

Alef Education Holding PLC

Long term contracts offset the discontinuation of income from financial asset portfolio

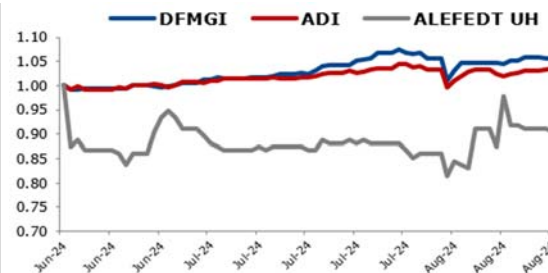
Current Price
AED 1.23

Target Price
AED 1.70

Upside/Downside (%)
+38%

Rating
BUY

- Paid users stood at 151k, of which B2B and B2G accounted for 45% and 55%, respectively in 1H24.
- Alef signed a new Islamic development contract worth AED 31 Mn in 2Q24 for two years.
- Alef Signed an MOU with Kenya Institute of Curriculum Development in partnership with UNICEF to develop a digital climate curriculum on climate change by integrating climate change education into public schools across Kenya.
- Committed to pay a dividend of AED 135 Mn to free-float investors in FY2024 & FY2025 despite aggressive growth plans. Declared a dividend of AED 67.5 Mn to free-float investors in 1H24.



2024 Net Profit higher than our estimate

Alef Education Holding PLC (Alef Education/the Company) recorded a decline in net profit from AED 170 Mn in 2Q23 to AED 113 Mn in 2Q24, higher than our estimate of AED 105 Mn. The decline in net profit is primarily due to income tax expense and discontinuation of the income from the financial asset portfolio, partially offset by stable growth in revenue from long-term contracts and a decline in total expenses owing to cost optimization initiatives. However, adjusted net profit before tax (excluding income from financial assets carried at fair value since the portfolio is discontinued & disposed in 2023) grew from AED 119 Mn in 2Q23 to AED 124 Mn in 2Q24.

P&L Highlights

Alef Education's revenue increased marginally 1.0% YOY, reaching AED 178 Mn in 2Q24, mainly due to a growth in the number of students served in the B2G sector, the acquisition of new contracts, and the launch of new B2B products. The Education Solutions segment revenue rose slightly 0.8% YOY to AED 165 Mn in 2Q24, while the Support & Services segment's revenue grew 3.8% YOY to AED 12 Mn in 2Q24. Alef Education's total expenses declined 2.6% YOY to AED 57 Mn in 2Q24, driven by the Company's cost optimization initiatives. The Company's salaries and other benefits expenses fell 6.3% YOY to AED 27 Mn, while technology expenses rose 27.0% YOY to 8 Mn in 2Q24. The software licenses expense and amortization expenses remained stable at AED 6 Mn and AED 8 Mn respectively in 2Q24 compared to 2Q23. Depreciation expense fell from AED 1 Mn in 2Q23 to AED 0.4 Mn in 2Q24. Legal and professional fees fell 33.8% YOY to AED 4 Mn in 2Q24. Lease expenses grew 11.7% YOY to AED 1 Mn in 2Q24. Marketing and other expenses stood at similar level at AED 2 Mn and AED 1 Mn, respectively in 2Q24 compared to 2Q23. As a result, operating profit inched up 2.8% YOY to AED 121 Mn in 2Q24. Operating margin increased from 66.8% in 2Q23 to 68.0% in 2Q24.

Stock Information

Market Cap (AED, Mn)	8,540.00
Paid Up Capital (Mn)	70.00
52 Week High	1.35
52 Week Low	1.09
20D Avg.daily value(AED)	9,974,022

2024 Result Review (AED, Mn)

Total Assets	937
Total Liabilities	196
Total Equity	741
EBITDA	129
Net Profit	113

Financial Ratios

Dividend Yield (12m)	3.95
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	11.53
Book Value (AED)	0.11
Dividend Per Share(AED)	0.04822

Stock Performance

5 Days	-7.58%
1 Months	2.52%
3 Months	N/A
6 Months	N/A
1 Year	N/A
Month to Date (MTD%)	6.09%
Quarter to Date (QTD%)	-0.81%
Year to Date (YTD%)	N/A

