

Humansoft Holding

Equity Research Update

Sector - Education

Dividend thesis back in focus; retain Neutral

Moving parts remain, but DPS of +250 fils achievable over 2021E-23E

Humansoft beat our 2020 forecasts, primarily driven by a jump in Kuwait's high school graduate numbers in 2020, while the 20% fee cut scenario did not transpire. The spike in new enrollments in 2020 lifts the medium-term growth profile for the company over the next 3-4 years. The reinstatement of dividends announced for 2020 (400 fils/share), reactivates our dividend thesis on the company. Over 2021E-23E, we believe a DPS of +250 fils would be easily achievable and fall 2021 enrollments should make us more sanguine on the company achieving our 2021E DPS forecast of 256 fils. We maintain our 'Neutral' rating on the stock, and seek better entry points. Moreover, we look to attain better visibility on sustainable trends of higher future enrollments, future growth capex requirements, and their impact on the earnings potential and dividend profile of the company.

Jump in school graduates provides shot in the arm for medium term growth

A repeat of higher-than-average new student enrollments, as witnessed in 2020 (AUM & ACM: 4,001 students) cannot be ruled out in 2021. This would depend on whether high school pass percentages from 2020 (+98%) are maintained during the current year, or whether they revert to the historical average of 60%-70%. We forecast Humansoft's revenues to reach KWD 81.5 Mn in 2021E, up 18.9% y-o-y, driven by higher revenues generated due to the pushout of fall semester revenues from 2020 into Q1-2021, and the potential re-alignment of the 2021 calendar. For 2022E and 2023E, we expect revenues to normalize to KWD 76.7 Mn and KWD 76.4 Mn respectively. Gross margins in 2021E should come down 90 bps y-o-y, but remain around 77.7%, as we factor in higher costs on account of a return to on-campus learning, by Q3-Q4 2021, atleast on a partial basis. The exit from other less profitable segments should however keep margins above 77% over 2021E-23E.

Repeat of strong enrollment numbers triggers fresh growth capex spend?

The growth capex needs for the company remain limited in the current context. However, if the company were to clock the enrollment run rate witnessed in 2020 over the next 2-3 years, the ability to optimize its existing capacity of 14,000 students to accommodate higher than expected future enrollments in the near term would be significant. This could enable Humansoft to increase dividend payout to above 80% over 2021E-2023E, in our view. Separately, we believe that along with moving the semester calendars back in line with 2019, reducing days sales outstanding (DSO) from 135 days at the end of Q4-2020, and improving the cash conversion cycle to 2019 levels would be key priorities for the company.

Valuation & Risks – Raising TP to KWD 4.050/share

Our revised TP of KWD 4.050/share is based on a 70:30 blend of DCF and 2022E P/E valuation. **Upside risks:** 1) Above average growth in high school graduates; 2) Higher dividend payout (%); 3) Higher local government scholarships. **Downside risks:** 1) More stringent governments scholarships; 2) Delays in future enrollments and classes due to Covid-19 (*More detailed risks on page 3*).

Key Financials	2019	2020	2021E	2022E	2023E
Revenue (KWD Mn)	73.3	68.5	81.5	76.7	76.4
GPM (%)	77.4%	78.6%	77.7%	77.1%	77.1%
EBITDA (KWD Mn)	42.7	42.3	49.8	45.2	44.1
Net Income (KWD Mn)	35.9	37.5	44.5	40.1	38.9
EPS (KWD)	0.295	0.308	0.365	0.330	0.320
P/E (x)	10.2	12.3	10.2	11.3	11.7
P/B (x)	4.6	3.9	3.8	3.3	3.0
Dividend Yield (%)	-	10.5%	6.9%	7.1%	6.9%

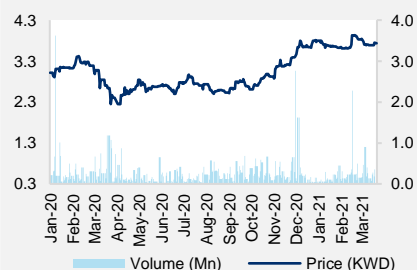
Sources: Kamco Invest Research, and Humansoft

