

TAM Development Co.

Consumer: Professional Services
TAM AB: Saudi Arabia
11 July 2023



US\$0.125bn Market Cap	100.00% Free Float	US\$0.26mn Avg. Daily Volume
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Target price 190.00 **48% above current**
Current price 128.00 **as at 10/07/2023**

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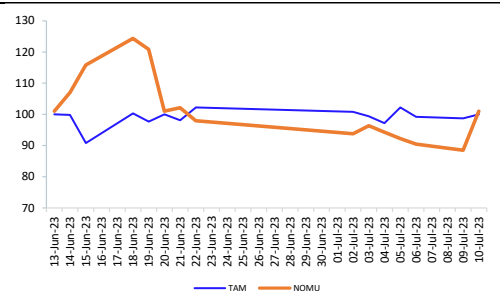
Existing rating

Underweight Neutral **Overweight**

TAM Development Co.

Betting big on Vision 2030; Initiate with Overweight

Performance



Financials

(SARmn)	2022	2023E	2024E
Revenue	147	184	231
Revenue growth	63.7%	25.0%	25.4%
Gross profit	55	66	82
Gross margin	37.3%	36.2%	35.4%
EBITDA	32	38	47
EBITDA margin	21.9%	20.7%	20.4%
Net profit	28	31	37
Net margin	19.0%	17.1%	16.2%
EPS	7.6	8.6	10.2
DPS	0.8	0.9	1.5
Payout ratio	10.2%	10.0%	15.0%
P/E	16.8x	14.9x	12.6x
RoE	39.0%	31.4%	28.4%

Source: Company data, Al Rajhi Capital.

We initiate coverage on TAM Development with an “Overweight” rating and a target price of SAR190/sh providing an upside of 48% to the last close. TAM development fits into our theme of increasing exposure toward stocks that are pursuing the local growth story and actively capitalizing on the growth opportunity presented by the implementation of Vision 2030 programs. Hence, we foresee TAM Development as a lucrative investment opportunity as 1) the company trades at low multiples, 2) operates in a growing market, and 3) has a strong pipeline of revenue backlog implying tremendous growth opportunity. As of now, the company has a robust backlog of projects amounting to SAR288mn which represents a run rate of about 2 years. We remain confident of continued double-digit revenue growth for the company on the back of a strong pipeline of projects and low revenue base. We expect the topline of the company to grow at a 5-year CAGR of 24% to SAR434mn by FY27e. The stock is currently trading at a depressed forward PE multiple of 14.9x providing a good entry point. Attractive valuations coupled with strong growth prospects makes a compelling case for TAM Development. Hence, we initiate with an Overweight rating on the stock.

Big on Vision 2030 Theme: TAM development provides direct exposure to the Vision 2030 programs of the Kingdom. These initiatives are the bread and butter for TAM where they provide advisory services as well as digital solutions to its clients. Going forward, we believe, the Vision 2030 programs to gather pace, resulting in more projects to be announced soon for which TAM will be one of the main beneficiaries. The company is well positioned to win a lot of these projects and they boast a historical win rate of c.30%. Therefore, we believe that TAM provides a perfect investment opportunity for anyone who wants to take a bet on the realization of Vision 2030 programs.

Capitalizing on a Growing Market: TAM operates in a growing market as advisory businesses and digital solutions are booming in the Kingdom. The Saudi Arabia consulting market is the largest in the GCC region and has been growing at the fastest pace within the region. Consulting in Financial services represents the major chunk of the overall market followed by public consulting as of 2021. The digital consulting market is growing rapidly recording a historic CAGR of 17% (FY2016-2022). It is expected to grow further in the coming years owing to the Kingdom’s Vision 2030 transformative programs.

Strong Pipeline of Projects to Enhance Revenue: The company has managed to grow its revenue rapidly from SAR56mn in FY19 to SAR147mn in FY22 representing a 3-year CAGR of 38%. The company recently announced a project worth SAR54mn with the Ministry of Culture taking the current backlog to a whopping SAR288mn representing a run rate of about 2 years (based on FY22 revenues). In addition, the company has submitted RFPs worth SAR190mn which are currently under review. Assuming the historic win rate of c.30% the backlog can further increase by c.SAR57mn in the short term. In our forecast, we have assumed new project additions to grow at a 5-year CAGR of 18%.

Attractive Valuations: Tam Development recently got listed on NOMU Market at a price of SAR130/sh implying a trailing P/E multiple of 17.1x. However, we would like to highlight, that the stock is trading at a depressed forward multiple of 14.9x. We argue that a company whose bottom line is expected to grow in double-digits commands better valuations.

We have used the Discounted Cash Flow (DCF) as our preferred valuation approach, where we assign a weight of 50% to it while the remaining 50% is assigned to the relative valuation approach. Using the above-mentioned approach, we arrive at a weighted average target price of SAR190/sh which provides an upside of 48% to the last close.

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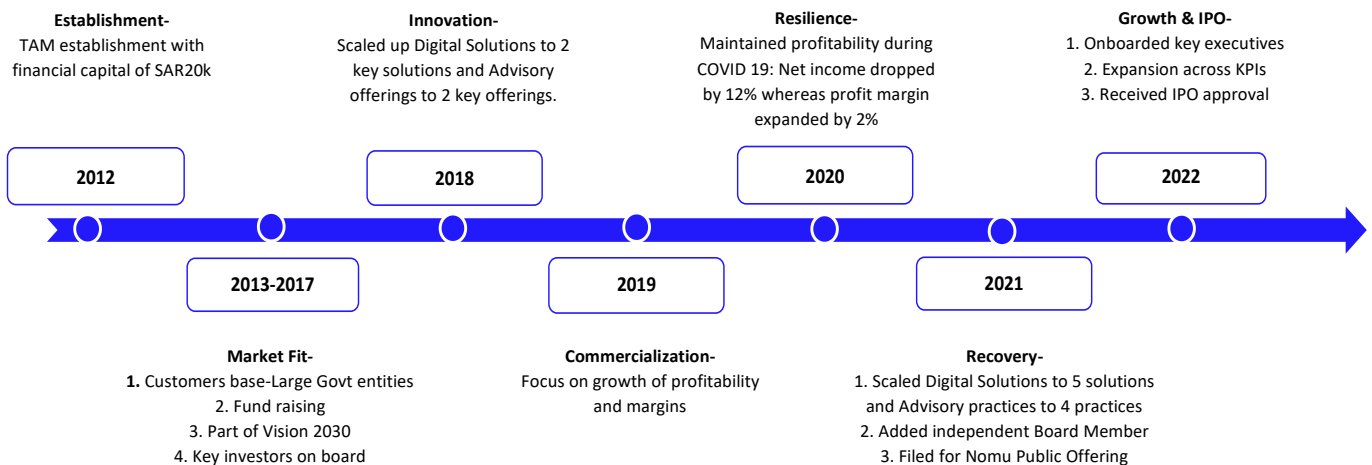
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Company Overview

