

Alef Education Holding PLC

Lower expenses and growth in the B2B segment boosted profit

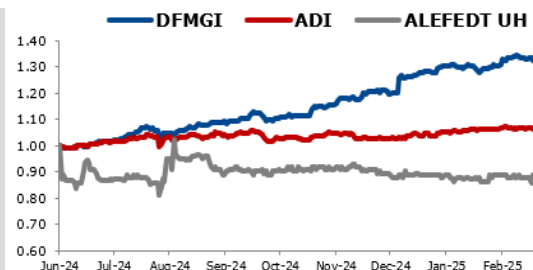
Current Price
AED 1.09

Target Price
AED 1.70

Upside/Downside (%)
+56%

Rating
BUY

- Alef Education is included in MSCI UAE Small Cap Index.
- The number of paid schools served increased from 82 in 2023 to 167 in 2024 in B2B segment.
- The Company holds a 25% to 30% market share in the UAE's B2B segment.
- Alef Education extended its contract with ADEK for three more years.
- Distributed an interim dividend of AED 203.6 Mn and further proposed a dividend of AED 199.2 Mn for 2H24, resulting in a total dividend of AED 402.8 Mn for 2024, equivalent to AED 0.09644 per share for Market shareholders with a dividend yield of 8.8%.



4Q24 Net Profit higher than our estimate

Alef Education Holding PLC (Alef Education/the Company) recorded 11.6% YOY growth in net profit to AED 102 Mn in 4Q24, higher than our estimate of AED 99 Mn. The growth in net profit is mainly attributed to lower operating expenses, partially offset by a decrease in revenue, substantial decline in finance income and higher tax expense.

P&L Highlights

Alef Education's revenue decreased 1.9% YOY to AED 208 Mn in 4Q24, owing to a marginal decrease in revenue from Education Solutions segment and declined in revenue from Support & Services segment. Revenue from Education Solutions segment fell 0.8% YOY to AED 164 Mn, while revenue from Support & Services segment decreased 5.5% YOY to AED 43 Mn in 4Q24. Alef Education's total expenses fell 5.7% YOY to AED 98 Mn in 4Q24, driven by the Company's cost-cutting initiatives and operational efficiency resulted in cost savings. The Company's salaries and other benefits expenses dropped marginally by 0.1% YOY to AED 38 Mn, and technology expenses declined 2.8% YOY to AED 32 Mn in 4Q24. However, software licenses expenses increased 18.2% YOY to AED 8 Mn in 4Q24, partially offset by 4.7% YOY decline in amortization expenses to AED 7 Mn in 4Q24. Furthermore, legal & professional fees declined significantly 42.1% YOY to AED 8 Mn in 4Q24 and on the other hand, lease expenses increased 14.7% to AED 1 Mn in 4Q24, while marketing expenses decreased substantially 34.6% YOY to AED 2 Mn in 4Q24. The Company's other expenses surged from 1 Mn in 4Q23 to 2 Mn in 4Q24. Hence, Alef Education EBITDA grew 2.2% YOY to AED 117 Mn in 4Q24, whereas EBITDA margin boosted 225 bps YOY to 56.6% in 4Q24. Furthermore, the Company's operating profit increased 1.8% YOY to AED 110 Mn in 4Q24, while the operating margin rose 191 bps YOY to 52.8% in 4Q24. Alef Education reported 49.7% YOY decline in

Stock Information

Market Cap (AED, Mn)	7,630.00
Paid Up Capital (Mn)	70.00
52 Week High	1.35
52 Week Low	1.09
3M Avg. daily value (AED)	3,822,088

4Q24 Result Review (AED, Mn)

Total Assets	923
Total Liabilities	164
Total Equity	758
EBITDA	117
Net Profit	102

Financial Ratios

Dividend Yield (12m)	4.42
Dividend Pay-out (%)	90.73
Price-Earnings Ratio(x)	13.2
Price-to-Book Ratio (x)	10.06
Book Value (AED)	0.11
Return-on Equity (%)	N/A

Stock Performance

5 Days	-4.39%
1 Months	-4.39%
3 Months	-6.84%
6 Months	-8.40%
1 Year	-
Month to Date (MTD%)	-5.22%
Quarter to Date (QTD%)	-5.22%
Year to Date (YTD%)	-5.22%

finance income to AED 3 Mn in 4Q24. Income from financial assets stood at nil in 4Q24 compared to AED 22 Mn in 4Q23. Moreover, the Company's profit before tax was boosted 22.6% YOY to AED 112 Mn in 4Q24. The Company recorded a tax expense of AED 10 Mn in 4Q24 compared to nil in 4Q23.

