

Alef Education Holding PLC

Growth in the B2B segment sustained profit levels

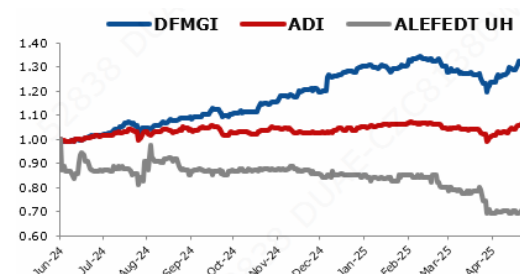
Current Price
AED 0.953

Target Price
AED 1.70

Upside/Downside (%)
+78%

Rating
BUY

- Miqyas Al Dhad has reached 86% completion as of 1Q25 and is set to be launched during 3Q25.
- The Company has remained debt-free since its establishment.
- Alef Education extended its contract with ADEK for three more years providing revenue visibility till 2033.
- 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.
- Alef announced AED 135 Mn dividend for 2024 to market shareholders (equivalent to AED 0.1 per share), while it announced AED 268 Mn to founders (equivalent to AED 0.05 per share).



1Q25 Net Profit is lower than our estimate

Alef Education Holding PLC (Alef Education/the Company) recorded 2.0% YOY growth in net profit to AED 115 Mn in 1Q25, lower than our estimate of AED 125 Mn. The growth in net profit is mainly attributed to higher revenue, partially offset by a rise in operating expenses.

P&L Highlights

Alef Education's revenue rose 1.7% YOY to AED 180 Mn in 1Q25, owing to a marginal increase in revenue from Education Solutions segment and Support & Services segment. Revenue from Education Solutions segment grew 1.8% YOY to AED 167 Mn while revenue from Support & Services segment rose 0.2% YOY to AED 13 Mn in 1Q25. Alef Education's total expenses marginally increased 1.3% YOY to AED 56 Mn in 1Q25. Alef made significant savings across Education Solutions driven by optimization efforts during 1Q25 and continued optimization efforts helped achieve cost savings from software, marketing, professional fees and other costs. The Company's salaries and other benefits expenses rose by 9.8% YOY to AED 30 Mn, and technology expenses declined 6.2% YOY to AED 8 Mn in 1Q25. Moreover, software licenses expenses also declined 4.2% YOY to AED 6 Mn in 1Q25, coupled with 3.7% YOY decline in amortization expenses to AED 8 Mn in 1Q25. However, legal & professional fees rose 13.2% YOY to AED 2 Mn in 1Q25, as well as lease expenses increased 0.7% YOY to AED 1 Mn in 1Q25, while marketing expenses decreased substantially from AED 1.1 Mn in 1Q24 to AED 0.2 Mn in 1Q25. Hence, Alef Education EBITDA grew 1.5% YOY to AED 133 Mn in 1Q25, whereas, EBITDA margin stood at 73.9% in 1Q25. Furthermore, the Company's operating profit increased 1.9% YOY to AED 123 Mn in 1Q25, while the operating margin stood at 68.6% in 1Q25. Alef Education reported 5.5% YOY increase in finance income to AED 3 Mn in 1Q25. Moreover, the Company's profit before tax was boosted 2.0% YOY to AED 127 Mn in 1Q25.

Stock Information

Market Cap (AED, Mn)	6,671.00
Paid Up Capital (Mn)	70.00
52 Week High	1.35
52 Week Low	0.91
3M Avg. daily value (AED)	2,759,631

1Q25 Result Review (AED, Mn)

Total Assets	1,069
Total Liabilities	395
Total Equity	674
EBITDA	133
Net Profit	115

Financial Ratios

Dividend Yield (12m)	10.12
Dividend Pay-out (%)	90.73
Price-Earnings Ratio(x)	12.21
Price-to-Book Ratio (x)	9.89
Book Value (AED)	0.10
Return-on Equity (%)	69.09

Stock Performance

5 Days	1.38%
1 Months	-5.64%
3 Months	-17.13%
6 Months	-19.24%
1 Year	N/A
Month to Date (MTD%)	1.60%
Quarter to Date (QTD%)	-10.09%
Year to Date (YTD%)	-17.13%

The Company recorded a tax expense of AED 11 Mn in 1Q25, YOY growth of 2.0%, in line with profit before tax.

Balance Sheet Highlights

Alef Education's net cash flow from operating activities stood at AED 14 Mn in 1Q25 compared to a cash outflow of AED 73 Mn in 1Q24 due to an increase in profit and a decline in investment in working capital. Furthermore, cash & cash equivalent stood at AED 403 Mn 1Q25, compared to AED 396 Mn in 4Q24 and AED 169 Mn in 1Q24. On the liabilities side, the Company has remained debt-free since its establishment. The current ratio stood at 2.4x in 1Q25 compared to 5.1x in 4Q24, and the asset-to-liability ratio stood at 2.7x in 1Q25 compared to 5.6x in 4Q24. Decline in current ratio and asset-to-liability ratio reflects the final dividend declared for 2024.

