

**Target Price: SAR263/share**  
Current Price: SAR268/share  
Upside: -2% (+Div. Yield: ~1.3%)  
**Rating: Neutral**

## Saudi Tadawul Group (STG)

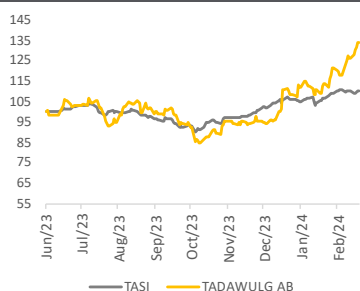
### Promising start for 2024; Raise TP to SAR263/sh.

#### Stock data

Ticker	1111
Mcap (SARmn)	32,232
Avg. Trd. Val (3m) SARmn	92.8
Free float	40.0%
QFI holding	9.9%
TASI FF weight	0.55%

Source: Bloomberg

#### Share price comparison with TASI



Source: Bloomberg

- Robust and sustainable recovery in ADTV, averaging SAR9bn QTD (SAR5.4bn in 2023), aided by optimism over the interest rate cuts, and improving liquidity.
- Earnings are expected to boost significantly, driven by higher capital market revenues and margin expansions due to operating leverage.
- Accordingly, we raise our TP to SAR263/sh., using a 40x P/E multiple (unchanged) on 2024 EPS, implying a Neutral rating (STG's stock price gained ~38% since our last update report).

**Sustainable recovery in ADTV to drive the earnings significantly in 2024:** The Tadawul market has been witnessing a solid recovery in trading activities since the beginning of the year with the ADTV rising 124% y/y (66% q/q) to ~SAR9bn (the level last seen in late 2020; SAR4bn in 1Q23; SAR5.4bn in 4Q23/2023; Fig 3). Going forward, we expect the current level of trading activities to sustain, aided by i) optimism over the interest rate cuts that may lead to shifting the asset allocation from fixed income to equities, ii) improving liquidity (high frequency and algo-based trading), iii) a healthy IPO pipeline (42 IPO application), and iv) increased retail investors' participation. Accordingly, we revise our ADTV forecast to ~SAR9bn 2024 (SAR7.1bn earlier), which will boost capital markets revenues by 51% y/y in 2024. Further, as most of the costs are fixed, we expect gross margin to improve to ~70%, similar to 2020 levels, benefiting from the operating leverage.

**Recap of 4Q23 results:** 4Q23 top-line came at SAR 332mn (38% y/y; +20% vs. GIBC estimates) due to higher contribution from Post-Trade Services, which came in at SAR205.2mn (73% y/y). ADTV increased by 13.3% y/y, leading to a 14% y/y increase in the capital market revenue (SAR88.9mn; in-line with our estimates). Data & tech revenue increased by ~48% y/y likely due to the acquisition of Direct FN. Gross profit increased by 29% y/y, reflecting the increase in revenues with gross profit margin reaching 58.4% (slightly lower than our estimates of 60.2%). Overall, net profit grew by 47% y/y to SAR91.8mn (SAR105mn expected).

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e
Revenue	1,090	1,073	1,565	1,721
Revenue growth	-6.5%	-2%	46%	10%
Gross Profit	702	607	1,056	1,185
Gross Profit margin	64%	57%	67%	69%
EBITDA	509	403	823	957
Op. income	446	328	739	869
Net profit	425	381	718	817
Net profit margin	39%	36%	46%	48%
EPS (SAR)	3.5	3.2	6.0	6.8
DPS (SAR)	3.0	2.3	3.9	4.4
P/E	76.0x	84.6x	45.0x	39.5x

Source: Company data, GIB Capital

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Figure 2: FY23 and 4Q23 result summary

