KAMCO INVEST

Investment Strategy & Research

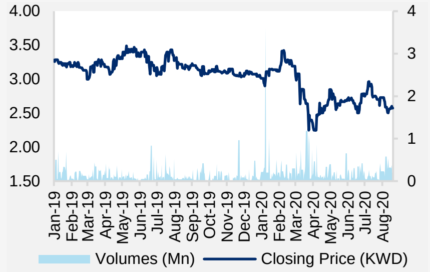
Humansoft Holding

Equity Research Update | **Sector - Education**

Post-Covid catalysts matter – downgrade to Neutral

Neutral

CMP 19-Aug-20:	KWD 2.60
Target Price:	KWD 2.80
Upside/Downside:	+7.7%



Price Perf.	1M	3M	12M
Absolute	-3.7%	-2.6%	-18.5%
Relative	-8.2%	-9.1%	-5.0%

Stock Data	
Bloomberg Ticker	HUMANSFT KK
Reuters Ticker	HUMN.KW
Last Price (KWD)	2.60
MCap (KWD Mn)	316
MCap (USD Mn)	1,037
EV (KWD Mn)	287
Stock Perfromance - YTD (%)	-13.7%
PE - 2020E (x)	21.3
EV/EBITDA- 2020E (x)	14.2
Dividend yield - 2020E (%)	2.3%
52-Week Range (KWD)	2.246 / 3.425

Sources: KAMCO Invest Research & Bloomberg

Downgrade to Neutral; growth or value pick in post-Covid paradigm?

The onset of Covid impaired Humansoft's strong revenue visibility, ascribed to the variability in the number of students caused by the shift to online classes and semester calendars. Further, the potential implementation of the news of a 20% fee reduction for online classes at private universities from the Education Ministry will affect 2020-2021 revenues, in our view. We downgrade the stock to 'Neutral' until post-Covid catalysts emerge with clarity, either via the resumption of growth from enrolments and/or the company's potential acquisitions, or from a stronger dividend payout and yield profile than witnessed in the past, derived from the company's sustainable future FCFs. Nevertheless, we feel Humansoft's valuation has the potential to change quickly, but until we see initial signs of any of the aforementioned catalysts materializing, we prefer to remain on the sidelines on the name.

Revenue, EPS forecasts will hinge on fee-cut likelihood and tenure

We expect at least a ~50% likelihood for the 20% fee cut for online classes to be implemented starting Fall 2020, and hence build our forecasts around this scenario. We forecast KWD 47.5 Mn for 2020E and KWD 60 Mn for 2021E, as the calendar for classes in 2021E are pulled back partially, compared to 2019 semester start-end timelines. Revenues are expected to reach KWD 71.7 Mn by 2022E, that includes full year effects of a reversal of the fee reduction, and a return to 2019 semester timelines. We forecast full potential EPS of KWD 0.282/share to be reached by 2022E, and expect the management to be more hawkish towards cost containment, improving GP margins (+76%) as compared to no fee-cut scenario.

Strong balance sheet liquidity; but focus will be on cash utilization strategy

Humansoft's runway for utilization of its cash balance (H1-2020 KWD 70.3 Mn) remains comfortable, as it covers atleast 2.3x of the company's TTM based H1-2020 cash costs (KWD 30.4 Mn), as per our estimates. The current strategy of maintaining a high level of cash in the long run could impact Humansoft's return on new investment capital (RONIC) in our view, if not utilized for growth, either for acquisitions or growth capex, barring which, we believe the market would be looking for a higher dividend payout (%) guidance than paid out in the past. Further, we believe a 2021E DPS similar to the cancelled 2019 DPS (KWD 0.200/share), if announced, represents a yield of 7.7% on current market price. Such a scenario should act as a catalyst for investors looking at a strong yield play, in our view.

Valuation & Risks – Lowering TP to KWD 2.80/share

Our scenario weighted revised TP of KWD 2.80/share (upside of 7.7%) for the next 12-18 months is based on a 70:30 blend of DCF and FY-21 P/E valuation. We assign only a 30% to FY-2021 P/E, given the probability of risks to full potential revenue realization for the year from the impact of Covid. *Upside risks:* 1) Growth accretive acquisitions; 2) Higher dividend payout (%); 3) Higher local government scholarships. *Downside risks:* 1) More stringent governments scholarships; 2) Lower fees for longer for online classes *(More detailed risks on page 4).*

Key Financials	2018	2019	2020E	2021E	2022E
Revenue (KWD Mn)	69.3	73.3	47.5	60.0	71.7
GP Margins (%)	77.3%	77.4%	65.3%	72.2%	76.3%
EBITDA (KWD Mn)	38.0	42.7	20.1	30.7	40.6
EPS (KWD)	0.259	0.295	0.122	0.205	0.282
Consensus EPS (KWD)			0.130	0.382	0.339
PE (x)	12.7	10.2	21.3	12.7	9.2
EV/EBITDA (x)	10.5	8.2	14.2	9.3	7.1
Div. yield (%)	5.6%	-	2.3%	5.4%	7.6%

