

## Solutions by STC - 3Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation: **Hold**

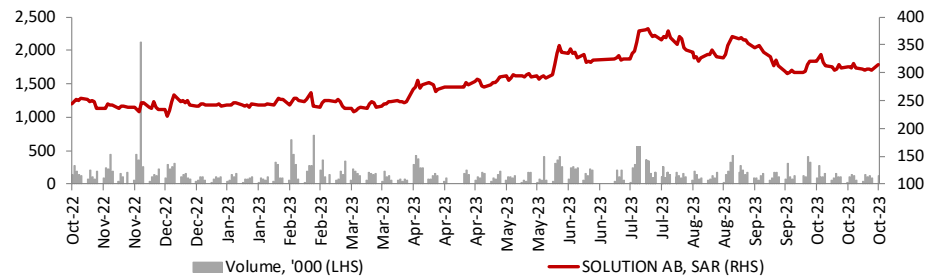
Target Price (SAR): **335.00**

Previous TP & Date: TP: SAR 335.0 per share on 10-Sep-2023

Upside / (Downside): 6%

Date: 10/29/2023

Bloomberg Ticker	SOLUTION AB
Current Market Price (SAR)	315.00
52wk High / Low (SAR)	392.2/216.8
12m Average Vol. (000)	166.1
Mkt. Cap. (USD/SAR mn)	10,075/37,800
Shares Outstanding (mn)	120.0
Free Float (%)	20%
3m Avg Daily Turnover (000)	46,402.2
6m Avg Daily Turnover (000)	50,738.7
P/E'23e (x)	30.7
P/Bv'23e (x)	11.9
Dividend Yield '23e (%)	2.1%
Price Perf. (1m/3m) (%)	-1.4/-13.2



### Solutions' top line surges around 37% YoY in 3Q 2023 driven by Core ICT services, matching our expectation

SOLUTIONS' top line in the last quarter surged 37% YoY, matching our estimate (variance of +2.9%). Revenue from Core ICT Services climbed 45.4% YoY, outpacing our expectations of ~14% YoY growth by a wide margin. Consequently, the segment's contribution to the total revenue shot up to 62% in 3Q 2023 vs. 53.5% in 3Q 2022. IT Managed & Operational Services also expanded at a higher-than-expected rate by 53.0% YoY, though the revenue from Digital Services unexpectedly fell 3.6% YoY (our estimate: +13.1% YoY).

### Operating and net profit exceed our estimate on the back of a likely better-than-expected expense management

While Solutions' revenue came in line, the company performed better than expected in managing its costs. As a result, its gross profit exceeded our estimate by 9.0%, whereas the margin of beat (+16.3%) was higher at the operating profit level, as the increase in total operating costs (+SAR 172mn vs. +SAR 168mn estimated) largely matched our expectations. Eventually, net profit rose 29.0% YoY, beating our estimate by 17.0%.

### Maintain target price

Solutions' stock is trading towards the upper end of its 3-year historical valuation range, in terms of both forward P/E and EV/EBITDA. In our view, most of the near-term positives are already priced in and hence, we maintain our SAR 335.00 target price on the name.

### Valuation

At the current market price, the stock trades at 30.7x on our FY 2023e EPS and 20.3x FY 2023e EBITDA, above its 3-year daily average 12-month forward P/E of 25.4x, and its 3-year daily average 12-month forward EV/EBITDA of 18.9x.

Income Statement												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Sales/Revenue	2,039.0	2,249.8	2,676.3	2,701.3	2,795.0	2,717.1	37.1%	3.5%	2.9%	6,367.0	8,172.0	28.3%
Gross Profit (Loss)	499.0	513.7	606.2	731.7	796.0	730.5	59.5%	8.8%	9.0%	1,498.0	2,134.0	42.5%
Operating Profit (Loss)	313.0	214.7	357.0	387.3	438.0	376.6	39.9%	13.1%	16.3%	920.0	1,183.0	28.6%
<b>Net Profit (Loss) after Zakat and tax</b>	<b>299.9</b>	<b>197.0</b>	<b>303.8</b>	<b>339.7</b>	<b>387.0</b>	<b>330.7</b>	<b>29.0%</b>	<b>13.9%</b>	<b>17.0%</b>	<b>856.0</b>	<b>1,030.0</b>	<b>20.3%</b>
Balance Sheet												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	2,677.9	2,794.2	3,015.6	2,787.8	3,175.0	3,118.5	18.6%	13.9%	1.8%			
Key Ratios												
	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e						
Gross Profit Margin	24.5%	22.8%	22.6%	27.1%	28.5%	26.9%						
Operating Profit Margin	15.4%	9.5%	13.3%	14.3%	15.7%	13.9%						
Net Profit Margin	14.7%	8.8%	11.4%	12.6%	13.8%	12.2%						
Return on Equity (RoE)	44.8%	28.2%	40.3%	48.7%	48.8%	42.4%						
Annualized EPS (SAR)	10.00	6.57	10.13	11.32	12.90	11.02						
BVPS (SAR)					26.46	25.99						
TTM P/E (x)					30.8							
Current P/BV (x)					11.9							

