

## Humansoft Holding

Equity Research Update

Sector – Education

### Dividend implications necessitate topline growth

#### Enrolment or M&A-led growth crucial for medium term. Maintain 'Neutral' rating

Higher graduation numbers from AUM & ACM compared to lower student enrolments could potentially push fall total enrolments to lower than 13,000 students over 2024 or 2025, which would impact Humansoft group revenues. Separately, lower library & internet subscription and student activity fees mandated by the PUC could bring down the revenue base by 3%-3.5%, as per our estimates. To offset this, enrolment growth from the new Nursing & Nutrition majors over 2024-25, or progress towards achieving announced diversified income streams from Humansoft's second pillar becomes vital for us to turn more constructive on our thesis and upgrade our Neutral rating on the stock. Nonetheless, we believe that the company is comfortably placed to continue its 96% dividend payout (DPO) achieved in 2022 over 2023E-25E and remain attractive for yield hunters. Based on our forecasts, the company trades at 2023E dividend yield of 10.6% (DPS: 323 fils), and 2024E yield of 10.5% (DPS: 319 fils) on current market prices, as Humansoft's dividend thesis continues to anchor the stock.

#### New majors required to offset potential library & internet fees decline

Combined student enrolments for fall 2023-24 at AUM (2,160) and ACM (764) reached 2,924 students and declined by 13.8% y-o-y from 3,391 students in 2022-23. Total enrolments receded to 13,425 students in 2023-24 (2021-22: 13,684), but Humansoft guided that they kept their market share of enrolments. Based on past enrolment trends (2020-21 to 2022-23), we forecast student graduation numbers to average ~3,400 students over 2024E-26E. Separately, Humansoft decided to book provisions for potential lower library & internet subscription and student activity fees mandated by the PUC from KD 110 to KD 25 for scholarship students until a final decision is reached. We estimate this to impact income by ~KWD 2.5 Mn per annum. Therefore, the addition of new majors like Nursing & Nutrition now become important for Humansoft's medium term revenue stability in our view, as they: 1) Bridge the gap between enrolments and graduation numbers; 2) Offset potential lower fees per student accrued from lower library & internet subscription and student activity fees; 3) Possess fee profiles similar to AUM (fees of KWD 240/ credit and a minimum of ~130 credits). We forecast Humansoft's revenues to reach KWD 79.5 Mn in 2023E and expect further normalization to KWD 74.1 Mn by 2025E, as our graduation forecasts exceed enrolments over the medium term. Revenue normalization should drive group EPS to decline from 417 fils in 2022 to 336 fils and 333 fils in 2023E and 2024E respectively.

#### Historical dividend continuity still comfortable over near term

Humansoft paid 400 fils of DPS over 2020-22, and we see no reason why this trend cannot repeat given their strong balance sheet, as we forecast a net excess cash position of KWD 24 Mn for 2023E even post dividend deductions (KWD 48.7 Mn). Nevertheless, we have forecasted DPS of 323 fils for 2023E, as we expect the company to keep DPO in line with 2022 at 96%. Barring enrolments growth from new majors, we believe Humansoft's second pillar of diversifying and creating a new income stream becomes vital for its thesis. The company reiterated its intentions to study prospects in the K-12 education sector, and in new technologies in related areas such as EdTech, training, employment, and human resource management solutions for potential investments. The company can also utilize leverage for inorganic growth if opportunities arise as debt represent <1% of the current funding mix.

#### Valuation & Risks – Revised TP of KWD 3.300 (Previous: KWD 3.715)

Our revised DCF based TP for Humansoft of KWD 3.300/share reflects our new forecasts for enrolments, potential lower fees for library & internet fees, and is offset by a higher WACC which is dominated by cost of equity and risk premiums due to negligible debt. **Upside risks:** 1) Higher government scholarships for private universities; 2) Higher dividend payout (%); 3) Execution of M&A. **Downside risks:** 1) Lower high school graduates 2) More stringent scholarships 3) Lower fees for credits

Neutral

**CMP 16-Nov-23: KWD 3.045**
**Target Price (TP): KWD 3.300**
**Upside/Downside: +8.4%**


Price Perf.	1M	3M	12M
Absolute	-2.3%	-8.6%	-6.8%
Relative	-2.4%	-1.9%	5.8%

#### Stock Data

Bloomberg Ticker	HUMANSFT KK
Refinitiv Ticker	HUMN.KW
Last Price (KWD)	3.045
MCap (KWD Mn)	389
MCap (USD Mn)	1,284
EV (KWD Mn)	317
Stock Performance - YTD (%)	-9.2%
PE - 2023E (x)	9.1
PB - 2023E (x)	2.9
Dividend yield - 2023E (%)	10.6%
52-Week Range (KWD)	3.815 / 2.983

Sources: Kamco Invest Research &amp; Bloomberg

Humansoft Financials	2022	2023E	2024E
Revenue (KWD Mn)	84.3	79.5	79.0
EBITDA (KWD Mn)	55.2	46.0	45.3
EBITDA margin (%)	65.4%	57.8%	57.4%
EPS (KWD/share)	0.417	0.336	0.333
PE (x)	8.0	9.1	9.2
PB (x)	3.0	2.9	2.9
Div Yield (%)	11.9%	10.6%	10.5%

Source: Kamco Invest Research, Humansoft

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## Humansoft Holding Financials

