

# TAM Development Co.

## TP revised to SAR270/sh; remain overweight.

Since our initiation report (dated 11th July 2023), the stock has rallied by 64% and is up 60% YTD. As evident from the strong set of FY23 results, we believe that the stock still has a lot to offer. Tam Development posted solid top and bottom-line growth in FY23, rising by 28% and 45%, respectively. The company managed to comfortably surpass our growth assumptions mentioned in our initiation report, where we had taken revenue growth, EBIT margin, and profitability growth of 25%, 19%, and 13%, respectively (actual numbers of 28%, 23% and 45%). Overall, the revenue was mostly in line with our expectations; however, the gross level margins presented a positive surprise, increasing by 10 percentage points YoY. Going forward, we expect revenue to maintain its growth momentum on the back of a healthy backlog of SAR450mn as of FY23, representing a run-rate of 2.5 years. Additionally, the potential order pipeline stood at SAR200mn at the start of the year. The backlog includes the SAR200 million-project with a government entity for consulting services. This is a huge development for the company as it emphasizes two important things: 1) the company's effort to diversify its source of revenue, and 2) its ability to win big-ticket projects. Moreover, we also revisit our conservative gross margin assumptions and increase them by 5.9/5.7 percentage points for FY24/25. This results in a revised-up EPS of SAR15.1/18.8 per share for FY24/25e. Consequently, we also revise up our rolled-forward TP to SAR270/sh, providing an upside of 28.6% to the last close. We maintain our "Overweight" rating on the stock as the stock continued to trade at an attractive FY24 P/E multiple of 13.9x only.

Figure 1 TAM surpasses ARC FY23 assumptions

(SAR mn)	Actual	ARC est.	Difference
Revenue	188.4	183.8	2.5%
Gross Profit	89.8	66.5	35.0%
G. margin	47.6%	36.2%	
Op. profit	44.1	34.2	29.0%
Op. margin	23.4%	18.6%	
Net profit	40.6	31.4	29.3%
Net margin	21.6%	17.1%	

Source: Company data, Al Rajhi Capital

**FY23 results:** Tam's FY23 revenues saw a notable uptick of 28.1% y-o-y, primarily fuelled by a surge in revenue during the latter half of 2023. This increase can be attributed in part to seasonal factors, yet the overall boost in revenue has notably contributed to improved gross margins for the group. In addition, the seasonality will be smoothed out from FY24 onwards after the application of new revenue recontinuation methodology. Gross profit in FY23 soared by 63.7% y-o-y, resulting in a remarkable improvement in gross margin, which rose to 47.6% from 37.3% in FY22. However, this positive trend was somewhat tempered by elevated G&A expenses, stemming from increased employee costs and a one-off impairment loss of SAR2.2mn. Despite these challenges, operating profit experienced a healthy growth of 46.9% y-o-y, while the bottom line expanded by 45.4% y-o-y, leading to an enhanced net margin of 21.6% compared to 19.0% previously.

## Overweight

Price Target (SAR): 270.0

Current: 210.00

Upside/Downside: 28.6% above current

Valuation Multiples	24E	25E	26E
P/E (x)	13.9	11.2	9.3
P/B (x)	4.6	3.5	2.8
EV/EBITDA (x)	10.2	7.8	6.0

## Major Shareholders % Ownership

Abdullah Anwar Muhammad Yusuf	20.01
Ain Development Investment Co.	16.51

## Price Performance

	1M	3M	YTD
Absolute	2.4%	24.3%	60.3%
Relative to TASI	5.1%	24.4%	58.7%

## Earnings

(SARmn)	2024E	2025E	2026E
Revenue	235	292	358
Revenue growth	24.9%	24.0%	22.5%
Gross profit	97	121	148
Gross margin	41.3%	41.3%	41.4%
EBITDA	60	75	94
EBITDA margin	25.3%	25.6%	26.3%
Net profit	50	62	75
Net margin	21.1%	21.2%	20.9%
EPS	15.1	18.8	22.7
DPS	2.3	4.7	7.9
Payout ratio	15.0%	25.0%	35.0%
P/E	13.9x	11.2x	9.3x
RoE	32.7%	31.2%	30.3%

Source: Company data, Al Rajhi Capital

Figure 2 **2H23/FY23 results summary**

(SAR mn)	H2 2023	H1 2023	H2 2022	y-o-y	q-o-q	FY23	FY22	y-o-y
<b>Revenue</b>	<b>125.6</b>	<b>62.8</b>	<b>108.8</b>	15.4%	100.0%	<b>188.4</b>	<b>147.1</b>	28.1%
<b>Gross Profit</b>	<b>65.3</b>	<b>24.4</b>	<b>42.4</b>	54.1%	167.4%	<b>89.8</b>	<b>54.8</b>	63.7%
<i>G. margin</i>	52.0%	38.9%	39.0%			47.6%	37.3%	
<b>Op. profit</b>	<b>37.4</b>	<b>6.8</b>	<b>26.8</b>	39.2%	NM	<b>44.1</b>	<b>30.1</b>	46.9%
<i>Op. margin</i>	29.8%	10.8%	24.7%			23.4%	20.4%	
<b>Net profit</b>	<b>35.8</b>	<b>4.8</b>	<b>25.6</b>	40.2%	NM	<b>40.6</b>	<b>27.9</b>	45.4%
<i>Net margin</i>	28.5%	7.6%	23.5%			21.6%	19.0%	

