

Alef Education Holding PLC

Growth in segments and cost optimization boosted profit

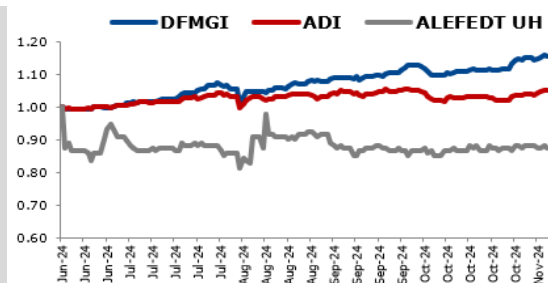
Current Price
AED 1.18

Target Price
AED 1.70

Upside/Downside (%)
+44%

Rating
BUY

- Paid an interim dividend of AED 204 Mn in 3Q24.
- Alef Education B2G segment has a robust pipeline of strategic clients, featuring two deals in the final stage, worth AED 100 Mn.
- In the B2B segment doubled the number of paying schools from 82 in 2Q24 to 164 in 3Q24 growing the paying students by 76%.
- Secured first contract in KSA laying the foundation for regional expansion.
- Alef Education acquired a contract from a strategic government entity in UAE worth AED 31 Mn to meet its educational requirements.
- The company expands its commercial presence in Egypt and Saudi Arabia to accelerate market condition.



Stock Information

| | |
|---------------------------|-----------|
| Market Cap (AED, Mn) | 8,260.00 |
| Paid Up Capital (Mn) | 70.00 |
| 52 Week High | 1.35 |
| 52 Week Low | 1.09 |
| 3M Avg. daily value (AED) | 9,107,732 |

3Q24 Net Profit higher than our estimate

Alef Education Holding PLC (Alef Education/the Company) net profit marginally increased by 0.4% YOY to AED 119 Mn in 3Q24, higher than our estimate of AED 113 Mn. The growth in net profit is mainly attributed to steady revenue, cost optimization and efficient treasury management resulting in higher interest income partially offset by the introduction of corporate tax in UAE starting from FY2024.

3Q24 Result Review (AED, Mn)

| | |
|-------------------|-----|
| Total Assets | 749 |
| Total Liabilities | 93 |
| Total Equity | 656 |
| EBITDA | 136 |
| Net Profit | 119 |

P&L Highlights

Alef Education's revenue increased 5.8% YOY to AED 197 Mn in 3Q24, owing to a strategic long-term agreement with ADEK, coupled with growth in the number of students served in the B2G segment. Additionally, the launch of new products and contracts supported the topline growth. Education Solutions segment revenue rose 1.5% YOY to AED 166 Mn in 3Q24, while the Support & Services Segment revenue grew substantially 37.0% YOY to AED 31 Mn in 3Q24. Alef Education's total expenses declined 1.6% YOY to AED 70 Mn in 3Q24, driven by the Company's cost-cutting initiatives and operational efficiency resulted in cost savings. The Company's salaries and other benefits expenses fell marginally 1.0% YOY to AED 30 Mn, while technology expenses rose 3.1% YOY to 17 Mn in 3Q24. Additionally, the software licenses expenses increased 5.3% YOY to AED 7 Mn in 3Q24, partially offset by 2.4% YOY decline in amortization expenses to AED 7 Mn in 3Q24. Legal & professional fees declined significantly 37.9% YOY to AED 4 Mn in 3Q24 and on the other hand depreciation expenses grew 17.7% YOY to AED 0.5 Mn in 3Q24. Lease expenses increased 12.8% to AED 1 Mn in 3Q24, while marketing expenses rose substantially 84.3% YOY to AED 1 Mn in 3Q24. The Company's other expenses fell 4.7% YOY to AED 1.2 Mn in 3Q24. Hence, Alef Education EBITDA grew 9.6% YOY to AED 136 Mn in 3Q24. Furthermore, the Company's operating profit rose 10.3% YOY to AED 128 Mn in 3Q24. Alef Education reported 103.2% YOY growth in finance income to

Financial Ratios

| | |
|-------------------------|-------|
| Dividend Yield (12m) | 4.09 |
| Dividend Pay-out (%) | 0.00 |
| Price-Earnings Ratio(x) | N/A |
| Price-to-Book Ratio (x) | 12.59 |
| Book Value (AED) | 0.09 |
| Return-on Equity (%) | N/A |

