

**Target Price: SAR205/share**  
Current Price: SAR172/share  
Upside: ~19% (+Div. Yield: ~1.6%)  
**Rating: Overweight**

## Saudi Tadawul Group (STG)

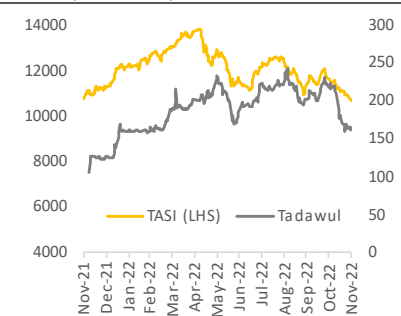
### Buying opportunity after the correction

#### Stock data

TASI ticker	1111.SE
Mcap (SARmn)	19,440
Avg. Trd. Val (3m) SARmn	79.4
Free float	30%
QFI holding	14.7%
TASI FF weight	0.31%

Source: Bloomberg

#### Share price comparison with TASI



Source: Bloomberg

- STG's stock price has declined by ~25% in around a month and we believe this might be a buying opportunity.
- We attribute the decline to 3 reasons: a) weak sentiments after the 10% share sale by PIF b) Low avg. daily traded values of only SAR4.4bn in the last month (vs avg. 9+ in 2021) c) Global markets' soft performance led by a drop in oil prices and rising interest rates. However, most of this was not unexpected as volatility is embedded in the company's business model with the bulk of revenues driven by turnover in equities.
- Further, the stock has remained historically volatile and based on past trends, the stock seems to have found a support level at current prices. We employ a 35x PE multiple on 2023 EPS and reiterate our target price of SAR205/sh (Overweight rating from previously Neutral, given the upside).

**Valuation:** STG is at the center of the economic transformation under the Financial Sector Development Program to benefit from multiple 2025 targets such as increasing listings, foreign ownership, Sukuk/debt issuances among many others. Newer products such as ESG, F&O, and data/analytics segments would enhance non-trade revenues. In line, with this the company acquired 51% of DirectFN for SAR134mn effective 24/Nov/2022. While realizing the targets/potential is certain, forecasting the timing of these drivers is difficult which is why we assign a premium valuation multiple (35x 2023e EPS) to account for the potential, instead of a DCF model. The multiple is below the 6 month average of 49x (Bloomberg). Our 2023e profits are based on SAR8.6bn average daily traded value for equities. The company operates a highly scalable business with the majority of costs being fixed leading to high op. leverage (20% increase in volumes translates to a ~30% profit increase, as per our analysis).

**Risks:** Key risks to our forecasts are mainly around further stake sale by PIF, delay of FSDP initiatives, non-adoption of derivatives/bond/Sukuk products, unfavorable regulations such as reduction in fees, volatility due to dependence on retail trading, global macro weakness and oil price fluctuations.

Figure 1: Key financial metrics

SARmn	2020a	2021a	2022e	2023e
Revenue	1,080	1,166	1,100	1,299
Revenue growth	91%	8%	-5.7%	18%
Gross Profit	754	821	697	880
Gross Profit margin	70%	70%	63%	68%
EBITDA	591	669	543	726
Op. income	543	612	484	657
Net profit	501	588	475	641
Net profit margin	46%	50%	43%	49%
EPS (SAR)	4.2	4.9	4.0	5.3
DPS (SAR)	1.0	9.33	2.8	3.2
P/E	41.2x	35.1x	43.5x	32.2x

Source: Company data, GiB Capital

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## Summary of Investment case

Saudi Tadawul Group (STG) operates a fully integrated, and diverse business model, as the sole securities exchange in KSA. It is among the largest exchanges globally by market capitalization of listed companies (~USD3trn). The Company has no close peer within the MENA region and accounts for ~75% of total regional market capitalization and ~80% of regional traded value. Sitting at the center of regional capital formation for the delivery of the FSDP, STG plays a key role in developing the capital market to support the broader realization of Vision 2030. The monopolistic position with high entry barriers, leads to structural benefits such as strong pricing power and low substitution risk as the large-scale economic transformation agenda unfolds under Vision 2030. The Saudi Tadawul Group provides end-to-end services from listing, trading, post-trade, and data and technology services, enabling it to capture a significant pie of the securities transaction. The holding structure of the company is vertically integrated with each business line held under a separate entity.

Implementation of the Post-trade technology Program (PTTP) from 2Q22 onwards should act as a new avenue for revenue growth and further capital flows into the Saudi equity market. The PTTP model is intended to enable a set of key components such as T+2 deferred settlement, delivery versus payment settlement, collateral management, short selling, custody controls, securities borrowing, lending, and many others, enabling scope for various sets of products and services. Such institutionalization and adoption of best global practices would be key catalysts to drive continued net inflow of foreign investor capital (QFI ownership could increase to 3x current levels, over the long term). Pick up in derivatives which globally see multiple times the traded volumes would also boost the company's topline.