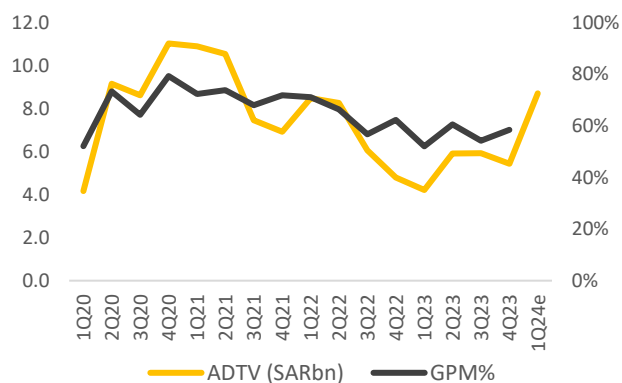
SAR mn	FY23	FY22	y/y %	4Q23	4Q22	y/y %	3Q23	q/q %	GIBCe	Variance %
<b>Revenue</b>	<b>1073</b>	<b>1090</b>	<b>-2%</b>	<b>332</b>	<b>241</b>	<b>38%</b>	<b>277</b>	<b>20%</b>	<b>277</b>	<b>20%</b>
Cost of Goods	466	388	20%	138	91	52%	127	9%	110	25%
<b>Gross profit</b>	<b>607</b>	<b>702</b>	<b>-14%</b>	<b>194</b>	<b>150</b>	<b>29%</b>	<b>150</b>	<b>29%</b>	<b>167</b>	<b>16%</b>
Operating Expenses	328	446	-26%	78	88	-12%	74	5%	86	-10%
<b>Operating Profit</b>	<b>328</b>	<b>446</b>	<b>-26%</b>	<b>116</b>	<b>62</b>	<b>89%</b>	<b>77</b>	<b>52%</b>	<b>81</b>	<b>45%</b>
<b>Net Income</b>	<b>381</b>	<b>425</b>	<b>-10%</b>	<b>83</b>	<b>57</b>	<b>47%</b>	<b>102</b>	<b>-18%</b>	<b>105</b>	<b>-21%</b>
<i>Gross Margin</i>	57%	64%		58%	62%		54%		60%	
<i>Operating Margin</i>	31%	41%		35%	26%		28%		29%	
<i>Net Margin</i>	36%	39%		25%	24%		37%		38%	

Source: Company data, GIB Capital

**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 recently acquired 51% of DirectFN for SAR134mn. Moreover, STG has recently signed several MOUs with several financial markets (ASE, SSE, HKEX, SGX, etc.) to explore the possibility of dual listings on the two different markets, which may attract new foreign companies/investors, expand the investor base as well as boost liquidity in the market.

While realizing the targets/potential is certain, forecasting the timing of these drivers is difficult which is why we assign a premium valuation multiple (40x 2024e EPS) to account for the potential, instead of a DCF model. We raise our TP to SAR263/sh., implying an Overweight rating. 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).

Figure 3: Quarterly ADTV vs. Gross profit margin.



Source: Tadawul, GIB Capital

Figure 4: ADTV (SARmn) vs. stock price.



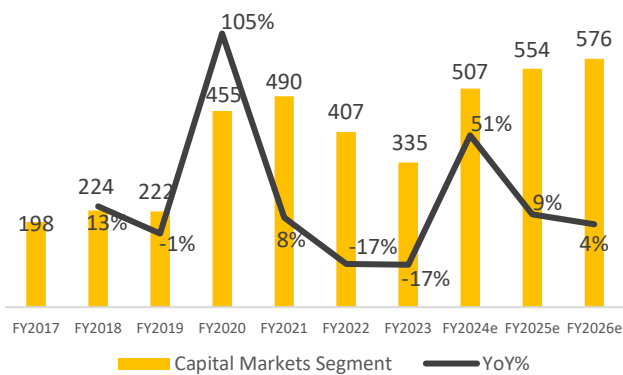
Source: Bloomberg, GIB Capital

**Key upside risks:** i) Any further acquisitions to diversify the source of income may increase the recurring revenues and lead to a revision in our forecasts. ii) commission fees in Saudi Arabia are currently the lowest in the region, and the last revision was in 2016 from 0.12% to currently 0.155% (+30% increase). Any upward revision in the commission fees should drive our forecasts higher and thereby upward revision in our TP.

