

Sure Global Tech Co. (SURE)

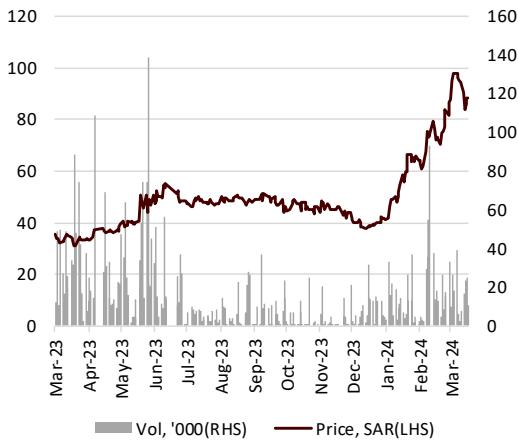
Target Price: SAR 120.4/share

Upside: 37.6%

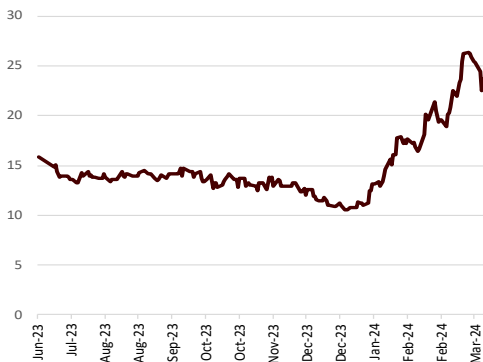
Recommendation	Buy
Current Market Price (SAR)	87.5
52wk High / Low (SAR)	100.0/32.7
Mkt. Cap. (USD/SAR Mn)	181.3/680.0
Shares Outstanding (mn)	7.7
Free Float (%)	39.7%
3m Average Vol. (000)	14.6
3m Avg Daily Turnover (SAR'000)	100
Dividend Yield '24e (%)	2.2%
P/E'24e (x)	18.6
EV/EBITDA'24e (x)	14.1

Source: Bloomberg, Yaqeen Capital

Price Volume Performance



Price to EPS



Major Shareholders (%)

Mohammed Abdulrahman Abdullah Al-Shalan	5.24%
Arab Knowledge Trading Company	57.77%

Source: Bloomberg, Yaqeen Capital

We initiate coverage on Sure Global Tech Co. (SURE) and assign a 'BUY' rating with a target price of SAR 120.4/sh., offering an upside of 37.6%. The stock currently trades at FY24e P/E of 18.6x.

- Saudi Arabia's economy is on track for moderate growth, largely propelled by the non-oil sector. Despite expected declines in oil-related GDP due to production cuts, sustained expansion is predicted in non-oil sectors. This momentum is supported by governmental initiatives like Vision 2030, prioritizing diversification into technology, tourism, and renewable energy to lessen dependency on oil and unlock new economic avenues. Such a favorable economic environment bodes well for companies like Sure, positioned to capitalize on the burgeoning opportunities in the technology sector.
- The technology sector in Saudi Arabia is experiencing a remarkable surge, with the ICT industry valued at over \$40.9bn, making it the largest and fastest-growing sector in the MENA region. This growth is fueled by significant government support and investments in cutting-edge technology and infrastructure, coupled with a strong emphasis on digital transformation. Projections suggest substantial growth, with the Internet of Things (IoT) market expected to reach \$2.9bn by 2025 and public cloud spending projected to hit \$2.5bn by 2026. With Vision 2030 acting as a catalyst for digitalization across various industries, Saudi Arabia emerges as a prime hub for tech companies to thrive and innovate.
- SURE is a leading IT player providing solutions in cybersecurity, e-government services, and infrastructure, including custom software and cloud-based products. Despite a revenue dip in FY 2023 attributed to a completed project, robust government orders and a thriving ICT market position the company for future growth. We anticipate revenue to expand by 15.6% and 10.6% in FY 2024 and 2025, respectively.
- SURE maintains healthy and improving operating profit margins, achieving 16.1% in FY 2023. This positive trend is set to persist due to their focus on higher-margin services. We project further margin enhancement to 17.7% in FY 2024 and an increase of 500-550 basis points by 2028. Additionally, SURE's dedication to shareholder returns is evident through consistent dividends and robust cash flow generation. We anticipate stable dividend payouts, enabling shareholders to reap the rewards of the company's success.