Sources: Kamco Invest Research, and Humansoft

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Valuation and Risks

Target price cut to KWD 2.80/share; downgrade to 'Neutral' rating

We revisited our investment case and valuation for Humansoft post the H1-2020 results and earnings conference call. Our valuation now incorporates the impact of Covid-19 on the company's fundamental drivers, especially on the revenue side mainly: 1) the number of student enrolments and 2) tuition fees over the forecast period. Given the variability ascribed to predominantly the aforementioned revenue drivers, we prefer to value Humansoft with a probabilistic scenario approach, weighted as per our expectation of the likelihood of the different scenarios. Our new scenario weighted revised TP of KWD 2.80/share (upside of 7.7%) for the next 12-18 months is based on a 70:30 blend of DCF and FY-21 P/E valuation. We assign only a 30% to FY-2021 P/E, given the probability of risks to full potential revenue realization for the year from the impact of Covid-19. We downgrade the stock to 'Neutral' until post-Covid-19 catalysts emerge with clarity, either via the resumption of growth from enrolments and/or the company's potential acquisitions, or from a stronger dividend payout and yield profile, derived from the company's sustainable future FCFs.

Scenario Weighted Fair Value

	Fair Value (KWD/share)	Scenario Weight (%)	Weighted Value (KWD/share)
Scenario 1	3.10	35%	1.09
Scenario 2	2.75	50%	1.38
Scenario 3	2.20	15%	0.33
Weighted Fair Value (KWD/share)			**2.80**
Current market price			2.60
Upside/Downside			***7.7%***

Sources: Kamco Invest Research

Scenarios ascertain probable impact from extension of online classes

We reduce our TP for Humansoft by 22% from our earlier TP of KWD 3.60/share published in our Nov-2019 research update (***Humansoft Research Update – Compelling FCF & Dividend Play)*** largely on account of: 1) Lower 2020 revenues and cashflows accrued in H1-2020, from lower number of enrolled students, shutdown of classes during Mar-2019 and the delay of Fall semester classes, 2) The news announcement of a 20% fee reduction for online classes potentially affecting 2020-2021 revenues 3) Lower student enrolments who prefer to delay semester enrolments until resumption of on-campus classes, and delays in approvals of the start of other planned majors.

In early Aug-2020, it was reported that Kuwait's Minister of Education announced a 20% reduction in online tuition fees for private universities and colleges. We contacted the Humansoft management team on implementation of the lower fee structure, and they mentioned that they have received no formal communication from the Private Universities Council regarding the same. Given that the official announcement has been made, a 20% fee cut and the timeframe over which the fee cut apply would impact revenues, cashflows and our valuation materially. Moreover, with the onset of online classes, we expect student enrollments to average 11,900 students over 2020-2022 compared to our Nov-2019 forecast of 12,500 students, as we expect certain students to prefer attending certain credits on-campus, and taking into consideration the delays in the approvals of newer majors that AUM and ACM look to introduce, which limits student enrolment growth.

We analyze three scenarios for the recently announced 20% reduction in fees for online classes, and assign probabilistic weights to each scenario valuation that reflects our expectation of the likelihood and tenure of each scenario.

(Our detailed Humansoft revenue drivers' rationale, revenue and financial forecasts for 2020E - 2022E are on page 7).

For our DCF valuation, we have assumed a terminal growth rate of 2.0%, and average WACC of 10.4% 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. We also model the impact of IFRS-16 'Leases on all operational metrics for our financial forecasts. For the terminal value, we have assumed a return on new investment capital (RONIC) that is comparable to the terminal year

WACC. For our 2021 P/E based fair value, we apply a multiple of 11.2x, in line with the 1-year forward multiple that Humansoft traded at the start 2019, representing the normalized growth profile of the company, prior to Covid-19.

Humansoft Valuation - Scenarios	Scenario 1: Fees remain unchanged	Scenario 2: Temporary 20% fee cut until start of 2021 fall semester	Scenario 3: Lower fees post 20% fee cut stays permanent
DCF fair value (KWD/share)	3.09	2.95	2.27
FY-21 P/E fair value (KWD/share)	3.10	2.30	2.02
Valuation method weight - DCF:P/E	*70:30*	*70:30*	*70:30*
Weighted fair value (KWD/share)	3.10	2.75	2.20
Scenario weight (%)	35%	50%	15%
Scenario weighted fair value (KWD/share)			**2.80**

Sources: Kamco Invest Research

- ***Scenario 1: Fees remains unchanged*** – As part of it its five-phased reopening plan, the government of Kuwait announced in Aug-2020, that the country has moved into Phase IV of easing restrictions imposed to contain the spread of the Covid-19. In this scenario, we analyzed the impact of the existing fee structure remaining unchanged, as no intimation regarding extension of online classes into the fall semester and beyond was received by Humansoft. Moreover, we assess the impact of more rapid declines in new Covid-19 cases and higher recoveries prompt partial or full resumption of on-campus classes by the time the fall semester starts and a rollback in the 20% fee reduction announced. We arrive at a blended fair value of KWD 3.10/share from our DCF (KWD (3.09/share) and P/E valuation (KWD 3.10/share) methodologies, that represents the top end of our valuation range, and assign a 35% probability to the occurrence of the scenario, which is lower than our most likely scenario.

