

US\$8.7bn Market Cap. 40.00% Free Float US\$24.4mn Avg. Daily Value traded

Saudi Tadawul Group

TP revised to SAR220/sh; remain neutral.

Neutral

Price Target (SAR): 220

Current: 270.8

Upside/Downside: 18.8% below current

Valuation Multiples

	24E	25E	26E
P/E (x)	49.4	42.5	38.5
P/B (x)	9.8	9.2	8.8
EV/EBITDA (x)	39.2	33.5	29.7

Major Shareholders

Major Shareholders	% Ownership
Public Investment Fund	60.00

Price Performance

	1M	3M	YTD
Absolute	18.7%	15.6%	41.9%
Relative to TASI	16.3%	36.2%	34.6%

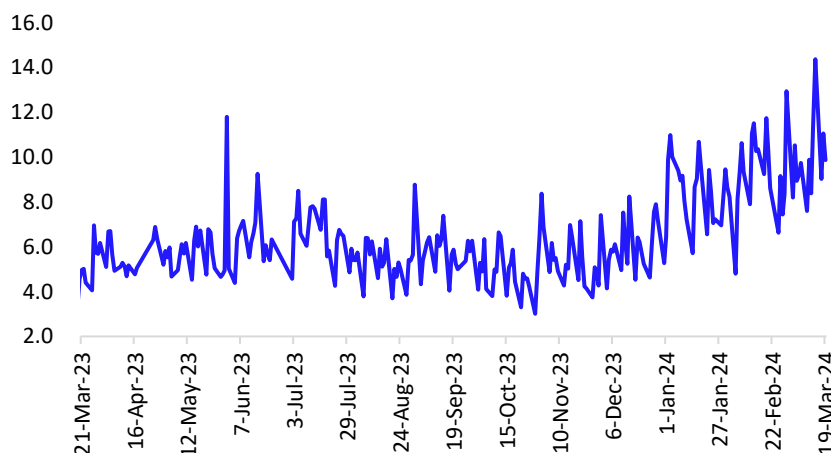
Earnings

(SAR mn)	2024E	2025E	2026E
Revenue	1,456	1,611	1,736
YoY %	35.7%	10.7%	7.7%
Gross Profit	927	1,064	1,176
GM Margin %	63.6%	66.1%	67.7%
YoY %	52.7%	14.9%	10.5%
EBITDA	686	797	894
EBITDA Margin	47.1%	49.5%	51.5%
Net Income	649	756	835
Net Income Margin %	44.6%	46.9%	48.1%
YoY %	68.7%	16.1%	10.3%
EPS	5.5	6.4	7.0
DPS	3.8	4.8	5.6
P/E	49.4	42.5	38.5
EV/EBITDA	39.2	33.5	29.7
ROE	20%	22%	23%

Source: Company data, Al Rajhi Capital

FY23 was a slow year for Saudi Tadawul Group (STG), where historic high interest rates forced investors to shift their focus from risky assets to safer havens. This was evident in the total average daily traded value (ADTV), which clocked in at SAR5.4bn for FY23, down 22% YoY. Resultantly, revenues for the company declined by 1.6% to SAR1.1bn, while net profit slipped by 8.1% YoY. The company managed to cushion the steep fall in ADTV via its investment income, which grew by 127% YoY and constituted 33% of the total bottom-line. Going forward, STG has witnessed a stellar start to FY24, where ADTV has jumped significantly to SAR9.1bn YTD, up by a whopping 116% YoY and on a QoQ basis, so far, ADTV is up 67%. The rise in ADTV can be attributed to renewed interest in the equity market owing to expected rate cuts this year, significant progress on Vision 2030 goals, and the Kingdom winning major events like the Riyadh Expo and FIFA World Cup. We believe the uptrend in ADTV will persist throughout the year and upgrade our ADTV assumption for FY24 to SAR8.8bn. The company has high operating leverage, and increased trading activity will help boost the margins for the company. To recall, in FY2021, when ADTV was at SAR8.9bn, the company recorded gross margins of 70%. Consequently, this increases our FY24 revenue and earnings by 28% and 25%, respectively. We also upgrade our valuations to SAR220/sh, implying a FY24/25e P/E of 49.4/42.5. The stock has rallied by 42% since the start of the year; hence, we maintain our Neutral rating on STG.

