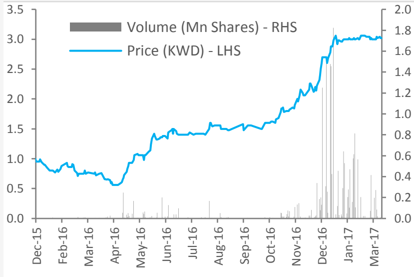
Humansoft Holding

Initiation | **Sector - Education**

Outperform

CMP 13-March-2017	KWD 3.02
Target Price	KWD 3.42
Upside/Downside	+13.3%



Price Perf.	1M	3M	12M
Absolute	0.7%	33.6%	302.7%
Relative	2.0%	22.8%	287.3%

Stock Data	
Bloomberg Ticker	HUMANSFT KK
Reuters Ticker	HUMN.KW
Last Price (KWD)	3.02
MCap (KWD Mn)	367
EV (KWD Mn)	369
Stock Perfromance - YTD (%)	11.9%
PE - 2017E (x)	12.6
PB - 2017E (x)	5.7
Dividend yield - 2017E (%)	6.4%
52-Week Range (KWD)	3.10 / 0.550

Sources: KAMCO Research & Bloomberg

Kuwait's Education Play!

Betting on higher education focus - initiate with 'Outperform' rating

We initiate coverage on Humansoft - a direct play on private education in Kuwait. Education sector fundamentals remain strong as future demand for tertiary education is ascribed to growth in youth population, government support for higher education and skills-gap in the corporate sector. Fundamentally, the company's earnings power, sustainability of cashflows and high operating margins are positive in our view. The stock has however re-rated significantly in 2016 and YTD-2017 (+11.9%), capturing significant value in the stock. Nevertheless, factoring in positives from sector fundamentals, the company's strategic focus, and the absence of other large peers in the education space in the GCC, we see some more potential upside for the stock going forward.

Burgeoning demand in Kuwait's education sector:

Youth population in Kuwait between the age group of 15-19 years is set to grow at a CAGR of 3.2% over 2016-2020. Moreover, high school graduates account for only 5.4% of the youth population as per our 2016 estimates, which should improve going forward. Kuwait continues to provide financial support to Kuwaiti students who wish to pursue university education. This should drive demand for tertiary education. Additionally, Kuwait has potential to improve in line with GCC peers in Higher Education and Training, as per the World Economic Forum.

Higher Education to drive group revenue CAGR of +15.6% over 2016 -2021:

We view the company's strategy of focusing on their Higher Education segment as positive, given the +95% revenue contribution to group revenues and segment EBITDA margins of +52%. The segment's revenue growth is forecasted to be driven by a 13.0% CAGR in growth of students from 2016-2021, and a 2.9% CAGR increase in blended fees (KWD/year) over the same period from American University of the Middle East (AUM) & American College of the Middle East (ACM). The upcoming auditoriums, exhibition center and amenities should attract a higher proportion of high school graduates to the AUM & ACM going forward. There is also potential for additional revenues, if the management decides to lease out these facilities, which are currently not included in our forecasts.

Valuation & Risks – Blended TP of KWD 3.42, upside of +13.3%:

Our TP for Humansoft of KWD 3.42 per share was derived based on our blended valuation of discounted cashflow (DCF) and relative valuation methods, suggesting further upside, despite the run-up in the stock in the previous year and YTD. **Downside risks include:** 1) Slower growth in the number of high school graduates over forecast period; 2) Lesser number of scholarships and lower funding; 3) Higher migration to international universities.

Forecasts & Ratios	2015	2016	2017E	2018E	2019E
Revenue (KWD Mn)	43.6	54.5	66.3	79.8	88.8
EBITDA (KWD Mn)	20.5	28.3	34.5	41.4	45.6
Net profit (KWD Mn)	17.5	24.2	29.2	34.8	37.9
Total Debt/Equity (x)	0.43	0.39	0.42	0.42	0.42
PE (x)	20.8	15.1	12.6	10.6	9.7
PB (x)	9.6	7.6	5.7	4.5	3.7
Div. yield (%)	3.8%	5.3%	6.4%	7.6%	8.2%

Sources: KAMCO Research, and Humansoft, Valuation ratios are based on current market prices

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Valuation and Risks

Initiate with an 'Outperform' rating; target price of KWD 3.42 (+13.3% upside)

We value Humansoft using a blend of DCF and relative valuation methods. Revenue growth, EBITDA margin and terminal growth rate are key variables controlling our DCF valuation. For relative valuation, we use a combination of region's peers along with international peers of similar size in terms of market capitalization.

Weighted Average Fair Value

	Fair value per share (KWD)	Weight (%)	Weighted Value (KWD)
DCF	3.37	70%	2.36
Relative Valuation	3.55	30%	1.06
Weighted Average Fair Value per Share			**3.42**
Current market price			3.02
Upside/Downside			***13.3%***

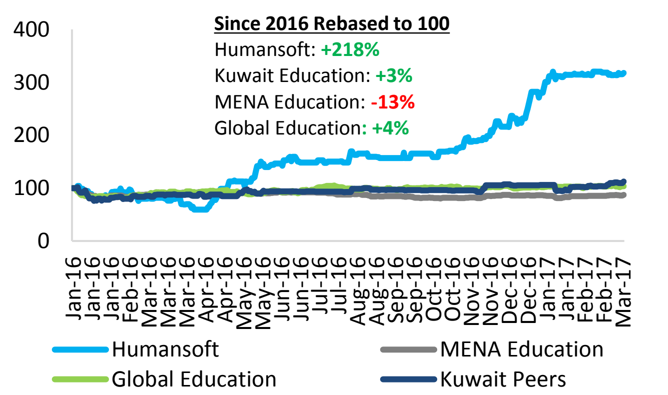
Sources: KAMCO Research and Bloomberg

Both methodologies provide a price target higher to the current market price (CMP) of the Humansoft, and underpins our positive investment case. Our target price based on our blended DCF and relative valuation methods is KWD 3.42/share, representing a 13.3% upside to CMP.

Strong cashflows leave room for upside in the stock despite significant outperformance

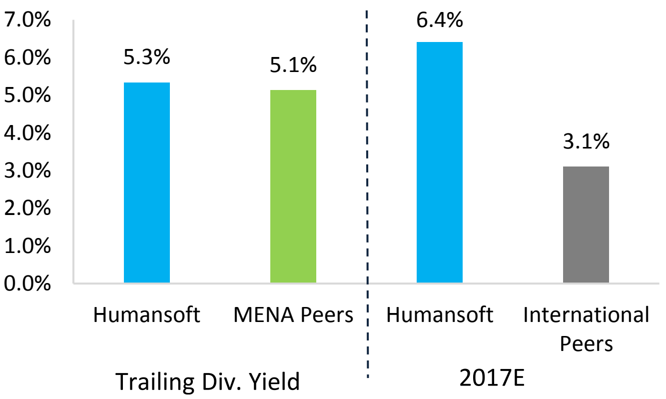
Humansoft's share price rose significantly in 2016 and outperformed its regional and global peers. The share price rose over 2.8x in 2016, while MENA regional peers lost ground by 14% and global peers gained by only 2%. In 2017 YTD, Humansoft's share price moved up by 11.9% and outperformed both regional and global peers. As a result of the substantial increase in the stock price, the stock trades at a comparable trailing dividend yield of 5.3% compared to regional peers who trade at 5.1%. This would understandably raise concerns for the market about the potential for further upside for the stock going forward, given the substantial increase from the previous year.

Humansoft stock price performance since 2016 vs. peers



Sources: Bloomberg, KAMCO Research

Humansoft Dividend Yields vs. Sector



Sources: Bloomberg, KAMCO Research

Nevertheless, we believe that room for upside remains for Humansoft, driven by strong cashflows stemming from long-term earnings potential and sustainable margins. Moreover, we looked at relative value with international peers on a 2017E dividend yield basis, as consensus estimates for regional peers were unavailable. Humansoft now trades at an attractive 2017E dividend yield of

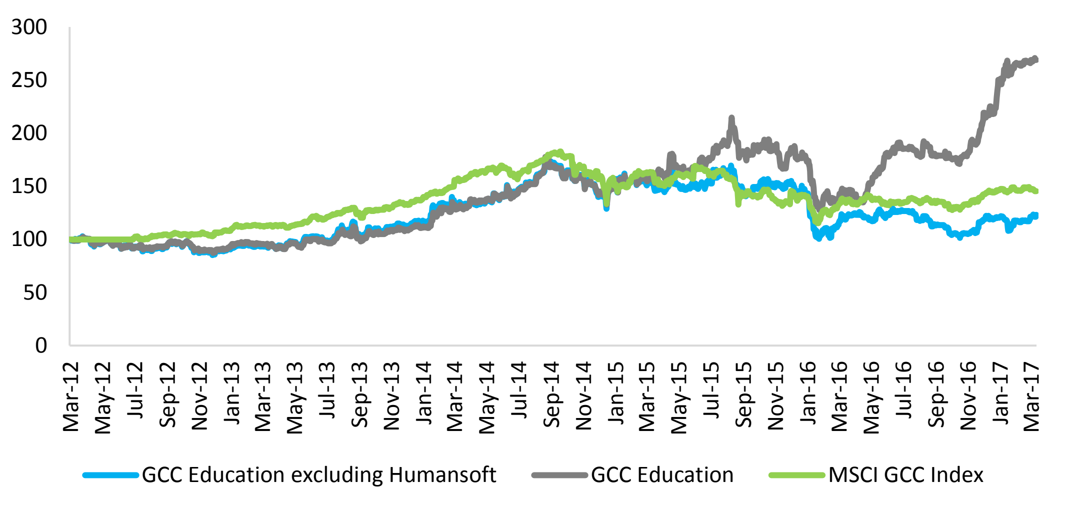
6.4%, which is higher than the international peers average of 3.1% and provides basis for potential share price upside in the future, given the strong fundamentals of the company.

Humansoft - easiest play on the sector amongst peers in Kuwait, in our view

Humansoft has been the best performing stock in GCC's Education sector over the past 5 years. Barring Humansoft, the GCC Education sector has underperformed the broader index over the long term. Over the same aforementioned period, the GCC Education sector (excluding Humansoft) gained by 23%, while the MSCI GCC index rose by 45%.

In Kuwait, the other listed players in the Education sector are Educational Holding Group and Nafais Holding Company. However, Nafais Holding Company has equity participation in Educational Holding Group, which in turn owns Gulf University (GUST) and American Creativity Academy through its subsidiaries. Moreover, Nafais Holding has exposure into other sectors as well and one of its key business segments is healthcare. The presence of cross-holdings and multi-sector exposure for peers in Kuwait, leaves Humansoft as the only large pure-play on the Education sector for investors looking at exposure to sector.

