Arabian Internet and Communications Services Co.

Results Flash Note Q3-24

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Improvement in gross and operating margins met with a SAR 73.1mn Zakat reversal posted strong net income growth despite flat-like revenue growth

Solutions posted a net income of SAR 463.5mn for Q3-24 (up 19.9% Y/Y and 2.4% Q/Q); a positive surprise from our estimates of SAR 400.8mn by 15.6%, and from the market consensus by 16.2%. Bottom line was supported by a zakat reversal of SAR 73.1mn. Revenue, on the other hand, remained flat-like at SAR 2,753.0mn (down 1.5% Y/Y and 0.7% Q/Q) with Digital Services increasing 20% Y/Y from cloud services cybersecurity projects to offset the decreases in other segments. Gross profit margins were highest during the year at 26.5%, which is likely due cost efficiencies related to the normalization in GP Margins related to ccc. Operating margins were highest since inception at 17.6% (up 190bps Y/Y and 320bps Q/Q) supported by OPEX to revenues coming down to 8.9%. We remain optimistic on Solutions' prospects while recognizing temporary delays in revenue recognition, as well as an expanding backlog (SAR 14mn vs. a previously communicated SAR 12bn) and their cash profile supporting potential inorganic growths; we maintain our TP of SAR 331.0/share and "Overweight" recommendation.

- Solutions' net income came in at SAR 463.5mn for Q3-24; a 19.9% increase Y/Y and 2.4% Q/Q (though last quarter's bottom line was positively supported by a one-off income of SAR 68.3mn). Net income positively surprised our estimates of SAR 400.8mn by 15.6%, and 16.2% over the market consensus. Results were supported by a zakat reversal of SAR 73.1mn, post a favorable ZATCA assessment. Results were further supported by highest quarterly gross and operating margins for the year (26.5%, and 17.6% respectively).
- Revenue displayed flat-like growth at SAR 2,753.2mn (down 1.5% Y/Y and 0.7% Q/Q); top line was 11.3% lower than our estimates of SAR 3,104.7mn, and c. 9% lower than market estimates. On a Y/Y basis, revenue for the segments Core ICT Services and IT Managed & Operational Services decreased 6.9% and 2.9%, respectively- while Digital Services grew 20.3% Y/Y to offset the declines, driven by cloud services and cybersecurity projects during the quarter. Management noted extended project cycles, and newly initiated projects temporarily delayed revenue recognition. Furthermore, on a 9M basis, Giza's revenue declined c. 16% Y/Y largely as a result by depreciation in the Egyptian Pound. CCC's revenue for the same period grew 253%, while core Solutions' decline 9% as a result of reshuffling of businesses between the two entities.
- Gross profit reported at SAR 729.2mn declined by 8.3% Y/Y and grew 4.8% Q/Q (and 6% lower than our estimates of SAR 775.3mn). GP margin reached its highest for the year at 26.5%; down 200bps Y/Y and up 140bps Q/Q, and 150bps higher than our estimates of %25.0. GP margins were likely improved due to efficiency optimizations and the normalization of GP margins at CCC and Solutions, which were previously impacted by business reshufflings.
- Operating profit of SAR 485.3mn posted an increase of 10.6% Y/Y and 21.5% Q/Q. This came in at a 6.5% positive surprise from our estimates of SAR 455.5mn. OPEX-to-revenues were also decreased to 8.9% (down 390bps Y/Y and 180bps Q/Q), to support the highest operating margins reported since inception at 17.6% (up 190bps Y/Y and 320bps Q/Q).

AJC view and valuation: Q3-24's results for Solutions was a display of healthy cost efficiency on the gross and operating front, while also supported by a zakat charge reversal. However, top line results seemed a way off of the previously communicated revenue growth guidance of 8%-11% Y/Y for FY24; yet management still remains confident to meet their FY24 revenue guidance. Furthermore, we remain positive on the Solutions' industry position, growing backlog (SAR 14bn vs. the previously communicated SAR 12bn), and cash profile to spur inorganic growth. We maintain our TP to **SAR 331.0/share** at an "**Overweight**" recommendation on Solutions.

Results Summary

SAR mn	Q3-23	Q2-24	Q3-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,795	2,772	2,753	-1.5%	-0.7%	-11.3%
Gross Profit	796	696	729	-8.4%	4.8%	-6.0%
Gross Margin	28.5%	25.1%	26.5%	-	-	-
EBIT	438	400	485	10.6%	21.4%	6.5%
Net Profit	**387**	**453**	**464**	19.9%	2.4%	15.6%
EPS	**3.22**	**3.77**	**3.86**	-	-	-

Source: Company Reports, AlJazira Capital Research

Recommendation	**Overweight**
Target Price (SAR)	**331.0**
Upside / (Downside)*	**26.0%**

Source: Tadawul *prices as of 05th of November 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	8,805	11,040	11,955	13,012
Growth %	22.2%	25.4%	8.3%	8.8%
Net Income	1,054	1,195	1,603	1,709
Growth %	27.0%	13.4%	34.1%	6.7%
EPS	8.8	10.0	13.4	14.2
DPS	5.0	6.0	8.0	9.3

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	22.8%	23.5%	23.7%	23.8%
EBITDA Margin	15.8%	15.1%	17.2%	17.4%
Net Margin	12.0%	10.8%	13.4%	13.1%
ROE	37.3%	35.6%	40.3%	37.4%
ROA	10.3%	10.4%	13.2%	12.9%
P/E (x)	27.6	35.1	22.0	20.6
P/B (x)	10.3	12.5	8.9	7.7
EV/EBITDA (x)	21.4	25.6	15.6	14.2
Dividend Yield	2.1%	1.7%	2.7%	3.2%

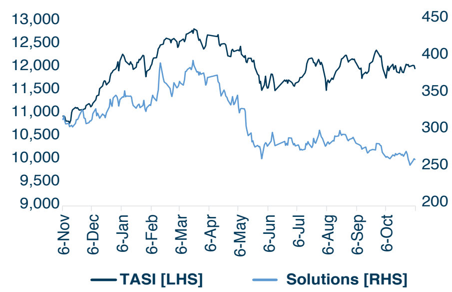
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	32.6
YTD%	-24.6%
52 week (High)/(Low)	409.8/261.0
Share Outstanding (mn)	120.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadwaul, Aljazira Capital Research

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer