

August 9, 2023 11:01 PM GMT

Solutions by STC | Europe

Time for a valuation pause

STOCK RATING	INDUSTRY VIEW	PRICE TARGET
Equal-weight	No Rating	SAR 303.00

Despite the recent stock pull-back, after strong YTD share price performance we see the current valuation as sufficiently capturing the investment opportunity. We increase our FY24/25 adj. EPS forecasts by 3/4% post 2Q earnings.

WHAT'S CHANGED

Solutions by STC (7202.SE)	From	To
Price Target	SAR 295.00	SAR 303.00

Organic growth slowdown is an investor focus in 2Q reporting: Despite Solutions delivering another profit beat at 2Q, the stock has underperformed since the details were released, trading down to SAR 321, compared to its recent SAR 360-380 trading range. We think there are two factors for this: 1) Solutions is a growth story, and 2Q represented a significant consensus profit beat, but missed revenue expectations by c. 3%, and 2) Solutions' rate of organic growth was disclosed at only c. 5% for 1H23. We think this second point is most important. With recent acquisitions of Giza Systems and Contact Center Company (CCC), disclosure around precise organic growth rates was not clear, until 2Q, and the newly disclosed level of c. 5% is lower than the high-single-digit % we were modelling for 1H23. It also puts into context the growth moderation that Solutions has seen, from (we estimate) c. 30%/31%/13%/13% in FY19/20/21/22.

Where does organic growth inflect next? Firstly, we note that the organic growth disclosure by Solutions (i.e. 5% y/y growth in 1H23) may be slightly too punitive a calculation. The company flagged on the 2Q conference call that - since acquisition - some revenues are now channelled through Giza (and i.e. out of core Solutions). Stepping back, we do not have significant structural concerns around Solutions' market opportunity. The market backdrop remains supportive, with fiscal spend around Vision 2030, and digitalisation of the economy; IDC calculate that the IT Services market will grow at a c. 9% CAGR 2022-27. Where there is volatility in Solutions' numbers is around the Core ICT Services business, which is a mix of lower market growth Communications & Internet services, and higher growth, but more lumpy System Integration (SI) revenues. SI revenues are project-based (often 12-18 month contracts), and so are lumpier in nature; therefore visibility is lower. We suspect growth in Core ICT Services in 1H has been the lowest amongst the three group divisions, partly against a tough prior-year base comp. All things considered, we expect Solutions to continue to grow revenues broadly in-line with market growth, on an organic basis (MSe c. 8-9% p.a. through to FY26). Our base assumption is that Solutions' scope to take meaningful further market share from here organically is relatively limited given its c. 20% market share position in 2022 (towards the higher end of what we observe in developed European markets).

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**Solutions by STC (7202.SE, SOLUTION AB)**

EEMEA - Technology | Saudi Arabia

Stock Rating	Equal-weight
Industry View	No Rating
Price target	SAR 303.00
Shr price, close (Aug 9, 2023)	SAR 320.80
52-Week Range	SAR 385.00- 216.80
Mkt cap, curr (mn)	SAR 38,496
Net debt (12/23e) (mn)*	SAR (2,735)
EV, curr (mn)*	SAR 35,977

* = GAAP or approximated based on GAAP

Fiscal Year Ending	12/22	12/23e	12/24e	12/25e
Sales / Revenue (SAR mn)**	8,805	11,051	12,279	13,363
EBITDA (SAR mn)**	1,389	1,839	1,901	2,069
EBIT (SAR mn)**	1,162	1,589	1,615	1,761
EPS (SAR)**	8.97	11.89	12.13	13.30
ModelWare EPS (SAR)	8.97	11.89	12.13	13.30
Prior EPS (SAR)**	8.97	10.87	11.76	12.74
EPS (SAR)§	8.85	10.55	12.30	13.27
P/E**	27.1	27.0	26.5	24.1
EV/revenue*	3.0	3.3	2.9	2.9
EV/EBITDA**	19.2	19.7	18.7	18.7
EV/EBIT**	22.9	22.8	22.1	21.9
DPS (SAR)	5.00	5.50	5.85	6.15
Div yld (%)	2.1	1.7	1.8	1.9
FCF yld ratio (%)**	6.8	3.1	3.5	4.1
Net debt (SAR mn)*	(2,548)	(2,735)	(3,411)	(4,280)
Net debt/EBITDA**	NM	NM	NM	NM

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

** = Based on consensus methodology

§ = Consensus data is provided by Refinitiv Estimates

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Valuation looks up with events: At SAR 321, Solutions trades on c. 26.5x FY24 adj. P/E on our updated forecasts, or a c. 3.4% FCF yield. The stock has been strongly supported since IPO by material revenue growth outperformance, with 2Q marking a departure from that trend. Growth remains strong at the group level, but now much more backed by inorganic growth. Solutions continues to have clear firepower to conduct M&A (c. SAR 1.9bn of net cash at 1H23 end), though Solutions does not yet (in our view) have an M&A track record, given the recent nature of the Giza and CCC deals. Our DCF-derived price target implies modest downside, and a c. 25x FY24 adj. P/E multiple, reflecting Solutions' medium-term runway for solid growth. In [Exhibit 1](#), we map FY24 adj. P/E vs. FY25 adj. EPS growth across our broader European IT Services coverage, select US large-cap peers, Indian heritage vendors, and KSA-peer, Elm Company.