- ***Scenario 2: Temporary 20% fee cut until the start of 2021 Fall semester*** – We expect this scenario to play out most likely, as it gives more weight to the government decision to lower fees by 20% for online classes staying temporarily until on-campus classes are deemed as fully safe, despite no official confirmation of communication from Humansoft. As forecasting a post-Covid timeline is difficult, we expect online classes to continue until Spring or Summer 2021, at least on an optional basis for students, along with the lower fees that come into effect from the coming fall semester. We assign a 50% probability to the occurrence of this scenario, which gives us a blended fair value of KWD 2.75/share between our 70:30 split of DCF (KWD 2.95/share) and P/E (KWD 2.30/share) based fair values. The significantly lower fair value derived from our P/E valuation in Scenario 2 is ascribed to a 25.8% lower 2021E EPS than in Scenario 1, from the impact of the temporary fee cut, even as direct teaching costs remained broadly stable.

- ***Scenario 3: Lower fees post 20% fee cut stays permanently*** – Although the least probable in terms of likelihood of occurrence, we look at the impact of fees staying permanently lower post the implementation of the fee cut, and therefore assign a probability of 15% to this scenario, giving us a blended fair value of KWD 2.20/share. This valuation also provides us with the lower end of the valuation band that Humansoft could potentially trade at given additional delays for resumption of on-campus classes beyond Fall 2021, and the extension of the online classes and lower fees.

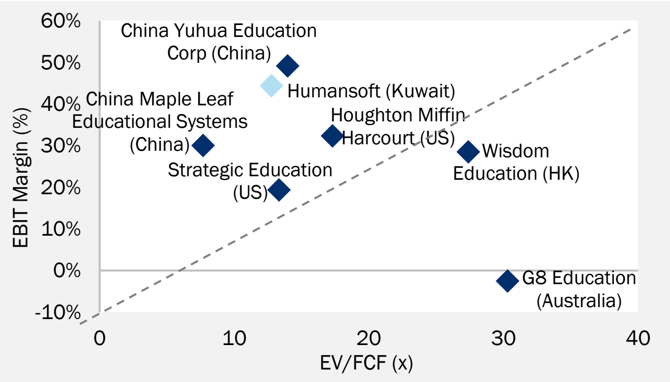
Higher dividend payout and/or growth via enrolments or acquisitions could drive a re-rating in the stock

We feel the market's valuation of Humansoft has the potential to change quickly. A faster than expected resumption of on-campus classes, and the eventual rollback of the 20% fee-reduction initiative could be the initial trigger to lead the company's stock to rally going forward. Moreover, a growth in annual enrollments through the introduction of new majors, masters program along with more students preferring to study within private universities in Kuwait as against foreign universities, will drive higher revenues and a higher valuation case, given the high margins in the business that are achievable on a steady state basis (2019 GP Margins: +77%).

More importantly, given the company's strong balance sheet liquidity, we believe dividend signaling and clearer guidance in terms of a higher payout (%) than paid out in the past, when business-as-usual is achieved post Covid would make institutional investors interested in increasing exposure to the company. The strong net cash position of the company (H1-2020: KWD 70.3 Mn) could be utilized for opportunistic acquisitions that could aid revenues, cashflows and in turn lead the company to warrant a higher valuation, which could lead us to reactivate our Outperform case on the stock. Nevertheless, until we see initial signs of any of the aforementioned catalysts, we prefer to remain Neutral on the stock, and remain comfortable with our TP of KWD 2.80/share.

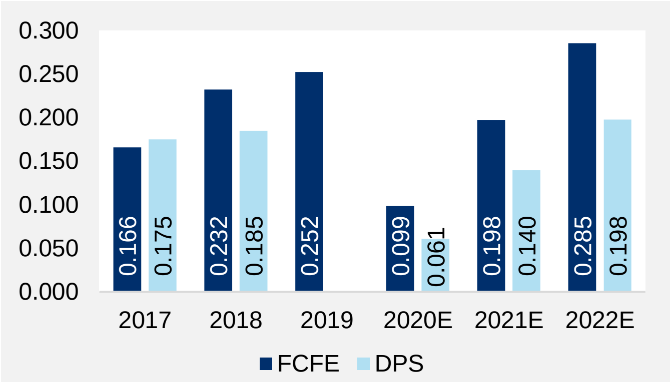
On a relative basis internationally, we continue to believe that Humansoft is positioned as one of the better plays amongst its Education peers, as the company trades at a 2021 EV/FCF of 12.8x as compared to its peer average of 18.3x. Moreover, the company enjoys one of the higher margins in the industry, which improves the probability of a rally in its stock price, when one of the aforementioned catalysts emerge.