**Key downside 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.

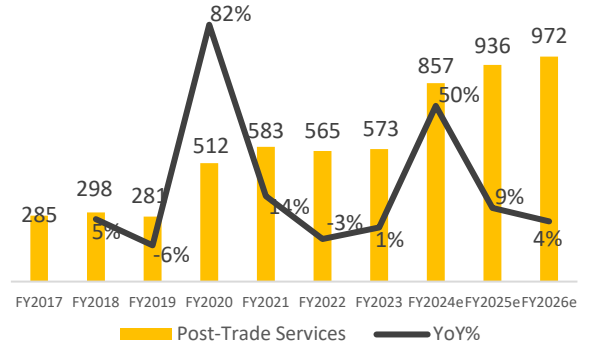
## Key Charts

Figure 5: Capital market revenue (SARmn)



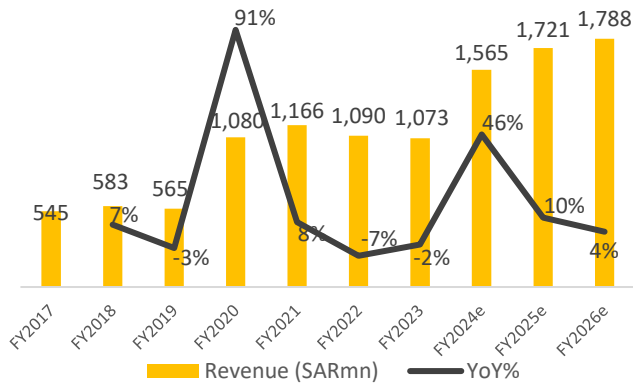
Source: Tadawul, GIB Capital

Figure 6: Post-Trade services revenue (SARmn)



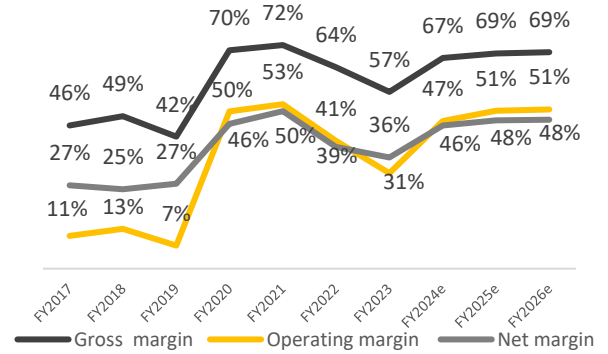
Source: Tadawul, GIB Capital

Figure 7: Revenue growth (SARmn)



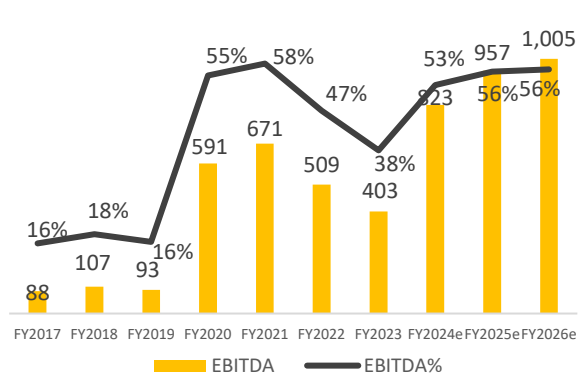
Source: Tadawul, GIB Capital

Figure 8: Margins trend



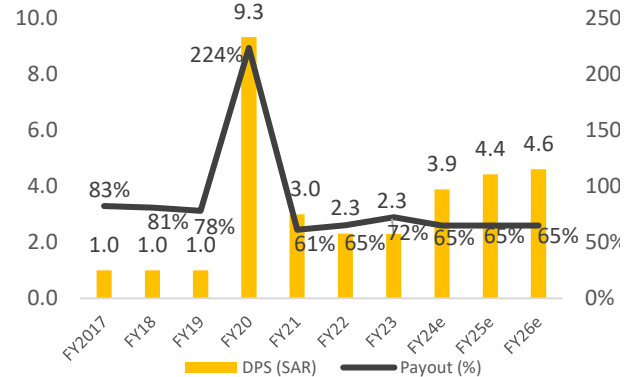
Source: Tadawul, GIB Capital

Figure 9: EBITDA (SARmn) and EBITDA margin



Source: Tadawul, GIB Capital

Figure 10: Dividend and payout (%)