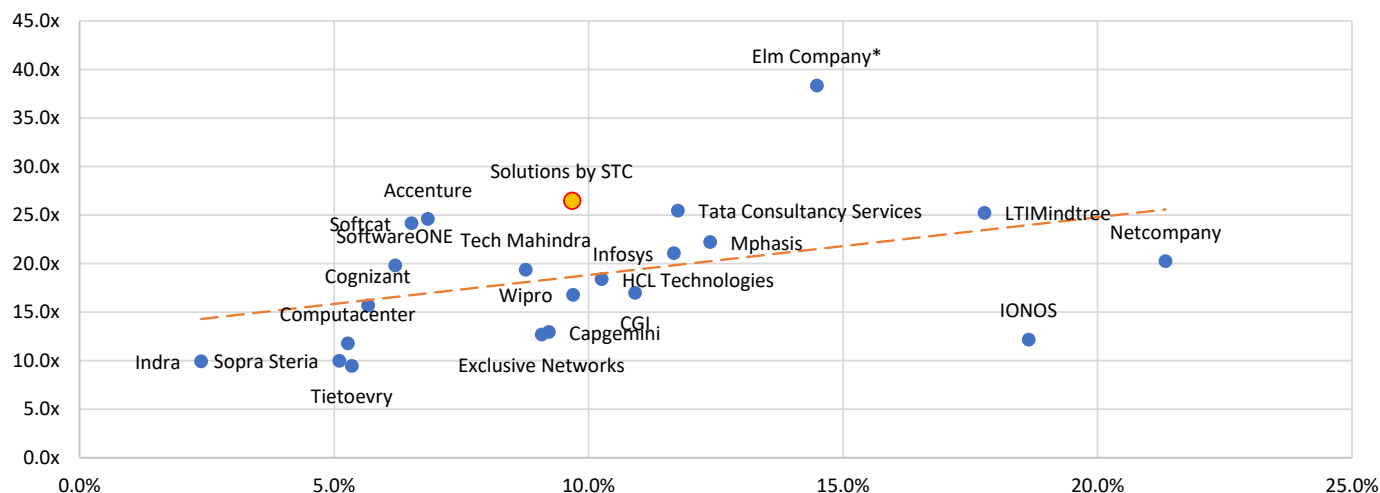
How might generative AI impact the IT services markets? In June, in combination with our global colleagues, we published a report looking at the impact of AI on IT services vendors: [Global IT Services: AI - At your service](#). While we have not heard this as a widespread discussion topic within the KSA community with respect to Solutions by STC, it has become an important discussion point around the European and US IT services spaces. In short, we see IT services vendors overall as near-term AI beneficiaries. With most companies in the early innings of their digital transformations, on a 1-3 year view we see a demand tailwind as companies look to IT Services vendors to help them understand their data landscape and ways to leverage AI. In addition, vendors who internally adopt AI tools early could benefit from productivity and margin benefits. However, we expect these benefits to be small and limited to early adopters as: (1) productivity savings are likely shared with customers, and (2) IT Services vendors strategically invest to build AI capability. However, the longer-term market impact is less clear, and could in our view swing net positively or net negatively for the IT services industry. We outline bull and bear scenarios in our Executive Summary within the linked note.

Forecasts increased post 2Q earnings as gross margin leverage shows through, remaining above (upgraded) guidance, price target raised to SAR 303: [Despite a more muted top-line performance versus consensus expectations in 2Q](#), Solutions comfortably beat on gross profit performance, fuelling a bottom-line beat. Looking past movements in impairments/provisions, we calculate a c. 17.9% adj. EBIT margin for 2Q, significantly above 14.7% in 1Q and 13.2% for FY22. Given this is driven by gross margins - which can be volatile - we do not assume this persists through H2. For context, in FY22, the 1H/2H adj. EBIT margin split was 14.7%/11.7%. In our updated forecasts, our top-line expectations are raised 1%, reflecting revised M&A contribution estimates, and slightly lowered pro-forma organic growth within the mix (down to 8.7% for the year). However, partly reflecting overall gross margin performance and cost structure growth, we raise our adj. EBIT margin forecasts, driving a c. 6/7% uplift to FY24/25 adj. EBIT. With slightly higher Zakat rates assumed, our adj. diluted EPS forecasts are raised 9/3/4% for FY23/24/25 (see [Exhibit 4](#)). Our FY23 % change is higher than FY24/25, reflecting our assumption that gross margins normalise back into the 22-23% from FY24. We remain above the newly upgraded revenue growth guidance of 19-22% (MS 26%) and re-iterated EBITDA margin guidance of 13-15% (MS 15.5%). Our DCF-derived price target tracks higher, to SAR 303 (up from SAR 295).