Humansoft vs. global peers: EV/FCF (x) and EBIT Margins (%) -2021E



Source: Kamco Invest Research, Bloomberg

Humansoft FCFE and DPS – KWD/share



Source: Kamco Invest Research, Humansoft

As we expect "***Scenario 2: Temporary 20% fee cut until the start of 2021 fall semester***" to be the most likely outcome, we build our EPS, FCF and DPS forecasts around this scenario playing out. We therefore forecast Humansoft to achieve its normalized full year revenues in 2022E and achieve a FCFE/share of KWD 0.285/share, which is higher than 2019 (KWD 0.252/share), given its low capex requirements and net profile. Barring the 10% bonus share dividend, the cash dividend of KWD 0.200/share announced in 2019 represents a 7.1% dividend yield at a comfortable dividend payout of 71%, which is achievable and could be extremely attractive in our view.

Upside/downside risks to our valuation & forecasts include:

Upside risks:

- Faster resumption of on-campus classes and new majors driving higher new enrollments
- Lower foreign scholarships that are compensated by higher number of scholarships to study locally
- Higher number of high school graduates in Kuwait
- Higher sustainable dividend payout guidance than announced in the past
- Execution of growth accretive acquisitions

Downside risks:

- Extension of Covid-19 for longer than perceived affecting enrolments and on-campus classes
- Lower fees for online classes staying for longer or permanently
- Reduction in scholarships or more stringent eligibility criteria from Private Universities Council
- Lower number of high school graduates in Kuwait
- Higher migration to other universities in and outside Kuwait
- Slower development of the education sector in Kuwait

Investment Thesis

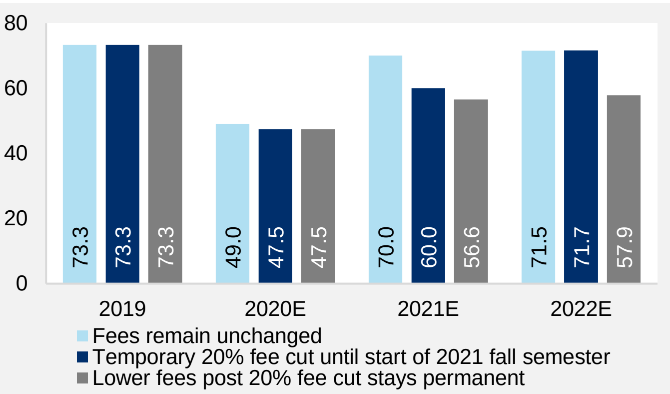
Visibility of topline forecasts & drivers impaired with the onset of Covid-19

The onset of Covid-19 impacted Humansoft's operations significantly during H1-2020, as revenues were down 33% y-o-y from H1-2019 (KWD 36.4 Mn) to KWD 24.5 Mn, while net profit was down over 51% to KWD 8.3 Mn from KWD 17.1 Mn in H1-2019. Key driver for the y-o-y decline was the onset of Covid-19, that led to a shutdown of operations in March-2020 as no revenue was recognized for the month, and lower revenue recognition for the Spring semester which extended into Q3-2020 unlike the same period in 2019, and lower number of students joining online classes as compared to on-campus classes.

Revenue forecasting over 2020E-22E challenging with moving parts: Our previous investment thesis and forecasts from Nov-2019 (***Humansoft Research Update – Compelling FCF & Dividend Play)*** assumed total students enrolled of around 12,500 students (AUM and ACM combined) within a stable fee environment, and drop-out ratios of 3% for AUM and 7% for ACM. However, with the onset of Covid-19, revenue recognition has shifted with the change of the semester calendar, and the larger uncertainty revolving around the 20% fee reduction announced by the Education Minister for private universities. We expect the semester calendar to gradually shift back to its pre-Covid-19 timelines eventually, but prefer to analyze the impact of the 20% reduction in fees for online classes under three scenarios that could reflect the tenure of lower fee environment, as no official communication has been received by Humansoft as per the management. We lower our student enrollment numbers to 11,900 students over 2020E-22E, in-line with management expectations of new-enrollment-graduation student numbers stabilizing at around 2,000 students.

