

Q4 2023

## Record revenues but weak results

Solutions reported a weaker than expected set of Q4 23 results with net income declining by 17.8% yoy (-58.1% qoq) to SAR162mn. This is lower than the SNB Capital and consensus estimates of SAR197mn and SAR261mn, respectively. Revenues increased by 17.6% yoy (+2.6% qoq) to SAR2.87bn and were higher than our estimates of SAR2.61bn. However, we believe the variance is mainly driven by lower than expected gross margins (16.2% vs 21.0% in Q4 22 and our estimates of 23.2%). The impact was lower margins was partially diluted by lower opex, which stood at SAR186mn vs SAR207mn in Q4 22 and our estimates of SAR267mn.

- Revenues increased by 17.6% yoy (+2.6% qoq) to SAR 2.87bn and came higher than our estimates of SAR2.61bn. This is the highest quarterly revenue on record. We believe the growth was driven by strong growth in ICT services and Managed services divisions and consolidation of Giza systems and CCC revenues, which together accounted for 24% of the Q4 23 topline.
- Core ICT service revenue increased by 16% yoy to SAR1.58bn and accounted for 55% of the Q4 23 topline (56% in Q4 22). Managed services revenue were up by 38% yoy to SAR866mn (30% in Q4 23 vs 26% in Q4 22) while Digital services revenue decreased by 6% yoy to SAR419mn (15% in Q4 23 vs 18% in Q4 22).
- Gross margins contracted by 486bps yoy to 16.2% and came significantly lower than our estimates of 23.2%. This is the lowest quarterly gross margin on record. To highlight, gross margins in Q4 are usually weak due to business seasonality.
- EBITDA came-in at SAR278mn, down 9.2% yoy (-49.2% qoq) and came lower than our estimates of SAR339mn. EBITDA margin stood at 9.7% vs 12.6% in Q4 22 and our estimates of 13.0%. Opex (excluding D&A) decreased by 10.1% yoy to SAR186mn and were lower than our estimates of SAR267mn while opex-to-sales ratio stood at 6.5% vs 8.5% in Q4 22 and our estimate of 10.2%.
- Non-operating expenses decreased to SAR42mn SAR43mn in Q4 22 and came lower than our estimates of SAR37mn, mainly driven by higher finance income.
- The company announced a cash dividend of SAR6.0/share for 2023, higher than SAR5.0/share for 2022. This reflects a dividend yield of 1.5%.

### Outlook

Based on our last update, we are Neutral on Solutions with a PT of SAR299.4. We await for the full financials to update our estimates and PT. We believe the digitization of the Saudi economy and the strategic M&A activities will be the key stock drivers. The stock is trading at 2024f P/E and EV/EBITDA of 26.2x and 22.4x compared to the peer group average of 20.5x and 13.5x, respectively.

### Q4 23 Results Summary (SAR mn)

	Q4 23	Q4 22	%yoy	Q4 23f	%Var <sup>^</sup>	Q3 23	% qoq
Revenue	2,868	2,438	17.6%	2,614	9.7%	2,795	2.6%
Gross income	464	513	(9.6)%	606	(23.5)%	796	(41.7)%
Gross margin (%)	16.2%	21.0%	(4.9)%	23.2%	(7.0)%	28.5%	(12.3)%
EBITDA	278	306	(9.2)%	339	(18.0)%	547	(49.2)%
EBITDA margin (%)	9.7%	12.6%	(2.9)%	13.0%	(3.3)%	19.6%	(9.9)%
Net income	162	197	(17.8)%	197	(17.8)%	387	(58.1)%
Net margin (%)	5.6%	8.1%	(2.4)%	7.5%	(1.9)%	13.8%	(8.2)%
EPS (SAR)	1.35	1.64	(17.8)%	1.64	(17.8)%	3.22	(58.1)%

Source: The Company, SNB Capital Research, <sup>^</sup> % Var indicates variance from SNB Capital forecasts

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