* = GAAP or approximated based on GAAP
e = Morgan Stanley Research estimates

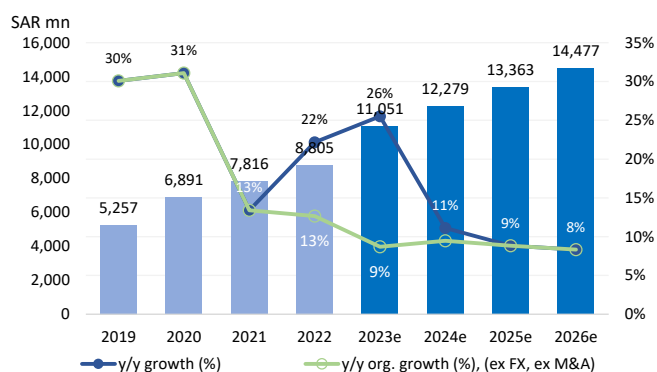
Supporting exhibits

Exhibit 1: CY24 adj. P/E vs. CY25 adj. EPS growth: Solutions valuation vs. European IT Services vs. US large-caps vs. Indian heritage vendors vs. ELM



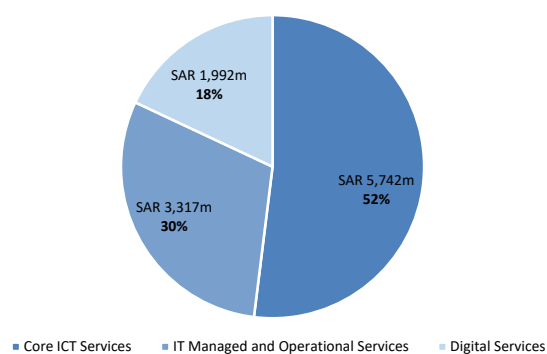
Source: Morgan Stanley Research estimates (for covered companies). Refinitiv consensus, ex-outliers, CY24 adj. EPS growth used where CY25 not available, *stated EPS

Exhibit 2: Revenue growth vs. organic growth over time



Source: Company data, Morgan Stanley Research estimates

Exhibit 3: Revenue mix by division (MSe FY23)



Source: Morgan Stanley Research estimates

Exhibit 4:

Forecast changes (Old vs. new)

New forecasts				Old forecasts				Changes		
SARm	FY23	FY24	FY25	SARm	FY23	FY24	FY25	FY23	FY24	FY25
Revenue	11,051	12,279	13,363	Revenue	10,964	12,190	13,250	1%	1%	1%
% Δ y/y	25.5%	11.1%	8.5%	% Δ y/y	24.5%	11.2%	8.4%			
% org. Δ y/y (PF)	8.7%	9.5%	8.5%	% org. Δ y/y (PF)	10.0%	9.5%	8.4%			
Stated EBIT	1,436	1,591	1,737	Stated EBIT	1,350	1,506	1,622	6%	6%	7%
% of sales	13.0%	13.0%	13.0%	% of sales	12.3%	12.4%	12.2%			
Adj. EBIT	1,589	1,615	1,761	Adj. EBIT	1,419	1,530	1,646	12%	6%	7%
% of sales	14.4%	13.2%	13.2%	% of sales	12.9%	12.6%	12.4%			
Stated dil EPS	10.54	11.95	13.13	Stated dil EPS	10.15	11.58	12.56	4%	3%	5%
Adj. dil EPS	11.89	12.13	13.30	Adj. dil EPS	10.87	11.76	12.74	9%	3%	4%

Source: NB: PF = pro-forma method. FY23 MSe org. growth ex-M&A non-PF method = 8.2%. Source: Morgan Stanley Research estimates

Risk Reward – Solutions by STC (7202.SE)

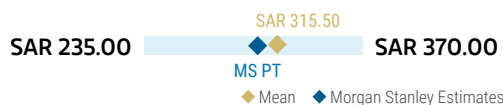
Valuation captures Solutions' KSA ICT services market leadership position

PRICE TARGET SAR 303.00

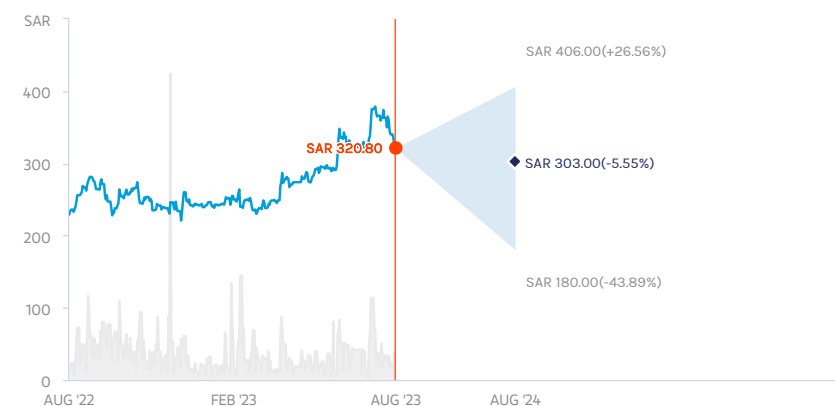
We value Solutions by STC with a 10-year DCF, using a WACC of 8.5%, and a 2.5% terminal growth rate.