Source: Company data, Al Rajhi Capital

**Valuations:** We employ a weighted average approach encompassing Relative Valuation (RV) and the discounted cash flow method (DCF) for our valuation analysis. Within this framework, we assign DCF a weightage of 50%, resulting in a valuation of SAR267/sh. For RV, we utilize the P/E approach. This results in a target price of SAR270/sh, presenting an upside potential of 28.6%.

**Key Risks:** i) Failure to move to main market, ii) inability to expand into new markets, iii) overexposure of revenues on select few Saudi government departments, iv) increased competition from other players in Saudi, and v) margin pressure due to rising competition.

## Key Financials

Figure 3 **Income Statement**

(SAR mn)	2024E	2025E	2026E
<b>Sales</b>	<b>235</b>	<b>292</b>	<b>358</b>
Y-o-Y	24.9%	24.0%	22.5%
Cost of Sales	(138)	(171)	(210)
% of revenues	58.7%	58.7%	58.6%
<b>Gross Income</b>	<b>97</b>	<b>121</b>	<b>148</b>
Y-o-Y	8.2%	24.2%	22.6%
GPM	41.3%	41.3%	41.4%
SG&A	(44)	(54)	(67)
% of revenues	18.5%	18.4%	18.8%
Other income/ (expenses)	0	0	1
<b>Operating Expenses</b>	<b>(43)</b>	<b>(53)</b>	<b>(67)</b>
% of revenues	18.4%	18.3%	18.6%
<b>Operating Income</b>	<b>54</b>	<b>67</b>	<b>81</b>
Y-o-Y	22.4%	24.7%	20.8%
OPM	22.9%	23.1%	22.8%
<b>Profit before tax</b>	<b>54</b>	<b>67</b>	<b>81</b>
Zakat & Tax	(4)	(5)	(7)
% of PBT	8.0%	8.0%	8.0%
<b>Net Profit Before Unusual Items</b>	<b>50</b>	<b>62</b>	<b>75</b>
<b>Net Income</b>	<b>50</b>	<b>62</b>	<b>75</b>
Y-o-Y	22.3%	24.7%	20.8%
NPM	21.1%	21.2%	20.9%
<b>EPS (SAR/sh)</b>	<b>15.1</b>	<b>18.8</b>	<b>22.7</b>

Source: Al Rajhi Capital estimates

Figure 4 **Cash Flow Statement**

(SAR mn)	2024E	2025E	2026E
Cash from Operations	58	55	72
Cash from Investing	(10)	(18)	(29)
Cash from Financing	(6)	(14)	(25)
<b>Change in Cash</b>	<b>41</b>	<b>22</b>	<b>18</b>

Source: Al Rajhi Capital estimates

Figure 4 **Balance sheet**

(SAR mn)	2024E	2025E	2026E
<b>Assets</b>			
Trade receivables	52	62	74
Contract assets	43	53	65
Prepayment and other debt balances	28	35	42
Cash and cash equivalents	87	110	128
<b>Total current Assets</b>	<b>210</b>	<b>260</b>	<b>310</b>
Property, plant and equipment, net	2	5	12
Intangible assets, net	14	22	31
<b>Total non-current assets</b>	<b>17</b>	<b>28</b>	<b>44</b>
<b>Total assets</b>	<b>227</b>	<b>288</b>	<b>354</b>
<b>Liabilities</b>			
ST Debt	1	2	3
Trade payables	39	46	55
Contract liabilities	26	32	39
Provision for Zakat and income tax	3	3	3
<b>Total current liabilities</b>	<b>69</b>	<b>84</b>	<b>101</b>
<b>Total non-current liabilities</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>Shareholders' equity</b>			
Capital	40	40	40
Statutory and other reserve	6	6	6
Retained earnings	106	152	201
<b>Total Equity</b>	<b>152</b>	<b>198</b>	<b>247</b>
<b>Total liabilities</b>	<b>227</b>	<b>288</b>	<b>354</b>

Source: Al Rajhi Capital estimates

Figure 5 **Key Ratios**

Key metrics	2024E	2025E	2026E
Current ratio	3.0x	3.1x	3.1x
Receivables turnover ratio	4.0x	5.1x	5.2x
Payables turnover ratio	4.0x	4.0x	4.1x
Operating cycle (days)	81	78	76
EV/EBITDA	10.2x	7.8x	6.0x
P/E	13.9x	11.2x	9.3x
P/B	4.6x	3.5x	2.8x

Source: Al Rajhi Capital estimates

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