TAM Development Co. has been present in the KSA market for nearly a decade. Public sector projects in the region form a large part of its backlog. TAM provides Advisory and Digital Solutions offerings enabling transformations and has exhibited strong financial performance with a 3-year revenue CAGR of ~38%. As of FY22, 86% of the revenues correspond to Advisory services while Digital Solutions contributed ~14% to the revenues. Revenues in the Digital Solutions segment are derived either in the form of one-time royalties or periodic recurring licensing fees.

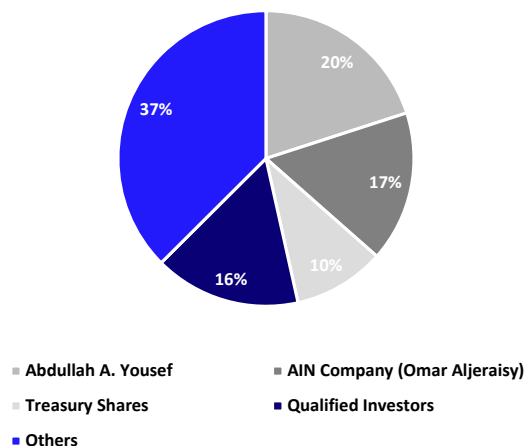
On the other hand, the current backlog of SAR288mn implies strong revenue visibility in a scenario where digital transformation is indispensable. Also, as of FY22 the top 5 contracts by value accounted for only about 27% of the total revenues which suggests low client concentration. Meanwhile, the company's focus on growing its Digital Solutions vertical will have a meaningful impact on margins due to the subscription nature of the business. Merging the Digital Solutions platform (TAM Verse) with Advisory services has been one of the key performance objectives for TAM. The company has been successful in providing an umbrella of services right from strategy to design and implementation.

Figure 1 TAM Timeline



Source: Company Data, Al Rajhi Capital

Figure 2 Post - IPO Shareholding



Source: Company Data, Al Rajhi Capital

Figure 3 **Executive Team at TAM...**

Team	Designation	Past Stint
Omar Aljeraisy	Chairman	Ain Investment Co, AXA(GIG), Azm, Aljeraidy Group
Ali M. Sheneamer	Vice Chairman- Independent Member	Bupa Arabia, SAGIA, AMS Baeshen, Jabaliah, 1Passh, Mango, Jazan
Abdullah A. Yousef	Board Member, MD & CEO	ALJ Enterprises, Jeddah Municipality
Dr. Abdulla Elyas	Board Member- Independent Member	Careem, Bupa Arabia & Monshaat, PIF
Samer Jundi	Board Member	Alhabeeb & Sons Holding, EY, SRMO, Hamat Holding, Global Healthcare Co.

Source: Company Data, Al Rajhi Capital

Figure 4 **... consists of seasoned professionals**

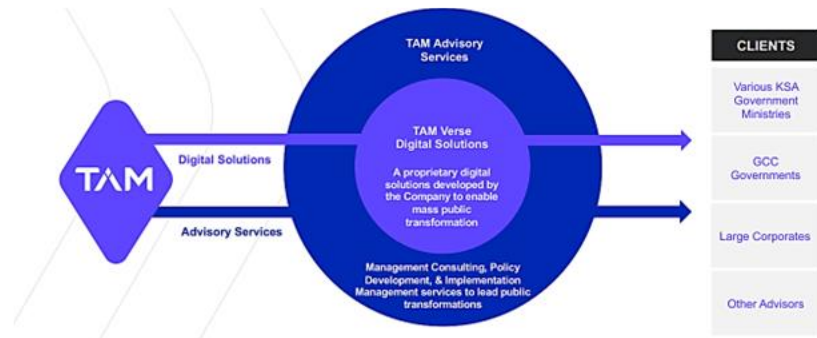
Team	Designation	Key Domain	Past Stint	Years of Experience
Abdullah Taha	Managing Partner	Transformation Leadership	Ministry of Municipal, Rural & Housing, Ministry of Finance, Mc Kinsey & Co., Elixir Consultancy	20+
Eyad Ramlawi	CFO	Investment & Finance	Alturki Group, National Holding, Deloitte	25+
Albaraa Taibah	COO	Operation & Transformation Management	Dar Althikr School, Turner Construction Co.	15+
Dr. Mazen Melibari	CTO	Technological experience in Large Corporation & Startups	SITE, Google	20+
Ahmed Youssef	CSO	Strategy Design & Implementation	AlOthaim Group, Mc Kinsey & Co., Elixir Consultancy	18+
Turki Fageera	Partner, Innovation	Innovation & Service Design	Saudi leadership Society, Ministry of Municipal, Rural & Housing, HUDE Innovation Consultancy	15+
Amr Mandurah	Partner, Marketing and Communication	Corporate Branding & Strategic Communication	Pur Consulting, PepsiCo, Nestle	17+
Khaled Nounou	Partner, Human Capital	Consulting	Arthur D. Little, Mc Kinsey & Co., Business World International	20+