Consensus Price Target Distribution

Source: Refinitiv, Morgan Stanley Research



RISK REWARD CHART



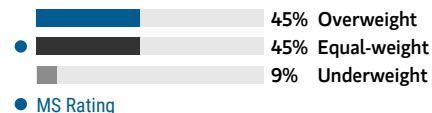
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- Strongly positioned to help enable KSA Vision 2030 by enabling technology adoption in the public and private sectors.
- We forecast Solutions to grow revenues organically at a c. 9% CAGR FY23-26, slightly ahead of its underlying market growth rate. In the context of IT services, this represents a relatively high rate of growth, reflecting KSA's earlier positioning on the IT adoption maturity curve.
- We continue to expect some cost re-emergence post COVID-19 pandemic and gross margin volatility (as has historically been the case). We expect adj. EBIT margins to remain broadly around the low-teens % level.
- We see the current valuation as fairly capturing the baseline growth opportunity.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*

View descriptions of Risk Rewards Themes [here](#)

BULL CASE SAR 406.00

Double-digit organic growth momentum

As was the case over FY19-22, Solutions continues to win large new ICT contracts, driving growth materially above the company's guidance. We forecast c. 29% total growth in FY24 and c. 17% in FY25 (vs. 11% in our base case). Operating leverage drives adj. EBIT margins higher and Solutions sustains >13% margins through the mid-term, and reaches ~14.5% in terminal state. The FY23-26 revenue growth CAGR is c. 14%, c. 6.5% FY27-33. Our bull case equals c. 29x FY24 adj. P/E, or c. 3.4x EV/Sales.

BASE CASE SAR 303.00

Growth in-line with the market

After MSe c. 17% org. growth in FY22, Solutions continues to deliver strong growth. We forecast c. 9% org. for FY23 (26% total growth), c. 9.5% for FY24. Adj. EBIT margins compress vs. FY22 levels, reflecting M&A impacts and project mix. Adj. EBIT margins ease from MSe 14.4% in FY22 to 13.2% by FY26, as gross margins normalise. The FY27-33 revenue growth CAGR is c. 6%. Adj. EBIT margins improve gradually to ~13.5% in terminal state. Our base case equals c. 25x FY24 adj. P/E, or c. 2.7x EV/sales.

BEAR CASE SAR 180.00

Increased competition drives below-market growth

Beyond FY23 (where stated growth is 22%), Solutions' top-line growth moderates below the wider market at, driven by increased competition. Adj. EBIT margins compress to <13% in FY23, and to around 10% in terminal state, as mix shift weighs, currently higher-margin work commoditises, and margin improvements in more nascent divisions (e.g. digital) proves relatively limited. The FY23-26 revenue CAGR is c. 6%, c. 3% FY27-33. Our bear case represents c. 17x FY24 adj. P/E, or c. 1.6x EV/Sales.

Risk Reward – Solutions by STC (7202.SE)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Group y/y revenue growth (%)	22.2	25.5	11.1	8.8
Group adj. EBIT margin (%)	13.2	14.4	13.2	13.2
Group stated EBITDA margin (%)	15.8	15.5	15.5	15.5

INVESTMENT DRIVERS

- Large new contract wins
- Relative growth of high versus low margin business segments
- Expansion of activities in private sector end market
- M&A inside KSA or in other GCC countries
- Delivery quality on large contracts already being serviced
- 3Q23 results

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies [here](#)

MS ALPHA MODELS

1/5
MOST

3 Month
Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- New contract wins particularly with the KSA government
- International expansion into other GCC countries in the mid-term
- Bolt-on M&A

RISKS TO DOWNSIDE

- Slowdown in contract wins or contract losses once they reach the end of their term
- Weaker than expected delivery on existing large contracts leading to margin compression
- Impairments/provisions on contracts/inventory
- Longer working capital cycles than expected

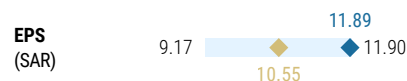
OWNERSHIP POSITIONING

Inst. Owners, % Active	53.9%	<div style="width: 53.9%;"></div>
HF Sector Long/Short Ratio	2.2x	<div style="width: 2.2x;"></div>
HF Sector Net Exposure	6.8%	<div style="width: 6.8%;"></div>

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure - Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Financial forecasts