Stock Performance

| | |
|------------------------|--------|
| 5 Days | -0.84% |
| 1 Months | 0.85% |
| 3 Months | -4.07% |
| 6 Months | N/A |
| 1 Year | N/A |
| Month to Date (MTD%) | 0.00% |
| Quarter to Date (QTD%) | 0.85% |
| Year to Date (YTD%) | N/A |

AED 3 Mn attributed to efficient treasury management. Hence, the Company's profit before tax was boosted by 10.3% YOY to AED 131 Mn in 3Q24. It recorded a tax expense of AED 12 Mn in 3Q24 compared to nil tax expense in 3Q23.

Balance Sheet Highlights

Alef Education's net cash flow from operating activities stood at AED 205 Mn in 9M24 compared to AED 385 Mn in 9M23 due to investment in working capital offset by higher profit generated during 9M24. The company's CAPEX stood at AED 90 Mn in 9M24 compared to AED 20 Mn in 9M23, owing to growth in intangible assets due to the acquisition of Arabits and Abjadiyat completed in 1Q24. It also incurred additional capex on product development to expand its product portfolio. The Company's balance sheet remained debt-free since its establishment.

Target Price and Rating

We maintain our BUY rating on Alef Education with an unchanged target price of AED 1.70. The Company's ADEK contract provides consistent and significant revenue visibility across the period. Alef Education's revenue grew 5.8% YOY to AED 197 Mn in 3Q24, owing to growth in B2G and B2B segments. Alef Education's B2B segment experienced strong growth as the number of paying schools doubled from 82 private schools in 2Q24 to 164 private schools in 3Q24 in addition to the growth in the number of paying students by 76%. The Company boasts an active product development pipeline such as Arabic Language products and Pathways enjoying strong traction with a higher renewal rate on a YOY basis. Furthermore, paid users boosted 22% QOQ to 83K in 3Q24, with more than 110 schools in the pipeline. The B2G segment has a robust pipeline of strategic clients, featuring two deals in the final stage, worth AED 100 Mn. The Company recently won a contract in KSA laying the foundation for further regional expansion. Additionally, in the B2G segment, Alef Education established several MOUs with education ministers and reached 71% of overall project readiness. The company is actively expanding its product portfolio with new variants and launched an Arabic language platform. Alef Education expands its commercial presence in Egypt and Saudi Arabia to accelerate market conditions in the B2B and B2G segments. Alef Education is expected to see a boost in revenue from a newly acquired government contract in UAE, worth AED 31 Mn. To strengthen the B2B segment, Alef Education is developing customized solutions for schools, by expanding distribution and reseller networks and having strategic partnerships. The company is committed to paying a minimum dividend of AED 135 Mn each for FY2024 and FY2025 to free-float investors leading to a dividend yield of 8.1% based on the current share price. The Company's balance sheet remained debt-free since its establishment. Thus, offering opportunities for organic and inorganic growth, meeting capex requirements and dividend payments. Thus, based on our analysis, we assigned a BUY rating on the stock.

Alef Education - Relative valuation¹

| (at CMP) | 2023 | 2024F |
|----------------|------|-------|
| PE (x) | NA | 18.6 |
| PB (x) | NA | 10.9 |
| EV/EBITDA | NA | 15.4 |
| Dividend yield | NA | 8.1% |

FABS Estimates & Co Data

¹ Note – Alef Education listed on ADX in June 2024. Thus, the financial multiple for the prior period is unavailable

