

## MIDROOG (MOODY'S)

**Amanet Management and Systems Limited**

**Tracking: November 2015**

**Rating series: A2.il**

**Rating outlook: Stable**

Midroog reconfirms its A2 rating with a stable outlook for a debenture credit line of up to NIS 30 million that may be raised by Amanet Management Systems Limited ("Amanet" or "the company").

### **Principle considerations for the rating**

The rating is supported by the good financial stability of the company based on a low level of leverage, a high degree of liquidity, a prominent business position in some of the fields in which the company operates and the positive reputation earned over dozens of years of operations. The company has synergy and reciprocal arrangements between the various fields of operations of the group which contributes to its business position competitive advantages, and a wide spread of clients in all areas of the economy with emphasis on clients in the public sector and a large number of projects. Amanet reports consistent organic growth in its revenues, with low rates of profitability in the two major segments of operations.

The company maintains a relatively high order backlog, with a ratio of backlog to revenues of around 1.1-1.3 (on the proportional consolidation basis), a high rate that indicates potentially high revenues in the short term and the existence of a basis for operations and further steady growth. In the opinion of Midroog, the company is expected to maintain its backlog volume, while in the short term the volume is likely to increase due to the expected approval of the state budget.

The information technology (IT) branch is rated by Midroog with a medium risk factor due to a high positive correlation to economic cycles and a tendency for sharper damage in times of depression due to deferment of investments, as well as tough competition, project based revenues structure, mainly short term, average rates of profitability in the software field and exposure to technological changes. The consultancy, project management and logistics segment comprises many fields of operations, and it is therefore difficult to quantify the branch risks in this segment. The wide range of projects and the relatively long term of contracts represent a positive factor that moderates the risk profile alongside tender based contracts and average profitability in most of the fields of operation.

The computer and software segment ("computer segment") has reported, beginning in 2014, impressive growth that contributes to the group's revenue spread. Efficiency measures at Tesnet together with its privatization and improvements in the terms of the

tender with the Accountant General have led to significant increase in profitability in the software segment although it is still comparatively low for the field.

The consultancy segment, in which the company enjoys a strong market position, has maintained its volume of operations despite the delay in approving the state budget. For 2014 and the first half of 2015 the segments profitability has decreased mainly due to a downturn in operations of an affiliate of Amanet in the consultancy segment. The improvement in profitability of the computer segment increased its proportion of total group operating earnings that relied until now mainly on the consultancy segment and contributes to the spread of revenues and sources of earnings.

The main risks to which the company is exposed include its project based nature ( an inherent risk in the field in which the company operates) and the fact that it is a small sized company which reduces its ability to absorb loss making projects and changes in the volumes of revenue in projects that increase the volatility of operating earnings.

The financial stability of the company is rated as high by Midroog, and it is based on the ability to generate relatively reasonable and stable cash compared to the negligible volume of debt at present. Conversely the weak rate of profitability and narrow cash flows restrict the rating level. An addition of NIS 30 million debt is likely to increase the rate of leverage and decelerate the rate of coverage, although these will remain within the range appropriate with the rating.

The basic scenario of Midroog anticipates that the company will finish 2015 with a growth rate higher relatively than the low growth that characterizes the company due to the significant increase in operations of Sysnet. The decrease in profitability of the consultancy segment has been offset by the improvement in the computer segment and is not expected, in the short term, to materially affect the cash flows of the company.

In the period of the rating outlook, the basic scenario is continued growth from organic sources of about 3% (on the proportional consolidation basis) due amongst other things to the macro-economic environment and the current backlog volumes of the company.