

Arabian Internet and Communications Services Co. (Solutions)

Target Price: SAR 375.0/share

Upside: 11.9%

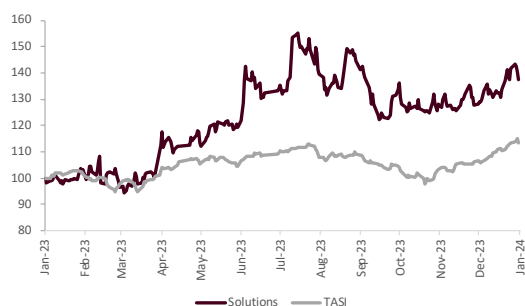
Recommendation

Buy

Current Market Price (SAR)	335.2
52wk High / Low (SAR)	392.2/230.0
Mkt. Cap. (USD/SAR Mn)	10,950/41,088
Shares Outstanding (mn)	120.0
Free Float (%)	20%
3m Average Vol. (000)	136.8
3m Avg Daily Turnover (SAR'000)	43,811
Dividend Yield '24e (%)	2.4%
P/E'24e (x)	25.3
EV/EBITDA'24e (x)	17.4

Source: Bloomberg

Relative Price Performance



Key Indicators

Year	2021	2022	2023e	2024e
Revenue	7,208	8,805	11,038	12,471
Gross profit	1,708	2,011	2,787	3,211
GPM	24%	23%	25%	26%
EBIT	901	1,132	1,471	1,777
EBIT margin	13%	13%	13%	14%
EBITDA	1,110	1,365	1,748	2,077
EBITDA margin	15%	15%	16%	17%
Net Income	833	1,053	1,279	1,588
Net margin	12%	12%	12%	13%
EPS	6.94	8.77	10.66	13.23
RoE	40%	41%	42%	44%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Saudi Telecom Co	79.0%
Arabian Internet & Communications Services Co Ltd	1.0%
Vanguard Group Inc	0.7%

Source: Bloomberg, Yaqeen Capital

Revenue growth continues to drive profitability

- The company's net income grew by 28.9% YoY (13.8% QoQ) to SAR 387mn owing to solid top-line performance in 3Q2023. However, net margins dropped marginally by 87bps to 13.8% on account of a sharp rise in operating costs (+92% YoY) during the same period.
- Revenues surged by 37.0% YoY (+3.5% QoQ) to SAR 2,795mn in 3Q2023 led by Private sector (+72% YoY, 20% of 3Q203 revenues) followed by STC (+69% YoY, 35%) and Government (11% YoY, 45%).
- Gross profit came higher by 59.5% YoY (+8.7% QoQ) to SAR 796mn in 3Q2023 while the gross margins reached 28.5% (+4.0pps YoY, +1.4pps QoQ), the highest quarterly level since 4Q2021. The margin enhancement was driven by favorable sales mix, cost cutting measures and efficient delivery of certain projects.
- EBITDA increased by 41.1% YoY (+13.4% QoQ) to SAR 517mn as higher revenues and enhanced gross margins offset impact of higher operating expenses in 3Q2023. EBITDA margin improved to 18.5% in 3Q2023 compared to 18.0% in 3Q2022 and 16.9% in 2Q2023.
- For 9M2023, revenue was higher by 28% YoY while net income increased by 20% YoY amid elevated finance costs and higher Zakat charges owing to Giza and ccc acquisitions.
- Free cash flow declined to SAR 153mn in 9M2023 vs. SAR 1,686mn in 9M2022 due to increased working capital investments and acquisition payments.

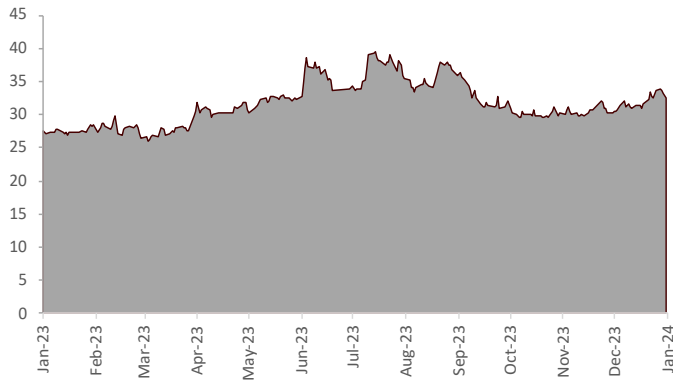
Outlook & Valuation: The ICT market in KSA is expected to grow at a CAGR of 8-10% during FY2022-27 driven by rising demand for technology solutions to enhance business efficiency. Solutions, as a market leader in the domestic ICT sector, buoyed by a surge in recent order intake, sustained support from strategic partner STC, and a focused approach on M&A activities, is poised to consistently surpass industry growth in the medium to long term. We expect company revenues to increase at a CAGR of 14% during FY2023-27 while earnings are projected to grow at a faster pace of 20% CAGR driven by internal efficiencies led margin gains. This optimism reinforces our bullish view on Solutions' long-term prospects. Based on our equal weighted valuation using DCF and EV/EBITDA methodologies, we arrive at a fair value of SAR 375.0/share (+11.9% upside from current level), implying buy recommendation on the stock.

Financial Summary

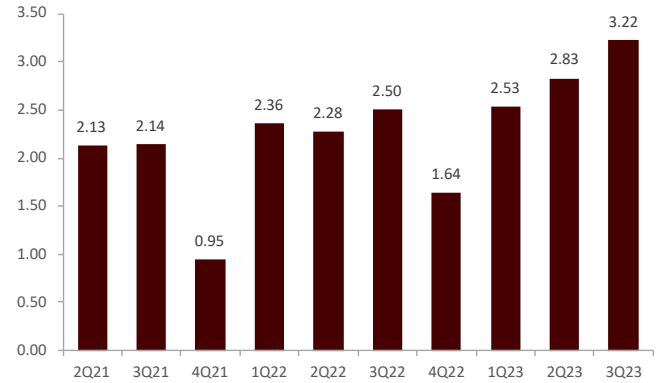
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	2,795	2,039	37%	2,701	3%
Gross profit	796	499	59%	732	9%
GPM	28%	24%		27%	
EBIT	438	311	41%	387	13%
EBIT margin	16%	15%		14%	
EBITDA	517	366	41%	456	13%
EBITDA margin	18%	18%		17%	
Net income	387	300	29%	340	14%
Net margin	14%	15%		13%	
EPS	3.22	2.50	29%	2.83	14%

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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