Key Indicators

Year	2021	2022	2023	2024e	2025e
Revenue (SAR mn)	185.4	207.7	194.3	224.5	248.5
Net income (SAR mn)	18.1	24.1	28.7	36.2	42.3
Gross profit margin (%)	22.2%	24.8%	29.1%	30.1%	30.7%
Net profit margin (%)	9.8%	11.6%	14.8%	16.1%	17.0%
RoE (%)	24.1%	27.1%	27.2%	28.9%	28.4%
P/E (x)		13.1	10.6	18.6	15.9
EV/EBITDA (x)		9.1	7.2	14.1	11.7

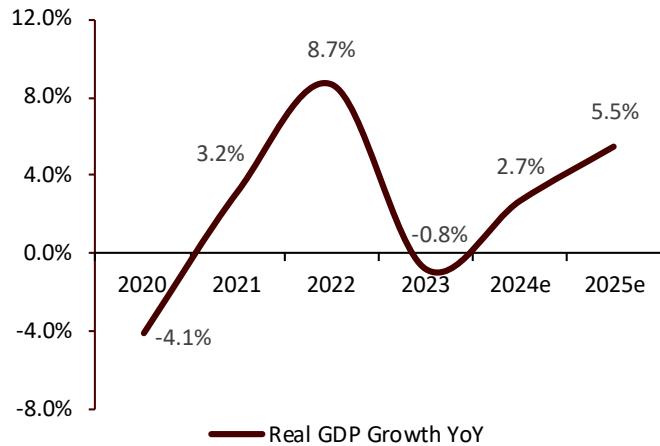
Source: Company filings, Yaqeen Capital

Macro-economic Overview

Saudi Arabia's GDP is expected to grow at moderate rate aided by non-oil sector

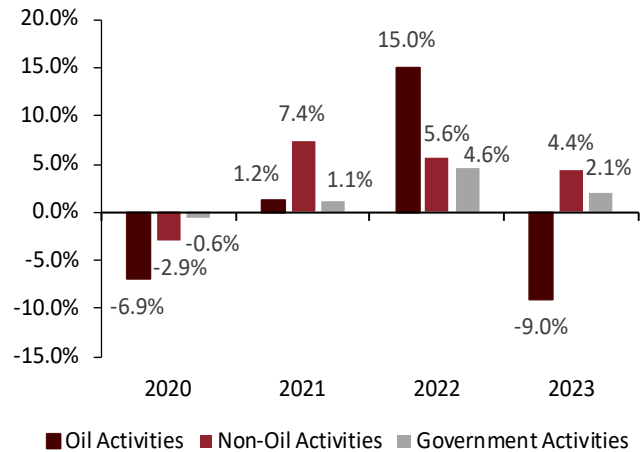
Saudi Arabia's GDP is poised to grow at a moderate rate, driven by the non-oil sector, marking a robust recovery from pandemic-induced lows. Fiscal and monetary policies have played a pivotal role, including direct financial assistance to citizens and tax breaks for businesses, fostering a strong rebound. In FY 2022, GDP surged by 8.7% YoY, propelled by a 15.0% YoY increase in oil activities and a 5.0% YoY growth in non-oil sectors. However, in FY 2023, GDP experienced a slight decline of 0.8% YoY, primarily due to a notable 9.0% YoY decrease in oil-related activities amidst OPEC+ production cuts. Nevertheless, the non-oil sectors exhibited resilience, expanding by 4.4% YoY.

Fig. 1: Saudi economy to grow moderately post FY 2023



Source: GASTAT, IMF, Yaqeen Capital

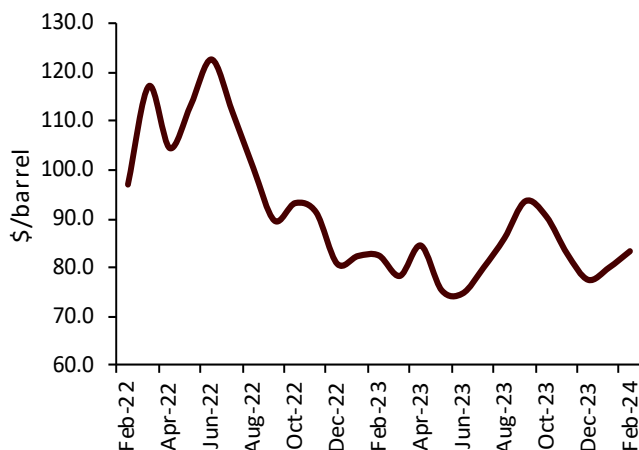
Fig. 2: Real GDP growth by economic activities trend



