

Humansoft Holding

Equity Research Update

Sector – Education

Seeking medium-term or 'new majors' growth

DPS outlook still the anchor for thesis. Maintain 'Neutral' rating

Our analysis of Humansoft's key drivers was impacted by fall 2022-23 enrolments trends yet again. Firstly, initial high school graduation rates published in the newspapers showed a decline to 84.04% for 2021-22 (2020-21: 95.96%), and it remains to be seen whether graduation percentages remain stable y-o-y in future, or if they move back to pre-Covid levels (60%-70%). Secondly, ACM witnessed an increase in its share of total combined enrolments, for the first time since 2017-18. Nonetheless, we believe that the company is comfortably placed to achieve a strong dividend payout (DPO) of at least 80% over 2022E-24E. Based on our forecasts, the company trades at 2022E dividend yield of 9.6% (DPS: 331 fils), and 2023E yield of 8.9% (DPS: 306 fils) on current market prices, which continues to anchor our dividend thesis on the stock. Going forward, in order to turn more constructive and consider a potential upgrade to our rating, we look for positive enrolment trends from the new Nursing & Nutrition majors, or progress towards achieving announced diversified income streams.

New majors-led growth needed to maintain total enrolment numbers

Combined student enrolments for fall 2022-23 at AUM (2,640) and ACM (751) reached 3,391 students and grew by 6.5% y-o-y from 3,183 students in 2021-22. Total enrolments however went down to 13,684 students 2022-23 (2021-22: 13,753), mainly driven by a higher number of graduates, while the share of ACM increased from 14% in 2021-22 to 15% in 2022-23. Growth in total enrolments driven by AUM's share directly impacts the medium-term revenue potential of Humansoft as: 1) AUM's fees per credit is higher at KWD 240-260 vs. KWD 190/ credit for ACM; and 2) AUM requires more credits for graduation (121-136 credits) vs ACM (60-69 credits). Therefore, new majors commencing from fall 2023-24 like Nursing & Nutrition will be crucial for Humansoft's revenue visibility in our view, as they possess fee profiles similar to AUM (fees of KWD 240/ credit and a minimum of ~130 credits). We however look for more visibility on government scholarships for such programs, before fully reflecting them in our forecasts. We forecast Humansoft's revenues to reach KWD 85.2 Mn in 2022E and expect further normalization to KWD 81.5 Mn by 2024E, as our graduation forecasts (~3200 average) exceed enrolments (~3,050 average) over the medium term. Revenue normalization should drive group EPS to decline from 414 fils in 2022E to 374 fils in 2024E. However, EBITDA margins should remain strong at + 63% over the period.

Medium-term growth pillars potentially become more of a focal point in 2023

If Humansoft achieves scale in total cumulative enrolments for its Nursing & Nutrition programs by 2025-26 (1,200 -1,250 students), this could offset lower enrolments due to competition for existing programs from new private colleges entering the market, in our view. We further believe that challenges or lack of visibility to achieving the aforementioned scale could move investors to focus on Humansoft's second pillar of diversifying and creating a new income stream (announced earlier in 2022). The company's goal is to invest into the K-12 education sector, and in new technologies in related areas such EdTech, training, employment, and human resource management solutions. Humansoft's strong balance sheet can be utilized for these investments as we forecast a net cash position of KWD 41.5 Mn for 2022E, even post dividend deductions at 80% DPO. The company can also utilize leverage for inorganic growth as debt represents only 2% of the current funding mix.

Valuation & Risks – Revised TP of KWD 3.715 (Previous: KWD 3.745)

Our revised DCF based TP for Humansoft of KWD 3.715/share, reflects our new forecasts for enrolments, but is offset by a higher WACC which incorporates more stringent risk premiums warranted by the market in the current environment. **Upside risks:** 1) Higher local government scholarships for private universities; 2) Higher dividend payout (%); 3) Execution of growth accretive acquisitions. **Downside risks:** 1) Lower number of high school graduates 2) More stringent scholarships 3) Lower fees

Neutral

CMP 15-Nov-22: KWD 3.430
Target Price (TP): KWD 3.715
Upside/Downside: +8.3%


Price Perf.	1M	3M	12M
Absolute	5.2%	0.3%	6.7%
Relative	-4.4%	-0.1%	0.6%

Stock Data

Bloomberg Ticker	HUMANSFT KK
Refinitiv Ticker	HUMN.KW
Last Price (KWD)	3.430
MCap (KWD Mn)	417
MCap (USD Mn)	1,377
EV (KWD Mn)	336
Stock Performance - YTD (%)	6.4%
PE - 2022E (x)	8.3
PB - 2022E (x)	3.0
Dividend yield - 2022E (%)	9.6%
52-Week Range (KWD)	3.079 / 3.699

Sources: Kamco Invest Research & Bloomberg

Humansoft Financials	2021	2022E	2023E
Revenue (KWD Mn)	95.9	85.2	82.0
EBITDA (KWD Mn)	69.0	55.7	51.5
EBITDA margin (%)	72.0%	65.3%	62.7%
EPS (KWD/share)	0.514	0.414	0.382
PE (x)	6.3	8.3	9.0
PB (x)	3.0	3.0	2.9
Div Yield (%)	12.4%	9.6%	8.9%