Source: Tadawul, GIB Capital

## Financials

Figure 11: Summarized basic financial statements (SARmn)

Income statement	2022a	2023a	2024e	2025e
<b>Revenue</b>	<b>1,090</b>	<b>1,073</b>	<b>1,565</b>	<b>1,721</b>
revenue y/y	-7%	-2%	46%	10%
Operating Costs	388	466	509	536
<b>Gross Profit</b>	<b>702</b>	<b>607</b>	<b>1,056</b>	<b>1,185</b>
Gross Profit margin	64%	57%	67%	69%
G&A	256	279	316	316
<b>Operating profit</b>	<b>446</b>	<b>328</b>	<b>739</b>	<b>869</b>
Operating margin	41%	31%	47%	51%
Investment Income	56	127	99	83
Other income	3	3	4	5
<b>Net income</b>	<b>425</b>	<b>381</b>	<b>718</b>	<b>817</b>
Net margin	39%	36%	46%	48%
y/y	-28%	-10%	88%	14%
<b>EPS</b>	<b>3.5</b>	<b>3.2</b>	<b>6.0</b>	<b>6.8</b>
DPS	3.0	2.3	3.9	4.4
Payout	85%	73%	65%	65%
<b>EBITDA</b>	<b>509</b>	<b>403</b>	<b>823</b>	<b>957</b>
Net debt	(2,737)	(2,320)	(2,607)	(2,963)

Balance Sheet	2022a	2023a	2024e	2025e
Investments	619	269	269	269
Accounts receivable	64	95	111	123
Prepaid expenses and other current assets	116	137	140	147
Clearing participant financial assets	4,061	3,527	4,531	4,948
Cash and cash equivalents	2,119	2,051	2,338	2,693
<b>Total Current Assets</b>	<b>6,979</b>	<b>6,078</b>	<b>7,390</b>	<b>8,180</b>
Property and equipment	110	218	228	224
Intangible assets	139	349	364	349
Equity-accounted investee	401	384	384	384
Investments	56	391	391	391
<b>Total Non-Current Assets</b>	<b>712</b>	<b>1,559</b>	<b>1,585</b>	<b>1,565</b>
<b>Total Assets</b>	<b>7,690</b>	<b>7,637</b>	<b>8,974</b>	<b>9,745</b>
Current Liabilities	4,431	4,069	5,110	5,580
Non-current Liabilities	80	439	484	498
Equity	3,180	3,129	3,380	3,666
<b>Total Equity and Liabilities</b>	<b>7,690</b>	<b>7,637</b>	<b>8,974</b>	<b>9,745</b>
BVPS	26.5	26.1	28.2	30.6

Cashflow	2022a	2023a	2024e	2025e
Cashflow from Operations	470	395	866	957
Cashflow from Investing	1,935	-108	-110	-69
Cashflow from Financing	-372	-355	-469	-533
<b>Total Cashflows</b>	<b>2,033</b>	<b>-68</b>	<b>287</b>	<b>355</b>

Source: Company, GIB Capital

Figure 12: Key ratios

Key ratios	2022a	2023a	2024e	2025e
<b>Profitability ratios</b>				
RoA	6%	5%	8%	8%
RoE	13%	12%	21%	22%
Sales/Assets	14%	14%	17%	18%
Net margin	38.9%	35.6%	45.8%	47.5%
<b>Liquidity ratios</b>				
Current Assets/ Current Liabilities	1.6	1.5	1.4	1.5
Receivable Days	22	32	26	26
Payable days	29	39	37	37
Cash conversion cycle	-8	-7	-11	-11
<b>Debt ratios</b>				
Net Debt/EBITDA (w/o IFRS liab.)	-5.4	-5.8	-3.2	-3.1
Net Debt/Equity (w/o IFRS liab.)	-0.86	-0.74	-0.77	-0.81
<b>Valuation ratios</b>				
P/E	76.0	84.6	45.0	39.5
P/B	10.2	10.3	9.5	8.8
EV/EBITDA	58.0	73.3	35.9	30.9
Dividend Yield	1.1%	0.9%	1.4%	1.6%

Source: Company, GIB Capital

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