

## Humansoft Holding

### Equity Research Update

### Sector - Education

### Quicker normalization towards lower enrolments

#### Trend still missing, but strong 2021E dividend on cards. Retain Neutral rating

The trend between scholarships granted to AUM and ACM, total private university scholarships, and high school graduates has broken, due to the impact of Covid-19, and the higher market share of some of the newer private colleges. Nevertheless, with the potential re-alignment of the academic calendar to pre-pandemic dates, the company should achieve a 2021E DPS of 315 fils in our view, leading the stock to trade at an attractive 2021E dividend yield of 9.1%. We however maintain our 'Neutral' rating on Humansoft, and look for either :1) sustainable trends of higher future enrolments; 2) reinvestment opportunities; or 3) higher y-o-y DPS growth post 2021E, to consider an upgrade on our rating.

#### Enrolments to revert to pre-pandemic run-rate at a faster pace

Preliminary estimates of fall semester government scholarships for AUM (1,630 students) and ACM (849 students) dropped by a combined 32% y-o-y in 2021, while the combined market share fell from above 60% in fall 2020 to around 42% in 2021. This was against the backdrop of +13% growth in number of high school graduates in 2021 (+43k), which led the government to increase the seats at Kuwait University by 20%, while preliminary foreign scholarships also grew by +16% y-o-y to 3,311 students. We now factor in a lower market share, and trim our 2021E-23E new enrolments average for AUM and ACM combined to 2,675 students (Previous: 2,775). Our current estimates are driven by scholarship-funded students contributing to ~90% of overall new enrolments, as witnessed in the past. We also assume marginally higher final allotments to the preliminary scholarship numbers, faster normalization to the lower pre-pandemic high school graduates, and the potential resumption of on-campus/hybrid classroom teaching. Nevertheless, we forecast Humansoft's revenues to reach KWD 90.8 Mn in 2021E (+ 18.9% y-o-y), driven by to the pushout of fall semester revenues from 2020 into Q1-2021, and the potential re-alignment of the H2-2021 calendar towards pre-pandemic dates. We expect revenues to reach KWD 75.7 Mn and KWD 75.1 Mn in 2022E and 2023E respectively, based on the more normalized calendar. Group EPS should come in at 415 fils for 2021E, due to the aforementioned reasons, and we expect EPS to normalize to 324 fils and 316 fils in 2022E and 2023E, respectively.

#### Reinvestment opportunities or DPS growth (post 2021E) needed for a rerating

Total student enrolments should remain within the existing capacity of 14,000 students, based on our estimates. With only maintenance capex needs, we believe that better visibility on the utilization of cash on the balance sheet, and reinvestment of FCFs, or growth in dividends (DPS) would be needed for the stock to witness a rerating in trading multiples. Cash on the balance sheet is expected to constitute ~44% of the total balance sheet over 2021E-2023E, according to our estimates, even post dividend payouts. This would in turn impact return on new invested capital (RONIC), and longer term ROIC rates. Separately, we forecast a 2021E DPS of 315 fils at a lower end of the range (dividend payout ratio of 70%), translating into an attractive dividend yield of 9.1%, based on current market prices. The company should be able to comfortably achieve a 2022E DPS of 227 fils, and 2023E DPS of 221 fils, resulting in dividend yields of 6.6% and 6.4% respectively, in our view.

#### Valuation & Risks – Lowering TP to KWD 3.745/share

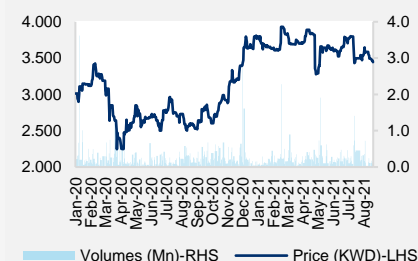
Our revised TP of KWD 3.745/share (previous: KWD 4.050/share) is based on a 70:30 blend of DCF, and a 2022E P/E multiple of 11.5x, respectively. Upside/downside risks to our valuation & forecasts include: **Upside risks:** 1) Higher local government scholarships for private universities; 2) Higher dividend payout (%); 3) Execution of growth accretive acquisitions. **Downside risks:** 1) Lower number of high school graduates 2) More stringent governments scholarships and screening criteria 3) Lower fees implemented for online classes. 4) Intensification of Covid-19.