Source: Kamco Invest Research

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Humansoft Holding Financials

Balance Sheet (KWD Mn)	2019	2020	2021	2022E	2023E	2024E
Assets						
Cash and cash equivalents	35.4	73.9	84.6	84.5	92.5	103.1
Receivables	22.4	28.5	21.6	24.7	25.0	25.3
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	57.8	102.4	106.3	109.2	117.5	128.4
Net property, plant and equipment	51.6	47.5	44.0	41.5	39.1	36.7
Other assets	9.0	8.4	8.3	8.2	8.1	8.0
Total assets	118.3	158.3	158.6	158.9	164.7	173.1
Liabilities						
Long-term debt & Short term debt	18.8	10.9	4.7	2.7	2.2	1.8
Accounts payable and other liabilities	0.7	0.6	0.7	0.5	0.6	0.6
Deferred income & Other Liabilities	18.4	29.0	21.3	18.1	18.2	18.7
Total liabilities	37.9	40.4	26.7	21.4	20.9	21.0
Shareholders' Equity						
Share capital	13.7	13.7	13.7	13.7	13.7	13.7
Retained earnings	50.3	87.8	101.7	103.4	109.6	117.9
Other Equity	16.4	16.4	16.4	20.4	20.4	20.4
Total Shareholders Equity	80.4	117.9	131.8	137.5	143.7	152.0
Total liabilities and Equity	118.3	158.3	158.6	158.9	164.7	173.1
Income Statement (KWD Mn)						
Revenue	73.3	68.5	95.9	85.2	82.0	81.5
Cost of goods sold	(16.6)	(14.7)	(14.6)	(15.0)	(15.1)	(15.2)
Gross profit	56.7	53.9	81.3	70.2	66.9	66.3
General and administrative expenses	(14.0)	(11.6)	(12.3)	(14.5)	(15.5)	(16.0)
EBITDA	42.7	42.3	69.0	55.7	51.5	50.3
Depreciation and amortization	(4.0)	(4.3)	(4.1)	(3.4)	(3.3)	(3.2)
EBIT	38.7	38.0	64.9	52.3	48.1	47.1
Finance costs	(1.3)	(0.3)	(0.3)	(0.2)	(0.1)	(0.1)
Other Income/Loss	0.4	1.7	1.1	0.8	0.9	0.9
Net profit before taxes	37.8	39.3	65.8	53.0	49.0	47.9
Provision for Income Taxes	(1.9)	(1.8)	(3.2)	(2.7)	(2.5)	(2.4)
Net profit attributable to parent	35.9	37.5	62.6	50.3	46.5	45.5
EPS (KWD)	0.295	0.308	0.514	0.414	0.382	0.374
Cash Flow (KWD Mn)						
Net cash from operating activities	39.7	46.5	65.4	52.9	48.3	47.6
Net cash (used in) from investing activities	(6.0)	(46.2)	(16.2)	(0.1)	0.7	0.7
Net cash from (used in) financing activities	(30.0)	(8.7)	(55.1)	(52.9)	(41.0)	(37.6)
Change in cash and cash equivalents	3.7	(8.4)	(5.8)	(0.2)	8.1	10.6
FX effects & other adjustments	10.1	47.0	16.6			
Cash at the end of the year	35.4	73.9	84.6	84.5	92.5	103.1

Source : Kamco Invest Research and Humansoft

Valuation & Financial Ratios						
Key Ratios	2019	2020	2021	2022E	2023E	2024E
Leverage Ratios						
Total Debt / Total Assets (x)	0.16	0.07	0.03	0.02	0.01	0.01
Total Debt / Equity (x)	0.23	0.09	0.04	0.02	0.02	0.01
Net debt (cash)/ Equity (x)	-0.21	-0.53	-0.61	-0.59	-0.63	-0.67
Profitability Ratios						
Return on Assets (%)	30.3%	23.7%	39.5%	31.7%	28.2%	26.3%
Return on Equity (%)	44.6%	31.8%	47.5%	36.6%	32.3%	29.9%
ROIC (%)	37.1%	28.1%	45.2%	35.4%	31.3%	29.0%
Margins						
Gross profit margin (%)	77.4%	78.6%	84.8%	82.4%	81.6%	81.4%
EBITDA margin (%)	58.3%	61.7%	72.0%	65.3%	62.7%	61.7%
EBIT margin (%)	52.9%	55.4%	67.7%	61.4%	58.7%	57.8%
Net profit margin (%)	48.9%	54.7%	65.3%	59.0%	56.7%	55.8%
Market Data and Valuation Ratios						
Earnings Per Share (KWD)	0.295	0.308	0.514	0.414	0.382	0.374
Book Value Per Share (KWD)	0.66	0.97	1.08	1.13	1.18	1.25
Dividend Per Share (KWD)	0.185	-	0.400	0.331	0.306	0.299
PE (x)	10.2	12.3	6.3	8.3	9.0	9.2
PB (x)	4.6	3.9	3.0	3.0	2.9	2.7
Dividend Yield (%)	6.1%	-	12.4%	9.6%	8.9%	8.7%

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

Note : Forward Valuation ratios are based on current market prices

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