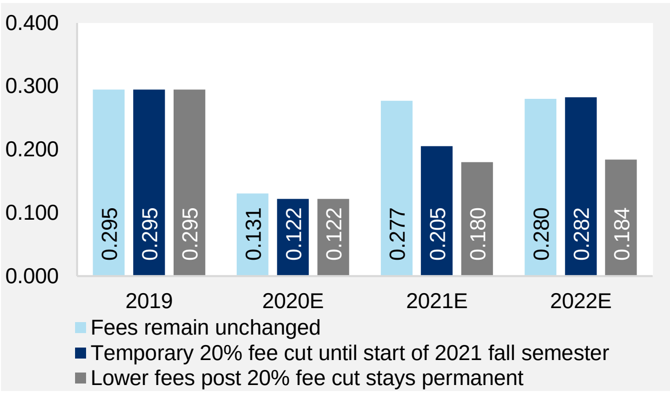
Our three fee environment scenarios are detailed in our Valuation & Risks section in Page 3 and are: **Scenario 1:** Fees remains unchanged**; Scenario 2:** Temporary 20% fee cut until the start of 2021 Fall semester**; Scenario 3:** Lower fees post 20% fee cut stays permanently. As Scenario 1 represents a revenue scenario with no fee cut, it therefore achieves the highest revenue forecasts for 2020E (KWD 49 Mn) and 2021E (KWD 60 Mn). Scenario 3 which revolves around the fee cut staying permanently represents the lowest revenue forecasts of the three scenarios achieving a full potential revenue of KWD 57.9 Mn which is 21% lower than the KWD 73.3 Mn achieved in 2019.

Humansoft revenue forecasts - scenarios (KWD Mn)



Source: Kamco Invest Research, Humansoft

Humansoft EPS forecasts - scenarios (KWD/share)



Source: Kamco Invest Research, Humansoft

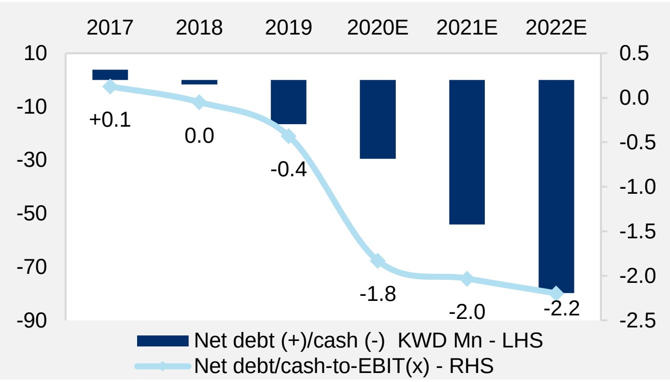
We expect Scenario 2 to have the highest likelihood of occurrence amongst the three scenarios, given that the announcement for the fee cut has been made, which could lead the online class and the lower fees format to stay into 2021. We therefore build all our financial forecasts around this scenario and forecast KWD 47.5 Mn for 2020E and KWD 60 Mn for 2021E, as the calendar for classes in 2021E are pulled back partially, compared to 2019 semester start-end timelines. This scenario also represents the highest revenues for 2022E at KWD 71.7 Mn and includes full year effects of a reversal of the fee reduction, and a return to 2019 semester timelines. All our scenario forecasts include delays to the start of the 2020-21 Fall semester to late Oct-2020.

Full potential EPS of KWD 0.282/share by 2022E: Humansoft reported H1-2020 EBIT margins of 33.9% which was lower y-o-y from 47% in H1-2020, primarily driven by teaching related costs in the form of teaching staff salaries that increased y-o-y by 2.1% with additional enhancements made to facilitate online teaching. Nevertheless, it is worth pointing out Humansoft was able to contain SG&A costs that reduced by in H1-2020 by16.7% y-o-y to KWD 6.03 Mn largely on account of lower advertising and sales promotion costs and lower administrative costs. Moreover, we remain confident on Humansoft's cost optimization track record, as they were able to make significant progress in SG&A cost containment in 2019. Cost rationalization in 2019 was mainly ascribed to overheads, mainly in construction project teams as construction of new classrooms is completed, and marketing related expenses where initiatives were moved more online. Further, we do not expect large drops in teaching related costs, given the temporary nature of variability in students for online classes, which could normalize post Covid-19, once on-campus classes resume full-fledged. As the company has no additional capex needs and debt issuance requirements, D&A costs and finance costs are expected to remain stable. We forecast full potential EPS of KWD 0.282/share to be reached by 2022E, under our most likely scenario of a temporary fee reduction, affecting 2020E and 2021E revenues and driving our EPS forecasts of KWD 0.122/share and KWD 0.205/share.