Exhibit 5: Revenue drivers

Profit & Loss	FY	FY	FY	FY	FY	FY	FY	FY	FY
YE 31st Dec - SARm	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Core ICT Services	2,566	2,960	3,744	4,231	1,324	5,742	6,058	6,376	6,707
<i>y/y growth (%)</i>		15.4%	26.5%	13.0%	-68.7%	333.7%	5.5%	5.3%	5.2%
<i>y/y cc growth (%)</i>		15.4%	26.5%	13.0%	31.2%	20.7%	5.5%	5.3%	5.2%
<i>y/y org. growth (%)</i> , (ex FX, ex M&A)		15.4%	26.5%	13.0%	31.2%	5.6%	5.5%	5.3%	5.2%
o/w. System Integration	1,727	2,085	2,316						
<i>y/y growth (%)</i>		20.7%	11.1%						
o/w. Communication and Internet	838	875	1,428						
<i>y/y growth (%)</i>		4.4%	63.2%						
IT Managed and Operational Services	854	1,155	1,630	1,955	529	3,317	3,881	4,249	4,621
<i>y/y growth (%)</i>		35.3%	41.1%	20.0%	-72.9%	526.8%	17.0%	9.5%	8.7%
<i>y/y cc growth (%)</i>		35.3%	41.1%	20.0%	13.4%	42.8%	17.0%	9.5%	8.7%
<i>y/y org. growth (%)</i> , (ex FX, ex M&A)		35.3%	41.1%	20.0%	13.4%	10.6%	11.4%	9.5%	8.7%
o/w. Outsourcing Services	690	903	1,229						
<i>y/y growth (%)</i>		30.8%	36.1%						
o/w. Managed Services	163	252	401						
<i>y/y growth (%)</i>		54.4%	59.1%						
Digital Services	622	1,142	1,518	1,629	390	1,992	2,340	2,738	3,149
<i>y/y growth (%)</i>		83.6%	32.9%	7.3%	-76.1%	411.2%	17.5%	17.0%	15.0%
<i>y/y cc growth (%)</i>		83.6%	32.9%	7.3%	-0.4%	17.3%	17.5%	17.0%	15.0%
<i>y/y org. growth (%)</i> , (ex FX, ex M&A)		83.6%	32.9%	7.3%	-0.4%	15.4%	17.5%	17.0%	15.0%
o/w. Cloud Services	270	478	677						
<i>y/y growth (%)</i>		77.0%	41.7%						
o/w. Cyber Security	308	430	578						
<i>y/y growth (%)</i>		39.6%	34.5%						
o/w. Digital Services	44	234	262						
<i>y/y growth (%)</i>		433.0%	12.1%						
Total revenues	4,041	5,257	6,891	7,816	2,243	11,051	12,279	13,363	14,477
<i>y/y growth (%)</i>		30.1%	31.1%	13.4%	20.1%	25.5%	11.1%	8.8%	8.3%
<i>y/y cc growth (%)</i>		30.1%	31.1%	13.4%	20.1%	25.9%	11.1%	8.8%	8.3%
<i>y/y org. growth (%)</i> , (ex FX, ex M&A)		30.1%	31.1%	13.4%	20.1%	8.7%	9.5%	8.8%	8.3%
<i>y/y org. growth (%)</i> , (ex M&A, ex-out not PF)		30.1%	31.1%	13.4%	20.1%	8.2%	11.1%	8.8%	8.3%

Source: Company data, Morgan Stanley Research estimates (E)