Neutral

CMP 21-Mar-21: KWD 3.731

Target Price: KWD 4.050

Upside/Downside: +8.5%



Price Perf.	1M	3M	12M
Absolute	-4.4%	2.9%	41.2%
Relative	-6.3%	-1.5%	15.2%

Stock Data

Bloomberg Ticker	HUMANSFT KK
Refinitiv Ticker	HUMN.KW
Last Price (KWD)	3.731
MCap (KWD Mn)	454
MCap (USD Mn)	1,498
EV (KWD Mn)	394
Stock Performance - YTD (%)	-1.8%
PE - 2021E (x)	10.2
PB - 2021E (x)	3.8
Dividend yield - 2021E (%)	6.9%
52-Week Range (KWD)	2.246 / 3.930

Sources: Kamco Invest Research & Bloomberg

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Valuation and Risks

Target price raised to KWD 4.050/share; maintain 'Neutral' rating

We revisited our investment case and valuation for Humansoft post the Q4-2020 results and earnings conference call. Our valuation now incorporates the impact of a jump in medium-term revenues for the next 3-4 years, arising from the higher-than-expected student enrolment in 2020 and likely for 2021, within a stable fee environment. We now expect total enrolments at AUM & ACM to average over 13,900 students over 2021E-2023E (Previous: ~12,000 students), before gradually slowing down towards more normalized enrollment numbers witnessed prior to 2020. We expect no fee cuts, as included in our prior research update scenarios, even in the online mode of learning. Our revised target price (TP) of KWD 4.050/share (Previous: KWD 2.800/share) is based on our new forecasts and is 70:30 blend of DCF and 2022E P/E valuation.

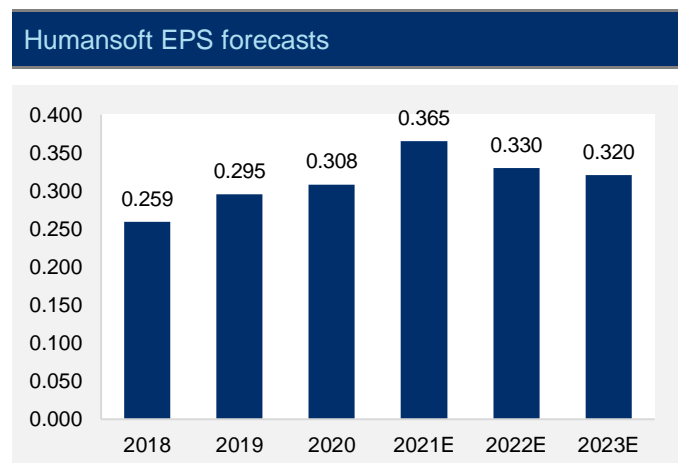
Humansoft Fair Value			
Valuation Method	Fair Value (KWD/share)	Weight (%)	Weighted Value (KWD/share)
DCF	4.000	70%	2.800
P/E -2022E	4.165	30%	1.250
Weighted Fair Value (KWD/share)			4.050
Current market price			3.731
Upside/Downside			8.5%