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


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


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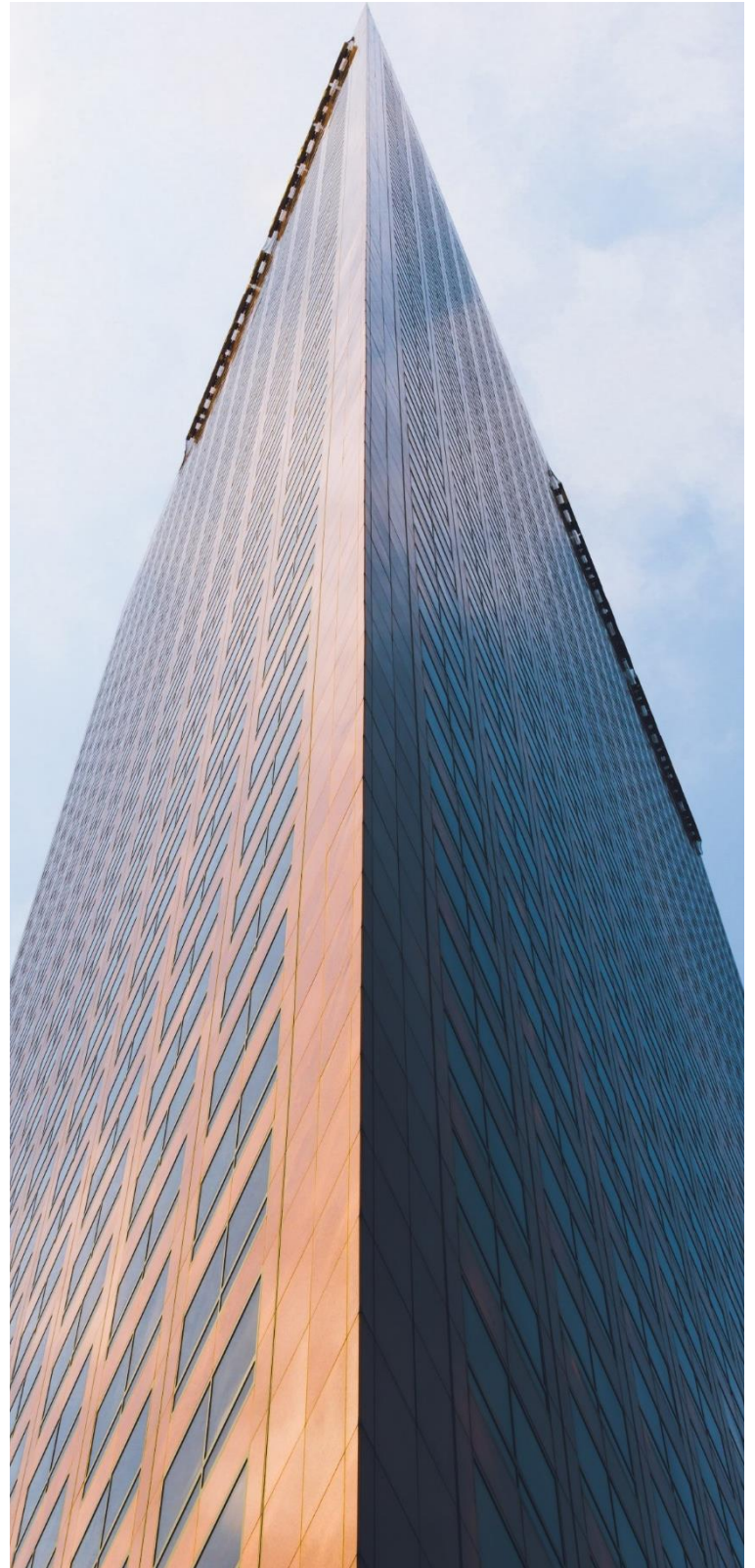
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## Disclaimer

### 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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