Balance Sheet Highlights

Alef Education's net cash flow from operating activities stood at AED 130 Mn in 4Q24 compared to AED 77 Mn in 3Q24 due to a significant increase in trade payable. Additionally, intangible assets stood AED 172 Mn, driven by the acquisition of Arabits and Abjadiyat educational products, along with the development of new offerings within the Assessment and Pathways product lines. Furthermore, cash & cash equivalent boosted from AED 289 Mn 3Q24 to AED 396 Mn in 4Q24. On the liabilities side, the Company remained debt-free since its establishment.

Target Price and Rating

We maintain our BUY rating on Alef Education with a target price of AED 1.70. The Company's total revenue grew from AED 750 Mn in 2023 AED to AED 759 Mn in 2024, owing to an extended agreement with ADEK, newly secured contracts with two UAE government clients, and expanding collaborations across government and private sectors in key markets. Additionally, Alef Education renewed its contract with the Abu Dhabi Department of Education and Knowledge (ADEK) for three more years. Furthermore, the Group delivered industry-leading profitability margins, supported by a strong revenue base and cost efficiencies in 2024. Furthermore, the Group secured a new Islamic content development contract worth AED 31 Mn over three years, further strengthening its growth trajectory. Alef Education made significant growth in the B2B segment, with the number of paid schools served increasing from 82 in 2023 to 167 in 2024, coupled with the students count increasing from 52,000 in 2023 to 93,178 in 2024. This expansion highlights the Company's ability to scale its solutions effectively and strengthen its market position. Furthermore, the Company is enhancing its sales and marketing efforts in the B2B market, aiming to expand in the private school sector by introducing new subjects and reaching younger students. Furthermore, the Company seeks to capitalize on new expansion opportunities through organic growth and strategic partnerships. Alef with MetaMetrics is developing Miqyas Al Dhad platform to set a standard for Arabic literacy. To support this, field tests are underway in eight countries, with 103 thousand students onboarded with seven government MOUs signed. Additionally, Alef Platform in Indonesia improved learning outcomes for over 750 thousand students, achieving an 8.5% rise in math performance. The Company distributed an interim dividend of AED 203.6 Mn and further proposed a dividend of AED 199.2 Mn for 2H24, resulting in a total dividend of AED 402.8 Mn for 2024 (for Founder shareholders (80%) and Market shareholders (20%) equivalent to AED 0.09644 per share for Market shareholders with a dividend yield of 8.8%. Thus, based on our analysis, we assigned a BUY rating on the stock.

Alef Education - Relative valuation¹

(at CMP)	2023	2024	2025F
PE (x)	NA	13.2	16.7
PB (x)	NA	10.2	7.7
EV/EBITDA	NA	14.4	13.4
Dividend yield	NA	8.8%	9.3%