Exhibit 6: Income statement

Profit & Loss	FY	FY	FY	FY	FY	FY	FY	FY	FY
YE 31st Dec - SARm	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Total revenues	4,041	5,257	6,891	7,816	2,243	11,051	12,279	13,363	14,477
<i>y/y growth (%)</i>		30.1%	31.1%	13.4%	20.1%	25.5%	11.1%	8.8%	8.3%
<i>y/y cc growth (%)</i>		30.1%	31.1%	13.4%	20.1%	25.9%	11.1%	8.8%	8.3%
<i>y/y org. growth (%), (ex FX, ex M&A)</i>		30.1%	31.1%	13.4%	20.1%	8.7%	9.5%	8.8%	8.3%
<i>y/y org. growth (%), (ex M&A, ex-out not PF)</i>		30.1%	31.1%	13.4%	20.1%	8.2%	11.1%	8.8%	8.3%
Cost of sales	(3,076)	(4,410)	(5,469)	(6,108)	(1,749)	(8,436)	(9,516)	(10,357)	(11,220)
Stated gross profit	965	847	1,422	1,708	494	2,614	2,763	3,007	3,257
<i>as % of sales</i>	23.9%	16.1%	20.6%	21.9%	22.0%	23.7%	22.5%	22.5%	22.5%
Adj. selling and distribution expenses	(113)	(158)	(159)	(196)	(58)	(312)	(350)	(391)	(420)
<i>y/y growth</i>		39.4%	1.0%	23.1%	38.4%	26.8%	12.1%	11.7%	7.4%
<i>as % of sales</i>	-2.8%	-3.0%	-2.3%	-2.5%	-2.6%	-2.8%	-2.9%	-2.9%	-2.9%
Adj. general and administration expenses	(273)	(357)	(429)	(450)	(121)	(715)	(798)	(855)	(927)
<i>y/y growth</i>		31.0%	20.3%	4.8%	27.0%	19.2%	11.6%	7.2%	8.3%
<i>as % of sales</i>	-6.7%	-6.8%	-6.2%	-5.8%	-5.4%	-6.5%	-6.5%	-6.4%	-6.4%
Net impairments/provisions in COGS	13	(32)	(14)	(11)	(26)	(2)	--	--	--
Net impairments/provisions below COGS	(7)	15	(77)	(163)	(2)	(127)	--	--	--
Other income/(losses)	6	74	(2)	2	(1)	(34)	--	--	--
Amortisation of acquired intangibles	--	--	--	--	--	(24)	(24)	(24)	(24)
Stated EBIT	572	348	757	899	313	1,436	1,591	1,737	1,887
<i>as % of sales</i>	14.2%	6.6%	11.0%	11.5%	14.0%	13.0%	13.0%	13.0%	13.0%
Adjusted EBIT	567	365	848	1,073	341	1,589	1,615	1,761	1,911
<i>as % of sales</i>	14.0%	6.9%	12.3%	13.7%	15.2%	14.4%	13.2%	13.2%	13.2%
D&A	43	92	105	208	55	274	310	332	361
<i>as % of sales</i>	1.1%	1.8%	1.5%	2.7%	2.5%	2.5%	2.5%	2.5%	2.5%
o/w. normal depreciation (MSe)	30	54	55	155	42	179	196	200	203
<i>as % of sales</i>	0.7%	1.0%	0.8%	2.0%	1.9%	1.6%	1.6%	1.5%	1.4%
o/w. lease depreciation	--	17	19	17	4	32	38	41	44
o/w. amortisation	13	21	31	35	9	39	52	67	90
<i>as % of sales</i>	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%	0.4%	0.5%	0.6%
o/w. ppa of intangibles	--	--	--	--	--	24	24	24	24
Stated EBITDA	614	440	862	1,107	368	1,710	1,901	2,069	2,248
<i>as % of sales</i>	15.2%	8.4%	12.5%	14.2%	16.4%	15.5%	15.5%	15.5%	15.5%
Adjusted EBITDA	610	457	953	1,281	396	1,839	1,901	2,069	2,248
<i>as % of sales</i>	15.1%	8.7%	13.8%	16.4%	17.7%	16.6%	15.5%	15.5%	15.5%
Net finance income/(expense)	30	13	(1)	3	4	52	36	51	66
Stated PBT	608	435	754	904	316	1,454	1,627	1,787	1,954
Adj. PBT	597	377	847	1,076	345	1,641	1,651	1,811	1,978
Stated tax (Zakat)	(52)	(41)	(52)	(71)	(34)	(185)	(187)	(206)	(225)
<i>Tax rate % of stated PBT</i>	-8.5%	-9.4%	-6.9%	-7.9%	-10.6%	-13.7%	-11.5%	-11.5%	-11.5%
Adjusted tax (Zakat)	(51)	(36)	(58)	(87)	(37)	(209)	(190)	(208)	(227)
<i>Tax rate % of adj. PBT</i>	-8.5%	-9.4%	-6.9%	-8.1%	-10.6%	-13.7%	-11.5%	-11.5%	-11.5%
NCIs	--	--	--	--	--	(5)	(6)	(7)	(8)
Stated net income	556	394	702	833	283	1,264	1,434	1,575	1,721
Adj. net income	546	342	788	989	309	1,426	1,455	1,596	1,742
Average diluted SII	120	120	120	120	120	120	120	120	120
Adj. diluted EPS	4.55	2.85	6.57	8.24	2.57	11.89	12.13	13.30	14.52
Dividend announced	--	--	--	475	--	654	696	732	767
Dividend per share	--	--	--	4.00	--	5.50	5.85	6.15	6.45
<i>% stated net income</i>	0%	0%	0%	57%	0%	52%	49%	46%	45%
<i>% paid up share capital</i>	0%	0%	0%	40%	0%	55%	58%	61%	64%

Source: Company data, Morgan Stanley Research estimates (E)

Exhibit 7: Balance sheet

Balance Sheet	FY	FY	FY	FY	FY	FY	FY	FY	FY
YE 31st Dec - SARm	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Accounts receivable	1,829	2,635	2,804	3,021	3,240	4,981	4,918	5,346	5,777
As % annualised sales	45%	50%	41%	39%	36%	45%	40%	40%	40%
Receivables days	165 days	155 days	144 days	136 days	0 days	154 days	147 days	140 days	140 days
Prepayments and other assets	301	157	157	288	151	286	312	340	369
As % annualised sales	7%	3%	2%	4%	2%	3%	3%	3%	3%
Contract assets	868	1,166	1,505	1,256	1,584	1,603	2,172	2,367	2,567
As % annualised sales	21%	22%	22%	16%	18%	15%	18%	18%	18%
Other current assets	140	151	112	274	54	240	250	272	295
As % annualised sales	3%	3%	2%	4%	1%	2%	2%	2%	2%
Total current assets	3,138	4,109	4,578	4,839	5,030	7,111	7,652	8,325	9,008
Accounts payable	1,236	1,458	1,974	1,931	1,938	3,206	3,433	3,673	3,954
As % annualised sales	-31%	-28%	-29%	-25%	-22%	-29%	-28%	-27%	-27%
Deferred revenue	988	1,427	1,705	2,277	2,286	3,206	3,308	3,605	3,873
As % annualised sales	-24%	-27%	-25%	-29%	-25%	-29%	-27%	-27%	-27%
Contract liabilities	336	452	336	354	364	572	646	715	790
As % annualised sales	-8%	-9%	-5%	-5%	-4%	-5%	-5%	-5%	-5%
Other current liabilities	99	40	53	72	106	145	125	136	148
As % annualised sales	-2%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Total current liabilities	2,659	3,377	4,068	4,634	4,695	7,129	7,511	8,129	8,765
Net working capital	480	732	509	204	335	(18)	141	196	243
As % annualised sales	12%	14%	7%	3%	4%	0%	1%	1%	2%
LT equity investments	0	--	--	--	--	3	3	3	3
Intangible assets	64	104	91	98	100	658	658	658	658
Tangible assets	102	167	594	551	516	390	325	260	188
Other non-current assets	23	84	79	78	75	66	66	66	66
Total non-current assets	189	354	764	726	691	1,117	1,052	987	915
Cash & equivalents	892	414	993	1,608	1,803	2,071	2,746	3,616	4,599
ST investments	230	--	--	--	--	1,402	1,402	1,402	1,402
ST debt	--	--	--	--	--	230	230	230	230
LT debt	--	--	--	--	--	507	507	507	507
Net cash/(debt)	1,123	414	993	1,608	1,803	2,735	3,411	4,280	5,263
End of service indemnities	126	189	295	237	266	409	435	455	465
Lease liabilities	--	54	48	31	29	7	7	7	7
Other non-current liabilities	--	--	--	--	--	--	--	--	--
Share capital	100	100	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Retained earnings	1,515	1,079	610	960	1,243	2,101	2,881	3,760	4,749
Other equity	50	78	113	111	92	85	43	(2)	(51)
NCI	--	--	--	--	--	31	37	44	52
Total equity	1,665	1,257	1,924	2,271	2,535	3,418	4,161	5,001	5,949
Total assets	4,450	4,877	6,335	7,173	7,524	11,700	12,852	14,330	15,924
Total liabilities and equity	4,450	4,877	6,335	7,173	7,524	11,700	12,852	14,330	15,924