GCC Education stocks vs. MSCI GCC



Source: Bloomberg, KAMCO Research

The stock currently trades at a 2017E P/E multiple of 12.6x and a corresponding dividend yield of 6.4%. See our detailed relative valuation tables on page 5 for comparison with regional and international peers.

Discounted Cash Flow Method

A significant portion of our final blended valuation flows from a DCF based value. Our DCF value of KWD 3.37 is based on explicit forecast of free cash flows for the next ten years (2017E-2026E) and terminal value thereafter.

DCF Valuation – Humansoft Holding

	Fair Value (KWD)	Fair Value Per Share (KWD)
Enterprise Value (EV)	**402,545,200**	**3.31**
Investments / other non-current assets	7,500,468	0.06
Cash and cash equivalent (2016)	19,824,506	0.16
Debt (2016)	(20,360,297)	(0.17)
Fair Value of Equity	**409,509,877**	**3.37**

Sources: KAMCO Research and Humansoft

For the DCF valuation, we have estimated a weighted average cost of capital (WACC) of 10.5% for the current year, and our future WACC assumptions (2018E-2026E) depends on the changing composition of debt and equity over the forecast period. We have arrived at our WACC based on a cost of equity of 12.4% and the cost of debt that is expected to increase as borrowing rates should follow the rate tightening cycle in policy rates from the Fed. As a result, we have assumed an average effective cost of borrowing of 7.4% through our forecast period.

We have assumed terminal growth rate of 2.5%, which we believe adequately represents a sustainable long-term growth rate for the company. For our terminal value, we have assumed a return on new investment capital (RONIC) that is comparable to the terminal year WACC.

Sensitivity Analysis – DCF fair value sensitivity to terminal growth and cost of equity

		Terminal Growth rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
Cost of Equity	10.4%	3.92	3.93	3.94	3.95	3.96
	11.4%	3.62	3.63	3.63	3.64	3.65
	12.4%	3.35	3.36	3.37	3.37	3.38
	13.4%	3.12	3.13	3.13	3.14	3.14
	14.4%	2.91	2.92	2.92	2.93	2.94

Sources: KAMCO Research and Humansoft

Adjustments to non-operating assets and liabilities

- Investments / other non-current assets as of 2016 include: 1) Commercial land in Mugva area (Sharq area) of 2500 sq.m valued at KWD 7.5 Mn based on current prevailing market prices. The land acquisition costs at book value is close to KWD 5.3 Mn. 2) Available for sale (AFS) investments of KWD 468.
- Cash and cash equivalent balance of KWD 19.8 Mn as of 2016.

Risks to our rating & forecasts include:

Key downside risks:

- Slower growth in the number of high school graduates over forecast period
- Lesser number of scholarships and lower funding
- Higher migration to outside Kuwait universities
- Slower development of the education sector in Kuwait

Humansoft - Peers analysis

Company Name	Country	MCap.	EV	Sales (USD Mn)		EBITDA (USD Mn)		Net Profit (USD Mn)		P/E (x)		EV /EBITDA (x)		Dividend Yield (%)	FCF Yield (%)
		(USD Mn)	(USD mn)	2015	TTM	2015	TTM	TTM	2016E	2015	TTM	2015	TTM	2015	TTM
GCC Education Peers															
Educational Holding Group	KUWAIT	161	160	1.5	1.1	3.7	2.0	18.6	14.6	8.6	11.0	42.9	81.8	6.2%	n.m
Nafais Holding Co KSC	KUWAIT	317	297	41.2	42.7	11.0	11.1	16.1	16.2	19.7	19.6	27.0	26.8	4.4%	7.7%
Al Khaleej Training and Education Co	SAUDI ARABIA	202	331	193.5	168.0	27.6	19.7	18.4	11.6	11.0	17.4	12.0	16.8	5.3%	-3.0%
Dhofar University SAOC	OMAN	54	86	30.0	32.8	8.2	8.1	5.2	5.0	10.3	10.8	10.5	10.7	0.0%	-4.3%
Oman Education & Training Investment Co SA	OMAN	24	32	31.2	34.8	7.0	7.6	3.4	2.9	7.2	8.4	4.5	4.2	11.3%	n.m
MENA Education Peers															
Arab International Co For Education & Invest	JORDAN	175	173	68.6	53.0	21.2	n.m	15.6	14.2	11.2	12.3	8.2	n.m	6.5%	9.0%
Petra Education	JORDAN	135	122	35.3	36.5	11.4	13.9	8.5	10.1	16.0	13.4	10.6	8.8	5.0%	7.5%
Al-Isra for Education and Investment PLC	JORDAN	96	91	25.7	26.3	7.3	8.6	6.0	7.1	15.9	13.5	12.4	10.6	6.6%	6.1%
Philadelphia International Educational Inves	JORDAN	92	85	30.5	31.5	9.5	9.5	6.8	6.7	13.6	13.8	8.9	9.0	7.4%	6.0%
Zarka Education & Investment Co	JORDAN	56	70	29.9	27.7	8.6	7.0	4.6	2.6	12.2	21.7	8.1	9.9	n.m	-3.1%
Ittihad Schools Co	JORDAN	24	22	10.4	10.6	4.0	4.4	1.9	2.5	12.7	9.7	5.5	5.0	0.0%	14.7%
Simple average										12.6	13.8	13.7	18.3	5.3%	4.5%
Weighted average										13.8	15.2	18.0	22.0	5.1%	4.1%

Company Name	Country	MCap.	EV	EBITDA (USD Mn)			Net Profit (USD Mn)			P/E (x)			EV/EBITDA(x)			Dividend Yield (%)
		(USD Mn)	(USD mn)	TTM	2016	2017	TTM	2016	2017E	TTM	2016	2017E	TTM	2016	2017E	2017E
Global Education Peers																
Devry Education Group Inc	USA	2,088	2,116	159	264	293	82	153	154	25.6	13.7	13.5	13.3	8.0	7.2	1.1%
Virscend Education Co Ltd	HONGKONG	1,981	2,062	53	62	73	31	42	52	68.2	47.4	37.9	39.1	33.5	28.1	n.m
Estacio Participacoes SA	BRAZIL	1,559	1,637	153	194	221	86	122	165	24.3	12.7	9.4	10.7	8.4	7.4	4.4%
Curro Holdings Ltd	SOUTH AFRICA	1,467	1,518	26	32	50	12	12	19	177.8	120.0	75.8	57.5	46.9	30.5	n.m
Navitas Ltd	AUSTRALIA	1,110	1,244	129	123	124	73	67	64	28.5	16.5	17.2	9.7	10.1	10.1	4.8%
Houghton Mifflin Harcourt Co	USA	1,175	1,641	-13	199	95	-285	-190	-182	-7.3	-6.2	-6.5	-130.2	8.2	17.3	n.m
G8 Education Ltd	AUSTRALIA	1,212	1,490	128	130	146	60	71	84	35.0	17.0	14.5	11.6	11.5	10.2	5.8%
China Maple Leaf Educational Systems Ltd	HONGKONG	999	814	53	47	59	47	40	51	44.2	25.2	19.5	15.3	17.3	13.8	2.6%
Strayer Education Inc	USA	891	762	75	80	87	35	35	40	60.0	25.1	22.4	10.1	9.6	8.7	n.m
Capella Education Co	SINGAPORE	900	737	90	89	95	43	42	44	48.6	21.3	20.4	8.2	8.3	7.7	2.0%
IDP Education Ltd	AUSTRALIA	826	810	45	43	53	29	26	34	71.8	31.6	24.3	18.2	18.8	15.1	3.0%
Tarena International Inc	HONGKONG	1,045	892	n.m	47	60	36	44	56	57.4	23.8	18.6	n.m	19.1	14.8	1.1%
Simple average										58.3	32.2	24.9	5.8	16.6	14.2	3.1%
Simple average (excluding outliers)										46.4	23.4	19.8	15.1	13.9	12.8	3.1%
Weighted average										39.4	21.0	17.8	15.1	14.2	12.3	2.1%

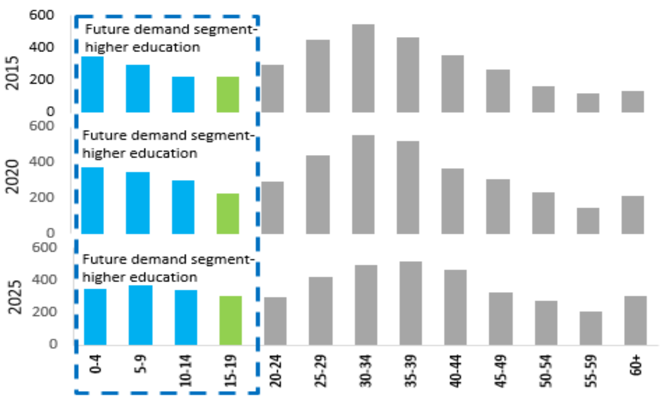
Source: Bloomberg, KAMCO Research

Investment Thesis

Strong current and future demand for Kuwait's tertiary education sector

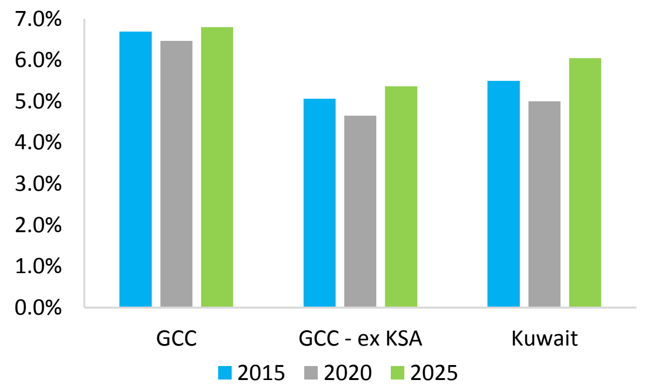
Our positive investment case surrounding Humansoft is mainly driven by positive sector fundamentals for the tertiary education sector in Kuwait. Demographics form the cornerstone behind the potential for higher education in any economy. To study current and future demand for Kuwait's higher education, we looked at population in the age group between 15-19 currently, and future population that would enter in the same age group, as university education seekers would predominantly fall into this age bracket.

