

February 18, 2024

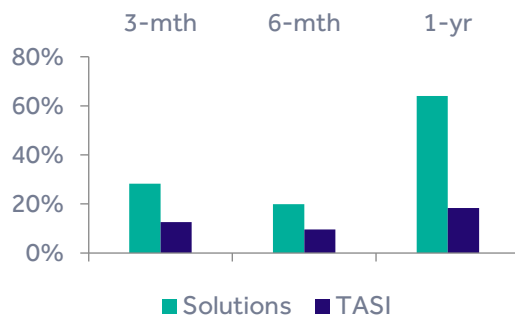
■ 4Q Gross Margins Plummet to 16%

Upside to Target Price	(4.8%)	Rating	Neutral
Expected Dividend Yield	1.9%	Last Price	SAR 372.80
Expected Total Return	(2.9%)	12-mth target	SAR 355.00

Market Data	
52-week high/low	SAR 398.4/230.0
Market Cap	SAR 44,736 mln
Shares Outstanding	120 mln
Free-float	20.00%
12-month ADTV	162,998
Bloomberg Code	SOLUTION AB

SOLUTIONS	4Q2023	4Q2022	Y/Y	3Q2023	Q/Q	RC Estimate
Sales	2,868	2,438	18%	2,795	3%	2,823
Gross Profit	465	513	(9%)	796	(42%)	663
Gross Margins	16%	21%		28%		24%
Operating Profit	205	241	(15%)	438	(53%)	298
Net Profit	162	197	(18%)	387	(58%)	251

(All figures are in SAR mln)



- Revenues increased by +25% Y/Y to SAR 11.04 bln for FY 2023 while 4Q revenues inclined by +18% Y/Y to SAR 2.87 bln, in-line with our SAR 2.82 bln forecast. For 4Q, Core ICT service revenues went up by +16% Y/Y, IT Managed and Operational Services by +38% Y/Y while the Digital Services declined by -6% Y/Y (similar to 3Q). For the full year, Solutions comprise 81% of revenues followed by Giza at 14%; Others (CCC and Sanad) make up the remaining 6%. Break down by customers reveals a drop in Government's share (biggest spender in the ICT market) from 51% in 2022 to 44% in 2023 with Private sector contribution rising from 18% to 21% and stc share growing from 31% to 35%.
- Gross margins for 4Q surprised at just 16.2%, after expanding sequentially for the first 3 quarters. We were expecting much higher margins at 23.5%, leading cause of the deviation in bottomline versus our estimates. Management has attributed this to seasonality as a significant number of government contracts had expedited delivery in 3Q.
- For 4Q, Net income was subdued at just SAR 162 mln (-18% Y/Y, -58% Q/Q) versus market consensus and our forecast of SAR 250mln and SAR 251 mln, respectively. EBITDA and Net Margins contracted by 290bps and 240bps Y/Y. 2023 DPS of SAR 6.00 is up from SAR 5.00 in 2022. We raise our target price to SAR 355.00 on above expectations organic and inorganic growth (Devoteam ME being the latest example) and maintain a Neutral recommendation.

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■ Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors
For any feedback on our reports, please contact research@riyadcapital.com

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