

Recommendation**Buy**

Current Market Price (SAR)	293.2
52wk High / Low (SAR)	409.8/264.0
Mkt. Cap. (USD/SAR Mn)	9,377/35,184
Shares Outstanding (mn)	120.0
Free Float (%)	20%
3m Average Vol. (000)	222.3
3m Avg Daily Turnover (SAR'000)	64,570
Dividend Yield '24e (%)	2.4%
P/E'24e (x)	27.0
EV/EBITDA'24e (x)	18.6

Source: Bloomberg

Relative Price Performance**Key Indicators**

SAR (mn)	2022	2023	2024e	2025e
Revenue	8,805	11,040	11,998	13,346
Gross profit	2,011	2,598	2,943	3,470
Gross margin (%)	23%	24%	25%	26%
EBIT	1132	1335	1685	2102
EBIT margin (%)	13%	12%	14%	16%
EBITDA	1,365	1,567	2,002	2,466
EBITDA margin (%)	15%	14%	17%	18%
Net Income	1,053	1,192	1,492	1,901
Net margin (%)	12%	11%	12%	14%
EPS (SAR)	8.77	9.93	12.43	15.84
RoE (%)	41%	39%	42%	45%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Saudi Telecom Co	79.0%
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Source: Bloomberg, Yaqeen Capital

Bottom line improved amid higher operating profits

- Solutions' net income rose 33.3% YoY to SAR 453mn, driven by higher revenue, lower operating expenses, and increased other income. The quarterly rise of 28.1% was due to higher gross profit and other income despite higher operating expenses. Net margins improved by 3.8ppts YoY (+3.8ppts QoQ) to 16.3%.
- Revenues increased 2.6% YoY to SAR 2,771mn, led by a 19.1% rise in IT Managed and Operational Services, offset by declines in Core ICT Services (5.3%) and Digital Services (2.9%). Revenue fell 1.3% QoQ due to a 17.7% decrease in Core ICT Services, despite increases in IT Managed and Operational Services (26.4%) and Digital Services (8.5%).
- Gross profit decreased by 4.9% YoY to SAR 696mn due to the higher cost of revenue. However, it improved by 12.3% QoQ due to a SAR 114mn decrease in cost of revenues, offset by a SAR 38mn decrease in revenues. Margins declined by 2.0ppts YoY (+3.1ppts QoQ) to 25.1%.
- In 1Q2024, operating profit increased 3.2% YoY to SAR 400mn due to lower operating expenses (SAR 48mn), with general and administration expenses down SAR 17mn and selling and distribution expenses down SAR 31mn. It increased 7.9% QoQ due to higher gross profit. Operating margin improved by 0.1ppts YoY (+1.2ppts QoQ) to 14.4%.
- In 1H2024, Net income rose by 25.3% YoY to SAR 806mn, with margin improvement of 2.5ppts to 14.4%.
- In 1H2024, revenue increased 3.8% to SAR 5,580mn due to a 17.4% rise in IT Managed and Operational Services, despite declines in Core ICT Services (1.6%) and Digital Services (1.2%).

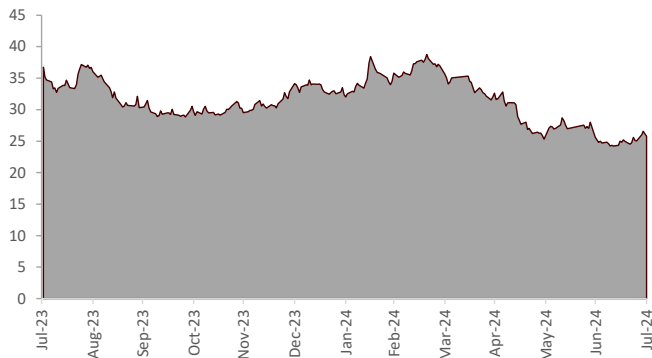
Outlook & Valuation: The ICT sector in KSA is expected to grow steadily, driven by rising demand for tech solutions to enhance business efficiency. Solutions, a key player in the local market, is set to surpass this growth, supported by increased orders, strategic partner STC, and a focus on mergers and acquisitions. We anticipate Solutions' revenues to grow at a 12% CAGR from FY2024-28, with earnings growing faster at a 19% CAGR due to margin improvements from internal efficiencies. This underpins our positive long-term outlook for the company. Based on our equal weighted valuation using DCF and EV/EBITDA methodologies, we arrive at a fair value of SAR 345.7/share (+17.9% upside from current level), implying Buy recommendation on the stock.

Financial Summary

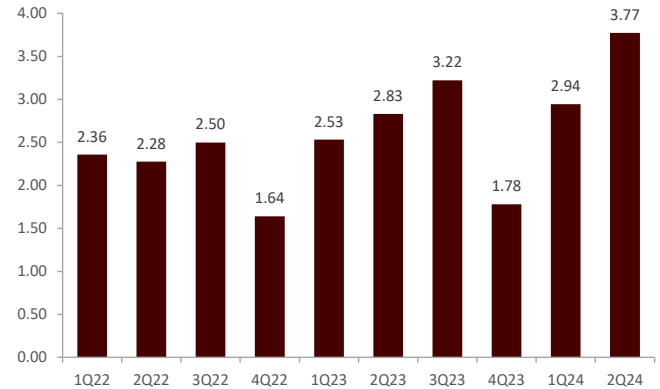
SAR (mn)	2Q2024	2Q2023	YoY	1Q2024	QoQ
Revenue	2,771	2,701	3%	2,809	-1%
Gross profit	696	732	-5%	619	12%
Gross margin (%)	25%	27%		22%	
EBIT	400	387	3%	370	8%
EBIT margin (%)	14%	14%		13%	
EBITDA	469	456	3%	440	6%
EBITDA margin (%)	17%	17%		16%	
Net income	453	340	33%	353	28%
Net margin (%)	16%	13%		13%	
EPS (SAR)	3.77	2.83	33%	2.94	28%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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