Source: GASTAT, Yaqeen Capital

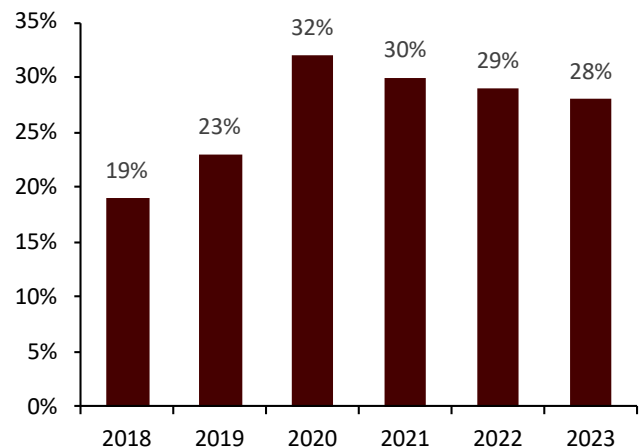
Going forward, the IMF forecasts Saudi Arabia's GDP to grow by 2.7% in FY 2024 and 5.5% in FY 2025, positioning it as the second-best performer among G20 nations after India. The sustained momentum in the non-oil sector is anticipated, driven by initiatives like Vision 2030, which heavily invests in technology, tourism, and renewable energy, fostering economic diversification and job creation, thus reducing dependency on oil revenues in the long term.

Fig. 3: Brent Oil price trend



Source: EIA, Yaqeen Capital

Fig. 4: Debt to GDP ratio remains stable



Source: SAMA, Yaqeen Capital

The surge in crude oil prices has resulted in Saudi Arabia's first budget surplus in nearly a decade in FY 2022, bolstering overall government revenue. The recent OPEC+ production cut is expected to offset revenue losses, ensuring minimal impact on the budget. Stable revenues from oil activities will continue to support funding for economic diversification and non-oil sector growth, crucial for reducing dependency on oil revenues. Furthermore, the Kingdom's low debt-to-GDP ratio allows it to readily secure additional debt to support its diversification program, as evidenced by tapping debt markets for \$12bn to address budget deficits and support domestic economic expansion.

Saudi ICT Sector overview:

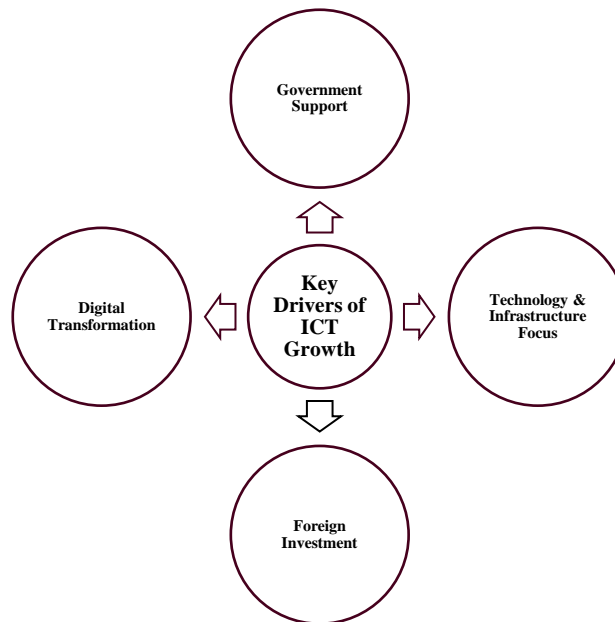
Saudi Arabia's Booming ICT Sector

The economic growth story extends to the thriving ICT sector, valued at over \$40.9bn and contributing a significant 4.1% to the Kingdom's GDP. This sector is the largest and fastest-growing in the MENA region, making it a prime target for investors seeking high-growth opportunities.