Current and future demand in Kuwait for Higher Education



Sources: United Nations, KAMCO Research

Kuwait vs. GCC (15-19) age group of total population



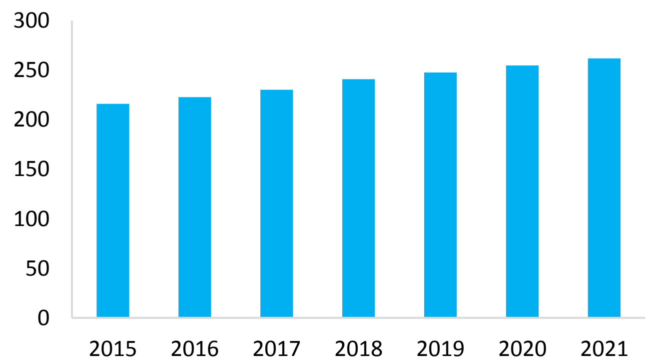
Sources: United Nations, KAMCO Research

Kuwait's population between age group of 15-19 is set to grow at a CAGR of c.3.2% over 2015-2025 from over 223,000 to over 301,000, as per the United Nations population division, providing basis for our argument. Moreover, the age group between 10-14 which would translate into near future demand is set grow at a higher CAGR of 4.4% over 2015-2025 from over 222,000 to 344,000. Long-term demand potential also remains strong as lower age group (0-9) population is expected to grow going forward. When compared to other GCC peers as well, barring Saudi Arabia, Kuwait's population in the age group between 15-19 as a percentage of total population is higher than the GCC average, showing demand potential for higher education on a relative basis as well.

Private university education demand buoyant over medium and long term

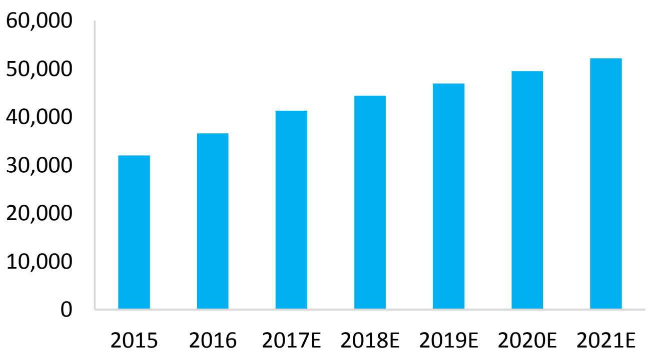
As a result of aforementioned demographic trends, the number of high school graduates is expected to grow at a CAGR of 9.3% over 2016 -2021 from 36,606 higher school graduates annually in 2016.

Kuwait (15-19) age group population trends (in '000)



Sources: United Nations

Number of high school graduates - Kuwait



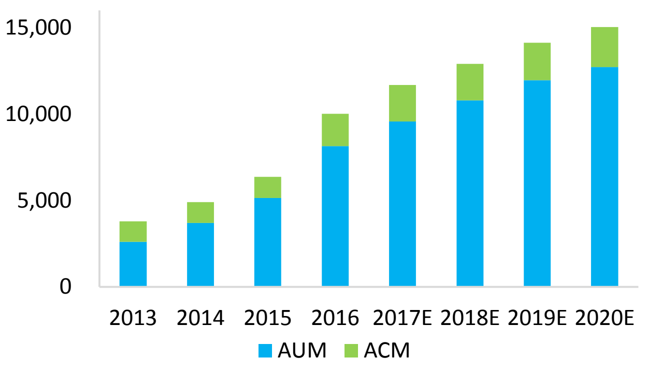
Sources: Ministry of Education, Humansoft, KAMCO Research

High school graduates form the demand catchment segment of the population that is relevant for current and future demand of education in public and private universities in Kuwait, which is incorporated into our company model.

Humansoft is the primary play on the 'private university education' theme

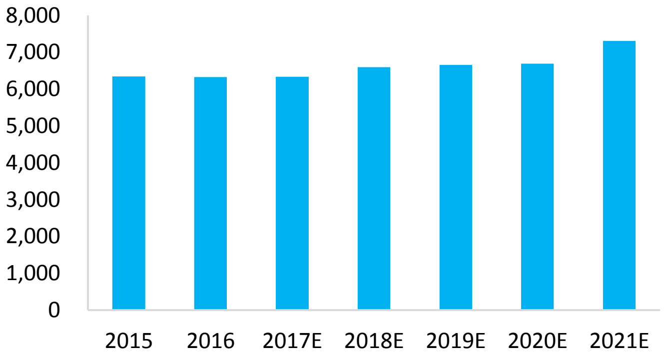
Private university in Kuwait has become the bridge between public university education from Kuwait University and education obtained from foreign universities abroad, and is gaining more popularity amongst high school graduates. Humansoft's Higher Education division which consists of American University of the Middle East (AUM) and American College of the Middle East (ACM) are the largest university education providers in Kuwait that absorb high school graduates into private universities.

Number of students – AUM & ACM



Sources: Humansoft, KAMCO Research

Blended Fees – AUM & ACM (KWD/year per student)



Sources: Humansoft, KAMCO Research

The total number of students admitted into AUM and ACM combined is comparable to the total of all other private universities combined (See page 15 for Private university admission trends). Typically, AUM and ACM admit about 8%-10% of the high school graduates annually.

AUM & ACM number of students to grow at 13.0% CAGR; blended fees at over 2.9%

We build our company model based on trends of existing students, incremental students from our sector model, the number of years students would take to graduate at AUM and ACM independently, and estimates of drop-outs annually for each college. We model each college separately to arrive at our combined number of fee-paying students per year for the Higher Education division. Our model suggests that the total number of fee-paying students in AUM and ACM combined is set to increase at a CAGR of 13.3% from 8,162 students in 2016 to 15,037 students in 2021. Based on estimates of average fees per KWD 250 per credit per student for AUM and KWD 190 per credit per student for ACM, blended fees is also expected to grow at a CAGR of close to 3.3% from KWD 6,324 per student in 2016 to KWD 7,303 in 2021.

Higher Education segment to drive group revenue CAGR of 16.3% over 2016 -2021

As a result of the trends, the revenues for the Higher education division are expected to drive group revenue growth over our explicit forecast period of 2016-2021, given its +95% average revenue contribution over the period. Group revenues are expected to grow at a CAGR of 15.6% from over KWD 54 Mn to over KWD 112 Mn over our explicit forecast period. Revenues for 2021 and 2022 are driven by our assumption for fee-hike provisions for AUM and ACM respectively, which the colleges are eligible for after a period of five years of resetting fees.

Sensitivity Analysis – Group revenues to number of students and blended fees

Blended Fees (KWD/student/year)	Number of Students - AUM & ACM combined				
	11,000	12,000	15,037	16,000	17,000
6,750	77.1	83.9	104.4	110.9	117.6
7,000	79.9	86.9	108.1	114.9	121.9
7,303	83.2	90.5	112.7	119.7	127.0
7,500	85.4	92.9	115.7	122.9	130.4
7,750	88.1	95.9	119.4	126.9	134.6

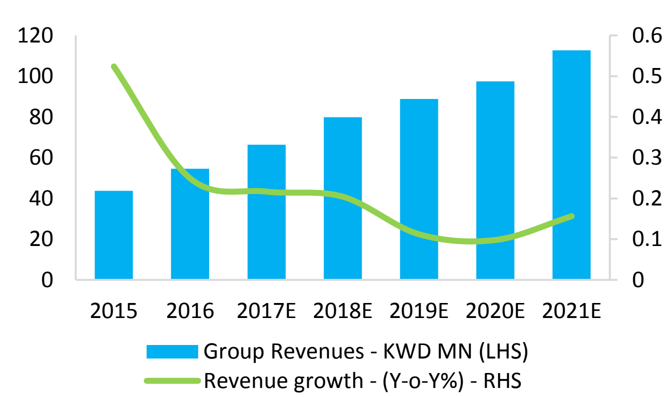
Sources: KAMCO Research and Humansoft

To analyze Higher Education and Group revenues in terms of its key drivers - number of students and blended fees, we took our final year of our explicit forecast period-2021, and ran a sensitivity analysis to both parameters. As per our analysis, group revenue sensitivity in year 2020 to number of students was KWD 6.8 Mn for a change in 1,000 students in AUM and ACM combined. The sensitivity of group revenues to blended fees (KWD/student/year) on the other hand was KWD 2.8 Mn for a change of KWD 250/student/ year in fees. Forecasts at number of students at AUM & ACM are clearly the more sensitive driver of group revenues, and since the fees resetting mechanism occurs only once in five years.

Margins in the higher education segment enable EPS growth

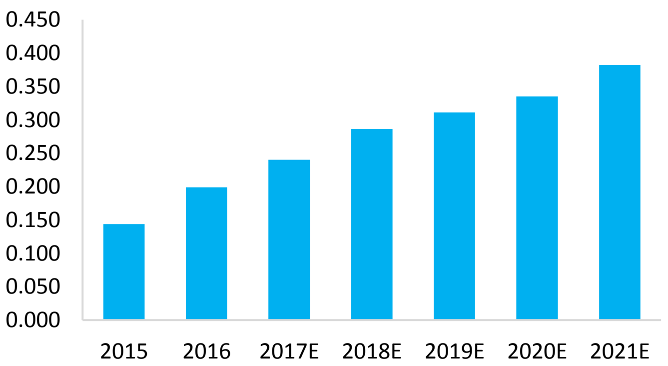
The Higher Education segment is also a high margin business with +52% average EBITDA margins. It is also worth noting that our forecasts do not reflect revenue growth from the nursing institution that is expected to be set up, which would be included once we get a clearer picture of operations. This should translate into group EBITDA margins of close to 48%, given the high revenue contribution of the segment and drive EPS growth in our view. We forecast group EPS to come in at KWD 0.240 per share in 2017E and expect EPS to grow strongly at a CAGR of over 14.0% over 2016-2020, as a result of the aforementioned trends.

Group Revenues & revenue growth - Humansoft



Sources: Humansoft, KAMCO Research

Group EPS (KWD/share) trends

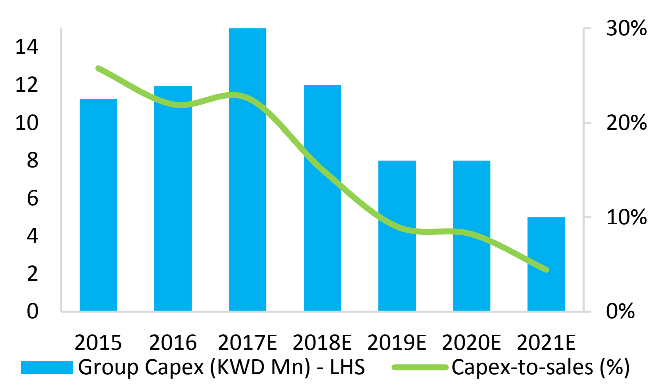


Sources: Humansoft, KAMCO Research

Efficient capex allocation from in-house capabilities; leverage position comfortable

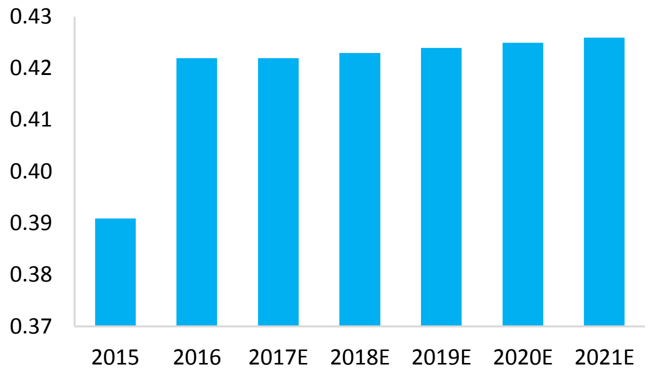
We are also positive on the expansion strategy of the company, post our campus visit, as most of the upcoming capex is likely to be for construction of buildings and classroom infrastructure, as the company carefully expands based on growth in demand. Capex allocation by Humansoft is extremely efficient as the construction team is completely in-house, which enables cost optimization and also modular classroom technology which allows flexibility based on classroom size etc.