Strong balance sheet liquidity, but cash utilization strategy requires clarity

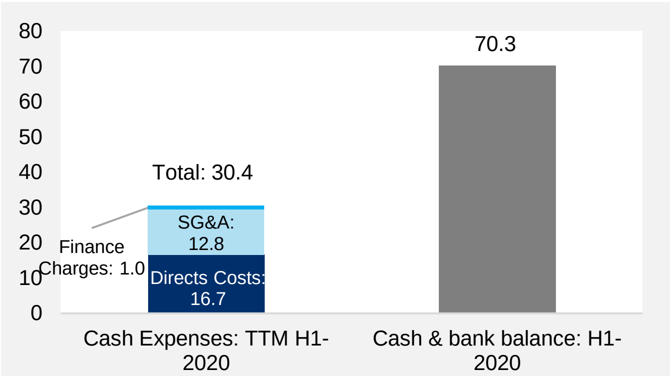
The company's cash and bank balances reached KWD 73.4 Mn, up from KWD 57.8 Mn at the end of 2019 and KWD 45.2 Mn in H1-2019. The higher cash balance in H1-2020 was largely on account of cancellation of 2019 cash dividends which according to our estimates amounted to KWD 24.3 Mn, higher deferred income at KWD 12.6 Mn at the end of H1-2020 (H1-2019: KWD 9.9 Mn). Moreover, fees were paid by the government for their Spring semester, which brought down receivables KWD 3.3 Mn at the end of H1-2020 (H1-2019: KWD 16.3 Mn), which typically takes 4-5 months post invoicing, as per Humansoft. In their H1-2020 conference call, the management further alluded to their more stringent cash management as a hedge against potential delays of fee payments from the government, which we think is more on the conservative side.

Humansoft net debt/cash-to EBIT trends[1]



Source: [1]Scenario: Temporary 20% fee cut until start of 2021 fall semester, Kamco Invest Research, Humansoft

Humansoft H1-2020 cash balance runway (KWD Mn)



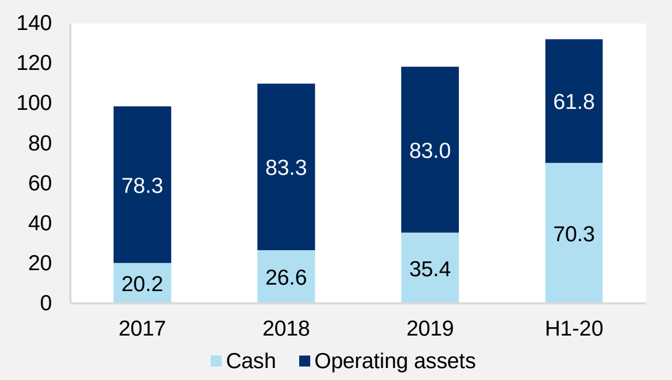
Source: Kamco Invest Research, Humansoft

While we look at Humansoft's strategy of maintaining ample liquidity positively, we believe the management is being overcautious, given its cash needs for the next 12 months. We believe the cash runway the company possesses is significantly higher than its 12-month forward cash costs. The H1-2020 cash balance of KWD 70.3 Mn according to our estimates allows for 2.3 years of runway even when compared to TTM based H1-2020 cash costs of KWD 30.4 Mn, which in our view represents a good comparison. Further, even if we were to include 2020E dividends, total cash utilization needs would be significantly lower than the current cash & bank balance. Separately, despite lower revenues over 2020E-22E, we expect Humansoft's net cash position to improve from KWD 16.6 Mn in 2019 to KWD 79.8 Mn in 2022E, given only maintenance capex needs going forward. The company has maintained that they are keen on value accretive acquisitions in the learning and education space, and we believe the growing cash balance could be utilized for opportunistic acquisitions in the space, barring which, we believe the market would be looking for a higher dividend payout (%) guidance than paid out in the past (+70% average).

Fall semester delay & fee cut could move stabilized dividend payout to 2022?

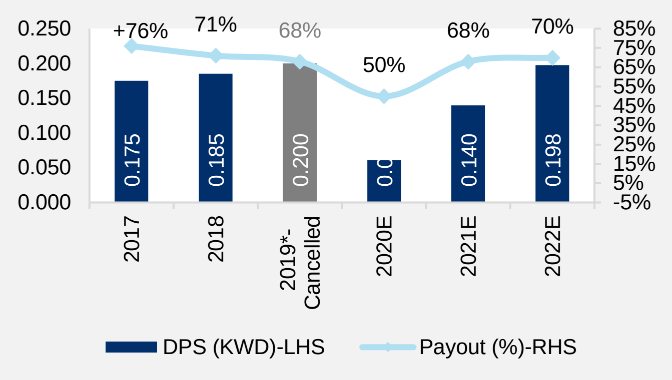
For 2019, Humansoft declared a cash dividend of KWD 0.200/share and a bonus share dividend of 10% which was later cancelled due to the onset of Covid-19. The KWD 200/share represented a dividend payout (%) of 68%, which when we apply to our 2021E EPS of KWD 0.205/share gives a DPS of KWD 0.140/share representing a dividend yield of 5.5% on current market price. In its H1-2020 presentation it was mentioned that Humansoft aims to deliver sustainable dividends, while maintaining financial flexibility. Given historical payout patterns, we believe the temporary fee cut scenario into 2021 could push stabilized dividend both in payout (70%) and absolute terms (KWD 0.198/share) to 2022E. We feel the prospect of 2021E DPS, in line with the previously proposed (now cancelled) 2019 DPS in absolute terms at KWD 0.200/share would imply a yield of 7.7% on current market price. Such a scenario should act as a catalyst for investors looking at a strong yield play.

