



Earnings in line with our estimates; Supported by improvement in revenue profile, OPEX efficiency, and less zakat and finance costs.

Solutions reported a bottom line of SAR 353.0mn for the quarter (up 16.2% Y/Y and 117.9% Q/Q)- in line with our, and market, forecasts with a 0.1% and 2.3% deviation from results. The decline in government client sales were offset by increased revenues from STC and the private sector. Furthermore, all business segments improved on a Y/Y basis, along with increased contribution from Giza (up 6% Y/Y) and the consolidation of CCC (contributing to 10% of revenues). Sequential improvement in GP margins, from a depressed Q4-23 GP margin, and improvement in OPEX efficiency (OPEX-to-Revenues down 40bps Y/Y and 20bps Q/Q) supported the bottom line further. Solutions still remains at a healthy net cash holding of SAR 1.09bn, granting them the flexibility in absorbing any one off shocks in working capital changes, and to pursue strategic growth initiatives. At a 2024E P/E of 31.6x we retain our "Neutral" recommendation with a TP of SAR 363.5/share.

- Solutions posted a net income of SAR 353.0mn in Q1-24 (up 16.2% Y/Y and 117.9% Q/Q). Net income came in in line with our estimates of SAR 353.5mn at a 0.1% deviation, and in line with market estimates at a 2.3% deviation. All segments witnessed a Y/Y increase in revenues, with IT Managed & Operational Services the only segment to retract Q/Q. Improvement in OPEX efficiency, and lower finance costs and Zakat expenses, further supported the bottom line to punctuate at the second highest net income to date since Solutions' public listing.
- The company's revenue reached SAR 2,809.0mn in Q1-24 (up 5.0% Y/Y, yet 2.1% lower Q/Q); and below our estimates by 6.7%. The result was driven by Y/Y increases across all segments: Core ICT Services (up 1.6% Y/Y, and 0.1% Q/Q), IT Managed & Operational Services (up 15.4% Y/Y, yet down 10.2% Q/Q), and Digital Services (up 0.7% Y/Y and 6.4% Q/Q). Y/Y increases in revenues from the private sector, and STC (up 2%, and 24% Y/Y respectively), offset the decrease in government client revenues of 7.0%. Increases in the other client segments however, positively diversified Solutions' client breakdowns from 45% of revenues from government clients in Q1-23 to 40% in Q1-24, as a part of the group's diversification initiative.
- Gross profits reached SAR 619.0mn, improving by 2.1% Y/Y and 33.4% Q/Q in Q1-24. This came in below our estimates of SAR 679.2mn by 8.9%. Gross profit margin reached 22.0%, down 60bps Y/Y and up 590bps Q/Q. Yearly decline in GP margins were likely partially due to changes in project mix towards hardware intensive projects.
- Operating income at SAR 370mn grew 3.7% Y/Y and 81.2% Q/Q (against our estimates of SAR 396.1mn, below by 6.6%). Improvement in OPEX base offset the decline in GP margins to support the reported net income for the quarter. Stable operating expenses (Y/Y) resulted in an improved OPEX-to-revenue margin of 8.9% (down 40bps Y/Y and 20bps Q/Q).

AJC view and valuation: Solutions' posted a positive set of result for Q1-24 supported by lower zakat and finance charges; however, missing our (and market) estimates for the top line as government revenues retracted. Furthermore the GP margins decline on a Y/Y basis and against our estimates were offset by improvements in OPEX efficiency. Solutions' operating cashflows for the quarter were negative as a result of sizable increase in working capital requirements, however they were funded by their healthy cash holdings which amounted to SAR 1.09bn at the end of Q1-24. The stock is currently trading at a forward P/E of 31.6x based on our FY24 EPS estimate. We retain our "Neutral" recommendation on the stock with a TP of **SAR 363.5/share**.

Results Summary

| SAR mn | Q1-23 | Q4-23 | Q1-24 | Change Y/Y | Change Q/Q | Deviation from AJC Estimates |
|---------------------|--------------|--------------|--------------|------------|------------|------------------------------|
| Revenue | 2,676 | 2,868 | 2,809 | 5.0% | -2.1% | -6.7% |
| Gross Profit | 606 | 464 | 619 | 2.1% | 33.4% | -8.9% |
| <i>Gross Margin</i> | <i>22.6%</i> | <i>16.2%</i> | <i>22.0%</i> | - | - | - |
| EBIT | 357 | 204 | 370 | 3.7% | 81.2% | -6.6% |
| Net Profit | 303.8 | 166.2 | 353.0 | 16.2% | 117.9% | -0.1% |
| EPS | 2.53 | 1.35 | 2.94 | - | - | - |

Source: company report, Aljazira Capital Research

| Recommendation | Neutral |
|----------------------|---------|
| Target Price (SAR) | 363.5 |
| Upside / (Downside)* | 3.9% |

Source: Tadawul *prices as of 5th of May 2024

Key Financials

| SARmn (unless specified) | FY21 | FY22 | FY23 | FY24E |
|--------------------------|---------|---------|----------|----------|
| Revenues | 7,208.3 | 8,805.1 | 11,040.5 | 12,212.1 |
| Growth % | 4.6% | 22.2% | 25.4% | 10.6% |
| Net Income | 830.1 | 1,054.0 | 1,195.1 | 1,327.4 |
| Growth % | 18.3% | 27.0% | 13.4% | 11.0% |
| EPS | 6.92 | 8.78 | 9.96 | 11.1 |

Source: Company reports, Aljazira Capital, *- adjusted for stock split

Key Ratios

| | FY21 | FY22 | FY23 | FY24 |
|----------------|-------|-------|-------|-------|
| Gross Margin | 23.7% | 22.8% | 23.5% | 23.6% |
| Net Margin | 11.5% | 12.0% | 10.8% | 10.9% |
| P/E (x) | N/A | 27.6 | 35.1 | 31.6 |
| P/B (x) | N/A | 10.3 | 12.7 | 11.0 |
| EV/EBITDA (x) | N/A | 21.4 | 25.6 | 22.2 |
| Dividend Yield | N/A | 2.1% | 1.6% | 1.9% |

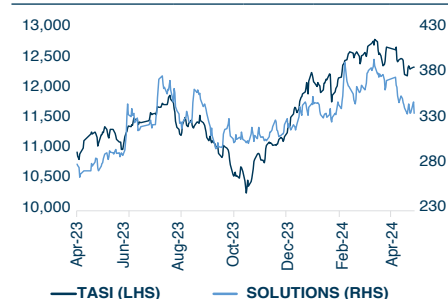
Source: Company reports, Aljazira Capital

Key Market Data

| | |
|------------------------|-----------|
| Market Cap(bn) | 40.5 |
| YTD% | 0.06% |
| 52 week (High)/(Low) | 350 / 330 |
| Share Outstanding (mn) | 120.0 |

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Equity Analyst
Ibrahim Elaiwat
 +966 11 2256115
 i.elaiwat@Aljaziracapital.com.sa





RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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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.

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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068