Figure 1 Average Daily Traded value (ADTV in SARbn)



Source: Tadawul, Al Rajhi capital

4Q23 results: In 4Q23, STG experienced significant growth in revenues, jumping by 37.8% YoY and 19.7% QoQ to SAR332mn. This increase was primarily attributed to higher ADTV up by 13.3% YoY, a rise in post-trading revenues and a slight uptick in revenue from Data and Technology Services, supported by the DirectFN acquisition. Gross profit also saw a notable increase of 36.8% YoY and 29.1% QoQ, with a gross margin of 58.4%. Operating profit followed suit, witnessing an 88.2% YoY increase and a 52.1% QoQ increase, resulting in a margin of 35.1%, surpassing expectations. However, net income declined by 10.3% YoY and 14.7% QoQ to SAR92mn, which the company attributes to higher finance expenses and increased losses from associates.

FY23 results: In FY23, revenues experienced a modest 1.6% YoY decline, primarily attributed to reduced revenues from Capital Markets, which was partially balanced by increased earnings from Data & Technology services. This decline in trading revenues was driven by a notable 22% decrease in equity segment trading value compared to FY22. Gross profit also saw a downturn, declining by 13.6% YoY, with the margin contracting to 56.6% from FY22's 64.4%, primarily due to escalated salary expenses resulting from a larger headcount. Moreover, net income witnessed an 8.1% YoY decrease, primarily stemming from diminished margins and losses from minority and associate ventures, albeit partially mitigated by heightened investment income fuelled by prevailing higher interest rates. The management announced a dividend of SAR2.3/sh for FY23, translating to a dividend yield of 0.8%.

Figure 2 **Earnings Summary Q4 2023**

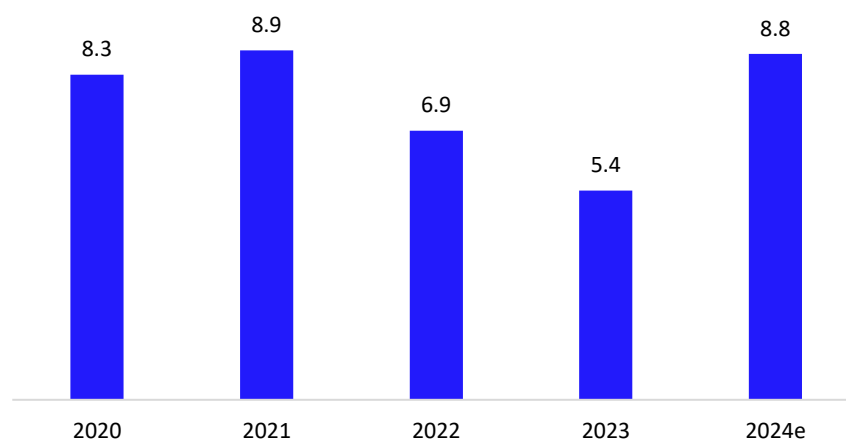
(SAR mn)	Q4 2023	Q3 2023	Q4 2022	y-o-y	q-o-q	FY23	FY22	y-o-y
Revenue	332	277	241	37.8%	19.7%	1,073	1,090	-1.6%
Gross Profit	194	150	142	36.8%	29.1%	607	703	-13.6%
G. margin	58.4%	54.2%	58.9%			56.6%	64.4%	
Op. profit	117	77	62	88.2%	52.1%	328	446	-26.4%
Op. margin	35.1%	27.6%	25.7%			30.6%	40.9%	
Net profit	92	102	57	60.5%	-10.3%	390	425	-8.1%
Net margin	27.6%	36.9%	23.7%			36.4%	38.9%	

Source: Company data, Al Rajhi Capital

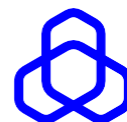
Valuations: We utilize a mix of relative valuation techniques to assess the company's worth. Our valuation is based on employing the 2024e P/E, EV/EBITDA, and Price-to-Book (P/B) consensus multiples from a global peer set of STG and applying a premium to it. Using the above-mentioned approach, we arrive at a weighted average target price of SAR220/sh. The stock provides a downside of 18.8% from its last closing. Hence, we maintain a "Neutral" rating on STG.