Group Capex and capex-to-sales forecasts



Sources: Humansoft, KAMCO Research

Debt-to-Equity trends (x)



Sources: Humansoft, KAMCO Research

We expect an average capex of over KWD 9 Mn over 2017-2021 which should be comfortably funded by internal accruals and debt funding. There is more room for higher debt funding, as we expect the company to only reach a debt-to-equity ratio of 0.43 by 2021.

Group capex incurred for the state-of the art opera style auditoriums, large exhibition centers and the new technology savvy libraries are likely to attract a larger number students towards AUM and ACM. Furthermore, if the management wishes to lease out the auditoriums and exhibition centers for cultural and corporate events, this would translate into additional revenues. We have currently not included any such revenue contribution, and would include it once the facilities are completed and we see demand for such spaces.

Company Overview

Human Soft Holding Company is a Kuwait-based company engaged, along with its subsidiaries, in establishing and managing private universities and colleges, providing computer education, language training, executive courses, and electronic commerce and media. Humansoft has acquisition of interests in related business in Kuwait and abroad. The Company comprises of four business segments: Training and Career Development Programs, English Training, Learning Solutions and Higher Education.

- **Training and career development programs:** Primarily, New Horizons Computer learning centers that operate out of key locations in the Middle East viz. in Kuwait, Dubai, Qatar and Abu Dhabi. These centers provide training courses building up from beginner level to the acquisition of advanced certificates in the latest Microsoft, CISCO and Citrix technologies. Professional courses are also on offer such as Six Sigma, Project Management and Information Security.
- **English Training:** Operates through Expression Institute for Private Training, in affiliation with Direct English Linguaphone Group. It incorporates a learning system, which is based on a cyclical pedagogical syllabus that focuses on instruction in conversational English and the comprehension.
- **Learning solutions:** TRACKLS focuses on delivering content-based programs and learning solutions for enterprises powered by the Internet, thereby empowering corporate clients and institutions to transform into learning organizations. It provides a wide array of learning solutions ranging from IT, Business, Desktop, and Language e-learning content and professional certifications and learning management systems.
- **Higher Education:** Apart from AUM & ACM, Tawteen focuses on career development and job placement of GCC nationals in the private sector. Having conducted several projects in the UAE and Kuwait, where it has been able to train and place more than 2,500 newly graduated locals in the private sector, Tawteen now focuses on career Development and Placement of students at AUM and ACM by working closely with external organizations and employers.

A timeline representing the historical development of Humansoft's business evolution is given below:

Humansoft Historical Business Timeline

Source: Humansoft, KAMCO Research

Subsidiaries and Associates

Name	Country of Incorp.	Holding – Direct	Holding - Indirect
Subsidiaries			
Humansoft Learning Company and subsidiaries	Kuwait	99.58%	0.42%
Al Arabia Educational Enterprises Company	Kuwait	99.85%	0.15%
Track Learning Solutions	Kuwait	1%	99%
Expression for Private Training Company	Kuwait	1%	99%
Excellence Training & Development Company	Kuwait	1%	99%
Humansoft Free Zone LLC	UAE	100%	-
Tawteen Human Investment Company	UAE	-	100%
New Horizon Training Centre	UAE	-	100%
Innovative Investment in Educational Enterprises & Management	UAE	-	100%
Expression Training Institute	UAE	-	100%
Humansoft Learning Solutions	Qatar	-	100%
Associates			
New Horizons Computer Training Company	Qatar	40%	
Al Arabia Training Company	Qatar	40%	

Source: Humansoft Annual Report - 2016

Management Team – Humansoft

Management Team - Humansoft	
Name	**Position**
Tareq Fahad Al-Othman	Chairman
Mayank Hasmukhlal Baxi	Vice Chairman & CEO
Dalal Al Sabti	Vice President – Administration & Finance, CEO: Al Arabia Educational Enterprises
Anup Dhand	Head of Internal Audit & Risk Management

Source: Humansoft

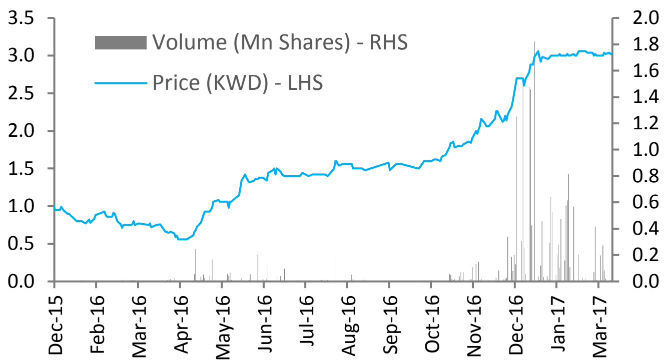
Shareholding Structure as of 13 March 2017

Name	Position
Al-Imtiaz Investment Group Co. and Group (Al Imtiaz First Holding Co., Al Khour Growth for light and heavy equipment Co., Markets for Centralized Markets Co., Al-Imtiaz Gulf Real Estate Co., & Al Imtiaz Global Real Estate Co.)	20.17%
Fahad Ibrahim Al Othman & Group Al-Othman Commercial Projects Co.	40.50%
Public Shareholding	39.33%

Source: Boursa Kuwait

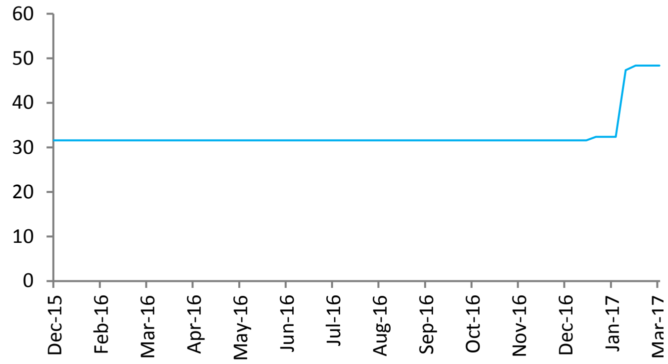
Share Performance & Free Float

Humansoft share price and traded volumes



Sources: Bloomberg, KAMCO Research

Humansoft free-float (%)



Sources: Bloomberg, KAMCO Research

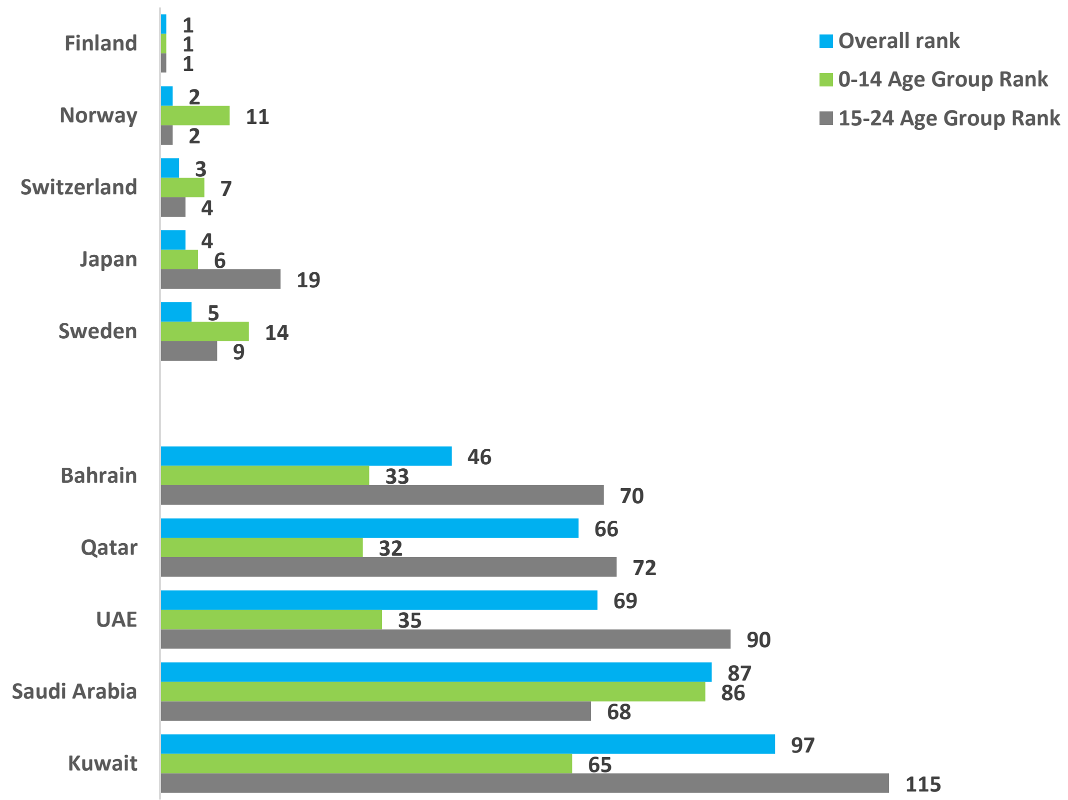
Shares of Humansoft Holding has seen increasing interest over the past one year with significantly higher trading. The increase in liquidity by way of higher free float has also added to the investor participation in the stock.

GCC & Kuwait Education – Burgeoning Demand

A thriving youth population is what every economy would aspire for in order to drive social and economic development. GCC is one of the regions that possesses this key resource in abundance with more than half of the population below the age of 25. A successful deployment of this "youth bulge" could help achieve long term benefits. However, despite the potential, unemployment rate in the GCC is one of the highest in the world with even higher unemployment levels among youths. Governments in the region are finding it increasingly difficult to provide fruitful employment to its youth and one of the key reasons for this is mismatch between higher education and the required set of skills.

One of the ways of measuring how best an economy deploys its human capital is to assess the Human Capital Index published by the World Economic Forum. The index takes into account the levels of education, skills and employment available to people in five distinct age groups, starting from under 15 years to over 65 years. The objective of the index is to assess the outcome of past and present investments in human capital, that includes investment in education, and ascertain what a country's talent base will look like in the future. Around 130 countries are ranked on this scale that allows comparison of how best each country utilizes and prepares its human capital.