Source: Company Data, Al Rajhi Capital

Business Model

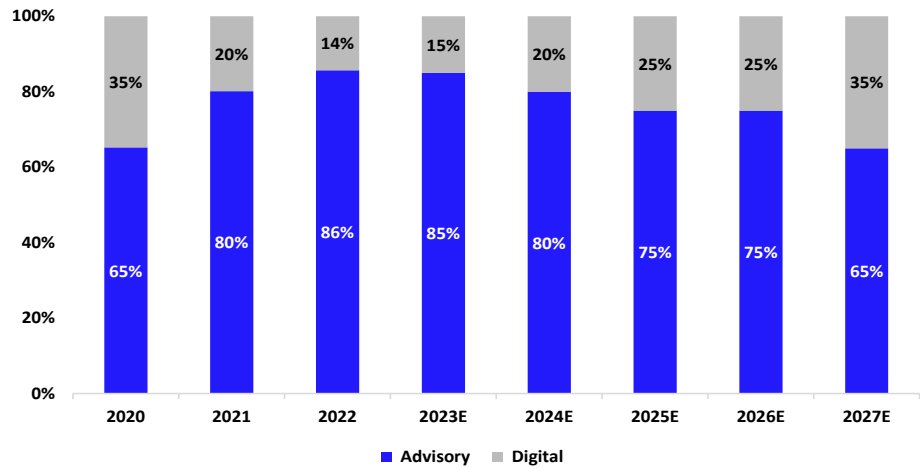
TAM Development provides advisory services powered by its digital solutions for entities to design and implement Vision 2030 transformation initiatives. TAM provides advisory for public entities with a focus on designing and implementing vision-transformative initiatives. The company provides a one-stop solution ranging from providing advisory services and forming an implementation proposal to executing the proposed solution by providing relevant digital products. These services are contract based and usually involve solving client challenges by implementing a solution using a digital platform. Hence, often, advisory contracts can lead to an increase in revenue from digital solutions.

Figure 5 TAM Overview



Source: TAM Presentation, Al Rajhi Capital

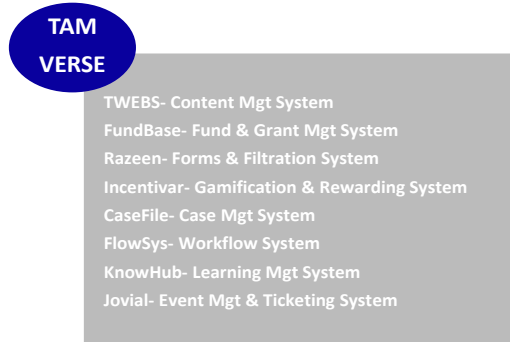
Figure 6 TAM Revenue Breakup (2020-2027E*)



Source: Company Data, Al Rajhi Capital; *ARC estimates

Revenues from digital solutions are mostly recurring and involve the implementation of digital products to cater to the client's needs. The company's team of experts has developed TAM verse which involves 8+ innovative digital solution products or modules. TAM Verse comprises of a suite of products and aspects that fit within the client's profile. The dashboard for TAM Verse ranges across multiple lines of businesses including Tourism, Culture and Entertainment industries. It entails dynamic platforms with several use cases like learning and development, ticketing systems, event management system, etc. Hitherto the team of TAM Verse has successfully developed more than 278 platforms which has a user reach to the north of 50mn. Going forward, we expect TAM Verse current suite of products to further expand overtime. The digital solutions earn a one-time royalty fee for the use of the platform as an implementation tool while a recurring fee is charged for the continued usage of the platform over the years.

Figure 7 **Digital Solutions**



Source: Company Data, Al Rajhi Capital

To better understand the company’s business, let’s take a look at a project that the company has executed in the past. TAM was entrusted by a government agency to find ways to engage with the citizens on a certain issue. TAM realized that there is a cultural issue that needs to be addressed to solve the root of the problem. The company took on the project for 3 years and designed a strategy of cultural transformation via curriculum design and creating city-based neighborhood awareness. All of this came together via the digital platform and solutions the company provided. So, the advisory contract gives access to business issues, while the solution to that problem provides scope for digital business. Once the advisory is finished, the digital solution continues for years to come, serving as a recurring stream of revenue.

Figure 8 **Example of TAM Advisory and Digital Services**



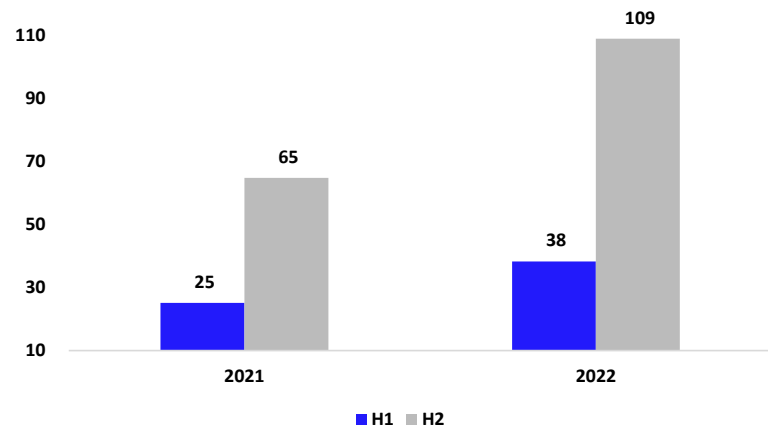
Source: TAM Investor Presentation, Al Rajhi Capital

The project duration of contracts varies depending on their nature. For advisory, the contracts usually last for 6-12 months while for digital solutions the contracts can be longer term in nature as they are a recurring source of revenue. The average contract size has increased in the recent past as the business continues to flourish. The management expects new projects to be anywhere in the range of SAR20-30mn. The company has a historic win rate of 30%. The whole life cycle from bidding to winning a contract can take about 3-4 months.

The company generates its revenue mainly from various government organizations and private-sector corporates. Currently, government entities represent 98% of the total revenues as of FY22. Although TAM relies on the government sector for its business, TAM has managed to work with 50+ entities since its inception, emphasizing the fact that they are not dependent on one or two big clients. In FY22, the company’s 5 largest contracts accounted for only 27% of the total revenues. Going forward, the company aims to achieve a mix of 80-20% of government-private clients in the next few years.

Seasonality: The business revenues are seasonal in nature as on average only 27% of the revenues are booked in the first half of the calendar year while the remaining 73% is booked in the second half. Hence, 1H earnings are not an accurate yardstick to judge the full-year earnings. One of the main reasons for such highly skewed revenue booking is the clientele the company has. As public entities usually increase their allocated budget spending in the second half of the year, more projects get assigned and more cash is released which flows to the company.

