

US\$11.3bn Market Cap. 20.00% Free Float US\$17.1mn Avg. Daily Value traded

Research Department
Danish Kazmi, CFA
Tel +966 11 828 4653, KazmiD@alrajhi-capital.com

Solutions

TP revised to SAR390/sh; remain overweight.

Overweight

Price Target (SAR): 390

Current: 352.6
Upside/Downside: 10.6% above current

Valuation Multiples	23A	24E	25E
P/E (x)	35.4	29.4	25.6
P/B (x)	12.7	11.0	9.7
EV/EBITDA (x)	23.5	20.9	17.9

Major Shareholders	% Ownership
Saudi Telecom Company	79.00

Price Performance	1M	3M	YTD
Absolute	5.8%	6.8%	0.8%
Relative to TASI	2.8%	-6.1%	-3.9%

Earnings

(SAR mn)	2023A	2024E	2025E
Revenue	11,040	12,383	13,622
YoY %	25.4%	12.2%	10.0%
Gross Profit	2,598	2,867	3,189
GM Margin %	23.5%	23.1%	23.4%
YoY %	29.2%	10.4%	11.2%
EBITDA	1,669	1,857	2,123
EBITDA Margin	15.1%	15.0%	15.6%
Net Income	1,195	1,456	1,671
Net Income Margin %	10.8%	11.8%	12.3%
YoY %	13.4%	21.8%	14.8%
EPS	10.0	12.0	13.8
DPS	6.0	7.8	9.6
P/E	35.4	29.4	25.6
EV/EBITDA	23.5	20.9	17.9
ROE	36%	38%	38%

Source: Company data, Al Rajhi Capital

We remain "Overweight" on Solutions with a rolled forward TP of SAR390/sh, providing an upside of 10.6% to the last close. The fourth quarter results of the company were impacted by lower margin projects, accelerated revenue booking in 3Q, and a higher effective rate. However, we believe that 4Q is not an appropriate benchmark to judge the financial performance of the company, especially given the fact that the quarter is most impacted by seasonality. Despite this, we highlight that the company managed to increase its topline by 17.6% YoY in 4Q. On an annual basis, the company's growth remained impressive, with revenues jumping 25.4% YoY, aided by CCC and Giza acquisitions. On the margin front, the company managed to beat its guidance, with EBITDA margins clocking in at 15.1%. However, remaining conservative, we slightly trim our EBITDA margins for FY24/25 to 15.0/15.6%, resulting in EPS of SAR12.0/13.8 per share. Going forward, we believe the upward trajectory in revenues will continue and forecast a 3-year revenue CAGR of 10%. In addition, the company has a strong cash position of SAR2.6bn and generates solid OCFs of SAR1.7bn annually. This will allow the company to keep growing inorganically. Devoteam, which was recently acquired with an EV of SAR742mn and is the number one player in digital consultancy services (as per IDC), is likely to improve the company's other income, most likely from 1Q24 (as the acquisition was completed on 1st February 2024). Moreover, the revenue sharing agreement with Remat Riyadh, worth more than SAR400mn is expected to generate recurring revenues for the next 10 years. The aforementioned factors provide an upside to our investment case. Hence, we remain overweight on the name with a revised-up TP of SAR390/sh.

Figure 1 Guidance vs actual and ARC estimate

	FY23		FY24	
	Guidance	Actual	Guidance	ARC est.
Revenues	19-22%	25.4%	8-11%	12.2%
EBITDA Margin	13-15%	15.1%	13-15%	15.0%

Source: Company data, Al Rajhi Capital estimates

4Q23 results: Solutions reported robust revenue growth of 17.6% YoY and 2.6% QoQ, reaching SAR2.9bn in 4Q23. The growth was primarily driven by strong performances in IT Managed Services and Core ICT Services, with respective YoY growth rates of 38% and 16%. However, despite the revenue growth, gross profit decreased by 9.6% YoY, potentially due to the seasonal nature of the business and government projects accelerating delivery in 3Q23. This led to a lower-than-expected gross margin of 16.2%. Operating profit also saw a decline of 14.8% YoY, with a margin of 7.1%. Profitability took a hit, dropping by 17.9% YoY (-57.9% QoQ) to SAR162mn, below the estimated SAR201mn, resulting in a net margin of 5.6%.

FY23 results: We believe that the financial performance of Solutions in 4Q23 should not be viewed in isolation, considering the outstanding overall performance of the group throughout the fiscal year. Total revenues experienced a remarkable YoY growth of 25.4% in FY23. Additionally, gross margins showed improvement, rising to 23.5% in FY23 from 22.8% in FY22, resulting in a 29.2% YoY growth in gross profit. Although there was a slight contraction in the operating margin, likely attributed to increased costs associated with acquisitions, the operating profit still saw a robust growth of 19.6% YoY.