Human Capital Index - 2016 Ranks



Source: The Human Capital Report - 2016, KAMCO Research

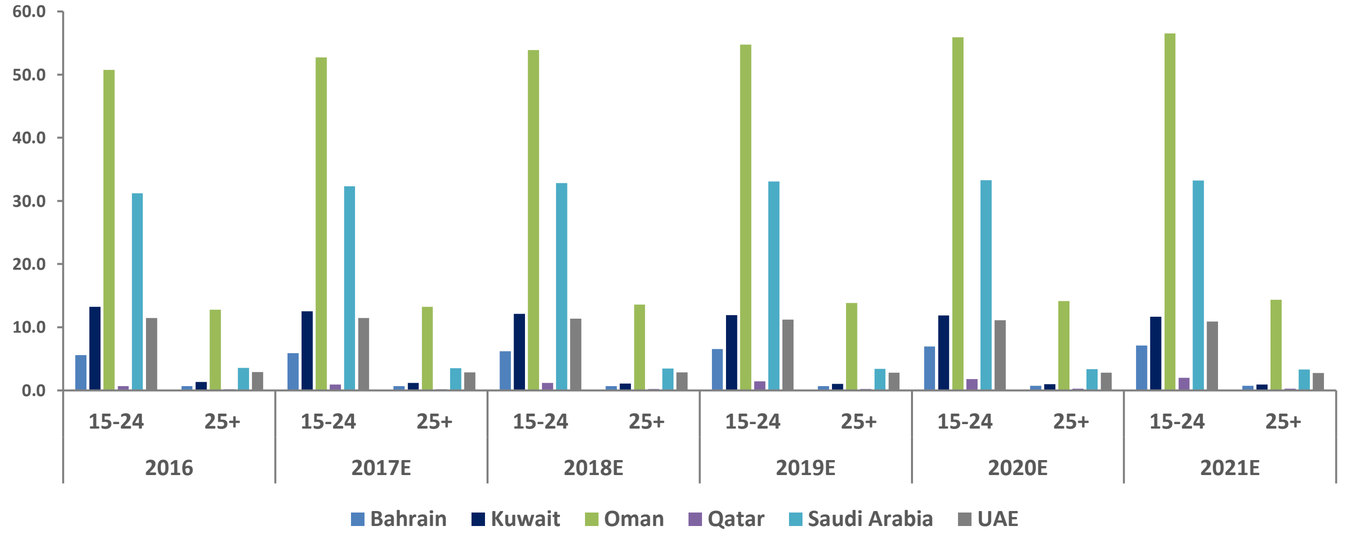
The above rankings clearly shows that the GCC countries are far behind world majors in terms of human capital development. This comes despite GCC being one of the wealthiest in terms of per capita income and GDP. The above rankings also warns the impact lower rankings could have on future economic development of the region as it gives insight into what a country's talent base will look like in the future.

When comparing country specific data split into age groups, one stark feature is the poor ranking in the 15-24 age group highlighting the poor state of affairs in nurturing and deploying human capital in the region. On one hand, GCC countries have relatively better ranks in the 0 – 14 age group which is primarily due to the fact that primary school education is free in most of the GCC countries. However, on the other hand, the GCC countries have some of the lowest tertiary and vocational enrolment rates in the Index in the 15-24 age group.

Youth Unemployment

Youth unemployment is one of the key issues that each GCC government is aiming to tackle in their strategic plans. Each country within this region is grappling with this issue with the worst affected country being Oman, with youth unemployment (in the age group of 15-24) recorded at more than 50%, according to International Labour Organization. Saudi Arabia comes second with a youth unemployment rate of 31%. Reasons for this surge in unemployment rates is due to both structural and cyclical factors that affects job creation in the region. In addition, the decline in oil prices provided another blow to the spending plans by oil exporting countries that further limits employment generation avenues in productive sectors.

Unemployment Rates



Source: ILO, KAMCO Research

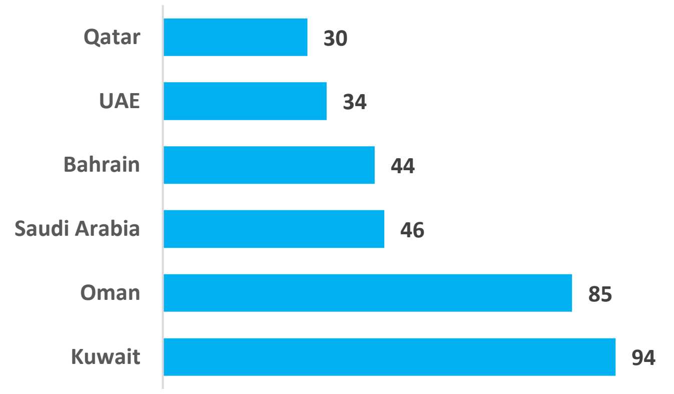
Unemployment in Kuwait and UAE are almost at the same levels and are expected to see marginal improvement in the near term, according to ILO forecasts. On the other hand, Qatar is the most robust market in terms of generating employment opportunities with an unemployment rate of less than 1% in the near term that is expected to gradually grow to low single digits in the forecast period, until 2021. One of the primary reason for the favorable situation in Qatar is the ongoing projects as the country gets ready to host the world cup in 2022. In addition, the country's strategic plan, the Qatar National Vision 2030, lays special emphasis on the education sector with an aim to develop human capital.

GCC Rankings - Education Metrics

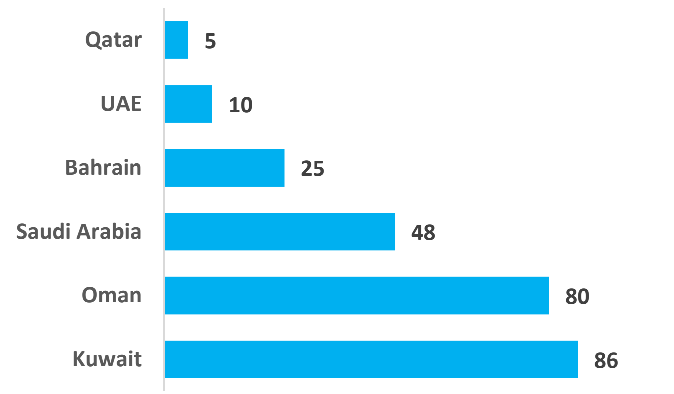
Higher education and training is the fifth pillar under efficiency enhancers out of the 12 key pillars that the World Economic Forum uses to arrive at the Global Competitiveness Index rankings. This pillar is further broken down into eight sub categories and each country is ranked on these pillars. The report highlights the importance of quality of higher education and training that has the potential to enable a country to move up the value chain beyond simple production processes and products.

We have used the overall ranks for the Higher Education and Training pillar and the first three sub categories to compare GCC countries rankings in the below charts.

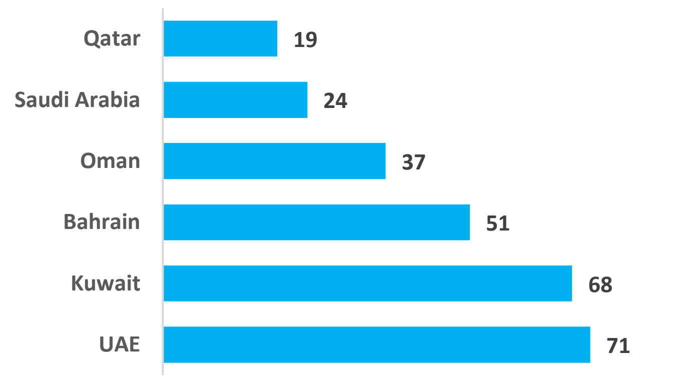
Higher education and training



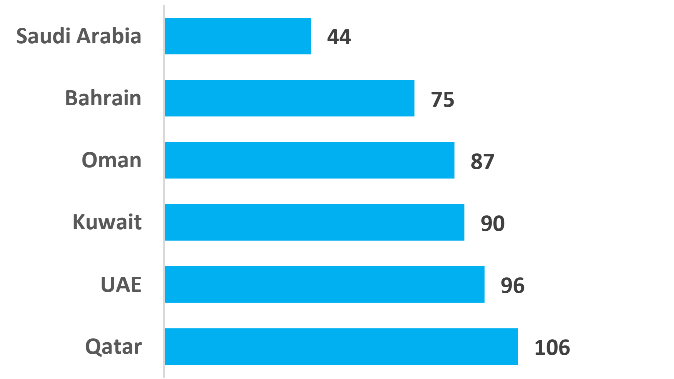
Quality of the education system



Secondary education enrollment rate gross %



Tertiary education enrollment rate gross %



Source: Global Competitiveness Report 2016-17, KAMCO Research

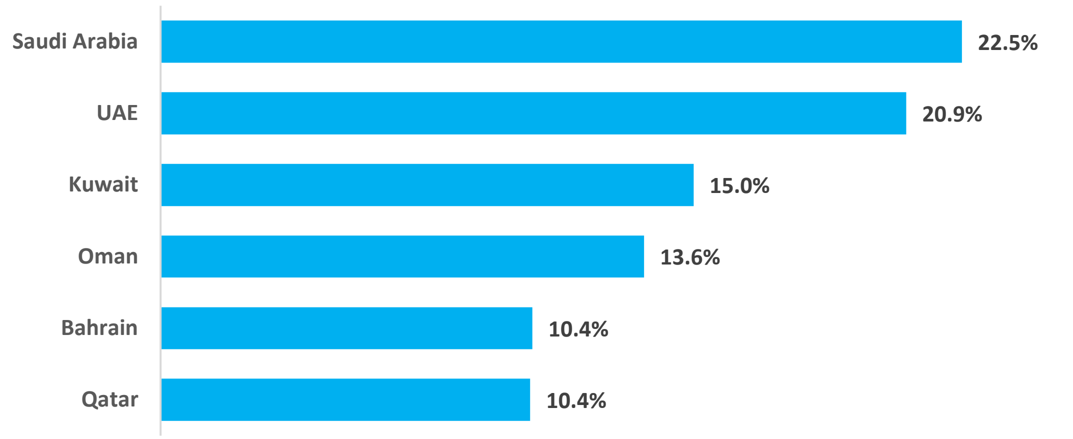
The above rankings shows that much needs to be done in the GCC in order to push education reforms in the region, particularly in higher education. The overall ranking for all of the economies in the region is above 30, despite being termed as wealthy nations. The quality of education system is one category on which Qatar and UAE and to some extent Bahrain stand out, while Saudi Arabia, Oman and Kuwait have shown poor rankings. The rankings further deteriorate as we move grades from basic education to higher education as highlighted in the poor rankings for secondary education enrollment rate and tertiary education enrollment rates. This is the bracket where the role of private universities is essential in order to improve participation and enrollment rates.