Key Drivers of ICT Growth:

- **Government Support:** The \$2.5bn National Technology Development Program aimed to create 10,000 jobs and generate \$10bn in revenue by 2026.
- **Focus on Technology and Infrastructure:** Investments in IT services (cloud, AI, etc.), communication infrastructure (5G), and mega-projects to lay the groundwork for a future-proof digital economy.
- **Digital Transformation:** Efforts across government, telecom, finance, and oil & gas sectors are driving growth in cloud computing, cybersecurity, and e-commerce.
- **Foreign Investment:** The 2024 LEAP conference witnessed a staggering \$13.4bn in ICT investment announcements.

Fig. 5: ICT Growth Drivers



Source: ITA, Yaqeen Capital

Opportunities in the ICT Sector:

- **Cybersecurity:** The Cybersecurity market is expected to reach \$429mn in 2024 and grow at a CAGR of 10.4% to reach \$636mn by 2028.
- **IoT & Smart Cities:** Building several smart cities and aiming to be the world's most digitized nation by 2030, with an IoT market projected to reach \$2.9bn by 2025 (CAGR 12.8%).
- **Cloud Computing:** Public cloud spending is projected to reach \$2.5bn by 2026 (CAGR 25.0%).
- **E-commerce:** The market is valued at \$5.2bn, with over 50.0% of the population shopping online.

The Saudi ICT market is poised for rapid growth, fueled by the rising demand for digital transformation and cloud services. With the government's focus on economic diversification and technology adoption, opportunities for ICT companies in Saudi Arabia are set to expand. Government initiatives such as Mega Smart City projects and digitization efforts aligned with Vision 2030 drive optimism in the sector. The growing e-commerce landscape and cybersecurity requirements further enhance the market's prospects. Additionally, the emphasis on modernizing government services increases the demand for innovative solutions, creating opportunities for companies like SURE. Overall, the ICT sector in Saudi Arabia presents promising growth opportunities for companies to flourish and expand.

Company Profile:

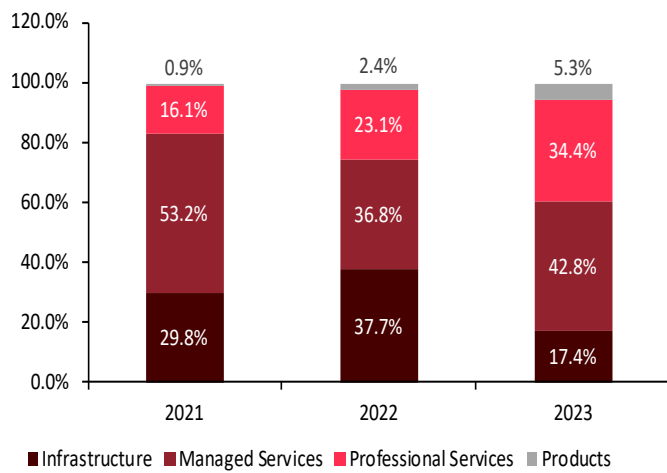
SURE is an information technology company that offers a wide range of tech solutions. They focus on IT, cybersecurity, e-government services, and infrastructure systems. They also provide consulting services to design custom solutions for different industries. Their business is divided into four main segments: Professional Services (developing software solutions), Infrastructure (IT security and infrastructure solutions), Managed Services (supporting clients' systems), and Products (cloud-based software for hotels and electronic boards).

Revenue is expected to grow in expanding ICT market

SURE, a key player in the ICT sector, experienced a 6.4% YoY revenue decline in FY 2023 due to the completion of an infrastructure project in the preceding year. However, the company is expected to witness continued revenue expansion, driven by strong order wins from the government. Revenue upticks in managed services, digital services, and products sectors, boasting superior profit margins, counterbalance the decline in the infrastructure segment.