Figure 9 Half yearly revenue breakup (SAR mn)



Source: Company Data, Al Rajhi Capital

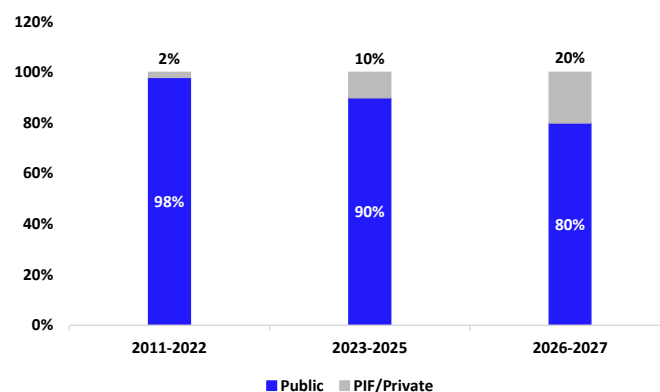
Going Forward: Having been incorporated only 11 years back, TAM is still at the nascent stages of its business life cycle. The company initially made a conscious decision to only focus on the Saudi market and only on the public sector given the growth opportunity it presents. By 2027, the company will look to diversify slightly having a mix of 80-20% of the public to the private sector. Apart from expanded penetration into the PIF ecosystem and solidifying its market share in the public and private sectors, the company will also eventually aim to expand into the regional market. As of now, the company has a strong presence in 4 sectors and plans to expand to 12 sectors with 200+ impactful projects.

Figure 10 Tam Sector Diversification



Source: TAM Investor Presentation, Al Rajhi Capital

Figure 11 Tam Sector Penetration by Project



Source: Company Data, Al Rajhi Capital

Investment Case

Big on Vision 2030 theme: TAM development provides direct exposure to the Vision 2030 of the Kingdom. The company, very early on, had taken the conscious decision to grow by taking projects pertaining to the vision realization programs. There are more than 455 public entities tasked with implementing these programs resulting in more than a thousand transformative initiatives. These initiatives are the bread and butter for TAM where they provide advisory services as well as digital solutions to its clients. Going forward, we believe, the Vision 2030 programs to gather pace, resulting in more projects to be announced in the near future for which TAM will be one of the main beneficiaries. The company, due to its first mover advantage, is well positioned to win a lot of these projects and they boast a historical win rate of c.30%. Therefore, we believe that TAM provides a perfect investment opportunity for anyone who wants to take a bet on the realization of Vision 2030 programs.

Figure 12 **Vision 2030**



Source: TAM Investor Presentation, Al Rajhi Capital

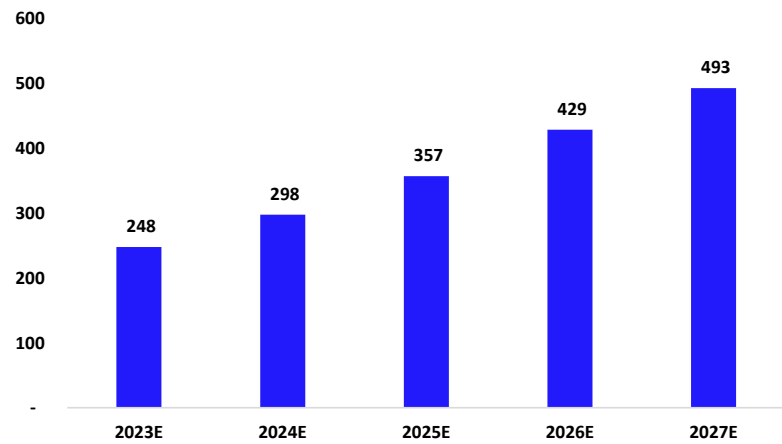
Capitalizing on a Growing Market: TAM operates in a growing market as advisory businesses and digital solutions are booming in the Kingdom. The Saudi Arabia consulting market is the largest in the GCC region and has been growing at the fastest pace within the region. Consulting in Financial services represents the major chunk of the overall market followed by public consulting as of 2021. The digital consulting market is growing rapidly recording a historic CAGR of 17% (FY2016-2022). It is expected to grow further in the coming years owing to the Kingdom's Vision 2030 transformative programs. The total market currently stands at SAR6bn implying a market share of only 1.5% for TAM based on its FY22 revenues.

Strong Pipeline of Projects to Enhance Revenue: The company has managed to grow its revenue rapidly from SAR56mn in FY19 to SAR147mn in FY22 representing a 3-year CAGR of 38%. We remain confident of continued double-digit growth for the company on the back of a strong pipeline of projects and a low revenue base. In our forecast, we have assumed the revenues to grow at a 5-year CAGR of 24% to SAR434mn by FY27e. As of now, the company has a steep backlog of projects including the recently announced a project worth SAR54mn with the Ministry of Culture for the Literature, Publishing, and Translation Authority. Taking the latest project into account, the total backlog stands at a whopping SAR288mn representing a run rate of about 2 years (based on FY22 revenues). In addition, the company has submitted RFPs worth SAR190mn which are currently under review. Assuming the historic win rate of c.30% one can safely assume the backlog to further increase by c.SAR57mn in the short term.

Figure 13 **Revenue Backlog Table**

Project Pipeline	Value (SAR mn)	Remaining Revenue
Carry over projects as of 1 st Jan 2023	269	156
Projects signed in 2023		
Project 1	2	2
Project 2	30	30
Project 3	25	25
Project 4	4	4
Project 5	0	0
Project 6	5	5
Project 7	38	38
Project 8	14	14
Project 9	8	8
Project 10	5	5
Total Secured Contract Backlog	402	288
RFPs submitted	190	

Source: TAM Presentation, Al Rajhi Capital

Figure 14 **Backlog addition graph (2023E-2030E)***

Source: Al Rajhi Capital; *ARC estimates

Attractive Valuations: Tam Development recently got listed on the NOMU Market at a price of SAR130/sh implying a trailing P/E multiple of 17.1x. However, we would like to highlight, that the stock is trading at a depressed forward multiple of 14.9x. Other IT companies in NOMU trade at a PE multiple of 21.8x while on the Main Market, the multiple is 35.0x. In addition, we expect the company's topline to grow at a 5-year CAGR of 24% and the bottom line to grow at 23% during the same period. Hence, we argue that a company growing at this rate commands better valuations.

Valuation

TAM Development is listed on NOMU, where, apart from fundamentals, a lot of different factors affect the stock price, and liquidity can be a concern. Currently, the company is a small-cap company with tremendous potential for growth, which, if realized, could help the company be promoted to the main market, where its true value will be unlocked. Our preferred valuation approach to value the company is DCF, where we assign a weight of 50% to it while the remaining 50% is assigned to the relative valuation approach. Using the above-mentioned approach, we arrive at a weighted average target price of SAR190/sh. The stock provides an upside of 48% from its last closing.