Education spending in the GCC

GCC economies have realized that education is one of the key ingredients to achieve long term sustainable economic growth for the region. On the positive side, supported by their income levels, GCC countries have additional opportunities to boost their human capital performance. And rightly so, over the past 40 years, GCC countries have invested heavily on education reforms and has made significant progress as compared to historical levels. This commitment is expected to continue in the future with continued higher allocations from yearly budgets and special emphasis in each of the long term strategic plans announced by the GCC countries.

According to the GCC Federation of Chambers of Commerce and Industry, GCC countries are expected to spend almost USD 150 Bn a year on education to accommodate growing student population that is expected to grow at a CAGR of 1.8% to reach almost 11.3 Mn by 2020.

Budgeted spending on Education sector



Source: Finance Ministries, KAMCO Research
Note : Data for Kuwait represents actual spending in FY2014-15
Data for Bahrain represents budgeted number for FY2016
Data for Saudi Arabia, UAE, Oman and Qatar represents budget allocations for FY2017

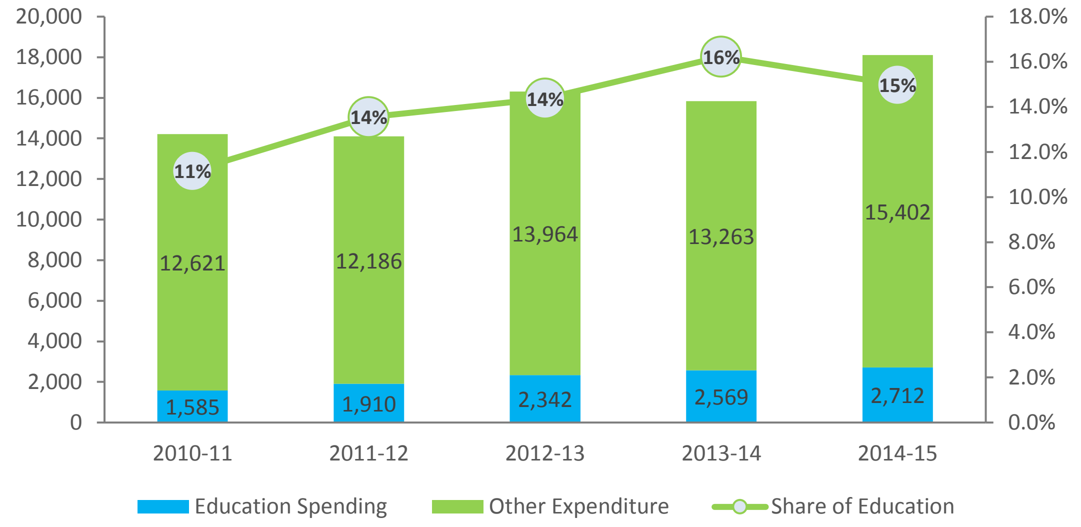
The GCC education services industry is one of the foundations on which the future economic growth of the region is being heavily relied on. This is one of the key reasons why this sector has historically received an increasing share of the expenditure allocation from government. Across the GCC, spending on education is achieved through various means, in order that the youth gets involved to acquire skills and contributes to the economic growth. One of the most common ways to help educate the population and distribute grants is by way of scholarships. Students that qualify are eligible for courses depending on their scores.

One of the best features of this system is that the private education sector benefits heavily and directly from the government programs. Since public education is limited to a particular level and generally lacks relative competitive edge in terms of quality of education, it opens a plethora of opportunities for private players. New schools are opening up in almost all of the countries in the GCC and special emphasis is laid on higher education so as to build a local pool of experts both in the technical areas as well as soft skills. Moreover, the favorable demography with more than half of the local population below the age of 25 years and the high spending power has helped in attracting a number of private players in the region.

Education spending in Kuwait

Being one of the priority sectors for the Kuwaiti government, the education sector has historically seen an increasing allocation of budgets over the past several years. Moreover, the decline in oil prices had a minimal impact on the ongoing projects in the sector, with almost no curtailments in the education spending. In addition, the "New Kuwait" strategic plan that runs until 2035 and was announced earlier this year includes human capital and education as one of the seven pillars or areas of focus for investment and improvement.

Budgeted spending on Education sector



Source: Kuwait Ministry of Finance, KAMCO Research

The plan aims to reform the education system in the country to empower the youth to become more competitive and a productive work force. Under the plan, 13 new colleges are to be built with a total capacity of 40,000 students. Furthermore, the plan aims also to revive the selection process for teachers via Teacher License Project that would be essential in order to improve Kuwait's ranking in international assessments.

Education sector investment in Kuwait

Investment in the sector, by both the government and the private sector, totaled at around USD 1.7 Bn over the past few years with over USD 1 Bn worth of projects completed since 2010, according to MEED Projects. The pace of investment in the near term, especially with the introduction of the New Kuwait strategic plan, is expected to be much larger and focused. According to the plan, the government has earmarked a total investment of KWD 193.8 Mn (USD 641 Mn) until 2020 for the development of five key projects that would help in accomplishing the objective of enhancing human capital. From the five shortlisted projects, the Integrated System for Education Reform is expected to attract more than 90% of the total spending of around KWD 182.4 Mn aimed at enhancing every component for the education delivery to students. This covers enhancing teachers' skills, classroom automation, administration within the school, curriculum in line with labour market as well as school supplies.

Announced Projects for Education Reform	Estimated Cost (KWD)	Estimated Year of Completion
Preparation of National Standards for Education	3,000,000	2020
Applying Comprehensive Quality Standards in School Administration	3,000,000	2020
Studies for measuring and evaluating the education system	3,132,500	2020
Integrated System for Education Reform	182,361,561	2020
Teacher License Project	2,335,000	2020

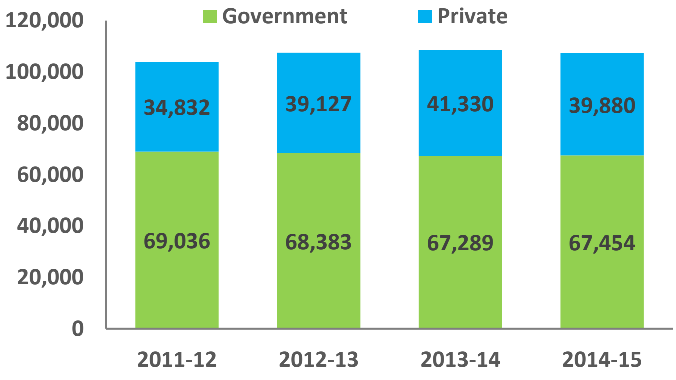
Source: www.newkuwait.gov.kw

Along with the projects mentioned in the above table, total projects in the education sector (including private sector projects) stood at USD 14.5 Bn. We believe that the completion of these projects should have a significant and long term social impact and augurs well for strengthening the human capital of the country.

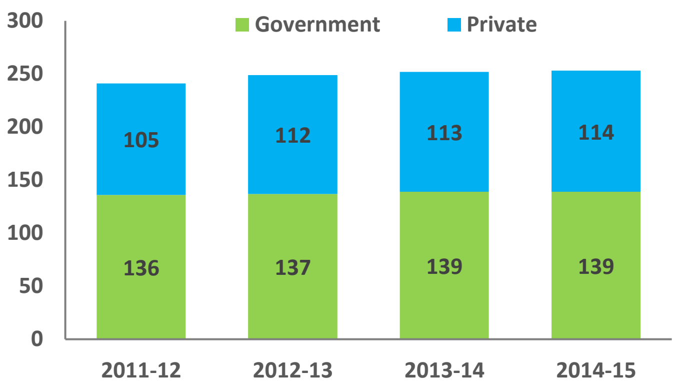
Quantifying the sector in Kuwait

Kuwait has shown consistent progress over the years in terms of some of the key metrics for the education sector. Most notably, there has been a shift from government schools/institutions to private institutions over the past four years. In terms of numbers, students at the secondary level in government schools dropped by an average CAGR of 0.8% over the past three years whereas students in private institutions increased at a healthy rate of 4.6%. Overall, the increase in the number of students was 1.1% during the past three years.

No. of Students (Secondary)



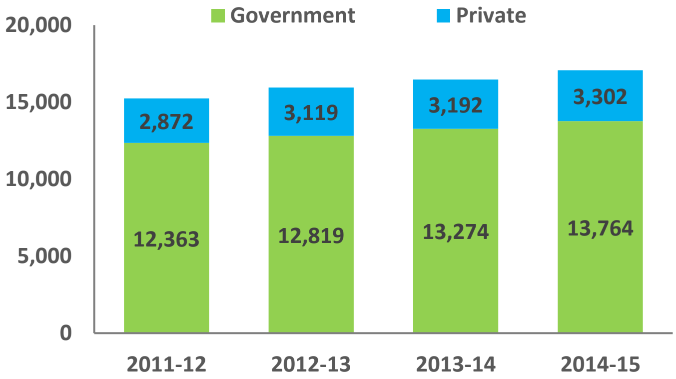
No. of Schools (Secondary)



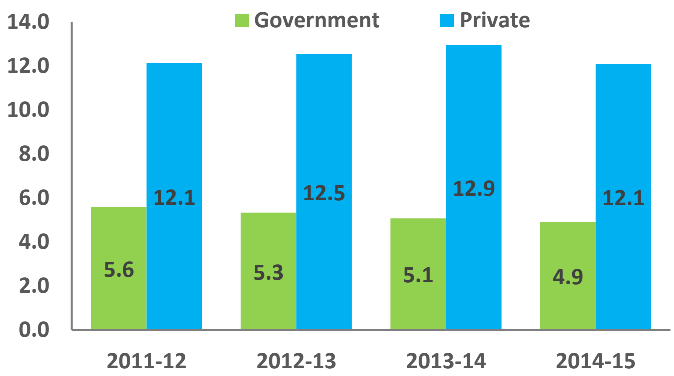
Source: Kuwait Ministry of Finance, KAMCO Research

Number of schools catering to secondary students have shown a marginal improvement over the years although the growth in the number of private institutions has been much faster than government run institutions. Government secondary schools increased by 3 from 136 during 2011/12 to 139 in 2014/15, while private secondary schools increased by 9 to 114 in the latest report. The year-on-year growth in private schools was 1 in the last year whereas government schools remained at the same count.