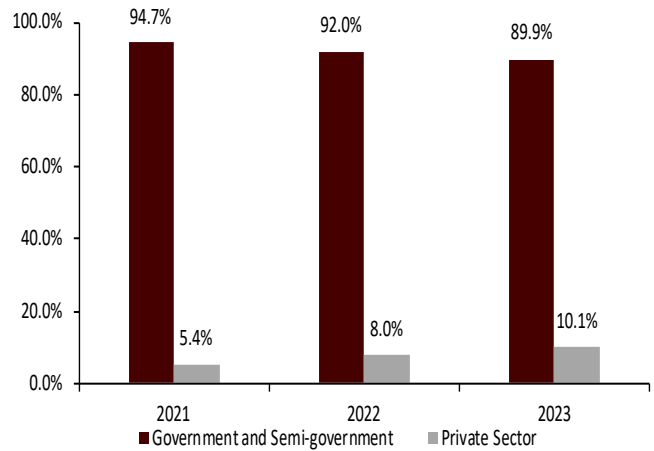
With a promising outlook for the ICT sector and SURE's expertise in a wide range of technological solutions including information technology, cybersecurity, e-government services, integrated solutions, and IT infrastructure systems, the company is well-positioned to capitalize on favorable market conditions and sectoral tailwinds. Accordingly, we forecast SURE's revenue to expand by 15.6% and 10.6% in FY 2024 and 2025, respectively.

Fig. 6: Revenue as per Business Sectors



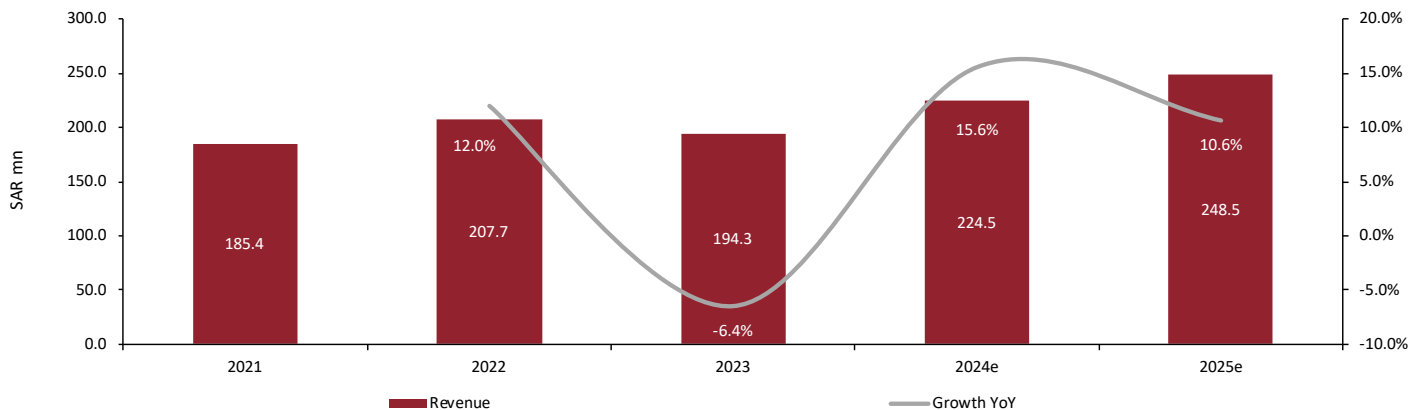
Source: Company filings, IPO prospectus, Yaqeen Capital

Fig. 7: Major portion of revenue comes from the government



Source: Company filings, IPO prospectus, Yaqeen Capital

Fig. 8: Revenue trend



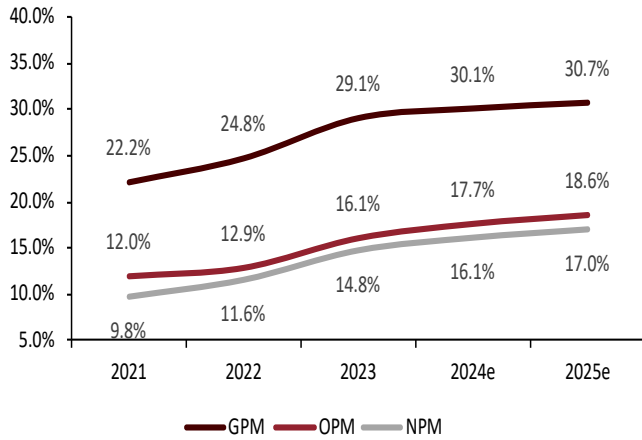
Source: Company filings, Yaqeen Capital

Margins are expected to maintain its growth trajectory

SURE has demonstrated a consistent positive trend in operating profit margins since FY 2021, achieving a notable improvement from 12.9% in FY 2022 to 16.1% in FY 2023. This upward trajectory is expected to persist, driven by the company's strategic focus on higher-margin products and services.