Alef Education – P&L

| AED Mn | 3Q23 | 2Q24 | 3Q24 | 3Q24F | Var. | YOY Ch | QOQ Ch | 2023 | 2024F | Change |
|------------------------------------|------------|------------|------------|------------|--------------|--------------|--------------|-------------|-------------|---------------|
| Revenue | 186 | 178 | 197 | 182 | 8.2% | 5.8% | 11.1% | 750 | 766 | 2.1% |
| Salaries and other benefits | -31 | -27 | -30 | -28 | 7.6% | -1.0% | 13.3% | -128 | -122 | -4.0% |
| Technology expenses | -17 | -8 | -17 | -9 | 90.3% | 3.1% | 107.5% | -63 | -63 | -0.3% |
| Software licenses | -6 | -6 | -7 | -7 | -8.0% | 5.3% | 14.9% | -24 | -25 | 4.8% |
| Amortization for intangible assets | -8 | -8 | -7 | -9 | -18.6% | -2.4% | -10.3% | -31 | -32 | 5.6% |
| Legal and professional fees | -6 | -4 | -4 | -4 | 2.3% | -37.9% | 6.2% | -31 | -31 | 1.9% |
| Depreciation on P&E | 0 | 0 | 0 | -1 | -51.9% | 17.7% | NM | -3 | -3 | -18.2% |
| Lease expenses | -1 | -1 | -1 | -1 | 0.6% | 12.8% | 1.1% | -4 | -4 | 2.0% |
| Marketing expenses | -1 | -2 | -1 | -3 | -50.6% | 84.3% | -12.3% | -8 | -8 | -2.4% |
| Others income/ (expense) | -1 | -1 | -1 | -1 | 38.5% | -4.7% | NM | -4 | -2 | NM |
| Total Expenses | -71 | -57 | -70 | -63 | 10.6% | -1.6% | 22.5% | -295 | -291 | -1.3% |
| EBITDA | 124 | 129 | 136 | 129 | 4.8% | 9.6% | 4.8% | 498 | 510 | 2.4% |
| EBIT | 116 | 121 | 128 | 119 | 7.0% | 10.3% | 5.8% | 455 | 475 | 4.4% |
| Income from financial assets | 1 | 0 | 0 | 0 | NM | NM | NM | 123 | 0 | NM |
| Interest inc from a related party | 0 | 0 | 0 | 0 | NM | NM | NM | 0 | 0 | NM |
| Finance income | 2 | 4 | 3 | 5 | -37.0% | 103.2% | NM | 9 | 13 | NM |
| Profit before tax | 119 | 124 | 131 | 124 | 5.2% | 10.3% | 5.3% | 586 | 488 | -16.8% |
| Income Tax Expense | 0 | -11 | -12 | -11 | 5.2% | NM | 5.3% | 0 | -44 | NM |
| Net Profit | 119 | 113 | 119 | 113 | 5.2% | 0.4% | 5.3% | 586 | 444 | -24.3% |

FABS estimate & Co Data

Alef Education - Margins

| | 3Q23 | 2Q24 | 3Q24 | YOY Ch | QOQ Ch | 2023 | 2024F | YOY Ch |
|------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Operating Profit | 62.1% | 68.0% | 64.7% | 267 | -327 | 60.7% | 62.0% | 133 |
| EBITDA | 66.3% | 72.9% | 68.7% | 239 | -418 | 66.4% | 66.6% | 19 |
| Net Profit | 63.6% | 63.7% | 60.4% | -326 | -337 | 78.2% | 58.0% | -2,024 |

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF), Dividend Discount Model (DDM) and Relative Valuation (RV) to value Alef Education. We have assigned 70% weight to DCF, 20% weight to DDM and 10% to RV.

| Valuation Method | Target | Weight | Weighted Value |
|---|--------|--------|----------------|
| DCF Method | 1.73 | 70.0% | 1.21 |
| Dividend Discount Model (DDM) | 1.67 | 20.0% | 0.33 |
| Relative Valuation (RV) | 1.55 | 10.0% | 0.15 |
| Weighted Average Valuation (AED) | | | 1.70 |
| Current market price (AED) | | | 1.18 |
| Upside/Downside (%) | | | +44% |

1) DCF Method:

Alef Education is valued using free cash flow to Equity. We have discounted the cash flow using the weighted average cost of equity of 8.5%. The cost of equity is calculated by using a 10-year government bond yield of 4.8%, beta of 0.85 and equity risk premium of 4.4%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 3.0%.

| | |
|---|---------------|
| Sum of PV (AED, Mn) | 2,579 |
| Terminal value (AED, Mn) | 9,522 |
| FV to Common shareholders (AED Mn) | 12,101 |
| No. of share (Mn) | 7,000 |
| Current Market Price (AED) | 1.18 |
| Fair Value per share (AED) | 1.73 |

