%	13%	
Net Profit	**(69)**	**25**	**NM**	**50**	**NM**	**27**	**47**	**-43%**
Net Margin	-19%	13%		13%		2%	10%	
Adj. Net Profit *	**24**	**25**	**-5%**	**46**	**-48%**	**116**	**48**	**141%**
Adj. Net Margin	7%	13%		12%		10%	10%	

Source: Company data, Al Rajhi Capital; * *adjusted for expected credit loss expense*

Figure 3 **Earnings Summary excluding Data Center revenues**

SAR mn	Q3 2023	Q3 2022	y-o-y	Q2 2023	q-o-q	9M23	9M22	y-o-y
Revenue	259	161	61%	198	31%	642	416	54%
Gross Profit	48	49	-1%	61	-22%	161	123	30%
Gross Margin	19%	30%		31%		25%	30%	
Adj. Operating Profit*	25	26	-2%	38	-34%	92	55	66%
Adj. Operating Margin	10%	16%		19%		14%	13%	
Adj. Net Profit*	**14**	**21**	**-35%**	**29**	**-52%**	**65**	**42**	**53%**
Adj. Net Margin	5%	13%		15%		10%	10%	

Source: Company data, Al Rajhi Capital; * *adjusted for expected credit loss expense*

Valuations: We have valued MIS using the Discounted Cash Flow (DCF) methodology. We arrive at a TP pf SAR120/sh using a WACC of 9.8%. and a terminal growth rate of 3%. This target price suggests a downside of 5.4% from the last closing price. While we acknowledge the robust backlog of the group and anticipate sustained revenue generation excluding the data center segment, our evaluation indicates that the stock has some inherent risks. As a result, we maintain a neutral stance.

Figure 4 **EPS and Target Price Revision**

EPS (SAR/sh)	Previous	Current	Change
EPS 2023E	4.4	1.6	-63%
EPS 2024E	3.7	4.2	13%
EPS 2025E	3.4	3.8	12%
Target Price	104.0	120	15%

Source: Al Rajhi Capital

Key Risks: 1) Further delay in the execution of data center project and the current order backlog, 2) The performance of the data center fund not coming in line with expectation, 3) MIS's inability to address the qualified opinion of the auditor specifically issues related to margin booking, 4) Lower than expected inflow of new orders from existing operations, and 5) Inability of the company to pass on increase in cost, resulting lower margins than expected.

Key Financials

Figure 5 **Income Statement**

Income Statement (SARmn)	2023E	2024E	2025E
Sales	1,509	1,315	1,214
y-o-y growth	*91.1%*	*-12.9%*	*-7.7%*
Cost of Sales	(1,226)	(1,021)	(895)
y-o-y growth	*108.9%*	*-16.7%*	*-12.4%*
Gross Income	**284**	**294**	**319**
y-o-y growth	*39.8%*	*3.7%*	*8.5%*
margins	*18.8%*	*22.4%*	*26.3%*
Employee Costs	(62)	(80)	(109)
Selling and distribution expenses	(15)	(15)	(21)
Administrative expenses	(21)	(22)	(23)
Allowance for ECL	(95)	(22)	(30)
Operating Income	**91**	**155**	**136**
y-o-y growth	*-11.1%*	*71.3%*	*-12.6%*
margins	*6.0%*	*11.8%*	*11.2%*
Investments and other	5	17	31
Financing Expense	(43)	(39)	(46)
Income from Affiliate	5	5	5
Net income before tax	**57**	**138**	**125**
Zakat & Tax	(9)	(13)	(11)
tax rate	*15.2%*	*9.1%*	*9.1%*
Net Profit Before Minority Interest	**48**	**125**	**114**
Minority Interest (loss)/profit	0	0	0
Net Income	**48**	**125**	**114**
y-o-y growth	*-49.5%*	*158.9%*	*-9.4%*
margins	*3.2%*	*9.5%*	*9.4%*
EPS	1.6	4.2	3.8
DPS	1.5	3.1	2.8

Source: Al Rajhi Capital estimates

Figure 7 **Cash Flow Statement**

Cash Flow Statement (SARmn)	2023E	2024E	2025E
Net Cash Flows from Operating Activities	(23)	228	63
Cash Flows from Investing Activities	(84)	(58)	(2)
Cash Flows from Financing Activities	229	(130)	126
Net Change in cash & cash equivalents	**122**	**40**	**186**

Source: Al Rajhi Capital estimates

Figure 6 **Balance sheet**

Balance Sheet (SARmn)	2023E	2024E	2025E
Cash & Cash Equivalents	274	315	501
Receivables, Net	679	637	841
Contract Assets	792	664	910
Others	221	221	221
Total Current Assets	**1,967**	**1,836**	**2,473**
Property and equipment	37	34	31
Investments in Associates	96	156	161
Others	52	52	53
Total Non-Current Assets	**185**	**243**	**245**
Total Assets	2,151	2,079	2,718
Liabilities and Equity			
Short-term Debt & Leases	688	692	949
Trade Payable	687	574	794
Contract Liabilities	360	362	496
Total Current Liabilities	**1,744**	**1,641**	**2,251**
Long-Term Debt & Leases	0	0	0
Others	33	33	33
Total Non-Current Liabilities	**33**	**33**	**33**
Total Liabilities	**1,777**	**1,674**	**2,284**
Total Equity	**375**	**406**	**434**
Total Owners Equity	**375**	**406**	**434**
Total liabilities and equity	**2,151**	**2,079**	**2,718**

Source: Al Rajhi Capital estimates

Figure 8 **Key Ratios**

Ratios	2023E	2024E	2025E
ROCE	9%	14%	10%
ROA	2%	6%	4%
ROE	13%	31%	26%
Receivables turnover	45%	48%	69%
P/E	78.6x	30.4x	33.5x
EV/EBITDA	42.5x	23.3x	24.5x
P/BV	10.2x	9.4x	8.8x
Dividend yield	1.2%	2.5%	2.2%

Source: Al Rajhi Capital estimates

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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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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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