EBITDA rose 2.0% YOY to AED 129 Mn in 2Q24, while EBITDA margin also improved 69 bps YOY and fell 55 bps QOQ to 72.9% in 2Q24. Education Solutions EBITDA grew from AED 130 Mn in 2Q23 to AED 136 Mn in 2Q24. Support & Services segments EBITDA stood at AED 1 Mn in 2Q24 compared to AED 4 Mn in 2Q23. Alef Education recorded a nil Income from financial assets compared to AED 52 Mn in 2Q23 mainly due to the discontinuation of the income from the financial asset portfolio in FY2023. Moreover, interest income from a related party grew to AED 4 Mn in 2Q24 compared to AED 1 Mn in 2Q23 owing to treasury efficiencies. The Company recorded an income tax expense of AED 11 Mn in 2Q24 mainly due to the implementation of corporate tax in the UAE.

Balance Sheet Highlights

Alef Education's cash and cash equivalents stood at AED 428 Mn in 2Q24, up from AED 169 Mn in 1Q24 despite the increase in capex on product development. Net working capital stood at AED 189 Mn in 2Q24 compared to AED 266 Mn in 1Q24 owing to a decline in trade and other receivables partially offset by a rise in trade payables. The Company generated AED 201 Mn in cash flow from operations in 2Q24, compared to AED 73 Mn in 1Q24.

Target Price and Rating

We maintain our BUY rating on Alef Education with a target price of AED 1.70. Alef Education's profitability declined in 2Q24 mainly due to the discontinuation of income from financial assets carried at fair value at the end of FY2023 and income tax expense. Despite this, the Company recorded robust performance across the core operations in 2Q24. It recorded a stable revenue growth attributable to its consistent and sticky revenue from the Abu Dhabi Department of Education and Knowledge (ADEK). The Company's agreement with ADEK commenced in January 2019 and is set to expire in 2030, indicating strong revenue visibility during the contract period. Furthermore, the Company continued to invest in its organic and inorganic growth. Recently the Company signed a contract in the UAE worth AED 31 Mn with Islamic Content Development spanning two years. Under this contract, it will develop Islamic content for grades K-12. The Company has also entered an MoU with the Government of Kenya to foster future commercial partnerships and strengthen its B2G relationships beyond its primary market. Additionally, it made its initial entry into the Kuwait market by signing a distribution agreement with Aafaq Distribution Co, a leading provider of educational resources in 1H24. Alef Education also maintained a strong focus on its inorganic growth, by developing a robust pipeline of potential M&A activities in key regions and priority areas for 2H24. It is enhancing its sales and marketing efforts to grow in the B2B market, focusing on expanding its presence in private schools by introducing new subjects and targeting younger students. The Company currently holds a 58% market share in the UAE, serving 232 of the 403 private schools. Alef Education's planned organic and inorganic expansion across the B2G and B2B segments which is expected to establish new revenue streams and drive significant revenue growth going forward. Alef Education also maintains a strong balance sheet with robust cash flow generation, supporting its inorganic growth going forward. Moreover, according to the dividend policy the Company commits to pay a dividend of AED 135 Mn to free-float investors in FY2024 & FY2025 despite aggressive growth plans. It also declared a dividend of AED 67.5 Mn to free float investors in 1H24. Thus, based on above mentioned factors, we maintain our BUY rating on the stock.

Alef Education - Relative valuation¹

(at CMP)	2022	2023	2024F
PE (x)	NA	NA	20.7
PB (x)	NA	NA	11.6
EV/EBITDA	NA	NA	16.3
Dividend yield	NA	NA	7.9%