Humansoft total assets split (KWD Mn)



Source: Kamco Invest Research, Humansoft

Humansoft DPS and payout ratio (%)[1]



Source: [1]Scenario: Temporary 20% fee cut until start of 2021 fall semester, Kamco Invest Research, Humansoft

The current strategy of maintaining a high level of cash in the long run could impact Humansoft's return on new investment capital (RONIC), if not utilized for growth, either for acquisitions or growth capex. Given the sufficient cash balance the company possesses, we believe Humansoft has the potential to increase both dividend payout (%) and DPS in absolute terms. If the company provides reasonable guidance for this being achieved on a sustainable basis, it could potentially reactivate our earlier thesis of the company being a compelling FCF and dividend play in the GCC.

Humansoft Financial Forecasts

EPS & DPS forecasts heavily depend on revenue visibility

As on the date of publishing this report, we believe the probability is more skewed towards the occurrence of a temporary fee cut scenario, given the announcement from the Education Ministry. We therefore forecast include a 20% fee cut until the start of the 2021 Fall semester, as we expect this to be the case either on an optional or compulsory basis. We compare our forecasts with the second most likely outcome - the current fee structure remaining unchanged. For 2022E, we believe the temporary fee cut scenario will include full year effects of a reversal of the fee reduction, and a return to 2019 semester timelines, therefore driving higher revenue recognition back into the year. Moreover, we expect the management to be more hawkish in cost containment in that scenario, improving GP margins (+76%) as compared to no fee-cut scenario (+75.8%).

Kamco Invest Research forecasts comparison –	2019	2020E			2021E			2022E		
Temporary fee cut scenario vs. No fee cut scenario		*Temporary fee cut scenario*	*No fee cut scenario*	Δ (%)	*Temporary fee cut scenario*	*No fee cut scenario*	Δ (%)	*Temporary fee cut scenario*	*No fee cut scenario*	Δ (%)
Revenues (KWD Mn)	73.3	47.5	49.0	*-3.2%*	60.0	70.0	*-14.3%*	71.7	71.5	*0.2%*
GP Margins (%)	77.4%	65.3%	66.4%	*-1.1%*	72.2%	76.0%	*-3.7%*	76.3%	75.8%	*0.5%*
EBIT (KWD Mn)	39	16.1	17.2	*-6.4%*	26.6	35.7	*-25.4%*	36.3	36.1	*0.7%*
Net Income (KWD Mn)	35.9	14.8	15.9	*-6.7%*	25.0	33.7	*-25.8%*	34.4	34.1	*0.9%*
EPS (KWD/share)	0.295	0.122	0.131	*-6.7%*	0.205	0.277	*-25.8%*	0.282	0.280	*0.9%*
DPS (KWD/share)	-	0.061	0.065	*-6.7%*	0.140	0.188	*-25.8%*	0.198	0.196	*0.9%*
Net Cash (KWD Mn)	16.6	29.5	28.7	*2.6%*	54.1	66.1	*-18.2%*	79.8	83.8	*-4.8%*

Source: Humansoft, Kamco Invest Research

We are significantly behind consensus on 2021E EPS estimates, as we do not expect consensus to have incorporated the potential fee-cut impact into their estimates. We believe our DPS estimates for 2020E (KWD 0.061/share) and 2021E (KWD 0.140/share) are factoring in the fee-cut and the historical payout patterns of the company, and remain comfortable with our forecasts, until material changes to estimates are warranted.

2020 & 2021 Forecasts – Kamco Invest Research[1] vs. Consensus Estimates

	2020E			2021E		
Humansoft	**Kamco Invest**	**Consensus**	Δ (%)	**Kamco Invest**	**Consensus**	Δ (%)
Revenues (KWD Mn)	47.5	50.7	*-6%*	60.0	87.7	*-32%*
GP Margins (%)	65.3%	68.6%	*-3%*	72.2%	79.1%	*-7%*
EBIT (KWD Mn)	16.1	17.9	*-10%*	26.6	49.7	*-46%*
Net Income (KWD Mn)	14.8	15.9	*-7%*	25.0	46.7	*-46%*
EPS (KWD/share)	0.122	0.130	*-6%*	0.205	0.382	*-46%*
DPS (KWD/share)	0.061	0.100	*-39%*	0.140	0.234	*-40%*
Net Cash (KWD Mn)	29.5	30.2	*-2%*	54.1	68.1	*-21%*

Source: [1]Kamco Invest Research forecasts on the temporary fee cut scenario, Bloomberg, Consensus net income and EPS estimated are on adjusted basis