Sources: Kamco Invest Research

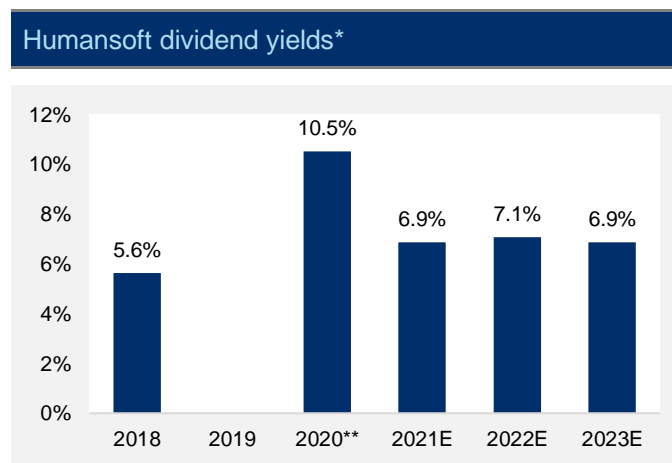
For our DCF valuation, we have assumed a terminal growth rate of 2.0%, and average WACC of 8.5% over our forecast period, which we believe adequately represents the sustainable long-term growth rate for the company, and reflects the current risks and competition in the market. For the terminal value, we have assumed a return on new investment capital (RONIC) that is comparable to the terminal year WACC. Accordingly, we arrive at a DCF value of KWD 4.000/share. Our valuation based on P/E derives a price of KWD 4.165/share, based on a multiple of around 12.6x 2022E EPS. We believe that 2022E could potentially represent the first full year of normalized operations, if the impact from Covid-19 were to dissipate, and students would return to resume on-campus classes. We maintain our 'Neutral' rating on the stock, and seek better entry points. Meanwhile, we look to attain early visibility on sustainable trends of higher future enrollments, signaling for future growth capex requirements, and their impact on the earnings potential and dividend profile of the company, before reactivating our Outperform case on the stock.

Dividend thesis likely reinstated; +250 fils looks achievable over 2021E-23E

We forecast a group EPS of 365 fils for 2021E for Humansoft, up 18.5% y-o-y, from higher revenues generated due to the pushout of fall semester revenues from 2020 into Q1-2021, and the potential realignment of the 2021 calendar. Further we forecast group EPS to normalize to 330 fils and 320 fils in 2022E and 2023E respectively.



Source: Kamco Invest Research, Humansoft



Source: Kamco Invest Research, Humansoft, * forecasts based on current market price. ** subject to shareholder approval

Post the cancellation of dividends in 2019, the reinstatement of dividends announced for 2020 (400 fils/share), subject to shareholder approval, reactivates our dividend thesis on the company. For 2021E, we believe a DPS of above 250 fils would be extremely achievable, and therefore forecast a DPS of 256 fils at a dividend payout of 70% to remain on the conservative side. Barring any capex requirements, we further believe that the company would be able to comfortably achieve a payout of 80% for 2022E (264 fils) and 2023E (256 fils). Based on our DPS forecasts, the stock currently trades at an attractive dividend yield of 6.9% (2021E) and 7.1% (2022E). The fall semester enrollments in 2021 should provide early visibility into the potential dividend payout range for the year and beyond.

Upside/downside risks to our valuation & forecasts include:**Upside risks:**

- Higher number of high school graduates in Kuwait
- Higher number of local scholarships
- Higher dividend payout guidance
- New majors approved, driving higher new enrollments
- Execution of growth accretive acquisitions

Downside risks:

- Lower number of high school graduates in Kuwait
- Extension of Covid-19, causing delays in future enrollments and on-campus classes
- Lower fees implemented for online classes
- Reduction in scholarships or more stringent eligibility criteria from Private Universities Council
- Higher migration to other universities within and outside Kuwait