Despite a rise in income tax/zakat, potentially stemming from acquisitions, the group achieved a healthy earnings growth of 13.2% YoY. The exceptional earnings performance in FY23 prompted the group to declare SAR6/sh for FY23. It's evident that while the fourth quarter may have presented challenges, the group's overall performance for the year remained strong and promising.

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	2,868	2,795	2,438	17.6%	2.6%	11,040	8,805	25.4%
Gross Profit	464	796	514	-9.6%	-41.6%	2,598	2,011	29.2%
G. margin	16.2%	28.5%	21.1%			23.5%	22.8%	
Op. profit	204	438	240	-14.8%	-53.4%	1,387	1,160	19.6%
Op. margin	7.1%	15.7%	9.8%			12.6%	13.2%	
Net profit	162	384	197	-17.9%	-57.9%	1,192	1,053	13.2%
Net margin	5.6%	13.8%	8.1%			10.8%	12.0%	

Source: Company data, Al Rajhi Capital

Valuations: We value the company using DCF methodology and remaining conservative trimmed down earnings slightly. Consequently, we have adjusted our EPS estimates downward for the forecasted period from FY24e to FY26e. Despite this adjustment, the group's net cash position has significantly strengthened, reaching nearly 2.3x compared to the first quarter of 2023. As a result, we have set a target price of SAR390/sh, indicating a potential upside of 10.6% based on the last closing price.

Key Risks: i) slower than expected growth in IT Managed and Operational services vertical; ii) delay in realizing synergies from the Giza and CCC acquisitions and iii) higher-than-expected fall in margins.

Key Financials

Figure 3 Income Statement

SAR mn	2023A	2024E	2025E
Revenue	11,040	12,383	13,622
<i>y-o-y growth</i>	25.4%	12.2%	10.0%
Cost of Sales	(8,443)	(9,516)	(10,433)
Gross Profit	2,598	2,867	3,189
<i>y-o-y growth</i>	29.2%	10.4%	11.2%
<i>margins</i>	23.5%	23.1%	23.4%
Employee costs	(636)	(661)	(701)
Selling and distribution expenses	(249)	(259)	(274)
Administrative expenses	(326)	(339)	(360)
Others	0	(14)	(15)
Operating Profit	1,387	1,594	1,839
<i>y-o-y growth</i>	19.5%	14.9%	15.4%
<i>margins</i>	12.6%	12.9%	13.5%
Pre-Tax Income	1,405	1,654	1,898
Zakat	(210)	(199)	(228)
Net Income	1,195	1,456	1,671
<i>y-o-y growth</i>	13.4%	21.8%	14.8%
<i>margins</i>	10.8%	11.8%	12.3%
EPS	10.0	12.0	13.8

Source: Al Rajhi Capital estimates

Figure 4 Key Ratios

	2023A	2024E	2025E
ROA (%)	10.4%	11.3%	11.7%
ROE (%)	36.0%	37.9%	38.3%
P/E	35.4x	29.4x	25.6x
EV/EBITDA	23.5x	20.9x	17.9x
Dividend yield	1.7%	2.2%	2.7%
Receiveable days	144	148	148
Payable days	143	146	146

Source: Al Rajhi Capital estimates

Figure 5 Balance sheet

SAR mn	2023A	2024E	2025E
Cash and cash equivalents	2,588	3,029	3,747
Murabaha time deposits	850	850	850
Accounts receivable	4,364	5,021	5,511
Prepayments and other assets	554	746	746
Contract assets	1,691	1,897	2,087
Inventories	249	280	307
TOTAL CURRENT ASSETS	10,296	11,824	13,248
Intangible assets	626	577	578
Right-of-use assets	50	65	60
Property and equipment	390	287	174
Other Non Current Assets	0	32	32
TOTAL NON-CURRENT ASSETS	1,066	960	844
TOTAL ASSETS	11,362	12,784	14,092
Accounts payable and accruals	3,315	3,811	4,171
Deferred revenue	3,049	3,420	3,762
Contract liabilities	380	429	470
Zakat payable	240	240	240
Bank Overdraft & ST Borrowing	211	218	218
CURRENT LIABILITIES	7,195	8,117	8,861
Long-Term Debt	499	499	499
Lease liabilities	19	35	35
End of service indemnities	450	569	619
Provision for tax	0	35	35
NON-CURRENT LIABILITIES	968	1,138	1,188
SHAREHOLDERS EQUITY	3,324	3,844	4,357
Minority	29	29	29
TOTAL LIABILITIES	11,516	13,128	14,436

Source: Al Rajhi Capital estimates

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Contact us

Mazen AlSudairi, CFA

Head of Research

Tel : +966 11 836 5468

Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital

Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: research@alrajhi-capital.com

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