Humansoft Financials

Balance Sheet (KWD Mn)	2017	2018	2019	2020E	2021E	2022E
Assets						
Cash and cash equivalents	20.2	26.6	35.4	45.3	67.8	94.0
Receivables	20.1	21.0	22.4	23.1	21.9	22.0
Inventories	0.1	0.1	0.0	0.1	0.1	0.1
Total current assets	40.3	47.6	57.8	68.6	89.9	116.0
Net property, plant and equipment	50.1	54.2	51.6	51.3	51.4	51.6
Other assets	8.0	8.0	9.0	7.9	7.8	7.8
Total assets	**98.4**	**109.9**	**118.3**	**127.7**	**149.1**	**175.4**
Liabilities						
Long-term debt & Short term debt	23.3	24.9	18.8	15.9	13.8	14.2
Accounts payable and other liabilities	1.1	1.0	0.7	0.7	0.6	0.7
Deferred income & Other Liabilities	17.2	16.9	18.4	16.4	17.4	19.0
Total liabilities	**41.6**	**42.9**	**37.9**	**33.0**	**31.8**	**33.9**
Shareholders' Equity						
Share capital	13.7	13.7	13.7	13.7	13.7	13.7
Retained earnings	30.5	40.7	50.3	65.1	82.7	100.1
Other Equity	12.6	12.6	16.4	15.9	20.9	27.7
Total Shareholders Equity	**56.9**	**67.0**	**80.4**	**94.7**	**117.3**	**141.5**
Total liabilities and Equity	**98.4**	**109.9**	**118.3**	**127.7**	**149.1**	**175.4**

Income Statement (KWD Mn)	2017	2018	2019	2020E	2021E	2022E
Revenue	61.8	69.3	73.3	47.5	60.0	71.7
Cost of goods sold	(14.2)	(15.7)	(16.6)	(16.5)	(16.7)	(17.0)
Gross profit	**47.6**	**53.5**	**56.7**	**31.0**	**43.3**	**54.7**
General and administrative expenses	(14.9)	(15.6)	(14.0)	(10.9)	(12.6)	(14.1)
EBITDA	**32.6**	**38.0**	**42.7**	**20.1**	**30.7**	**40.6**
Depreciation and amortization	(2.5)	(3.6)	(4.0)	(4.0)	(4.1)	(4.2)
EBIT	**30.2**	**34.4**	**38.7**	**16.1**	**26.6**	**36.3**
Finance costs	(1.3)	(1.5)	(1.3)	(0.8)	(0.7)	(0.7)
Other Income/Loss	0.8	0.3	0.4	0.5	0.5	0.6
Net profit before taxes	**29.7**	**33.2**	**37.8**	**15.8**	**26.4**	**36.2**
Provision for Income Taxes	(1.6)	(1.7)	(1.9)	(0.9)	(1.4)	(1.9)
Net profit attributable to parent	**28.1**	**31.5**	**35.9**	**14.8**	**25.0**	**34.4**
EPS (KWD)	**0.231**	**0.259**	**0.295**	**0.122**	**0.205**	**0.282**

Cash Flow (KWD Mn)	2017	2018	2019	2020E	2021E	2022E
Net cash from operating activities	30.0	35.8	39.7	23.6	30.8	39.7
Net cash (used in) from investing activities	(12.7)	(12.6)	(6.0)	(2.5)	(3.1)	(3.2)
Net cash from (used in) financing activities	(16.2)	(21.1)	(30.0)	(11.1)	(5.2)	(10.4)
Change in cash and cash equivalents	1.1	2.1	3.7	10.0	22.5	26.1
FX effects & other adjustments	(0.4)	4.4	5.0			
Cash at the end of the year	**20.2**	**26.6**	**35.4**	**45.3**	**67.8**	**94.0**

Source : Kamco Invest Research and Humansoft

Valuation & Financial Ratios

Key Ratios	2017	2018	2019	2020E	2021E	2022E
Profitability Ratios						
Return on Average Assets (%)	28.7%	28.9%	30.2%	12.1%	18.1%	21.2%
Return on Average Equity (%)	49.0%	46.2%	44.4%	16.9%	23.6%	26.5%
ROIC (%)	49.0%	50.0%	53.9%	22.4%	37.6%	52.4%
Margins						
Gross profit margin (%)	77.0%	77.3%	77.4%	65.3%	72.2%	76.3%
EBITDA margin (%)	52.8%	54.8%	58.3%	42.4%	51.2%	56.6%
EBIT margin (%)	48.8%	49.7%	52.9%	33.9%	44.4%	50.7%
Net profit margin (%)	45.5%	45.5%	48.9%	31.2%	41.6%	47.9%
Market Data and Valuation Ratios						
Earnings Per Share (KWD)	0.231	0.259	0.295	0.122	0.205	0.282
Book Value Per Share (KWD)	0.47	0.55	0.66	0.78	0.96	1.16
Dividend Per Share (KWD)	0.174	0.184		0.061	0.140	0.198
PE (x)	16.2	12.7	10.2	21.3	12.7	9.2
EV/EBITDA (x)	14.1	10.5	8.2	14.2	9.3	7.1
PB (x)	8.0	6.0	4.6	3.3	2.7	2.2
Dividend Yield (%)	4.7%	5.6%		2.3%	5.4%	7.6%

Source : Kamco Invest Research and Humansoft

Note : Forward & Historical Valuation ratios are based on current market prices

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