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	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Revenue	211	197	208	206	0.6%	-1.9%	5.2%	750	759	1.3%
Salaries and other benefits	-38	-30	-38	-38	-0.2%	-0.1%	25.1%	-128	-122	-4.1%
Technology expenses	-33	-17	-32	-29	11.0%	-2.8%	83.7%	-63	-66	4.8%
Software licenses	-7	-7	-8	-6	29.9%	18.2%	22.0%	-24	-27	12.6%
Amortization for intangible assets	-8	-7	-7	-8	-11.0%	-4.7%	-0.6%	-31	-31	2.5%
Legal and professional fees	-14	-4	-8	-22	-64.1%	-42.1%	NM	-31	-17	-44.1%
Depreciation on P&E	0	0	0	-1	NM	NM	1.5%	-3	-2	-47.1%
Lease expenses	-1	-1	-1	-1	56.2%	14.7%	1.1%	-4	-4	11.4%
Marketing expenses	-2	-1	-2	-4	-57.9%	-34.6%	13.5%	-8	-6	-29.3%
Others income/ (expense)	-1	-1	-2	1	NM	55.8%	37.4%	-4	-5	NM
Total Expenses	-104	-70	-98	-109	-9.8%	-5.7%	40.8%	-295	-280	-4.9%
EBITDA	115	136	117	115	2.0%	2.2%	-13.4%	489	512	4.8%
EBIT	108	128	110	105	3.9%	1.8%	-14.3%	455	479	5.3%
Income from financial assets	-22	0	0	0	NM	NM	NM	123	0	NM
Interest inc from a related party	0	0	0	0	0	0	0	0	0	0
Finance income	5	3	3	3	-12.2%	-49.7%	-12.2%	9	13	NM
Profit before tax	92	131	112	109	3.5%	22.6%	-14.2%	586	492	-16.2%
Income Tax Expense	0	-12	-10	-10	3.1%	NM	-14.1%	0	-44	NM
Net Profit	92	119	102	99	3.5%	11.6%	-14.2%	586	447	-23.7%

FABS estimate & Co Data

Alef Education - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	YOY Ch
Operating Profit	50.9%	64.7%	52.8%	191	-1,196	60.7%	63.1%	241
EBITDA	54.3%	68.7%	56.6%	225	-1,216	65.2%	67.5%	226
Net Profit	43.3%	60.4%	49.2%	594	-1,113	78.2%	59.0%	-1,928

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	1.74	70.0%	1.22
Dividend Discount Model (DDM)	1.82	20.0%	0.36
Relative Valuation (RV)	1.16	10.0%	1.12
Weighted Average Valuation (AED)			1.70
Current market price (AED)			1.09
Upside/Downside (%)			+56%

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 8.4%. The cost of equity is calculated by using a 10-year government bond yield of 5.2%, beta of 0.85 and equity risk premium of 3.8%. 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)	2,409
Terminal value (AED, Mn)	9,786
FV to Common shareholders (AED Mn)	12,195
No. of share (Mn)	7,000
Current Market Price (AED)	1.09
Fair Value per share (AED)	1.74

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Income	464	716	732	794	853
D&A	38	49	67	79	90
Net Capex	-68	-81	-96	-113	-134
Change in working capital	-48	-166	-37	-68	-70
Free Cash Flow to Equity (FCFE)	386	518	666	691	739
Discounting Factor	0.96	0.89	0.82	0.75	0.70
Discounted FCFE	371	459	544	521	514

Source: FAB Securities

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 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)	2,583
Terminal value (AED, Mn)	10,163
Equity Value (AED, Mn)	12,746
No. of share (Mn)	7,000
Current Market Price (AED)	1.09
Fair Value per share (AED)	1.82

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend paid in -					
H1	209	322	329	357	384
H2	209	322	329	357	384
Free Cash Flow to Equity (FCFE)	418	644	659	715	768
Discounting Factor	0.96	0.89	0.82	0.75	0.70
Discounted FCFF	401	571	538	539	534

Source: FAB Securities

2) Relative Valuation:

We have used an average of EV/EBITDA and P/E multiple to value Alef Education. It is valued at a 2025 P/E multiple of 20.1x and an EV/EBITDA multiple of 12.0x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Blackbaud Inc	3,162	10.7	10.1	15.6	14.5
Stride Inc	5,964	10.7	9.8	20.1	18.8
3P Learning ltd	112	13.3	11.6	16.5	16.5
D2L Inc	732	24.4	18.5	73.9	39.1
ELM	20,850	31.3	25.9	36.9	30.9
Coursera Inc	1,229	9.8	7.2	NA	16.9
Average		16.7x	13.8x	32.6x	22.8x
Median		12.0x	10.8x	20.1x	17.8x
Max		21.6x	16.8x	36.9x	27.8x
Min		10.7x	9.9x	16.5x	16.6x

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%

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