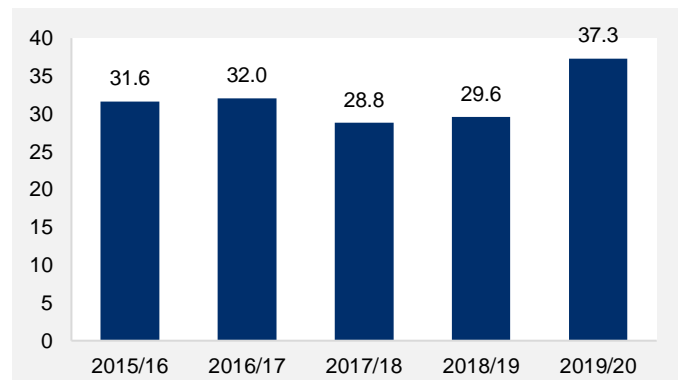
Investment Thesis

2020 jump in high school graduates lifts medium term revenue potential

Humansoft reported 2020 group revenues of KWD 68.5 Mn (-6.5% y-o-y), and net income of KWD 37.5 Mn (+4.5%). Revenues were down y-o-y mainly due to the delayed start of the fall semester classes, caused by the impact of Covid-19, as the ongoing pandemic caused delays to the high school graduation and the university admission cycle. The higher net income was ascribed to better cost containment measures, and the impact of lower costs for the online mode of teaching, as against on-campus delivery via classrooms. Further the company announced dividends of 400 fils in 2020, awaiting shareholder approval, after cancelling 2019 dividends.

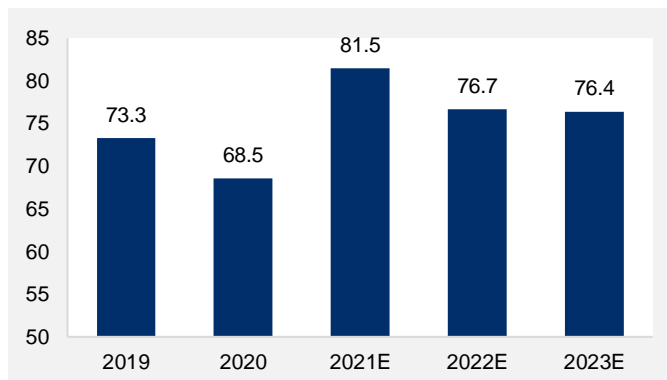
The company's 2020 results came in significantly ahead of our estimates published in our previous update – [Humansoft – Post Covid catalysts matter](#), where we had laid out scenarios for our forecasts, given the significant number of moving parts and challenges in ascertaining accurate forecasts, from the onset of Covid-19. The results beat vs. our 2020 forecasts was primarily driven by the jump in high school graduates from Kuwait in 2020 that reached 37,721 students, as compared to our forecasts which were more in line with the historical average of around 30,000 students. Further, this resulted in a higher number of new enrollments into AUM (3,389 students) in 2020, leading to a new enrollment count of 4,001 students from ACM & AUM combined, as against 2,700-2,800 students achieved in the past. Our forecasts included a slightly lower enrollment count than the historical average, with the full scale opening of Kuwait University's Shadadiya campus. Humansoft also achieved a higher market share of 10.7% for new enrolments amongst private universities in 2020, as compared to 9% in 2019, given higher capacity availability at its campuses. Moreover, the results reflect a stable fee environment that prevailed during 2020, as against newspaper reports of a 20% reduction in fees, reportedly announced for private universities with the onset of online classes. The fee cut did not get implemented, but was factored into our scenarios, given the material impact on Humansoft's revenues.

Kuwait high school graduates ('000)



Source: Central Statistics Bureau

Humansoft revenue forecasts - scenarios (KWD Mn)