Target Price and Rating

We maintain our BUY rating on Alef Education with a target price of AED 1.70. Alef will continue to prioritize growth while maintaining profitability with the innovation focused investment to unlock new business opportunities and scale up the business. Miqyas Al Dhad has reached 86% completion as of 1Q25 and is set to be launched during 3Q25. The product is being created with the partnership of MetaMetrics for Arabic language teaching, learning, and literacy. Miqyas Al Dhad has already secured seven MoUs with regional education ministries and completed field testing in nine countries. Additionally, the Company also received a three-year extension with Abu Dhabi Department of Education and Knowledge (ADEK) on the same commercial terms, securing stable revenue visibility till 2033, provisioning for a minimum of 80,000 students with fixed fees per student. Alef Education made significant growth in the B2B segment, with the number of paid schools served stood at 168 in 1Q25, coupled with the student count of more than 93K in 1Q25. This operation 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. 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. Alef announced AED 135 Mn dividend for 2024 to market shareholders (equivalent to AED 0.1 per share), while it announced AED 268 Mn to founders (equivalent to AED 0.05 per share). 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	11.29	14.11
PB (x)	NA	8.77	6.54
EV/EBITDA	NA	12.11	11.12
DPS (AED per share) ²	NA	0.10	0.06
Dividend yield	NA	10.5%	6.4%

FABS Estimates & Co Data

¹ Note – Alef Education listed on ADX in June 2024. Thus, the financial multiple for the prior period is unavailable. ²Note – DPS is for free float shareholders.

Alef Education – P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	177	208	180	230	-21.8%	1.7%	-13.4%	759	883	16.4%
Salaries and other benefits	-27	-38	-30	-36	-16.4%	9.8%	-21.8%	-122	-150	22.7%
Technology expenses	-9	-32	-8	-16	-50.3%	-6.2%	-74.9%	-66	-75	13.7%
Software licenses	-6	-8	-6	-9	-33.1%	-4.2%	-24.9%	-27	-30	9.9%
Amortization for intangible assets	-8	-7	-8	-9	-7.4%	-3.7%	9.7%	-31	-35	11.1%
Legal and professional fees	-2	-8	-2	-9	-74.7%	13.2%	-70.7%	-17	-19	11.2%
Depreciation on P&E	0	0	0	-1	-40.5%	19.9%	3.6%	-2	-3	84.8%
Lease expenses	-1	-1	-1	-1	-17.6%	0.7%	-5.9%	-4	-4	2.0%
Marketing expenses	-1	-2	0	-2	-84.5%	-77.8%	-83.7%	-6	-10	75.2%
Other income/ (expense)	0	-2	0	-12	-96.5%	-43.0%	-72.8%	-5	-49	NM
Total Expenses	-56	-98	-56	-95	-40.4%	1.3%	-42.4%	-280	-375	34.0%
EBITDA	131	118	133	145	-8.2%	1.5%	12.1%	516	546	5.8%
EBIT	121	110	123	135	-8.7%	1.9%	12.5%	479	508	6.1%
Income from financial assets	0	0	0	0	NM	NM	NM	0	0	NM
Interest inc from a related party	0	0	0	0	NM	NM	NM	0	0	NM
Finance income	3	3	3	3	22.7%	5.5%	23.5%	13	10	-22.1%
Profit before tax	124	112	127	138	-8.1%	2.0%	12.8%	492	518	5.3%
Income Tax Expense	-11	-10	-11	-12	-8.4%	2.0%	12.4%	-44	-47	5.4%
Net Profit	113	102	115	125	-8.1%	2.0%	12.8%	447	471	5.3%

FABS estimate & Co Data

Alef Education - Margins

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Operating Profit	68.5%	52.8%	68.6%	13	1,581	63.1%	57.5%	-559
EBITDA	74.0%	57.1%	73.9%	-12	1,685	68.0%	61.8%	-617
Net Profit	64.0%	49.2%	64.2%	18	1,492	59.0%	53.4%	-559

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%	1.21
Dividend Discount Model (DDM)	1.83	20.0%	0.37
Relative Valuation (RV)	1.25	10.0%	0.12
Weighted Average Valuation (AED)			1.70
Current market price (AED)			0.953
Upside/Downside (%)			+78%

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 5.1%, beta of 0.85 and equity risk premium of 3.9%. 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)	2,326
Terminal value (AED, Mn)	9,820
FV to Common shareholders (AED Mn)	12,146
No. of share (Mn)	7,000
Current Market Price (AED)	0.954
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	471	719	732	794	853
D&A	38	49	67	79	90
Net Capex	-68	-81	-96	-113	-134
Change in working capital	-51	-165	-36	-68	-70
Free Cash Flow to Equity (FCFE)	391	523	667	691	739
Discounting Factor	0.96	0.89	0.82	0.75	0.70
Discounted FCFE	281	463	545	522	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)	2,593
Terminal value (AED, Mn)	10,199
Equity Value (AED, Mn)	12,792
No. of share (Mn)	7,000
Current Market Price (AED)	0.95
Fair Value per share (AED)	1.83

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend paid in -					
H1	212	324	329	357	384
H2	212	324	329	357	384
Free Cash Flow to Equity (FCFE)	424	647	659	715	768
Discounting Factor	0.96	0.89	0.82	0.75	0.70
Discounted FCFF	407	574	539	539	534

Source: FAB Securities

3) 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 22.2x and an EV/EBITDA multiple of 12.1x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Blackbaud Inc	2,914	10.4	9.7	14.5	13.4
Stride Inc	6,468	11.1	10.2	20.5	19.0
3P Learning Ltd	107	12.4	10.8	15.4	15.4
D2L Inc	523	13.2	10.7	30.8	22.2
ELM	21,260	31.4	24.8	39.0	30.3
Coursera Inc	1,356	11.8	9.5	23.8	19.7
Average		15.1x	12.6x	24.0x	20.0x
Median		12.1x	13.2x	22.2x	19.4x
Max		13.0x	13.7x	29.1x	21.6x
Min		11.3x	14.2x	16.7x	16.3x

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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