### Neutral

**CMP 19-Aug-21: KWD 3.445**

**Target Price: KWD 3.745**

**Upside/Downside: +8.7%**



Price Perf.	1M	3M	12M
Absolute	-1.5%	-5.4%	32.5%
Relative	-5.8%	-11.3%	4.6%

#### Stock Data

Bloomberg Ticker	HUMANSFT KK
Refinitiv Ticker	HUMN.KW
Last Price (KWD)	3.445
MCap (KWD Mn)	419
MCap (USD Mn)	1,383
EV (KWD Mn)	347
Stock Performance - YTD (%)	-9.3%
PE - 2021E (x)	7.7
PB - 2021E (x)	3.2
Dividend yield - 2021E (%)	9.1%
52-Week Range (KWD)	2.502 / 3.930

Sources: Kamco Invest Research & Bloomberg

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## Humansoft Financials

Balance Sheet (KWD Mn)	2018	2019	2020	2021E	2022E	2023E
<b>Assets</b>						
Cash and cash equivalents	26.6	35.4	73.9	79.1	89.2	108.8
Receivables	21.0	22.4	28.5	24.5	23.5	23.3
Inventories	0.1	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>47.6</b>	<b>57.8</b>	<b>102.4</b>	<b>103.6</b>	<b>112.7</b>	<b>132.0</b>
Net property, plant and equipment	54.2	51.6	47.5	45.7	44.2	42.8
Other assets	8.0	9.0	8.4	8.3	8.3	8.2
<b>Total assets</b>	<b>109.9</b>	<b>118.3</b>	<b>158.3</b>	<b>157.7</b>	<b>165.2</b>	<b>183.0</b>
<b>Liabilities</b>						
Long-term debt & Short term debt	24.9	18.8	10.9	6.6	5.6	4.8
Accounts payable and other liabilities	1.0	0.7	0.6	0.5	0.5	0.5
Deferred income & Other Liabilities	16.9	18.4	29.0	19.2	18.6	18.8
<b>Total liabilities</b>	<b>42.9</b>	<b>37.9</b>	<b>40.4</b>	<b>26.3</b>	<b>24.8</b>	<b>24.1</b>
<b>Shareholders' Equity</b>						
Share capital	13.7	13.7	13.7	13.7	13.7	13.7
Retained earnings	40.7	50.3	87.8	93.8	95.0	105.8
Other Equity	12.6	16.4	16.4	23.8	31.7	39.4
<b>Total Shareholders Equity</b>	<b>67.0</b>	<b>80.4</b>	<b>117.9</b>	<b>131.4</b>	<b>140.4</b>	<b>159.0</b>
<b>Total liabilities and Equity</b>	<b>109.9</b>	<b>118.3</b>	<b>158.3</b>	<b>157.7</b>	<b>165.2</b>	<b>183.0</b>
<b>Income Statement (KWD Mn)</b>						
Revenue	69.3	73.3	68.5	90.8	75.7	75.1
Cost of goods sold	(15.7)	(16.6)	(14.7)	(16.6)	(17.1)	(17.2)
<b>Gross profit</b>	<b>53.5</b>	<b>56.7</b>	<b>53.9</b>	<b>74.2</b>	<b>58.7</b>	<b>57.9</b>
General and administrative expenses	(15.6)	(14.0)	(11.6)	(13.6)	(14.3)	(14.7)
<b>EBITDA</b>	<b>38.0</b>	<b>42.7</b>	<b>42.3</b>	<b>60.6</b>	<b>44.4</b>	<b>43.2</b>
Depreciation and amortization	(3.6)	(4.0)	(4.3)	(3.7)	(3.5)	(3.4)
<b>EBIT</b>	<b>34.4</b>	<b>38.7</b>	<b>38.0</b>	<b>57.0</b>	<b>40.9</b>	<b>39.9</b>
Finance costs	(1.5)	(1.3)	(0.3)	(0.3)	(0.2)	(0.2)
Other Income/Loss	0.3	0.4	1.7	0.9	0.9	0.9
<b>Net profit before taxes</b>	<b>33.2</b>	<b>37.8</b>	<b>39.3</b>	<b>57.6</b>	<b>41.6</b>	<b>40.5</b>
Provision for Income Taxes	(1.7)	(1.9)	(1.8)	(2.9)	(2.1)	(2.1)
<b>Net profit attributable to parent</b>	<b>31.5</b>	<b>35.9</b>	<b>37.5</b>	<b>54.7</b>	<b>39.4</b>	<b>38.5</b>
<b>EPS (KWD)</b>	<b>0.259</b>	<b>0.295</b>	<b>0.308</b>	<b>0.450</b>	<b>0.324</b>	<b>0.316</b>
<b>Cash Flow (KWD Mn)</b>						
Net cash from operating activities	35.8	39.7	46.5	57.4	42.5	41.3
Net cash (used in) from investing activities	(12.6)	(6.0)	(45.8)	(1.3)	(0.8)	(0.8)
Net cash from (used in) financing activities	(21.1)	(30.0)	(8.7)	(50.8)	(31.6)	(20.9)
Change in cash and cash equivalents	2.1	3.7	(8.0)	5.2	10.1	19.5
FX effects & other adjustments	5.1	5.0	46.5			
<b>Cash at the end of the year</b>	<b>26.6</b>	<b>35.4</b>	<b>73.9</b>	<b>79.1</b>	<b>89.2</b>	<b>108.8</b>