From 2017 to 2021, the Company's operating revenue grew at a CAGR of 21% and the Company's operating revenues almost doubled with a growth rate of 91% from 2019 to 2020, primarily driven by increased trading and capital market activity. Most of the revenue is linked to trading volumes while costs are mostly fixed. This top-line performance has translated into increased margins, with an EBITDA margin of 57.4% in 2021, compared to 55% in 2020 and 16% in 2019, given the substantial operating leverage in the business. The company runs a highly scalable business with a free cash flow conversion ratio as high as 82% (for 2021) on the back of higher operating leverage. In our opinion, the company should continue to generate sizeable cashflows, keeping the books in the net cash position despite the ongoing investments (SAR565mn of capex program) towards future growth.

KPIs	2019a	2020a	2021a	2022e	2023e
Capital Markets Segment	222	455	490	414	502
Data & Technology Services	61	112	93	103	134
Post-Trade Services	281	512	583	582	663
Total Revenue	565	1,080	1,166	1,100	1,299
YoY%	-3%	91%	8%	-6%	18%
Total Traded value	894	2,135	2,278	1,752	2,139
Market Capitalization (SARbn)	9,025	9,102	10,009	10,534	10,750
Trading Velocity (%)	9.8%	22.9%	22.3%	16.6%	19.8%
Avg. Daily Traded Value (SARbn)	3.6	8.5	9.1	7.0	8.6
Trading commission (bps)	1.8	1.8	1.8	1.8	1.8
Post trade services yield +others (bps)	3.1	2.4	2.6	3.3	3.1

Source: Company, GIB Capital

Income statement	2020a	2021a	2022e	2023e
<b>Revenue</b>	<b>1,080</b>	<b>1,166</b>	<b>1,100</b>	<b>1,299</b>
revenue y/y	91%	8%	-6%	18%
Operating Costs	325	345	402	419
<b>Gross Profit</b>	<b>754</b>	<b>821</b>	<b>697</b>	<b>880</b>
Gross Profit margin	70%	70%	63%	68%
G&A	193	210	210	223
<b>Operating profit</b>	<b>543</b>	<b>612</b>	<b>484</b>	<b>657</b>
Operating margin	50%	52%	44%	51%
Investment Income	39	41	53	53
Other income	4	6	5	6
<b>Net income</b>	<b>501</b>	<b>588</b>	<b>475</b>	<b>641</b>
Net margin	46%	50%	43%	49%
y/y	227%	17%	-19%	35%
<b>EPS</b>	<b>4.2</b>	<b>4.9</b>	<b>4.0</b>	<b>5.3</b>
DPS	1.0	9.33	2.8	3.2
Payout	24%	191%	70%	60%
<b>EBITDA</b>	<b>591</b>	<b>669</b>	<b>543</b>	<b>726</b>
Net debt	(3,200)	(2,718)	(2,766)	(2,901)

Balance Sheet	2020a	2021a	2022e	2023e
Investments	3,104	2,632	2,632	2,632
Accounts receivable	57	61	75	89
Prepaid expenses and other current assets	102	108	126	131
Clearing participant financial assets	32	18	3,588	4,380
Cash and cash equivalents	97	86	135	269
<b>Total Current Assets</b>	<b>3,392</b>	<b>2,905</b>	<b>6,555</b>	<b>7,500</b>
Property and equipment	21	56	98	156
Intangible assets	180	145	191	272
Equity-accounted investee	379	376	376	376
Investments	101	55	55	55
<b>Total Non-Current Assets</b>	<b>701</b>	<b>639</b>	<b>727</b>	<b>866</b>
<b>Total Assets</b>	<b>4,093</b>	<b>3,543</b>	<b>7,282</b>	<b>8,366</b>
Current Liabilities	363	354	3,955	4,767
Non-current Liabilities	96	97	91	108
Equity	3,635	3,092	3,235	3,491
<b>Total Equity and Liabilities</b>	<b>4,093</b>	<b>3,543</b>	<b>7,282</b>	<b>8,366</b>
BVPS	30.3	25.8	27.0	29.1

Cashflow	2020a	2021a	2022e	2023e
Cashflow from Operations	615	592	528	727
Cashflow from Investing	-655	522	-147	-208
Cashflow from Financing	-133	-1,134	-332	-385
<b>Total Cashflows</b>	<b>-172</b>	<b>-21</b>	<b>48</b>	<b>134</b>

Source: Company, GIB Capital

Key ratios	2020a	2021a	2022e	2023e
<b>Profitability ratios</b>				
RoA	12%	17%	7%	8%
RoE	14%	19%	15%	18%
Sales/Assets	26%	33%	15%	16%
Net margin	46.4%	50.4%	43.2%	49.4%
<b>Liquidity ratios</b>				
Current Assets/ Current Liabilities	9.4	8.2	1.7	1.6
Receivable Days	19	19	25	25
Payable days	7	7	7	7
Cash conversion cycle	13	12	18	18
<b>Debt ratios</b>				
Net Debt/EBITDA (w/o IFRS liab.)	-5.4	-4.1	-5.1	-4.0
Net Debt/Equity (w/o IFRS liab.)	-0.88	-0.88	-0.86	-0.83
<b>Valuation ratios</b>				
P/E	41.2	35.1	43.5	32.2
P/B	5.7	6.7	6.4	5.9
EV/EBITDA	30.1	26.6	32.8	24.5
Dividend Yield	0.6%	5.4%	1.6%	1.9%

Source: Company, GIB Capital

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