No. of Teachers (Secondary)



Student-Teacher Ratio (Secondary)



Source: Kuwait Ministry of Finance, KAMCO Research

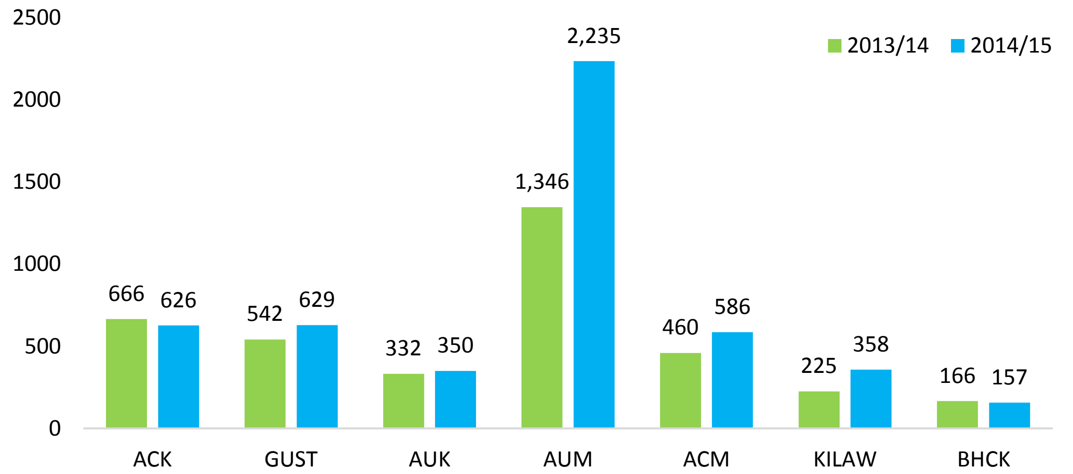
One of the other favorable statistics is the increase in the number of teachers in both government and private institutions. This has a significant long-term impact and affects the overall quality of education. The count of teachers in the secondary grade has increased at a 3-year CAGR of 3.6% in government institutions and at a higher rate of 4.8% in private institutions.

The student-teacher ratio (number of students per teacher) is much better in government schools with an average of 4.9 students per teacher whereas in private institutions, its 12.1 students per teacher.

Total student output by private universities

Data on private universities from the General Secretariat of Private Universities Council shows impressive growth during 2014/15. Total students admitted during the year, according to the latest available data, increased by almost a third to 4,941 students.

Student admitted during academic year



Source: General Secretariat of Private Universities Council - Kuwait, KAMCO Research

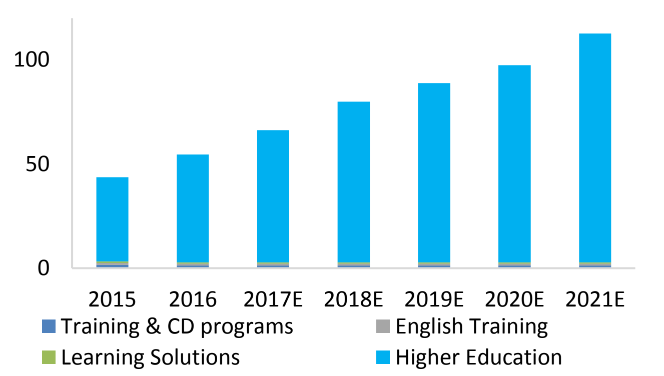
Almost all the universities has shown improvement as compared to the previous year with the biggest share of growth reported by American University of Middle East (AUM) at +66% to record 2,235 admissions.

Financial forecasts

Over 95% revenue contribution from Higher Education segment

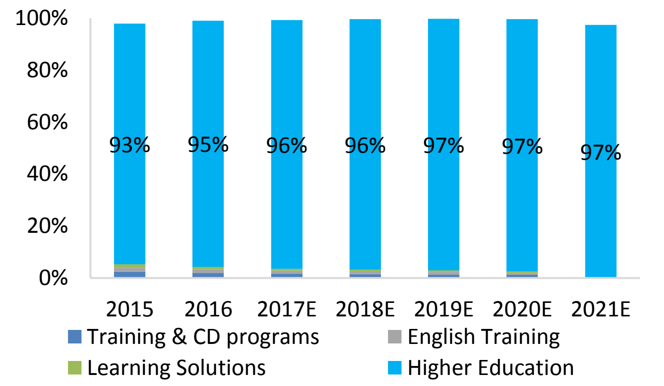
As mentioned earlier, Humansoft operates in three other segments other than Higher Education – Training and Career Development Programs, English Training and Learning Solutions revenues from AUM & ACM combined under the Higher Education segment contribute to 96% (average over 2016-2021) of the revenues for Humansoft's group revenues. The management expects other segment revenues to remain stable going forward, as they focus on their Higher education segment, and is reflected in our forecasts. Group revenues are expected to grow at a CAGR of 15.6% from over KWD 54 Mn to over KWD 112 Mn over our explicit forecast period 2016-2021.

Group revenue by segment (KWD Mn) -2016-2021



Sources: Humansoft, KAMCO Research

Group revenue split by segment - 2016-2021

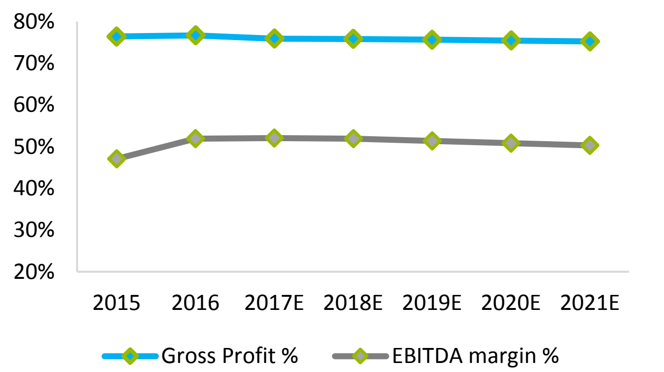


Sources: Humansoft, KAMCO Research

Gross profit margins of over 75% over 2016-2021; high EBITDA margins as well

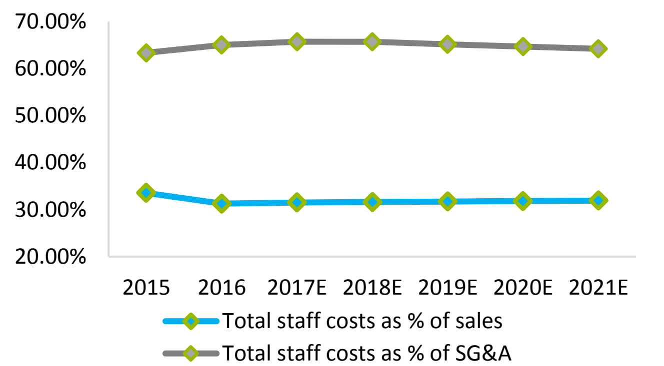
Group gross profit margins are expected to remain at above 75% over 2016 -2021 after reporting over 76% in 2016. This is mainly due to the fact that some of the direct costs are non-variable in nature, as it pertains to staff salaries and facilities costs. We forecasts EBITDA margins to remain stable at over 51% over our explicit forecast period after reporting 51% margins in 2016. Significant cost elements impacting margins are staff costs, which constitute over 65% of the SG&A costs.

Group Gross Profit & EBITDA margin trends (%)



Sources: Humansoft, KAMCO Research

Staff costs trends for Humansoft



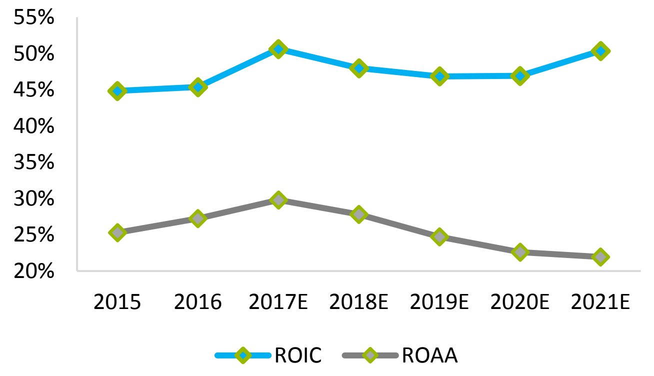
Sources: Humansoft, KAMCO Research

The management guided that almost all staff are fulltime staff at AUM and ACM and there are negligible adjunct faculty that deliver educational services for students. They further mentioned that their student-to-teacher ratio is currently close to 25:1, which is acceptable, as upto 30:1 represents a good mix, as per global standards.

ROCE & ROAA trends healthy

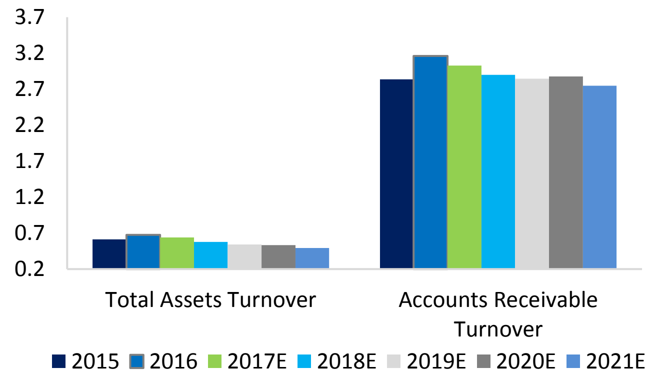
Profitability trends remain strong with net profit margins of around 40% over 2016-2020 forecasted. In terms of return ratios, return on invested capital (ROIC) is expected to improve going forward (2016: 45.4%), given strong revenue growth showing that capital utilization efficiency by management. This is largely due to the company's conscious efforts to focus on the Higher Education segment. Return on average assets is expected to remain healthy despite capex allocation to fixed assets, mostly in terms of buildings and educational infrastructure.

ROIC and ROAA trends



Sources: Humansoft, KAMCO Research

Asset turnover & Accounts Receivable Turnover (times)



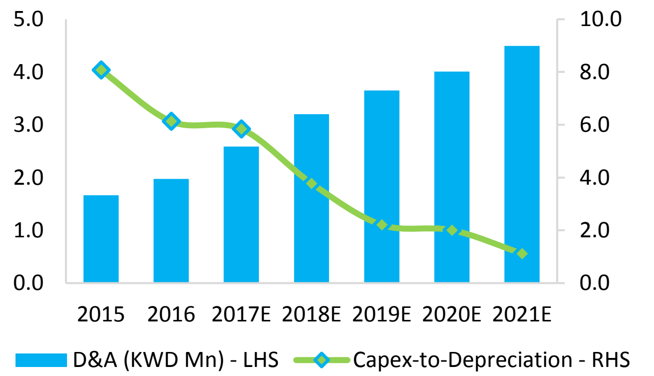
Sources: Humansoft, KAMCO Research

Turnover ratios are forecasted to remain stable going forward with total asset turnover ratio expected to remain broadly stable as compared to historical trends. In terms of accounts receivable ratio, the main business is not directly dependent on receivables as the main revenue item is fees which is collected periodically in advance. Hence before the start of the academic year the company witnesses a surge in deferred income, which is essentially the fees collected in advance of the academic year.

