

Market Data	
52-week high/low	SAR 409.8/275.4
Market Cap	SAR 40,128 mln
Shares Outstanding	120 mln
Free-float	19.99%
12-month ADTV	162,998
Bloomberg Code	SOLUTION AB



Gross Margin Recovers to Drive Profits

May 07, 2024

Upside to Target Price	6.2%	Rating	Neutral
Expected Dividend Yield	1.8%	Last Price	SAR 334.40
Expected Total Return	8.0%	12-mth target	SAR 355.00

SOLUTIONS	1Q2024	1Q2023	Y/Y	4Q2023	Q/Q	RC Estimate
Sales	2,809	2,676	5%	2,868	(2%)	3,069
Gross Profit	619	606	2%	464	33%	697
Gross Margins	22%	23%		16%		23%
Operating Profit	370	357	4%	204	81%	382
Net Profit	353	304	16%	162	118%	333

(All figures are in SAR mln)

- Solutions net income surged to SAR 353 mln this quarter, marking a remarkable Q/Q growth of +118%. This surge was primarily fueled by a -9% decrease in cost of revenues, amounting to SAR 214 mln, leading to a significant rebound in gross margin, and a decrease in OPEX by -4% or SAR 11 mln. The Y/Y growth was also solid at +16%.
- 1Q2024 revenues experienced a slight decline of -2% Q/Q, to SAR 2.8 bln, but the lower expenses at both gross and operating levels mitigated the minor decline. However, on a Y/Y basis, revenues grew by +5%, driven by robust performances across all business segments. Notably, IT Managed & Operational Services saw a substantial increase of +15.4% due to CCC consolidation, while ICT Services and Digital Services grew marginally by +1.6% and +0.8%, respectively. In terms of consolidated revenue contribution, Solutions, Giza and CCC accounted for 79%, 11% and 10%, respectively. Client wise revenue breakdown shows that STC share is at 38%, Private sector contribution remained flat at 23%, and Government share at 40%.
- Gross profit reached SAR 619 mln (+2% Y/Y, +33% Q/Q), primarily driven by a more balanced mix of projects. We reiterate that in 4Q2023 gross margins plummeted to 16% due to seasonality in government contracts, but have subsequently recovered this quarter to 22%. OPEX also improved sequentially, declining by -4%, though remaining flat Y/Y.
- Net margin expanded to 12.6% from 11.4% last year and 5.6% in the previous quarter, mainly attributed to higher gross margins, lower finance costs and Zakat. Net profits were largely in-line with our SAR 333 mln estimates. DPS is anticipated to rise to SAR 6.00 from SAR 5.00 last year. We maintain our Neutral stance and SAR 355.00 target price.

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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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