Figure 15 Valuation

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)	Upside/Downside
DCF	193	50%	96	50.8%
Relative Valuation (EV/EBITDA)	195	25%	49	52.3%
Relative Valuation (PE)	188	25%	47	46.9%
Fair Value (SAR)*		100%	190	
CMP as on Monday, July 10.			128	
Upside(Downside)				48%

Source: Al Rajhi Capital; * Rounded to SAR190/sh

We use the Discounted Cash Flow (DCF) methodology to arrive at a value of SAR193/sh. Our value is based on the cost of equity assumption of 13.0% resulting in a WACC of 12.1% while we have taken a terminal growth rate of 2.5%. In the cost of equity, we have assumed an additional spread of 2% for the risk NOMU market presents including liquidity risk.

Figure 16 Sensitivity Analysis

	Terminal growth					
	10.1%	11.1%	12.1%	13.1%	14.1%	
WACC	1.5%	231	203	180	162	146
	2.0%	241	211	186	167	150
	2.5%	253	219	193	172	154
	3.0%	267	229	200	177	159
	3.5%	282	240	209	184	164

Source: Al Rajhi Capital

For relative valuation, we have used price to earnings as well as EV/EBITDA of the listed peer companies in both the main market as well as NOMU. To further adjust for the risks the NOMU market represents we have applied a discount of 30% to the median multiples. The P/E multiple of 23.1x was used to arrive at a value of SAR188/sh while the EV/EBITDA multiple of 19.3x was used resulting in a value of of SAR195/sh.

Figure 17 Relative Valuation

Region	Companies	Market Cap (SAR mn)	Gross Margin	EBITDA Margin	ROE	P/E	EV/EBITDA
Local KSA Companies (Main Market)	MIS	4,656	25.7%	13.5%	27.2%	33.8x	32.3x
	2P	3,177	19.5%	15.4%	63.6%	23.5x	23.0x
	Solutions	39,240	22.7%	15.7%	38.7%	36.2x	24.8x
	ELM	46,560	40.9%	23.7%	31.8%	45.1x	37.8x
	Mean	23,408	27.2%	17.1%	40.3%	34.6x	29.5x
	Median	21,948	24.2%	15.5%	35.2%	35.0x	28.5x
Local KSA Companies (Parallel Market)	Al Azm	690	20.2%	14.0%	45.3%	31.1x	26.5x
	Edarat	441	39.8%	27.5%	73.3%	35.9x	27.8x
	SURE	404	24.8%	14.0%	27.1%	16.7x	12.1x
	Mean	512	28.3%	18.5%	48.6%	19.5x	15.5x
	Median	441	24.8%	14.0%	45.3%	21.8x	18.5x
Total*	Mean					21.9x	18.1x
	Median					23.1x	19.3x

Source: Bloomberg, Al Rajhi Capital; * 30% liquidity discount

Conclusion: Overall, TAM development fits into our theme of increasing exposure toward stocks that are pursuing the local growth story and actively capitalizing on the growth opportunity presented by the implementation of Vision 2030 programs. Hence, we foresee TAM Development as a lucrative investment opportunity as 1) the company trades at low multiples, 2) operates in a growing market, and 3) has a low revenue base coupled with a strong backlog pipeline implying tremendous growth opportunity. We initiate our coverage on TAM Development with an “Overweight” recommendation, providing an upside of 48% to the last closing.

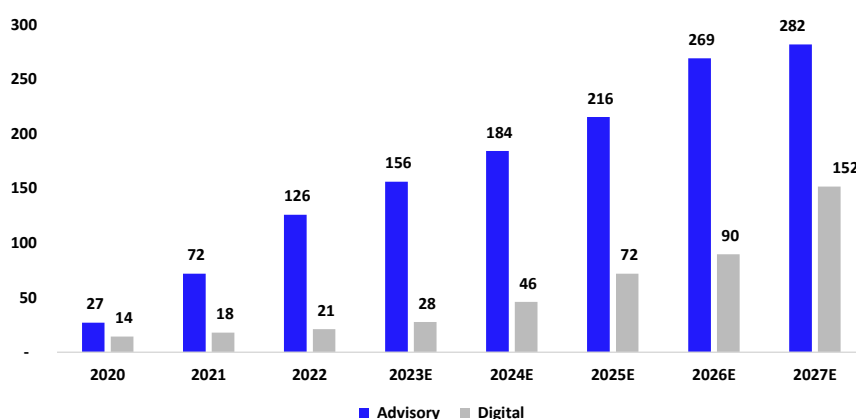
Key risks

- 1) The company has large receivables from the government and hence lengthening of receivables cycles due to extended credit terms may hurt the working capital efficiency.
- 2) Termination of contracts or inefficiency of performance may adversely affect the backlog and.
- 3) Large projects concentrated with the same client may pose risk to the revenue in terms of higher dependence.
- 4) Retention of highly skilled IT professionals by way of higher compensation may weigh negatively on operating margins.
- 5) Due to low liquidity, stock prices in NOMU might remain divergent from fundamental values for an extended period of time.

Financial Analysis

Revenue analysis: TAM reported a 3-year revenue CAGR of ~38% from 2019-2022. Advisory Services revenue came in at SAR126mn for FY22 contributing 86% to the overall revenues. Meanwhile, the Digital Solutions vertical contributed 14%, adding SAR21mn to the top line. It is worth noting that revenues from the latter are recurring in nature whereas Advisory revenues are contract based. The increase in the contribution of Digital Solutions revenue to the overall revenue is one of the key focus areas of the company implying more stability in revenues. Going forward, the company has guided the revenue mix to be equally distributed between both verticals by 2027. Additionally, the projected CAGR for overall revenues has been assumed at ~30% by the management but we remain a little conservative taking the revenue CAGR at 24%. On the other hand, the strong order backlog shall act as a catalyst for future growth driving revenue visibility. Overall, we believe the company's growth targets are achievable at the back of inclination toward revenue growth from the Digital Solutions segment.

Figure 18 TAM Revenue Projection (2020-2027E*) (SAR mn)



Source: Al Rajhi Capital; *ARC estimates

Cost analysis: Historically cost of sales has been primarily skewed towards Advisory services since they form a larger share of the revenues. As the proportion of revenues from the Digital solutions segment increases, costs are expected to shift from the former to the latter. Since employee retention happens to be a key factor in the industry that the company operates in, employee costs will continue to trend higher with an increase in the employee pool as a result of increased projects. However, economies of scale will eventually be realized and hence percentage increases in overall costs will mostly be in line with the revenues.