Source: Kamco Invest Research, Humansoft

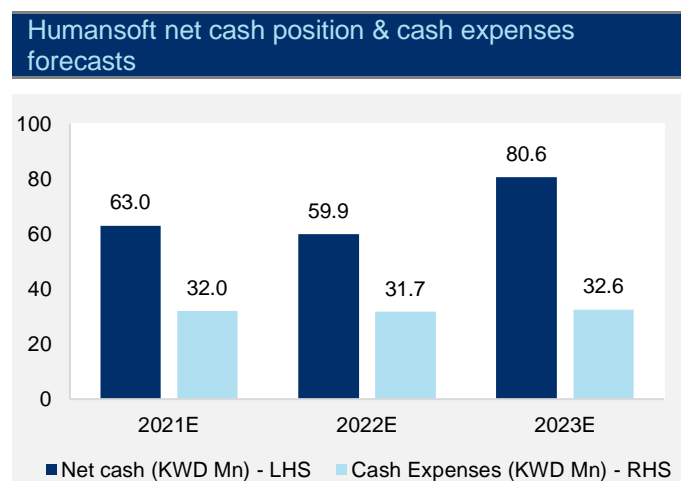
2021 revenues to grow 18.9% y-o-y; even with more normalized enrollments: Revenue forecasting for Humansoft continues to be less straightforward, due to the uncertainty over the potential number of high school graduates, and the variability in graduate intake numbers by AUM and ACM. We now forecast Humansoft's revenues to reach KWD 81.5 Mn in 2021E, up 18.9% y-o-y, assuming a stable fee environment, new enrollments of 3,000 students, and graduation of 2,800 students during fall 2021/22. Our new enrollments estimate is around 25% lower than the achieved estimate of 2020, but higher than the historical average prior to 2020. The premise for our higher estimate compared to the historical average, is that high school and university classes will mostly likely continue to operate in an online environment, atleast until the beginning of the next academic year during Sept-Oct 2021, due to the impact of Covid-19. This could keep the number of high school graduates in 2021 higher than the historical average, given the challenges of administering examinations, similar to 2020. While on one hand, a repeat of 2020 could not be ruled out, on the other hand, the total number of high school graduates in 2020 at 37,721 students was reportedly due to high pass percentage rates of students at around 98%, as against pass percentage rates of 60%-70% achieved in prior years. High school pass percentages achieved in 2020 could possibly decline in 2021, atleast partially towards rates achieved prior to 2020.

We therefore remain comfortable with our estimate of 3,000 students for AUM & ACM combined, given the large degree of uncertainty to the entire pool available for admissions. Our graduation estimate of 2,800 students is based on the graduation cycle of students, and in line with the management guidance of 2,700-2,800 students from the Q4-2020 analyst call. The main reason for the significant y-o-y increase in our 2021 group revenue forecast for Humansoft is due to the pushout of fall semester revenues from 2020 into Q1-2021, and the potential re-alignment of the 2021 calendar back towards the normalized semester cycle achieved in 2019. The delayed start of the fall semester in 2020 meant that revenue recognition for the semester was only 50% in Q4-2020, as compared to 80% achieved in Q3-2019 and Q4-2019 combined. Humansoft's management mentioned that they would strive to normalize the 2021 calendar year more towards 2019 by H2-2021, which is reflected in our forecasts.

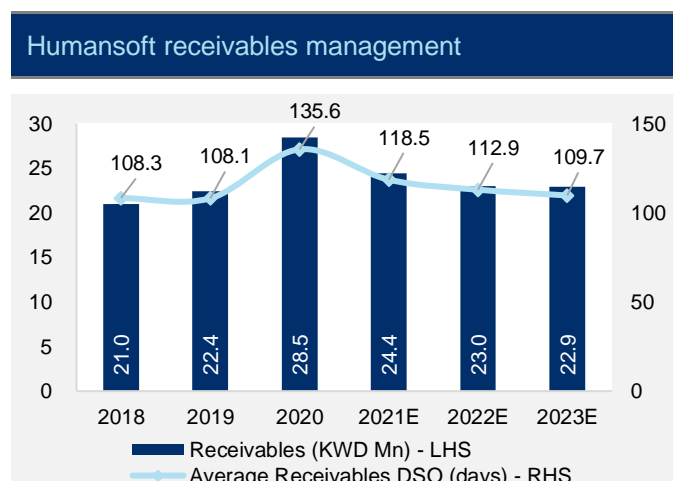
For 2022E and 2023E we expect revenues to normalize to KWD 76.7 Mn and KWD 76.4 Mn respectively, and assume new enrolments of over 2600-2700 students. Over 2021E-23E, our forecast for total enrolments remains around 13,900 students on average, based on admission and graduation rates and remains below the current built capacity of the campus at 14,000 students. The management did mention that, if need arises, they would be able to utilize the existing capacity to tackle an interim surge of student enrolments in 2021. Nevertheless, our forecasts highlight the higher revenues that are accrued over the medium term for Humansoft from annual increases in student enrolments above the historical run rate, given the admission -graduation cycle of 3-4 years of ACM an AUM respectively.