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	2Q23	1Q24	2Q24	2024F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	176	177	178	202	-12.3%	1.0%	0.5%	750	810	8.1%
Salaries and other benefits	-29	-27	-27	-34	-22.1%	-6.3%	-1.0%	-128	-138	7.9%
Technology expenses	-7	-9	-8	-17	-49.8%	27.0%	-1.7%	-63	-67	5.5%
Software licenses	-6	-6	-6	-6	0.7%	5.9%	-9.0%	-24	-24	1.3%
Amortization for intangible assets	-8	-8	-8	-9	-7.0%	9.0%	-1.5%	-31	-39	28.3%
Legal and professional fees	-5	-2	-4	-8	-56.1%	-33.8%	71.4%	-31	-33	7.8%
Depreciation on P&E	-1	0	-0.4	-1	NM	NM	6.4%	-3	-3	-18.2%
Lease expenses	-1	-1	-1	-1	10.4%	11.7%	4.7%	-4	-4	2.0%
Marketing expenses	-2	-1	-2	-2	-30.9%	-27.5%	37.0%	-8	-9	13.6%
Others income/ (expense)	-1	-1	-1	-9	NM	83.4%	36.2%	-4	-36	NM
Total Expenses	-58	-56	-57	-87	-34.5%	-2.6%	2.0%	-295	-353	19.8%
EBITDA	127	130	129	125	3.7%	2.0%	-0.3%	489	499	2.0%
EBIT	117	121	121	116	4.2%	2.8%	-0.2%	455	457	0.5%
Income from financial assets	52	0	0	0	NM	NM	NM	123	0	NM
Interest inc from a related party	1	3	4	0	NM	NM	12.7%	9	0	NM
Profit before tax	170	124	124	116	7.3%	-26.9%	0.1%	586	457	-22.1%
Income Tax Expense	0	-11	-11	-10	7.3%	NM	0.4%	0	-41	NM
Net Profit	170	113	113	105	7.3%	-33.5%	0.1%	586	416	-29.1%

FABS estimate & Co Data

Alef Education - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Operating Profit	66.8%	68.5%	68.0%	117	-47	60.7%	56.4%	-427
EBITDA	72.2%	73.5%	72.9%	69	-55	65.3%	61.6%	-364
Net Profit	96.8%	64.0%	63.7%	-3,310	-25	78.2%	51.3%	-2,689

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	1.67	70.0%	1.17
Dividend Discount Model (DDM)	1.59	20.0%	0.32
Relative Valuation (RV)	2.11	10.0%	0.21
Weighted Average Valuation (AED)			1.70
Current market price (AED)			1.23
Upside/Downside (%)			+38%

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 8.3%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.85 and equity risk premium of 4.1%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (AED, Mn)	2,719
Terminal value (AED, Mn)	8,969
FV to Common shareholders (AED, Mn)	11,688
No. of share (Mn)	7,000
Current Market Price (AED)	1.23
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
Net Income	416	585	692	708	773	833
D&A	42	55	65	82	90	99
Net Capex	-232	-68	-81	-96	-113	-134
Change in working capital	135	-29	-24	-10	-24	-11
Free Cash Flow to Equity (FCFE)	360	544	651	684	725	788
Discounting Factor	0.96	0.89	0.82	0.76	0.70	0.64
Discounted FCFE	173¹	482	533	517	506	508

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 2.5%.

Sum of PV (AED, Mn)	2,607
Terminal value (AED, Mn)	8,537
Equity Value (AED, Mn)	11,144
No. of share (Mn)	7,000
Current Market Price (AED)	1.23
Fair Value per share (AED)	1.59

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend paid in -						
H1	187	263	311	319	348	375
H2	187	263	311	319	348	375
Free Cash Flow to Equity (FCFE)	374	527	622	637	695	750
Discounting Factor	0.96	0.89	0.82	0.76	0.70	0.64
Discounted FCFF	180	467	510	482	485	483

Source: FAB Securities, ¹FCFE adjusted for partial year

2) Relative Valuation:

We have used an average of EV/EBITDA and P/E multiple to value Alef Education. It is valued at 2024 P/E multiple of 50.2x and EV/EBITDA multiple of 16.6x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Blackbaud Inc	3,950	12.4	10.4	53.2	39.8
Stride Inc	3,510	7.6	6.3	16.0	14.4
3P Learning ltd	184	17.5	13.4	NA	NA
Instructure holdings Inc	3,410	15.4	13.4	NA	NA
PowerSchool holdings Inc-a	3,770	16.5	13.9	NA	NA
D2I Inc	488	16.6	9.8	54.4	26.4
ELM	20,650	39.7	32.8	47.2	40.3
Average		18.5x	13.8x	42.7x	30.2x
Median		16.6x	12.1x	50.2x	33.1x
Max		18.6x	13.5x	53.5x	39.9x
Min		14.7x	10.2x	39.4x	23.4x

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
--------------------	----------------

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.