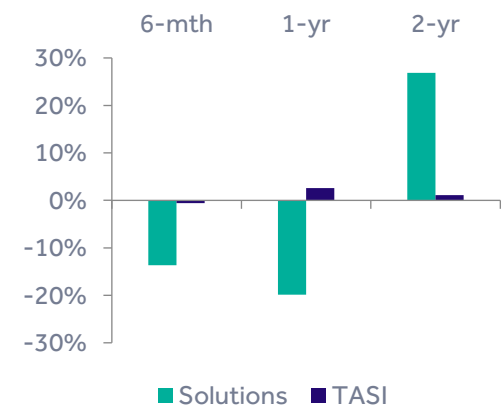


Market Data	
52-week high/low	SAR 409.8/264.0
Market Cap	SAR 34,992 mln
Shares Outstanding	120 mln
Free-float	19.9%
12-month ADTV	162,998
Bloomberg Code	SOLUTION AB



Gross Margin Rises, Other Income Lifts Bottomline

July 24, 2024

Upside to Target Price	18.3%	Rating	Buy
Expected Dividend Yield	2.1%	Last Price	SAR 291.60
Expected Total Return	20.4%	12-mth target	SAR 345.00

SOLUTIONS	2Q2024	2Q2023	Y/Y	1Q2024	Q/Q	RC Estimate
Sales	2,771	2,701	3%	2,809	(1%)	2,893
Gross Profit	696	732	(5%)	619	12%	665
Gross Margins	25%	27%		22%		23%
Operating Profit	400	387	3%	370	8%	390
Net Profit	453	340	33%	353	28%	349

(All figures are in SAR mln)

- Solution’s revenues in 2Q2024 showed a modest +3% Y/Y increase to SAR 2.8 bln, slightly lower than our SAR 2.9 bln estimates, with a marginal decline Q/Q of -1%. The Y/Y incline was driven by robust +19% growth in IT Managed & Operational Services, despite the -5% decline in Core ICT Services and a -3% drop in Digital Services; affected negatively from business cyclicity and the Egyptian Pound depreciating Giza revenue. Entity-wise revenue was driven by a substantial +183% incline in CCC sales, driving up its contribution to 18% from 7%, while Solutions contribution stood at 72% from 80%, and Giza at 9% from 13%. As Solutions allocates projects on a ‘best-fit’ basis within the group, its revenues declined, as per management’s commentary. For 1H2024, the Client wise revenue contribution by STC, Private sector, and Government stand at 37%, 42%, and 21%, versus the corresponding half of 2023, of 32%, 45%, and 23%.
- Gross profit reached SAR 696 mln (-5% Y/Y, +12% Q/Q), up via the project mix, driving Gross Margin to continue its recovery from previous seasonality to reach 25%, vs 22% in the previous quarter and our 23% estimate. Operating margin has also improved sequentially, up to 14.4% vs 13.2% in last quarter, on lower OPEX. Net non-operating other income/expenses was positive for the first time, at SAR 53 mln vs SAR (47) mln, and SAR (17) mln, in corresponding and sequential quarters respectively, which elevated net income over operating income.
- Net profits reached record levels, generating SAR 453 mln, up 33% Y/Y and 28% Q/Q, higher than estimates from consensus and ours; of SAR 373 mln and SAR 349 mln. A non-core product disposal and lower Zakat expense caused the deviation. Net margins for 2Q2024 were 16.3%, vs 12.6% in both sequential and corresponding quarters. We tweak our target price to SAR 345.00, and upgrade our rating to Buy.

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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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