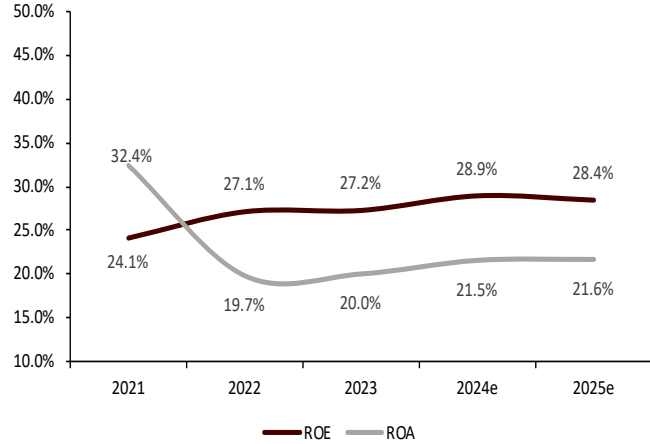
Looking forward, we anticipate a further increase in the operating profit margin to 17.7% in FY 2024e, reflecting a 160bps improvement compared to FY 2023. This momentum is projected to continue in the medium-to-long term, with our forecast indicating an expansion of OPM by 500 to 550 bps by the end of our forecast period in FY 2028. Overall, SURE's profitability is poised to steadily rise over the coming years.

Fig. 9: Profitability ratios remains in an uptrend



Source: Company filings, Yaqeen Capital

Fig. 10: ROE and ROA trend

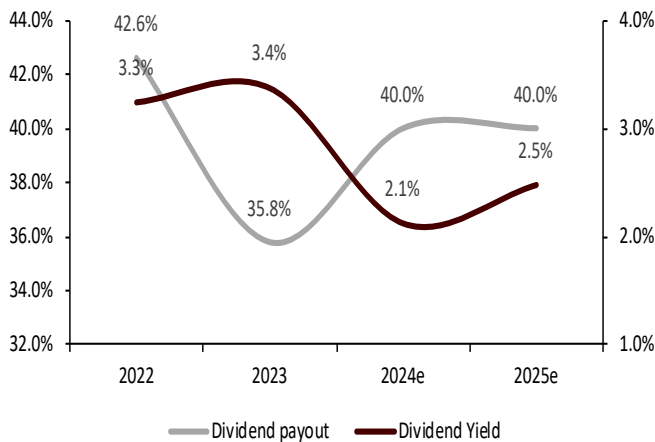


Source: Company filings, Yaqeen Capital

Solid Cash Flow Bodes Well for Dividend Sustainability

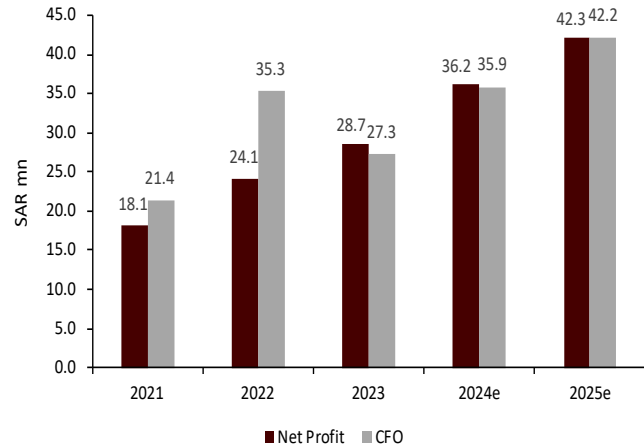
SURE's dividend payout of SAR 2 per share in FY 2022 highlights its commitment to rewarding shareholders. Looking ahead, we anticipate the company sustaining its strong cash flow generation, supported by consistently low capital expenditure (capex) levels in recent years. This trend, combined with our forecast for increasing profitability and a steady decrease in the percentage of receivables as sales (~28%), suggests a significant potential for free cash flow generation.

Fig. 11: Company is expected to maintain stable dividend payout



Source: Company filings, Yaqeen Capital

Fig. 12: Higher cash from operations is expected



Source: Company filings, Yaqeen Capital

With a dividend payout ratio of 43% of earnings in FY 2022 and improving liquidity, SURE's commitment to shareholder returns remains robust. Management is expected to maintain a stable dividend payout, ensuring shareholders continue to benefit from the company's financial success.