Source: Company data, Morgan Stanley Research estimates (€)

Exhibit 8: Cash flow statement

Cash Flow Statement YE 31st Dec - SARm	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E	FY 2026E
P&L PBT	608	435	754	904	316	1,454	1,627	1,787	1,954
D&A and impairments <i>as a % of sales</i>	43 1.1%	92 1.8%	109 1.6%	209 2.7%	55 2.5%	274 2.5%	310 2.5%	332 2.5%	361 2.5%
Employee benefits expense	53	77	90	60	14	72	78	84	91
Other impairments/provisions	2	17	91	174	28	130	--	--	--
Other non-cash add-backs	--	(72)	--	(0)	--	7	(0)	(0)	(0)
Other operating cash flows	--	--	--	--	--	--	--	--	--
Net finance expense add-back	(30)	(13)	1	(3)	(4)	(52)	(36)	(51)	(66)
Change in receivables <i>% of sales</i>	(870) -21.5%	(805) -15.3%	(218) -3.2%	(368) -4.7%	(222) -9.9%	(627) -5.7%	63 0.5%	(428) -3.2%	(431) -3.0%
Change in prepayments/other assets <i>% of sales</i>	(164) -4.1%	122 2.3%	1 0.0%	(143) -1.8%	137 6.1%	(23) -0.2%	(26) -0.2%	(28) -0.2%	(29) -0.2%
Change in contract assets <i>% of sales</i>	(15) -0.4%	(290) -5.5%	(336) -4.9%	248 3.2%	(328) -14.6%	(111) -1.0%	(569) -4.6%	(195) -1.5%	(200) -1.4%
Change in payables <i>% of sales</i>	429 10.6%	191 3.6%	492 7.1%	(36) -0.5%	(16) -0.7%	394 3.6%	227 1.8%	240 1.8%	281 1.9%
Change in deferred revenue <i>% of sales</i>	507 12.6%	439 8.3%	278 4.0%	572 7.3%	10 0.4%	(104) -0.9%	102 0.8%	297 2.2%	268 1.9%
Change in contract liabilities <i>% of sales</i>	(312) -7.7%	116 2.2%	(116) -1.7%	18 0.2%	10 0.5%	84 0.8%	74 0.6%	70 0.5%	75 0.5%
Other working capital changes <i>% of sales</i>	(87) -2.2%	(26) -0.5%	30 0.4%	(185) -2.4%	213 9.5%	88 0.8%	(29) -0.2%	(11) -0.1%	(12) -0.1%
Net change in WC <i>as a % of sales</i>	(512) -12.7%	(253) -4.8%	131 1.9%	107 1.4%	(195) -8.7%	(300) -2.7%	(159) -1.3%	(55) -0.4%	(47) -0.3%
Net interest paid	31	16	2	3	4	53	36	51	66
Tax paid	(27)	(100)	(39)	(52)	--	(184)	(187)	(206)	(225)
End of service payments	(9)	(16)	(20)	(33)	(12)	(43)	(52)	(64)	(80)
Cash from operating activities	160	183	1,119	1,379	215	1,416	1,618	1,878	2,053
Net capital expenditure <i>as a % of sales</i>	(133) 3.3%	(179) 3.4%	(536) 7.8%	(155) 2.0%	(19) 0.8%	(161) 1.5%	(246) 2.0%	(267) 2.0%	(290) 2.0%
Total capex <i>as a % of sales</i>	(133) 3.3%	(179) 3.4%	(536) 7.8%	(155) 2.0%	(19) 0.8%	(161) 1.5%	(246) 2.0%	(267) 2.0%	(290) 2.0%
Share issue / (repurchase)	--	--	--	--	--	--	--	--	--
Cash dividends paid	(300)	(800)	--	(400)	--	(595)	(654)	(696)	(732)
Net disposals / (acquisitions)	--	100	--	--	--	(415)	--	--	--
Lease repayments	--	(13)	(4)	(29)	(1)	(39)	(42)	(45)	(49)
Other financing cash flows	--	--	--	(181)	--	--	--	--	--
Other investing cash flows	570	230	--	--	--	1,298	--	--	--
Issue of debt	--	--	--	--	--	40	--	--	--
Repayment of debt	--	--	--	--	--	--	--	--	--
Cash FX impact	--	--	--	--	--	(18)	--	--	--
FCFE <i>as % of adj. EBIT</i>	27 4.8%	(9) -2.3%	579 68.3%	1,195 111.4%	196 57.4%	1,211 76.2%	1,324 82.0%	1,559 88.5%	1,707 89.3%
<i>y/y growth (%)</i>	--	-131.5%	-6909.5%	106.4%	-35.9%	-37.9%	9.3%	17.7%	9.5%
<i>as % of sales</i>	0.7%	-0.2%	8.4%	15.3%	8.7%	11.0%	10.8%	11.7%	11.8%
FCFF <i>as % of adj. EBIT</i>	4 0.8%	(12) -3.4%	594 70.1%	1,224 114.0%	204 59.8%	1,205 75.8%	1,344 83.2%	1,578 89.6%	1,727 90.4%
<i>y/y growth (%)</i>	--	-383.8%	-4939.1%	105.8%	-35.5%	-39.3%	11.5%	17.4%	9.5%
<i>as % of sales</i>	0.1%	-0.2%	8.6%	15.7%	9.1%	10.9%	10.9%	11.8%	11.9%