Growth capex requirements and receivables management are of keen interest

Humansoft's strong net cash position augurs well for the company, despite the uncertainties that have risen due to the impact of Covid-19. This alleviates any concerns around covering cash costs or timing mismatches regarding collection of receivables. At the end of 2020, Humansoft's trade and other receivables stood at KWD 28.5 Mn, 27% higher y-o-y than at the end of 2019. The receivables due to be received within 31-60 days at the end of Q4-2020 stood at KWD 26.7 Mn, of which KWD 24.9 was due from the government, in the form of scholarship fee receipts. The increase in receivables was largely due to the delay of the start of the fall semester and reflects the higher number of students enrolled for the semester. The typical payment cycle takes 4-5 months post invoicing, as per Humansoft. This would mean that payment would be received prior to the end of Q1-2021. We believe that along with moving the semester calendars back in line with 2019, reducing days sales outstanding (DSO) from 135 days at the end of Q4-2020, and improving the cash conversion cycle to 2019 levels would be key priorities for Humansoft.



Source: Kamco Invest Research



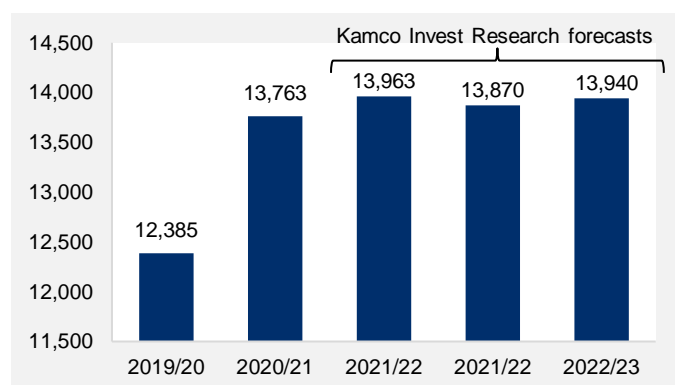
Source: Kamco Invest Research, Humansoft

The company's accrued cash balances will remain significantly higher than cash costs (including finance expenses) over the medium term. The company also guided that they would continue their repayment of debt, as per the stipulated schedule. Moreover, the capex needs for the company remain limited in the current context, and only comprises of maintenance capex, given the room available to reach the current built capacity of 14,000 students. However, if this scenario were to change, and if the company were to clock the enrollment run rate witnessed in 2020 over the next 2-3 years, and thereby likely requiring additional capex spend, it would be of particular interest to our thesis going forward.

Fall enrollment in 2021 likely to signal potential higher dividend payout case

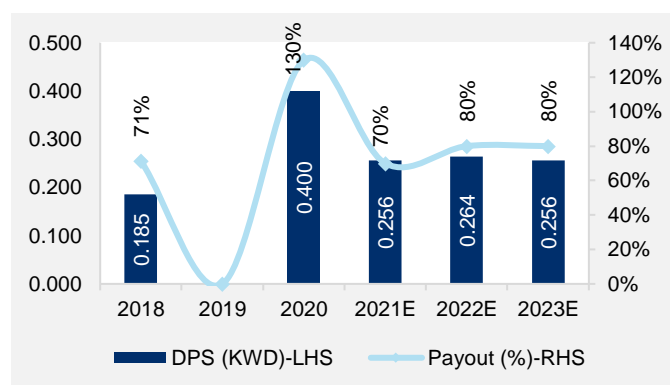
For 2020, Humansoft reinstated their dividend payouts to shareholders, and declared a DPS of 400 fils, post cancelling dividends in 2019, due to the onset of Covid-19. The resumption of dividends puts our dividend thesis on the company back in focus. For 2021E, we believe a DPS of above 250 fils would be extremely achievable, and therefore forecast a DPS of 256 fils at a dividend payout of 70% to remain on the conservative. Barring any capex requirements, we further believe that the company would be able to comfortably achieve a payout of 80% for 2022E (264 fils) and 2023E (256 fils).