Outlook and Valuation:

The positive momentum in the Saudi Arabian economy, particularly within the ICT sector, lays a fertile ground for SURE's future success. With its comprehensive solutions spanning software development, infrastructure, and FinTech, the company aligns perfectly with the nation's digital transformation goals, positioning itself as a key participant in this growth opportunity. Leveraging its established client base, SURE is poised for healthy margins and profitability.

Looking ahead, SURE's strong financial performance, coupled with its transition from the Nomu - Parallel Market to the Main Market, which will result in higher liquidity, is expected to lead to potential share price appreciation, along with the prospect of attractive

dividends for shareholders. Despite a marginal revenue decline observed in FY 2023, we anticipate an upturn in revenue owing to substantial order acquisitions in its pipeline. Based on equal weighting to DCF valuation (WACC: 8.6%; terminal growth rate: 2%) and relative valuation (target forward 1 year P/E: 27.0), we arrive at a fair value of SAR 120.4 for SURE. Consequently, we advocate a Buy rating for the stock.

Valuation Summary

DCF Method (In SAR 000's, except stated otherwise)	2024e	2025e	2026e	2027e	2028e
	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028
No. of days	275	640	1,005	1,370	1,736
Time Remaining (Years)	0.75	1.75	2.75	3.75	4.76
Operating Profit Before Interest and Tax	39,676	46,274	53,569	60,539	67,797
<i>growth(%)</i>		16.6%	15.8%	13.0%	12.0%
Tax rate	9.5%	10.0%	10.0%	10.0%	10.0%
Post-tax Operating Profit (NOPAT)	35,896	41,647	48,212	54,485	61,018
Add: Depreciation & Amortization	2,163	2,163	2,398	2,577	2,716
Less: Change in Working Capital	(4,352)	(3,441)	(2,599)	(4,255)	(2,973)
Less: Capex	(2,245)	(2,485)	(2,730)	(2,070)	(2,224)
Free Cash Flow to Firm	31,461	37,884	45,281	50,738	58,536
Discount factor	0.94	0.87	0.80	0.73	0.68
PV of Free Cash Flows	29,572	32,799	36,110	37,269	39,596
Sum of Present Values of FCFs	175,347				

Free Cash Flow (t+1)	59,707
Terminal Value	909,287
Present Value of Terminal Value	615,075

EV	790,422
Less:	
Debt	967
Minority Interest	-
Employee Retirement Benefits	6,227
Add:	
Cash and Bank Balances	65,630
Equity Investment	12,349
Equity Value	875,595
Number of Share Outstanding	7,695
Fair Value per Share (SAR)	113.8
Upside/Downside	30.0%
Current Price	87.5

Inputs	
Valuation Date	3/31/2024
Risk Free rate (Rf)	4.2%
Adjusted Beta	1.0
Market Risk Premium (Rm-Rf)	4.4%
Cost of Equity (Ke)	8.6%
Terminal growth rate (g)	2.0%
Pre-tax Cost of Debt	5.5%
Effective Tax rate	10.0%
After-tax Cost of Debt (excluding lease liabilities)	5.0%
Weight of debt	0.1%
WACC	8.6%

Relative Valuation

EPS 2024e (SAR)	4.70
Target P/E multiple for 2024E (x)	27.0x

Target value per share (SAR) 127.0

Valuation Method	Fair Value per share (SAR)	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	113.8	50.0%	56.9	30.0%
Relative Valuation - P/E	127.0	50.0%	63.5	45.1%
Fair Value (SAR)			120.4	
CMP (SAR)			87.5	
Upside/(Downside)			37.6%	