Source: Company data, Morgan Stanley Research estimates (E)

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - [Options_Probabilities_Exhibit_Link.pdf](#)
2. View descriptions of Risk Rewards Themes - [RR_Themes_Exhibit_Link.pdf](#)
3. View explanation of regional hierarchies - [Microsoft PowerPoint - Exhibit Links.pptx](#)
4. View explanation of 'Indicator of Change' methodology - [ESG_Indicator_of_Change_External_Link.pdf](#)
5. View explanation of Theme/Exposure methodology - [ESG_Sustainable_Solutions_External_Link.pdf](#)
6. View explanation of HERS methodology - [ESG_HERS_External_Link.pdf](#)

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(as of July 31, 2023)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1347	37%	276	43%	20%	609	39%
Equal-weight/Hold	1659	46%	294	46%	18%	717	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	604	17%	69	11%	11%	227	15%
Total	3,613		639			1554	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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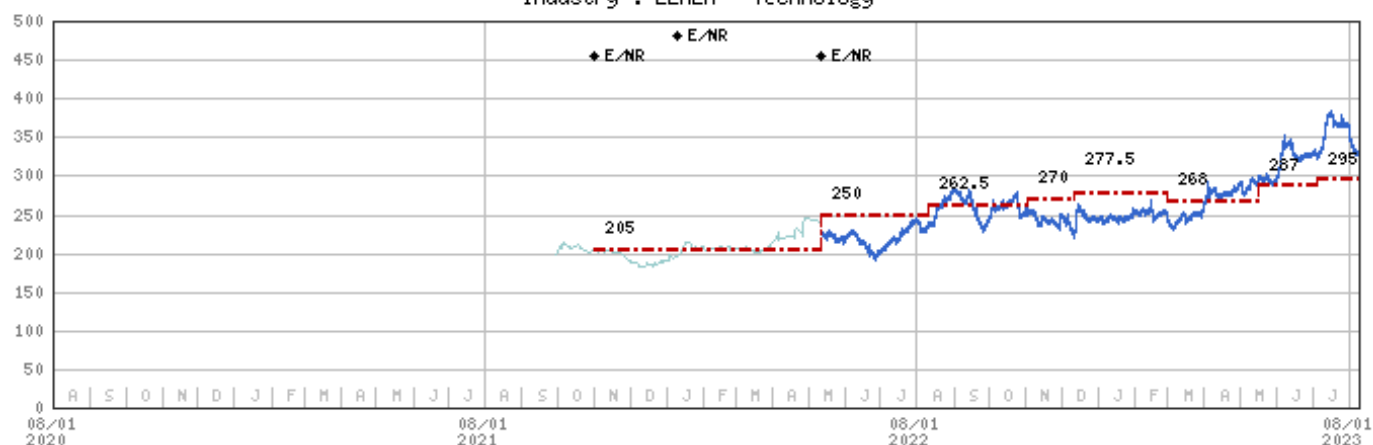
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Stock Price, Price Target and Rating History (See Rating Definitions)

Solutions by STC (7202.SE) - As of 8/8/23 in SAR
Industry : EEMEA - Technology



Stock Rating History: 11/1/21 : E/NR; 1/11/22 : E/NR; 5/12/22 : E/NR

Price Target History: 11/1/21 : 205; 5/12/22 : 250; 8/10/22 : 262.5; 11/2/22 : 270; 12/12/22 : 277.5; 2/28/23 : 268; 5/16/23 : 287; 7/5/23 : 295

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target --- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---

Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: EEMEA - Technology

COMPANY (TICKER)	RATING (AS OF)	PRICE* (08/09/2023)
George W Webb Solutions by STC (7202.SE)	E (05/12/2022)	SAR 320.80

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