Humansoft student enrollments (AUM & ACM)



Source: Kamco Invest Research, Humansoft

Humansoft DPS and payout ratio (%)



Source: Kamco Invest Research, Humansoft

Separately, if the company is able to optimize its existing built-up capacity of 14,000 students to accommodate higher than expected future enrollments in the near term, we believe Humansoft has the potential to increase both dividend payout (%) and DPS in absolute terms. Further, in a post Covid-19 environment, the focus would be back on the company's cash management strategy, and its implications for Humansoft's return on new investment capital (RONIC).

Humansoft Financial Forecasts

Forecasts raised on higher medium-term revenue potential

We forecast a group EPS of 365 fils for 2021E for Humansoft, up 18.5% y-o-y, from higher revenues generated due to the pushout of fall semester revenues from 2020 into Q1-2021, and the potential re-alignment of the 2021 calendar. Further we forecast group EPS to normalize to 330 fils and 320 fils in 2022E and 2023E respectively.

2021 -2023 Forecasts – Kamco Invest Research					
Humansoft	2020	2021E	2022E	2023E	Rationale
Revenues (KWD Mn)	68.5	81.5	76.7	76.4	Higher revenues for 2021 generated due to the pushout of fall semester revenues from 2020, and the potential re-alignment of calendar. New enrollments from 2020 and potentially 2021 alters revenue growth over 2021E-2023E
GP Margins (%)	78.6%	77.7%	77.1%	77.1%	Cost containment measures from 2020 should continue in 2021 but will be partially offset by a return to on-campus learning. Exit from less profitable segments & higher scale should keep GP margins broadly stable
EBIT (KWD Mn)	38.0	45.4	40.7	39.5	Higher medium term revenue environment, lower costs from migration to online advertising, combined with stable D&A from limited growth capex should keep EBIT above 2020 levels
Net Income (KWD Mn)	37.5	44.5	40.1	38.9	Scale effects, cost containment measures, limited capex and finance costs should drive net margins of +52% over 2021E-23E
EPS (KWD)	0.308	0.365	0.330	0.320	
DPS (KWD)	0.400	0.256	0.264	0.256	70% DPO for 2021E, 80% for 2022E & 2023E
Net Cash (KWD Mn)	16.6	63.0	59.9	80.6	Lower capex and incremental debt needs along with stable DPO of 70% -80%

Source: Humansoft, Kamco Invest Research

For 2021E, we believe a DPS of above 250 fils would be easily achievable, and therefore forecast a DPS of 256 fils at a dividend payout of 70%, to remain on the conservative. Barring any capex requirements, we further believe that the company would be able to comfortably achieve a payout of 80% for 2022E (264 fils) and 2023E (256 fils).