Depreciation and amortization costs of average KWD 3.6 Mn over 2017- 2021

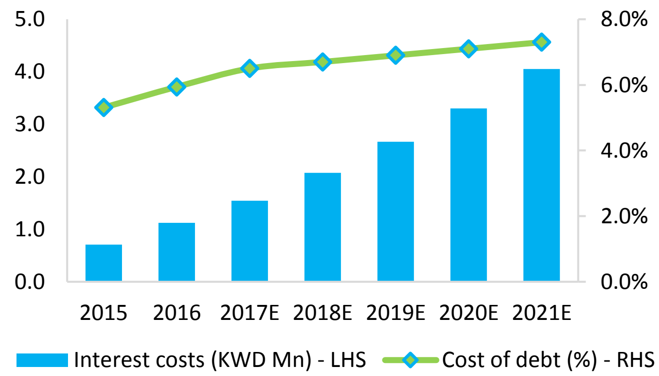
We forecast depreciation and amortization costs to amount to KWD 3.6 Mn over our explicit forecast period from 2017-2021. Bulk of the depreciation stems from construction to buildings understandably, and our forecasts are based on management guidance as per stated in the financial reports. Amortization costs mainly include university & college licenses that need to paid to the Private Universities Council and Ministry of Education and Franchise charges etc.

Depreciation & amortization trends



Sources: Humansoft, KAMCO Research

Humansoft interest costs and cost of debt



Sources: Humansoft, KAMCO Research

Nevertheless, depreciation and amortization costs seem manageable, as it constitutes 3%-4% of revenues over our forecast period and approaches maintenance capex by 2021.

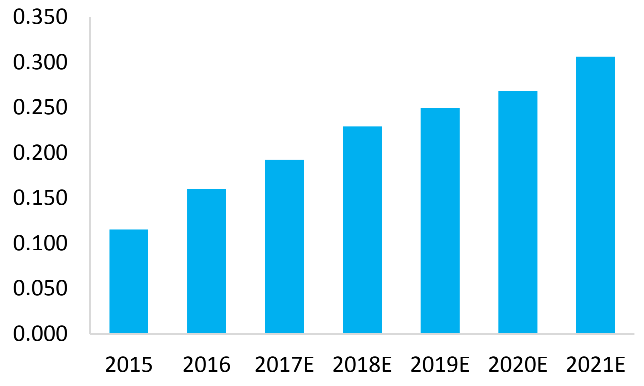
Interest costs and cost of debt comfortable

Interest costs are expected to come in at over KWD 1.5 Mn in 2017. Based on our forecasts of capex funded by debt and cost of debt trends, interest costs are likely to increase toward KWD 4.0 Mn until 2021. As mentioned earlier Humansoft's room to employ debt funding seems comfortable as they have debt facilities that can be further tapped for future expansion. We also factor in a gradual increase in cost of funding as an increase in rates from the Federal Reserve will translate into higher borrowing costs in the GCC and Kuwait in specific as well.

Dividend payout at 80%; attractive dividend yield story

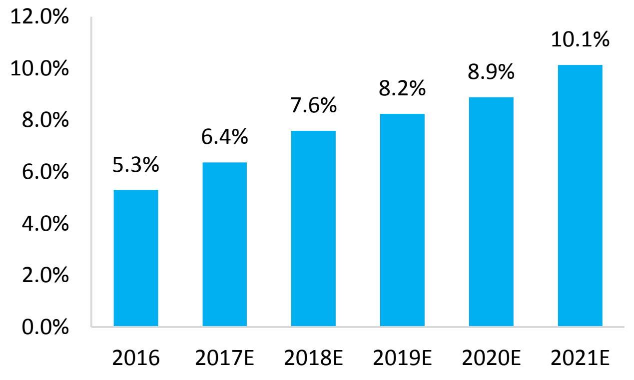
Humansoft's management has guided that they expect to payout 80% of their earnings as dividends to shareholders going forward, given their methodical capex execution and comfortable liquidity position. We forecast dividends based on the management's dividend payout guidance and expect dividends to grow at a CAGR of closet to 13.8% from 2016 (KWD 0.160/share – based on proposed dividend guidance) to 2021 (KWD 0.306/share).

Dividends per share (KWD/share) trends



Sources: Humansoft, KAMCO Research

Dividend Yield (%) trends



Sources: Humansoft, KAMCO Research

Based on forecasts of dividends the stock is trading at an attractive yield of 6.4% and 7.6% of its 2017E and 2018E dividends.

Financial Indicators

Balance Sheet (KWD Mn)	2014	2015	2016	2017E	2018E	2019E
Assets						
Cash and cash equivalents	12.1	16.8	19.8	24.5	39.7	58.0
Receivables	12.1	15.7	18.0	23.9	28.8	32.5
Inventories	0.1	0.1	0.1	0.1	0.1	0.2
Total current assets	**24.2**	**32.6**	**37.9**	**48.6**	**68.6**	**90.6**
Net property, plant and equipment	19.9	29.8	39.8	54.0	62.8	67.2
Other assets	7.7	7.7	8.0	8.1	8.4	8.7
Total assets	**51.8**	**70.2**	**85.7**	**110.6**	**139.8**	**166.5**
Liabilities						
Long-term debt & Short term debt	9.2	17.5	20.4	27.1	34.9	42.5
Accounts payable and other liabilities	4.2	6.5	8.8	9.7	10.9	11.2
Deferred income & Other Liabilities	6.9	7.9	8.3	9.7	11.5	12.7
Total liabilities	**20.2**	**31.9**	**37.4**	**46.5**	**57.3**	**66.3**
Shareholders' Equity						
Share capital	13.7	13.7	13.7	13.7	13.7	13.7
Retained earnings	11.2	14.1	21.9	31.7	43.1	53.1
Other Equity	6.6	10.4	12.6	18.7	25.7	33.3
Total Shareholders Equity	**31.6**	**38.2**	**48.3**	**64.2**	**82.6**	**100.1**
Total liabilities and equity	**51.8**	**70.2**	**85.7**	**110.6**	**139.8**	**166.5**

Income Statement (KWD Mn)	2014	2015	2016	2017E	2018E	2019E
Revenue	**28.6**	**43.6**	**54.5**	**66.3**	**79.8**	**88.8**
Cost of goods sold	(7.5)	(10.3)	(12.7)	(16.0)	(19.3)	(21.6)
Gross profit	**21.2**	**33.3**	**41.8**	**50.3**	**60.6**	**67.2**
General and administrative expenses	(8.1)	(12.8)	(13.5)	(15.8)	(19.1)	(21.6)
EBITDA	**13.0**	**20.5**	**28.3**	**34.5**	**41.4**	**45.6**
Depreciation and amortization	(2.4)	(1.7)	(2.0)	(2.6)	(3.2)	(3.6)
EBIT	**10.7**	**18.9**	**26.3**	**31.9**	**38.2**	**42.0**
Finance costs	(0.5)	(0.7)	(1.1)	(1.5)	(2.1)	(2.7)
Other Income/Loss	(1.4)	0.3	0.3	0.3	0.4	0.5
Net profit before taxes	**8.8**	**18.5**	**25.5**	**30.7**	**36.6**	**39.8**
Provision for Income Taxes	(0.5)	(0.9)	(1.3)	(1.5)	(1.8)	(2.0)
Net profit after taxes	**8.3**	**17.5**	**24.2**	**29.2**	**34.8**	**37.8**
Net profit attributable to parent	**8.3**	**17.5**	**24.2**	**29.2**	**34.8**	**37.8**
EPS (KWD)	**0.068**	**0.144**	**0.199**	**0.240**	**0.286**	**0.311**

Source : KAMCO Research and Humansoft

Key Financial Ratios

Key Ratios	2014	2015	2016	2017E	2018E	2019E
Asset Structure and Leverage Ratios						
Total Liabilities / Total Assets (%)	39.0%	45.5%	43.7%	42.0%	41.0%	39.8%
Total Debt / Total Assets (x)	0.17	0.24	0.22	0.24	0.25	0.26
Total Debt / Equity (x)	0.3	0.43	0.39	0.42	0.42	0.42
Liquidity Ratios						
Current Ratio (x)	1.5	1.8	2.8	2.8	3.5	4.5
Quick Ratio (x)	1.5	1.8	2.8	2.8	3.5	4.5
Cash Ratio (Cash & Eq./Current Liabilities) (x)	0.8	0.8	0.9	1.4	2.0	2.9
Operating Efficiency Ratios						
Receivables Turnover (x)	2.5	2.9	2.8	3.2	3.0	2.9
Days sales outstanding	119	116	113	108	120	126
Accounts Payable Turnover (x)	7.6	8.5	8.1	8.4	8.8	8.9
Total Assets Turnover Ratio (x)	0.5	0.6	0.6	0.7	0.6	0.6
Profitability Ratios						
Return on Average Assets (%)	14.9%	25.3%	27.3%	29.8%	27.8%	24.7%
Return on Average Equity (%)	25.5%	44.5%	48.2%	52.0%	47.5%	41.5%
ROIC (%)	29.2%	44.8%	45.4%	50.6%	48.0%	46.8%
Margins						
Gross profit margin (%)	73.9%	76.4%	76.7%	75.9%	75.8%	75.6%
EBITDA margin (%)	45.6%	47.1%	51.9%	52.1%	51.9%	51.4%
EBIT margin (%)	37.2%	43.2%	48.3%	48.1%	47.9%	47.3%
Net profit margin (%)	28.8%	40.1%	44.4%	44.1%	43.6%	42.7%
Payout Ratio						
Dividend Payout (%)	133%	80%	80%	80%	80%	80%
Market Data and Valuation Ratios						
Share Price (KWD)	0.39	0.95	2.70	3.02	3.02	3.02
Number of Shares (Mn)	121.8	121.8	121.7	121.7	121.7	121.7
Market Capitalization (KWD Mn)	47	116	328	367	367	367
Enterprise Value (KWD Mn)	44	116	329	369	369	369
Earnings Per Share (KWD)	0.07	0.14	0.20	0.24	0.29	0.31
Book Value Per Share (KWD)	0.26	0.31	0.40	0.53	0.68	0.82
Dividend Per Share (KWD)	0.09	0.11	0.16	0.19	0.23	0.25
PE (x)	44.5	21.0	15.2	12.6	10.6	9.7
EV/EBITDA (x)	28.3	18.0	13.0	10.7	8.9	8.1
PB (x)	11.6	9.6	7.6	5.7	4.5	3.7
Dividend Yield (%)	3.0%	3.8%	5.3%	6.4%	7.6%	8.2%

Source : KAMCO Research and Humansoft
Note : Forward & Historical Valuation ratios are based on current market prices

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