Margins: A strong pipeline for the company, backed by its local expertise, will contribute positively to revenues. Besides, economies of scale will provide a cushion for the cost of sales. However, as the company is looking to scale up very quickly in a short period of time, we expect the GP margins to come down in the near term. We have decreased the GP margins from 37% in FY22 to a low of 35.4% in FY24, after which we expect the margins to improve back owing to economies of scale as well as a changing revenue mix towards a higher margin segment of digital solutions. The operating margins are likely to follow a similar trend, with this year's margins likely to take a hit on the back of the hiring of executive staff as well as expanding human resources.

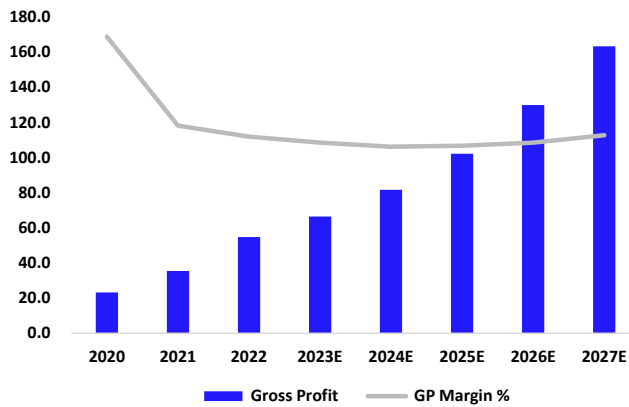
Debt: The company reported an overall debt level of SAR2.8mn as of FY22. The company has a negative net debt owing to high cash reserves on the balance sheet. We expect there might be a gradual increase in debt levels of the company as it ventures into newer markets to support its expansion strategies.

Balance Sheet: Strong balance sheet driven by high cash reserves and low debt levels shall strengthen the company's financial position. We expect TAM shall successfully be able to maintain a positive free cash flow going forward besides rewarding the shareholders by way of dividends. The company has a healthy balance sheet with about SAR61.4mn cash on its books. Besides, the negative cash conversion cycle is a significant positive for the company. balance sheet strength suggests that the company is well equipped to deliver as promised.

Working capital: This seasonality is also reflected in the working capital cycle of the company. The receivable days (DSO) for the company on average stand at 93 days (last 3 years), while payables (DPO) days at 123 days. In FY22, the DSO reduced significantly to 42 days from 63 and 173 days when compared with FY21 and FY20 respectively. Going forward, the company expects the DSO remain to at similar levels.

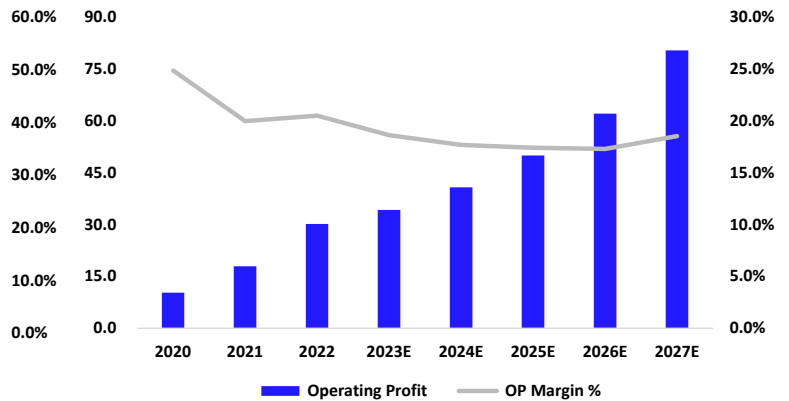
ROE: TAM reported an ROE of ~39% as of FY22 and has been showing significant improvement in ROE levels over the past 2 years. The company has maintained the payout ratio in the range of 9.6-10.2% over the past 3 years. Going forward, we have built in a gradual increase in the payout ratio on account of favorable cash flow position.

Figure 19 Gross Profitability (2020-2027E*)



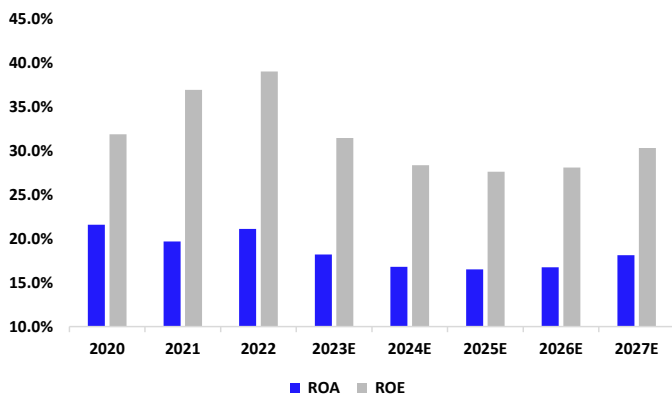
Source: Company Data, Al Rajhi Capital; *ARC estimates

Figure 20 Operating Profitability (2020-2027E*)



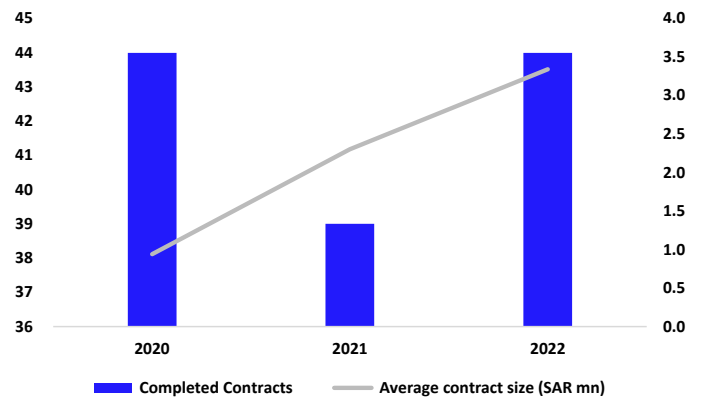
Source: Company Data, Al Rajhi Capital; *ARC estimates

Figure 21 ROA and ROE (%)