Key Risks: i) lower than expected ADTV; ii) slower than expected uptake of SSOs; iii) slowdown in listing activity; iv) higher volatility due to retail investors.

Figure 3 **Annual Average Daily Traded Value (ADTV in SARbn)**



Source: Tadawul, Al Rajhi Capital



Key Financials

Figure 4 Income Statement

Income Statement (SARmn)	2024E	2025E	2026E
Sales	1,456	1,611	1,736
<i>y-o-y growth</i>	35.7%	10.7%	7.7%
Cost of Sales	(529)	(547)	(560)
<i>y-o-y growth</i>	13.6%	3.3%	2.4%
Gross Income	927	1,064	1,176
<i>y-o-y growth</i>	52.7%	14.9%	10.5%
<i>margins</i>	63.6%	66.1%	67.7%
General and administrative expenses	(325)	(356)	(376)
Operating Income	601	708	800
<i>y-o-y growth</i>	83.1%	17.7%	13.0%
<i>margins</i>	41.3%	43.9%	46.1%
Investments and other	129	136	132
Financing Expense	(5)	(5)	(5)
Income from Affiliate	(3)	0	0
Net income before tax	722	840	927
Zakat & Tax	(72)	(84)	(93)
<i>tax rate</i>	10.0%	10.0%	10.0%
Net Income	649	756	835
<i>y-o-y growth</i>	68.7%	16.1%	10.3%
<i>margins</i>	45.2%	47.4%	48.6%
EPS	5.5	6.4	7.0
DPS	3.8	4.8	5.6

Source: Al Rajhi Capital estimates

Figure 6 Cash Flow Statement

Cash Flow Statement (SARmn)	2024E	2025E	2026E
Net Cash Flows from Operations	811	867	947
Cash Flows from Investments	(62)	(68)	(74)
Cash Flows from Financing	(531)	(644)	(746)
Net Change in Cash	218	154	128

Source: Al Rajhi Capital estimates

Figure 5 Balance sheet

Balance Sheet (SARmn)	2024E	2025E	2026E
Cash & Cash Equivalents	2,268	2,422	2,550
Deposits with SAMA	3,527	3,527	3,527
Receivables, Net	116	129	139
Prepaid expenses and other assets	121	126	130
Investments in associates	269	269	269
Total Current Assets	6,302	6,473	6,616
Property and equipment	242	269	297
Right of Use Assets	232	249	267
Investments	391	391	391
Other Non-Current Assets	692	656	622
Total Non-Current Assets	1,557	1,565	1,578
Total Assets	7,859	8,038	8,194
Liabilities and Equity			
Short-term Debt & Leases	65	69	73
Trade Payable	57	60	63
Accrued expenses and other liab.	341	352	361
Margin Deposits from clearing participants	3,508	3,508	3,508
Other Current Liabilities	155	154	153
Total Current Liabilities	4,126	4,143	4,158
Long-Term Debt & Leases	112	74	38
Employees' end of service benefits	108	116	125
Other Non-Current Liabilities	188	188	188
Total Non-Current Liabilities	407	378	350
Total Liabilities	4,533	4,521	4,508
Total Equity	3,326	3,517	3,686
Total liabilities and equity	7,859	8,038	8,194

Source: Al Rajhi Capital estimates

Figure 7 Key Ratios

Ratios	2024E	2025E	2026E
Dividend Payout	70%	75%	80%
ROA	8%	10%	10%
ROE	20%	22%	23%
Asset turnover	0.2x	0.2x	0.2x
P/E	49.4x	42.5x	38.5x
EV/EBITDA	39.2x	33.5x	29.7x
P/BV	9.8x	9.2x	8.8x
Dividend yield	1.4%	1.8%	2.1%

Source: Al Rajhi Capital estimates

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