Source : Kamco Invest Research and Humansoft

Valuation & Financial Ratios						
Key Ratios	2018	2019	2020	2021E	2022E	2023E
<b>Leverage Ratios</b>						
Total Debt / Total Assets (x)	0.23	0.16	0.07	0.04	0.03	0.03
Total Debt / Equity (x)	0.37	0.23	0.09	0.05	0.04	0.03
Net debt (cash)/ Equity (x)	-0.03	-0.21	-0.53	-0.55	-0.60	-0.65
<b>Profitability Ratios</b>						
Return on Average Assets (%)	30.2%	31.4%	27.1%	34.6%	24.4%	22.1%
Return on Average Equity (%)	50.8%	48.7%	37.8%	43.9%	29.0%	25.7%
ROIC (%)	35.5%	37.1%	28.1%	39.2%	26.6%	23.1%
<b>Margins</b>						
Gross profit margin (%)	77.3%	77.4%	78.6%	81.7%	77.4%	77.1%
EBITDA margin (%)	54.8%	58.3%	61.7%	66.8%	58.6%	57.6%
EBIT margin (%)	49.7%	52.9%	55.4%	62.8%	54.0%	53.1%
Net profit margin (%)	45.5%	48.9%	54.7%	60.3%	52.1%	51.2%
<b>Market Data and Valuation Ratios</b>						
Earnings Per Share (KWD)	0.259	0.295	0.308	0.450	0.324	0.316
Book Value Per Share (KWD)	0.55	0.66	0.97	1.08	1.15	1.31
Dividend Per Share (KWD)	0.185	-	0.400	0.315	0.227	0.221
PE (x)	12.7	10.2	12.3	7.7	10.6	10.9
PB (x)	6.0	4.6	3.9	3.2	3.0	2.6
Dividend Yield (%)	5.6%	-	10.5%	9.1%	6.6%	6.4%

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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