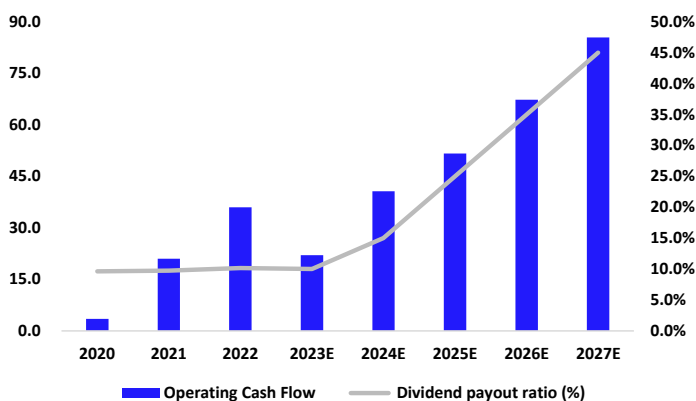
Source: Company Data, Al Rajhi Capital

Figure 22 Completed Contracts and Average Size



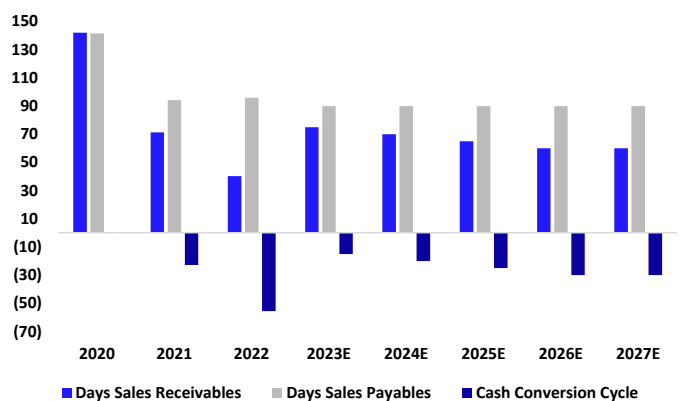
Source: Company Data, Al Rajhi Capital

Figure 23 Cash Flow Position and Payout Ratio



Source: Company Data, Al Rajhi Capital

Figure 24 Cash Conversion Cycle



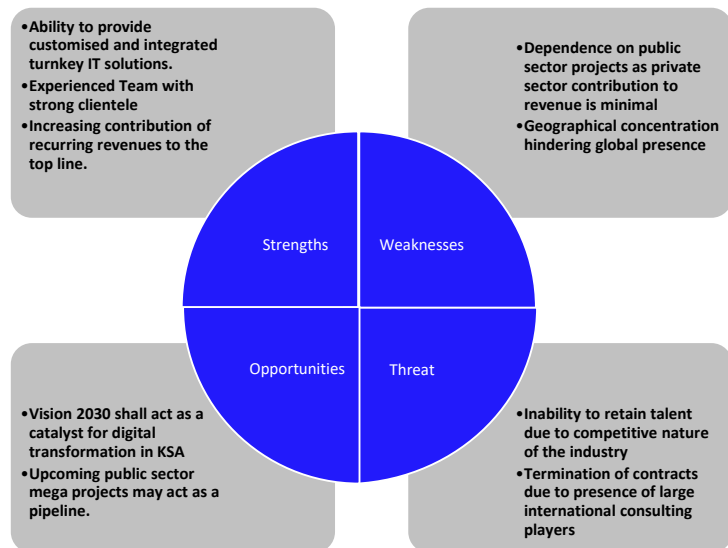
Source: Company Data, Al Rajhi Capital

Industry overview

The IT Services industry has been witnessing rapid technological changes with a rise in demand for end-to-end services. The market size for Digital Consulting in KSA has been consistently growing at a 6-year CAGR of 17% from 2016-2022 (Fig. 2). Besides, public consulting also recorded a growth of 19.7% in 2021. The thrust of the Government on Vision 2030 may act as a driving force behind the growth in demand for digital services and consulting in the Kingdom.

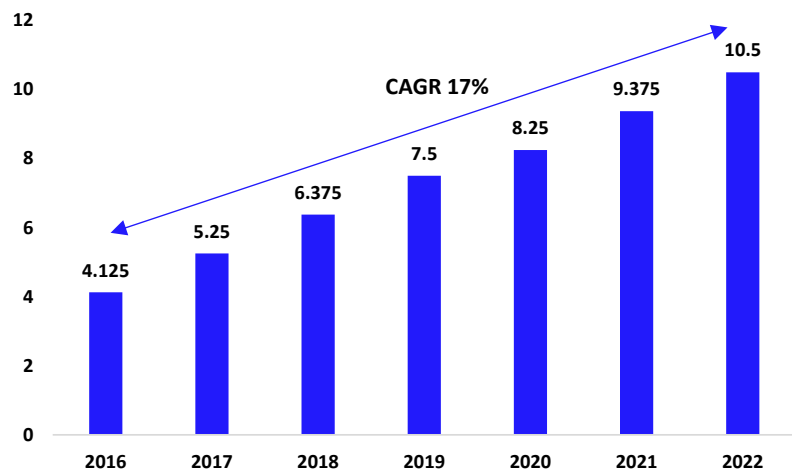
As per company data, TAM Development Co. commanded a market share of less than 1.5% which shall lead the way for further penetration. Additionally, as per DGA Governor, Saudi Arabia Government spending has been pegged at USD24.7bn by 2025, the highest in the world accounting for 21.7% of national spending. Companies specializing in the local market and having adequate resources to evolve as per industry standards are set to benefit from the growing market. Furthermore, a talented pool of senior management may act as a prerequisite in offering digital capabilities as per customer preferences to fuel company-specific growth.

Figure 25 Industry SWOT Analysis



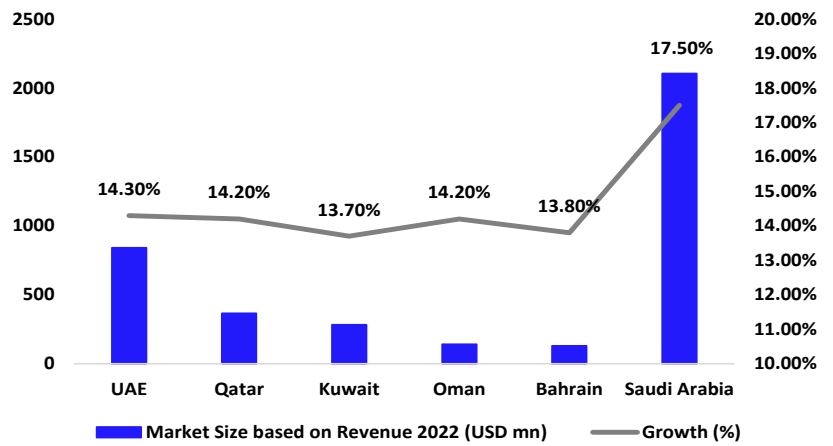
Source: Al Rajhi Capital

Figure 26 Market Size for Digital Consulting in KSA (SARbn)



