

Solutions by STC - 3Q22 Result Review

Analyst: Ayisha Zia

Previous Recommendation: **Hold**

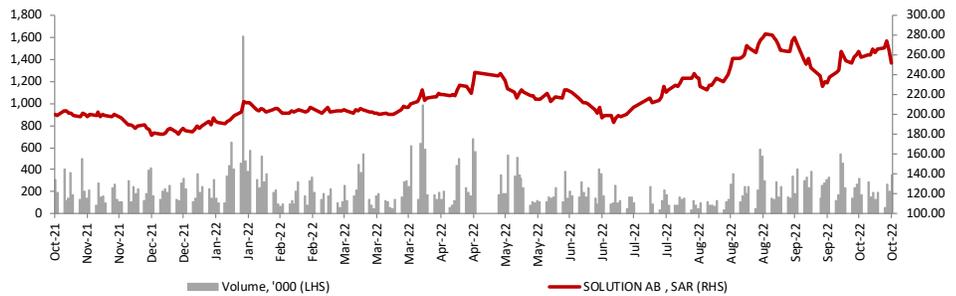
Target Price (SAR): **233.50**

Previous Reco. & Date: TP: SAR 233.5 per share; Accumulate on 02-Aug-2022

Upside / (Downside): -7%

Date: 10/27/2022

Bloomberg Ticker	SOLUTION AB
Current Market Price (SAR)	251.80
52wk High / Low (SAR)	293/178.4
12m Average Vol. (000)	225.9
Mkt. Cap. (USD/SAR mn)	8,039/30,216
Shares Outstanding (mn)	120.0
Free Float (%)	20%
3m Avg Daily Turnover (000)	54,739.8
6m Avg Daily Turnover (000)	49,865.4
P/E'22e (x)	27.5
P/Bv'22e (x)	11.1
Dividend Yield '22e (%)	2.2%
Price Perf. (1m/3m) (%)	8.1/6.2



Across-the-board increase in revenue, in line with our estimate

SOLUTIONS registered a healthy revenue growth across its business segments, as expected, with the IT Managed & Operational Services' revenue increasing the most (+18.5% YoY), followed by Digital Services (+18.2% YoY), and Core ICT Service (+10.7% YoY). This lifted the overall revenue by 14% YoY to SAR 2.2bn (our estimate: SAR 2.2bn).

Cost of revenue curbs operating profit growth; net income came in better than expected

Cost of revenue jumped about 16% YoY, because of which gross profit growth (+8% YoY) lagged revenue growth, in line with our expectations. However, almost flattish operating expenses and an increase in other operating income by SAR 9mn boosted operating profit, which rose 13% YoY to SAR 313.0mn, coming in 6% above our estimate. Net income grew at a more rapid clip by 17% YoY to SAR 300.0mn (8% beat).

Maintain target price

Post 3Q 2022 earnings performance, we maintain our SAR 233.50 target price on SOLUTIONS, as we do not see the deviation in earnings from our estimate as significant.

Income Statement												
(SAR mn)	3Q21	4Q21	1Q22	2Q22	3Q22	3Q22e	YoY (%)	QoQ (%)	Var (%)	9M 2021	9M 2022	YoY (%)
Sales/Revenue	1,951.5	2,060.3	2,418.5	2,254.5	2,227.0	2,227.2	14%	-1%	0%	5,755.0	6,900.0	19.9%
Gross Profit (Loss)	462.8	423.7	493.5	505.0	499.0	507.8	8%	-1%	-2%	1,284.0	1,498.0	16.7%
Operating Profit (Loss)	276.5	127.3	312.9	293.3	313.0	296.3	13%	7%	6%	771.0	920.0	19.3%
Net Profit (Loss) after Zakat and tax	257.2	114.4	282.9	273.1	300.0	277.5	17%	10%	8%	718.0	856.0	19.2%
Balance Sheet												
(SAR mn)	3Q21	4Q21	1Q22	2Q22	3Q22	3Q22e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	2,140.8	2,270.6	2,534.5	2,367.0	2,678.0	2,644.5	25%	13%	1%			
Key Ratios												
	3Q21	4Q21	1Q22	2Q22	3Q22	3Q22e						
Gross Profit Margin	23.7%	20.6%	20.4%	22.4%	22.4%	22.8%						
Operating Profit Margin	14.2%	6.2%	12.9%	13.0%	14.1%	13.3%						
Net Profit Margin	13.2%	5.6%	11.7%	12.1%	13.5%	12.5%						
Return on Equity (RoE)	48.1%	20.2%	44.6%	46.2%	44.8%	42.0%						
Annualized EPS (SAR)	8.57	3.81	9.43	9.10	10.00	9.25						
BVPS (SAR)					22.32	22.04						
TTM P/E (x)					31.1							
Current P/BV (x)					11.3							

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research; NA - Not available

For our earlier report on the sector, please [click here](#).

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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