Balance Sheet (KWD Mn)	2021	2022	2023E	2024E	2025E
<b>Assets</b>					
Cash and cash equivalents	84.6	80.4	72.7	77.3	78.9
Receivables	21.6	26.3	30.9	30.7	28.7
Inventories	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>106.3</b>	<b>106.8</b>	<b>103.5</b>	<b>108.0</b>	<b>107.5</b>
Net property, plant and equipment	44.0	41.2	38.7	36.1	33.3
Other assets	8.3	7.6	8.0	7.9	7.8
<b>Total assets</b>	<b>158.6</b>	<b>155.6</b>	<b>150.2</b>	<b>152.0</b>	<b>148.6</b>
<b>Liabilities</b>					
Long-term debt & Short term debt	4.7	2.3	0.3	0.1	0.1
Accounts payable and other liabilities	0.7	0.6	0.5	0.6	0.5
Deferred income & Other Liabilities	21.3	19.0	17.4	18.0	17.9
<b>Total liabilities</b>	<b>26.7</b>	<b>21.9</b>	<b>18.1</b>	<b>18.6</b>	<b>18.4</b>
<b>Shareholders' Equity</b>					
Share capital	13.7	13.7	13.7	13.7	13.7
Retained earnings	101.7	103.7	98.0	99.2	96.1
Other Equity	16.4	16.3	20.4	20.4	20.4
<b>Total Shareholders Equity</b>	<b>131.8</b>	<b>133.7</b>	<b>132.1</b>	<b>133.3</b>	<b>130.2</b>
<b>Total liabilities and Equity</b>	<b>158.6</b>	<b>155.6</b>	<b>150.2</b>	<b>152.0</b>	<b>148.6</b>
<b>Income Statement (KWD Mn)</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Revenue	95.9	84.3	79.5	79.0	74.2
Cost of goods sold	(14.6)	(15.1)	(15.2)	(15.3)	(15.4)
<b>Gross profit</b>	<b>81.3</b>	<b>69.2</b>	<b>64.3</b>	<b>63.7</b>	<b>58.7</b>
General and administrative expenses	(12.3)	(14.1)	(18.3)	(18.4)	(18.3)
<b>EBITDA</b>	<b>69.0</b>	<b>55.2</b>	<b>46.0</b>	<b>45.3</b>	<b>40.4</b>
Depreciation and amortization	(4.1)	(3.4)	(3.4)	(3.4)	(3.5)
<b>EBIT</b>	<b>64.9</b>	<b>51.8</b>	<b>42.6</b>	<b>41.9</b>	<b>36.9</b>
Finance costs	(0.3)	(0.2)	(0.1)	(0.0)	(0.0)
Other Income/Loss	1.1	1.8	2.8	2.9	2.8
<b>Net profit before taxes</b>	<b>65.8</b>	<b>53.4</b>	<b>45.3</b>	<b>44.8</b>	<b>39.7</b>
Provision for Income Taxes	(3.2)	(2.7)	(2.3)	(2.3)	(2.0)
<b>Net profit attributable to parent</b>	<b>62.6</b>	<b>50.7</b>	<b>43.0</b>	<b>42.5</b>	<b>37.6</b>
<b>EPS (KWD)</b>	<b>0.514</b>	<b>0.417</b>	<b>0.336</b>	<b>0.333</b>	<b>0.295</b>
<b>Cash Flow (KWD Mn)</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Net cash from operating activities	65.4	45.2	43.7	43.4	39.8
Net cash (used in) from investing activities	(16.2)	22.6	0.8	2.7	2.6
Net cash from (used in) financing activities	(55.1)	(51.1)	(46.8)	(41.4)	(40.9)
Change in cash and cash equivalents	(5.8)	16.6790	(2.3)	4.7	1.6
FX effects & other adjustments	73.6	(20.9)	(5.5)		
<b>Cash at the end of the year</b>	<b>84.6</b>	<b>80.4</b>	<b>72.7</b>	<b>77.3</b>	<b>78.9</b>

Source : Kamco Invest Research and Humansoft

Valuation & Financial Ratios					
Key Ratios	2021	2022	2023E	2024E	2025E
<b>Leverage Ratios</b>					
Total Debt / Total Assets (x)	0.03	0.01	0.00	0.00	0.00
Total Debt / Equity (x)	0.04	0.02	0.00	0.00	0.00
Net debt (cash)/ Equity (x)	-0.61	-0.58	-0.55	-0.58	-0.61
<b>Profitability Ratios</b>					
Return on Assets (%)	39.5%	32.6%	28.6%	27.9%	25.3%
Return on Equity (%)	47.5%	37.9%	32.5%	31.9%	28.9%
ROIC (%)	45.2%	36.1%	30.4%	29.7%	26.7%
<b>Margins</b>					
Gross profit margin (%)	84.8%	82.1%	80.9%	80.7%	79.2%
EBITDA margin (%)	72.0%	65.4%	57.8%	57.4%	54.5%
EBIT margin (%)	67.7%	61.4%	53.6%	53.0%	49.7%
Net profit margin (%)	65.3%	60.1%	54.0%	53.7%	50.8%
<b>Market Data and Valuation Ratios</b>					
Enterprise Value (KWD Mn)	294	330	317	312	310
Earnings Per Share (KWD)	0.514	0.417	0.336	0.333	0.295
Book Value Per Share (KWD)	1.08	1.10	1.03	1.04	1.02
Dividend Per Share (KWD)	0.400	0.400	0.323	0.319	0.283
PE (x)	6.0	8.0	9.1	9.2	10.3
PB (x)	2.8	3.0	2.9	2.9	3.0
Dividend Yield (%)	13.0%	11.9%	10.6%	10.5%	9.3%

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

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