Humansoft Financials

Balance Sheet (KWD Mn)	2018	2019	2020	2021E	2022E	2023E
Assets						
Cash and cash equivalents	26.6	35.4	73.9	67.9	87.8	104.1
Receivables	21.0	22.4	28.5	24.4	23.0	22.9
Inventories	0.1	0.0	0.0	0.0	0.0	0.0
Total current assets	47.6	57.8	102.4	92.4	110.8	127.1
Net property, plant and equipment	54.2	51.6	47.5	46.6	45.3	44.0
Other assets	8.0	9.0	8.4	8.2	8.0	7.8
Total assets	109.9	118.3	158.3	147.2	164.2	179.0
Liabilities						
Long-term debt & Short term debt	24.9	18.8	10.9	8.0	7.1	6.9
Accounts payable and other liabilities	1.0	0.7	0.6	0.6	0.8	0.8
Deferred income & Other Liabilities	16.9	18.4	29.0	19.4	20.2	20.5
Total liabilities	42.9	37.9	40.4	28.1	28.1	28.2
Shareholders' Equity						
Share capital	13.7	13.7	13.7	13.7	13.7	13.7
Retained earnings	40.7	50.3	87.8	83.6	92.6	99.4
Other Equity	12.6	16.4	16.4	21.8	29.8	37.6
Total Shareholders Equity	67.0	80.4	117.9	119.1	136.1	150.8
Total liabilities and Equity	109.9	118.3	158.3	147.2	164.2	179.0
Income Statement (KWD Mn)						
Revenue	69.3	73.3	68.5	81.5	76.7	76.4
Cost of goods sold	(15.7)	(16.6)	(14.7)	(18.2)	(17.6)	(17.5)
Gross profit	53.5	56.7	53.9	63.3	59.1	58.9
General and administrative expenses	(15.6)	(14.0)	(11.6)	(13.5)	(13.9)	(14.8)
EBITDA	38.0	42.7	42.3	49.8	45.2	44.1
Depreciation and amortization	(3.6)	(4.0)	(4.3)	(4.4)	(4.5)	(4.6)
EBIT	34.4	38.7	38.0	45.4	40.7	39.5
Finance costs	(1.5)	(1.3)	(0.3)	(0.3)	(0.2)	(0.2)
Other Income/Loss	0.3	0.4	1.7	1.8	1.8	1.8
Net profit before taxes	33.2	37.8	39.3	46.8	42.3	41.1
Provision for Income Taxes	(1.7)	(1.9)	(1.8)	(2.4)	(2.2)	(2.1)
Net profit attributable to parent	31.5	35.9	37.5	44.5	40.1	38.9
EPS (KWD)	0.259	0.295	0.308	0.365	0.330	0.320
Cash Flow (KWD Mn)						
Net cash from operating activities	35.8	39.7	46.5	47.1	44.9	41.9
Net cash (used in) from investing activities	(12.6)	(6.0)	(45.8)	(1.7)	(0.8)	(0.8)
Net cash from (used in) financing activities	(21.1)	(30.0)	(8.7)	(51.4)	(24.2)	(24.7)
Change in cash and cash equivalents	2.1	3.7	(8.0)	(5.9)	19.8	16.4
FX effects & other adjustments	5.1	5.0	46.5			
Cash at the end of the year	26.6	35.3	73.9	67.9	87.8	104.1

Source : Kamco Invest Research and Humansoft

Valuation & Financial Ratios						
Key Ratios	2018	2019	2020	2021E	2022E	2023E
Leverage Ratios						
Total Debt / Total Assets (x)	0.23	0.16	0.07	0.05	0.04	0.04
Total Debt / Equity (x)	0.37	0.23	0.09	0.07	0.05	0.05
Net debt/ Equity (x)	-0.03	-0.21	-0.53	-0.50	-0.59	-0.64
Profitability Ratios						
Return on Average Assets (%)	30.2%	31.4%	27.1%	29.1%	25.8%	22.7%
Return on Average Equity (%)	50.8%	48.7%	37.8%	37.5%	31.4%	27.1%
ROIC (%)	49.5%	54.0%	57.5%	70.7%	62.9%	64.1%
Margins						
Gross profit margin (%)	77.3%	77.4%	78.6%	77.7%	77.1%	77.1%
EBITDA margin (%)	54.8%	58.3%	61.7%	61.1%	59.0%	57.7%
EBIT margin (%)	49.7%	52.9%	55.4%	55.7%	53.1%	51.7%
Net profit margin (%)	45.5%	48.9%	54.7%	54.6%	52.3%	51.0%
Market Data and Valuation Ratios						
Earnings Per Share (KWD)	0.259	0.295	0.308	0.365	0.330	0.320
Book Value Per Share (KWD)	0.55	0.66	0.97	0.98	1.12	1.24
Dividend Per Share (KWD)	0.185	-	0.400	0.256	0.264	0.256
PE (x)	12.7	10.2	12.3	10.2	11.3	11.7
PB (x)	6.0	4.6	3.9	3.8	3.3	3.0
Dividend Yield (%)	5.6%	-	10.5%	6.9%	7.1%	6.9%

Source : Kamco Invest Research and Humansoft, per share values are based on latest approved number of shares outstanding

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- * **Underperform:** Target Price represents an expected return of $<-10\%$ in the next 12 months

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