DCF Method

| (All Figures in AED Mn) | FY 2024E | FY 2025E | FY 2026E | FY 2027E | FY 2028E | FY 2029E |
|--|------------------------|------------|------------|------------|------------|------------|
| Net Income | 444 | 468 | 716 | 734 | 796 | 855 |
| D&A | 35 | 34 | 46 | 64 | 76 | 88 |
| Net Capex | -104 | -68 | -81 | -96 | -113 | -134 |
| Change in working capital | -91 | -34 | -35 | 8 | -10 | -7 |
| Free Cash Flow to Equity (FCFE) | 285 | 400 | 645 | 710 | 748 | 803 |
| Discounting Factor | 0.96 | 0.88 | 0.81 | 0.75 | 0.69 | 0.64 |
| Discounted FCFE | 137¹ | 354 | 526 | 533 | 518 | 512 |

Source: FAB Securities, ¹FCFE adjusted for partial year

2) DDM Method:

Alef Education maintains a policy to declare regular dividends to shareholders in the forecasted period. The Company intends to distribute dividends semi-annually, with the initial payment occurring in the first half of the year and the subsequent payment in the second half. The dividends are expected to be paid in cash. Alef Education intends to distribute 90% of its net profit as dividends in FY2024 and FY2025. The dividend is forecasted based on the management estimate. All forecasted dividends are discounted to present value using the cost of equity. Details related to the cost of equity calculation are provided above. We have also calculated our terminal growth rate of 3.0%.

| | |
|-----------------------------------|---------------|
| Sum of PV (AED, Mn) | 2,575 |
| Terminal value (AED, Mn) | 9,135 |
| Equity Value (AED, Mn) | 11,710 |
| No. of share (Mn) | 7,000 |
| Current Market Price (AED) | 1.18 |
| Fair Value per share (AED) | 1.67 |

DCF Method

| (All Figures in AED Mn) | FY 2024E | FY 2025E | FY 2026E | FY 2027E | FY 2028E | FY 2029E |
|--|------------|------------|------------|------------|------------|------------|
| Dividend paid in - | | | | | | |
| H1 | 204 | 210 | 322 | 330 | 358 | 385 |
| H2 | 204 | 210 | 322 | 330 | 358 | 385 |
| Free Cash Flow to Equity (FCFE) | 407 | 421 | 644 | 661 | 717 | 770 |
| Discounting Factor | 0.96 | 0.88 | 0.81 | 0.75 | 0.69 | 0.64 |
| Discounted FCFF | 195 | 372 | 525 | 496 | 496 | 491 |

Source: FAB Securities, ¹FCFE adjusted for partial year

3) Relative Valuation:

We have used an average of EV/EBITDA and P/E multiple to value Alef Education. It is valued at a 2024 P/E multiple of 27.7x and an EV/EBITDA multiple of 17.6x in line with peers.

| Company | Market (USD Mn) | EV/EBITDA (x) | | P/E (x) | |
|----------------------------|--------------------|---------------|--------------|--------------|--------------|
| | | 2024F | 2025F | 2024F | 2025F |
| Blackbaud Inc | 4,471 | 14.1 | 12.9 | 20.7 | 18.1 |
| Stride Inc | 2,772 | 7.3 | 6.4 | 14.1 | 12.9 |
| 3P Learning ltd | 180 | 21.4 | 18.2 | 28.6 | 24.6 |
| Instructure holdings Inc | 3,442 | 16.4 | 14.9 | 27.7 | 25.4 |
| PowerSchool holdings Inc-a | 4,661 | NA | NA | 24.7 | 19.8 |
| D2L Inc | 508 | 58.5 | 18.4 | NA | 38.9 |
| ELM | 22,469 | 43.6 | 35.8 | 50.4 | 42.4 |
| Coursera Inc | 1,167 | 17.6 | 9.4 | 34.7 | 25.8 |
| Average | | 25.6x | 16.6x | 28.7x | 26.0x |
| Median | | 17.6x | 14.9x | 27.7x | 25.0x |
| Max | | 32.5x | 18.3x | 31.7x | 29.1x |
| Min | | 15.2x | 11.1x | 22.7x | 19.4x |

Source: FAB Securities

Research Rating Methodology:

| Rating | Upside/Downside potential |
|------------|---------------------------|
| BUY | Higher than +15% |
| ACCUMULATE | Between +10% to +15% |
| HOLD | Lower than +10% to -5% |
| REDUCE | Between -5% to -15% |
| SELL | Lower than -15% |

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

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