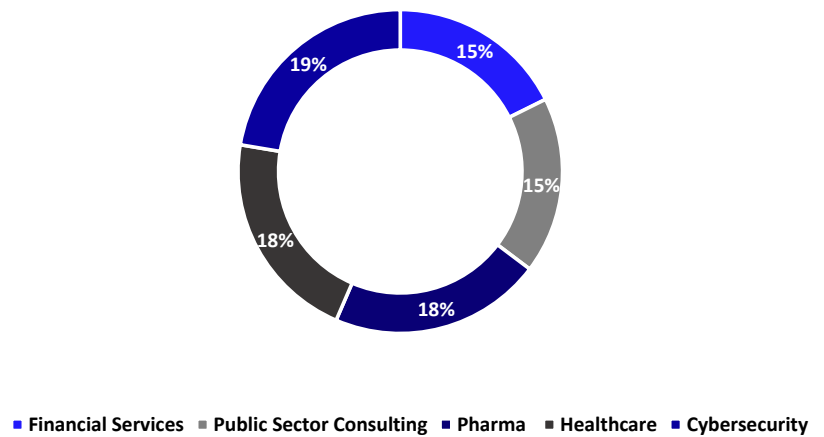
Source: Company Data, Al Rajhi Capital

Figure 27 GCC Consulting market size based on revenues 2022 (SARmn)



Source: Source Global Research, Al Rajhi Capital

Figure 28 GCC Consulting fastest growing sectors 2022



Source: Source Global Research, Al Rajhi Capital

Competitive Landscape: The IT Solutions industry has several players offering a breadth of services, and hence, the risk of price competition does exist for TAM. However, TAM offers customized solutions to its clients, which sets it apart from existing players. In both its segments, TAM operates at the product level while catering to the public sector. Hence, the company has a niche it has created where it caters mainly to the public sector, within which its priorities are the Vision 2030 realization programs. This has helped the company build a reputable track record as well as contacts in the public advisory space. We note that TAM has successfully blended both its lines of business (Digital Solutions and Advisory services), which paves the way for cross-selling products. In essence, TAM is able to provide a one-stop solution, from advisory to digital products, to its clients.

Key Financials

Figure 29: Income Statement

(SAR mn)	2022	2023E	2024E	2025E	2026E
Sales	147	184	231	288	359
Y-o-Y	63.7%	25.0%	25.4%	24.7%	24.9%
Cost of Sales	(92)	(117)	(149)	(185)	(229)
% of revenues	62.7%	63.8%	64.6%	64.4%	63.8%
Gross Income	55	66	82	102	130
Y-o-Y	54.7%	21.3%	22.9%	25.2%	27.1%
GPM	37.3%	36.2%	35.4%	35.6%	36.2%
SG&A	(25)	(32)	(41)	(52)	(68)
% of revenues	16.8%	17.5%	17.8%	18.2%	18.9%
Other income/ (expenses)	0	0	0	0	0
Operating Expenses	(25)	(32)	(41)	(52)	(68)
% of revenues	16.8%	17.5%	17.8%	18.2%	18.9%
Operating Income	30	34	41	50	62
Y-o-Y	68.1%	13.5%	19.0%	22.8%	24.2%
OPM	20.5%	18.6%	17.7%	17.4%	17.3%
Financial costs	(0)	(0)	(1)	(1)	(1)
Profit before tax	30	34	40	49	61
Zakat & Tax	(2)	(2)	(3)	(3)	(4)
% of PBT	7.0%	7.0%	7.0%	7.0%	7.0%
Net Profit Before Unusual Items	28	31	37	46	57
Non-controlling interest	0	0	0	0	0
Net Income	28	31	37	46	57
Y-o-Y	68.7%	12.5%	18.8%	22.8%	24.3%
NPM	19.0%	17.1%	16.2%	15.9%	15.9%
EPS (SAR/sh)	7.63	8.58	10.20	12.52	15.57

Source: Company Data, Al Rajhi Capital

Figure 30: Cash Flow Statement

(SAR mn)	2022	2023E	2024E	2025E	2026E
Cash from operations	36	22	41	52	67
Capex	-9	-19	-24	-31	-41
Free cash flow	27	3	17	21	27

Source: Company Data, Al Rajhi Capital

Figure 31: Key Ratios

Key metrics	2022	2023E	2024E	2025E	2026E
Current ratio	2.2x	2.2x	2.1x	2.0x	1.9x
Receivables turnover ratio	9.1x	6.7x	5.6x	6.0x	6.5x
Payables turnover ratio	3.8x	4.3x	4.5x	4.5x	4.5x
Operating cycle (days)	42	75	70	65	60
EV/EBITDA	12.7x	10.8x	8.5x	6.6x	5.0x
P/E	16.8x	14.9x	12.6x	10.2x	8.2x
P/B	6.5x	4.7x	3.6x	2.8x	2.3x

Source: Company Data, Al Rajhi Capital

Figure 32: Balance Sheet

(SAR mn)	2022	2023E	2024E	2025E	2025E
Assets					
Trade receivables	17	38	44	51	59
Contract assets	27	21	26	33	41
Prepayment and other debt balances	19	24	30	37	47
Cash and cash equivalents	61	67	82	95	106
Total current Assets	125	150	182	216	252
Property, plant and equipment, net	2	2	2	2	3
Intangible assets, net	4	20	37	58	84
Right of use assets	1	1	1	1	1
Total non-current assets	7	22	40	61	88
Total assets	132	173	222	278	340
Liabilities					
ST Debt	3	9	12	16	20
Trade payables	26	29	37	46	57
Deferred Revenue	0	0	0	0	0
Contract liabilities	25	28	35	43	54
Provision for Zakat and income tax	2	2	2	2	2
Lease liabilities - current portion	0	0	0	0	0
Total current liabilities	56	68	85	107	132
End of service benefit obligations	4	4	4	4	4
Lease liabilities	1	1	1	1	1
Total non-current liabilities	5	5	5	5	5
Shareholders' equity					
Capital	40	40	40	40	40
Statutory and other reserve	6	6	6	6	6
Retained earnings	26	54	86	120	157
Equity attributable to shareholders of the Parent Company	72	100	132	166	203
Non-controlling interest	0	0	0	0	1
Total equity	72	100	132	166	204
Total liabilities	132	173	222	278	340

Source: Company Data, Al Rajhi Capital

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