Source: Company Reports, Bloomberg, Yaqeen Capital

Summary Financials

In SAR 000's, except stated otherwise

Income Statement	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY27e	FY28e
Net sales/Revenues	185,433	207,673	194,294	224,546	248,458	272,993	295,726	317,765
Cost of sales	144,275	156,260	137,833	156,977	172,160	187,316	201,080	214,200
Gross profit	41,158	51,413	56,461	67,568	76,298	85,677	94,646	103,565
General and administrative expenses	(15,401)	(16,991)	(17,950)	(19,691)	(21,074)	(22,410)	(23,750)	(24,956)
Operating profit	22,265	26,820	31,321	39,676	46,274	53,569	60,539	67,797
Other revenues	-1,120	181	356	383	395	407	420	434
Finance cost	(562)	(194)	(267)	(271)	(243)	(214)	(183)	(152)
Profit before zakat and income tax	20,583	26,807	31,693	40,211	46,961	54,431	61,597	69,079
Zakat	(2,455)	(2,730)	(3,020)	(4,021)	(4,696)	(5,443)	(6,160)	(6,908)
Profit for the period	18,128	24,077	28,674	36,189	42,265	48,988	55,437	62,171
EPS	3.6	3.1	3.7	4.7	5.5	6.4	7.2	0.0
DPS	0.0	1.3	1.3	1.9	2.2	2.5	2.9	0.0

Balance Sheet	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY27e	FY28e
Cash and cash equivalents	30,638	51,476	65,630	84,502	107,032	133,757	164,378	200,237
Trade receivables, net	51,792	54,572	54,809	58,948	64,795	70,003	75,569	79,838
Right of use leased assets	839	811	746	613	461	361	44	-214
Property, plant and equipment, net	2,451	2,246	2,185	2,195	2,206	2,210	1,911	1,586
Total assets	112,004	131,815	155,560	180,857	210,148	242,870	280,195	321,467
Employee benefit obligation	5,433	5,567	6,227	6,351	6,478	6,608	6,740	6,875
Lease Liabilities	642	211	730	730	730	730	730	730
Trade payables	7,122	6,095	8,260	7,673	8,567	9,356	10,109	10,809
Total liabilities	30,334	35,754	41,091	44,674	48,605	51,934	55,997	59,966
Share capital	51,298	51,298	76,946	76,946	76,946	76,946	76,946	76,946
Retained earnings	21,889	39,002	31,762	53,475	78,834	108,227	141,490	178,792
Equity Attributable to Shareholders	81,670	96,061	114,470	136,183	161,542	190,935	224,198	261,500

Cash Flow Statement	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY27e	FY28e
Net cash generated from operating activities	21,351	35,300	27,253	35,865	42,164	49,263	55,049	63,104
Net cash generated from investing activities	-1,754	-2,387	-2,104	-2,245	-2,485	-2,730	-2,070	-2,224
Net cash (used in) provided by financing activities	-11,762	-12,075	-10,994	-14,747	-17,149	-19,809	-22,358	-25,020
Cash and cash equivalents at the end of the period	30,638	51,476	65,630	84,502	107,032	133,757	164,378	200,237

Ratios	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY27e	FY28e
Gross margin (%)	22.2%	24.8%	29.1%	30.1%	30.7%	31.4%	32.0%	0.0%
EBITDA margin (%)	13.1%	14.0%	17.2%	18.6%	19.6%	20.6%	21.4%	0.0%
Operating margin (%)	12.0%	12.9%	16.1%	17.7%	18.6%	19.6%	20.5%	0.0%
Net margin (%)	9.8%	11.6%	14.8%	16.1%	17.0%	17.9%	18.7%	0.0%
ROA	32.4%	19.7%	20.0%	21.5%	21.6%	21.6%	21.2%	0.0%
ROE	24.1%	27.1%	27.2%	28.9%	28.4%	27.8%	24.7%	0.0%
Current Ratio (x)	3.8	3.8	4.0	4.3	4.6	5.0	5.3	0.0
Capex/Sales	0.9%	0.4%	1.6%	0.7%	0.7%	0.7%	0.5%	0.0%
Debt-Equity Ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	16.1	12.5	14.9	17.7	21.0	24.8	29.1	0.0
Dividend Payout Ratio	0.0	0.4	0.4	0.4	0.4	0.4	0.4	0.0
Dividend Yield (%)	NA	3.3%	3.4%	2.2%	2.5%	2.9%	3.3%	0.0%
P/E (x)	NA	13.1	10.6	18.6	15.9	13.7	12.1	0.0
P/BV (x)	NA	3.3	2.6	4.9	4.2	3.5	3.0	0.0
EV/EBITDA (x)	NA	9.1	7.2	14.1	11.7	9.6	8.1	0.0

Source: Company Reports, Bloomberg, Yaqeen Capital

Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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