Equity Research report
TADAWULG AB Equity
12 November 2024

Target Price: SAR259/share
Current Price: SAR244.0/share
Upside: +6.2% (+Div. Yield: ~1.6%)
Rating: Neutral

Saudi Tadawul Group (STG)

3Q24 earnings miss on higher OPEX; TP revise to SAR259/sh.

Stock data	
Ticker	1111
Mcap (SARmn)	29,280
Avg. Trd. Val (3m) SARmn	32.2
Free float	40.0%
QFI holding	10.4%
TASI FF weight	0.52%

Source: Bloomberg

Share price comparison with TASI

Source: Bloomberg

- 3Q top-line largely in line but earnings miss mainly due to lower-than-expected margins on higher OPEX
- ADTV to remain under check in 4Q before improving 11.5% y/y to ~SAR8.7bn in 2025e, driven by interest rate cuts, improved liquidity and healthy IPO pipeline.
- Post revision in our estimates and rolling forward our valuation, we revise our TP to SAR259/sh. (SAR263/sh. earlier) using 40x P/E on 2025e EPS but remain Neutral on STG.

3Q24 results: STG's 3Q revenues rose 20.6% y/y to SAR359mn (broadly in line with our estimate of SAR344mn), driven by growth across the operating segments, mainly post-trade (+19.6% y/y) and trading services (19.3% y/y) amid increased trading values (+17.1% y/y). Non-trading services outperformed our estimates, rising 22.6% y/y vs. our 15.4% estimated growth. Gross profit rose 24.3% y/y to SAR212mn (in line), with a gross margin rising by 1.8ppts to 59.1%. However, the margin came lower than expected due to increased salaries and related benefits. This, along with higher-than-expected OPEX (SAR89mn vs SAR68mn expected) on increased headcount, led to a miss at the operating level. Overall, net income grew 37.2% y/y to SAR140mn, but missing our estimate of SAR155mn, due to weak operating efficiencies.

Revised 2024 ADTV; Positive outlook for 2025: After witnessing a solid rebound (+64% q/q) in trading activities in 1Q24, the Tadawul market has experienced a slowdown in trading activities since then with the ADTV (excluding Aramco secondary offering) declining by 16.6% q/q in 2Q24 and further by 6.9% q/q in 3Q. This could be attributed to the delayed interest rate cuts, rising geopolitical concerns and a potential global recession. Going forward, we expect the ADTV to remain under check in 4Q. Accordingly, we cut our ADTV estimates for 2024 by 14% to ~SAR7.8bn (+42.5% y/y; ~SAR9bn previously). Nonetheless, we expect an improvement in trading activities in 2025e, aided by i) the interest rate cut cycle, which may stimulate margin lending activities from both institutional and retail investors as well as an asset allocation from fixed income to equity, ii) better liquidity, iii) healthy IPO pipeline, and iv) robust retail participation.

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e
Revenue	1,073	1,453	1,615	1,664
Revenue growth	*-2%*	*35%*	*11%*	*3%*
Gross Profit	607	898	1,029	1,064
Gross Profit margin	*57%*	*62%*	*64%*	*64%*
EBITDA	403	650	763	791
Op. income	328	568	676	700
Net profit	381	626	713	727
Net profit margin	*36%*	*43%*	*44%*	*44%*
EPS (SAR)	3.3	5.3	5.9	6.1
DPS (SAR)	2.3	3.4	3.9	3.9
P/E	75.1x	46.2x	41.1x	40.3x

Source: Company data, GIB Capital

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Furthermore, we believe that, given the latest economic data, the diminishing fear of a global recession and the prevalence of should support trading activities. As a result, we forecast an ADTV of SAR8.7bn in 2025e (+11.5% y/y; SAR9.9bn earlier).

Unlocking growth with diversification: Revenue from data and technology services segment experienced a significant increase, contributing 16% of the total revenue during 3Q24. This growth aligns with Tadawul's strategic initiative to diversify its revenue sources and reduce reliance on volatile trading revenue. In addition, STG's acquisition of a 32.6% stake in the Dubai Mercantile Exchange (DME) in June 2024, along with its investment in DirectFN, a fintech solutions provider, reinforces this commitment to diversification. While the impact of these acquisitions may not be fully realized in the coming year, they are expected to enhance the company's competitive advantage and position it favorably for future growth. This proactive approach illustrates STG's efforts to build a more resilient and diversified revenue base and expand its service offerings within the capital markets.

Change in estimates: Post revision in our ADTV forecast, we cut our top-line estimates by 6-7% for 2024-25e. Further, we also reduce our earnings by 12-13% for 2024-25e to factor in the increased headcount and OPEX.

Figure 2: Revision in estimates

SARmn	2024e			2025e		
	Current	Earlier	% change	Current	Earlier	% change
Revenues	**1,453**	1,565	-7%	**1,615**	1,721	-6%
Gross profit	**898**	1,056	-15%	**1,029**	1,185	-14%
GPM %	**62%**	67%		**64%**	69%	
Operating Profit	**568**	739	-23%	**676**	869	-23%
OPM %	**39%**	47%		**42%**	50%	
Net profit	**626**	718	-12%	**713**	817	-13%
NPM %	**43%**	46%		**44%**	48%	

Source: GIB Capital

Valuation: STG's, at the center of the economic transformation under the Financial Sector Development Program, is expected to benefit from multiple 2025 targets of the program, such as increasing listings, increasing foreign participation, Sukuk/debt issuances and 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 and 32.6% stake in DME Holdings for SAR107mn. Moreover, STG has recently signed several MOUs with several financial markets (ASE, SSE, HKEX, SGX, etc.) to explore the possibility of dual listings possibilities, which may attract new foreign companies/investors, expand the traders base as well as boost liquidity in the market.

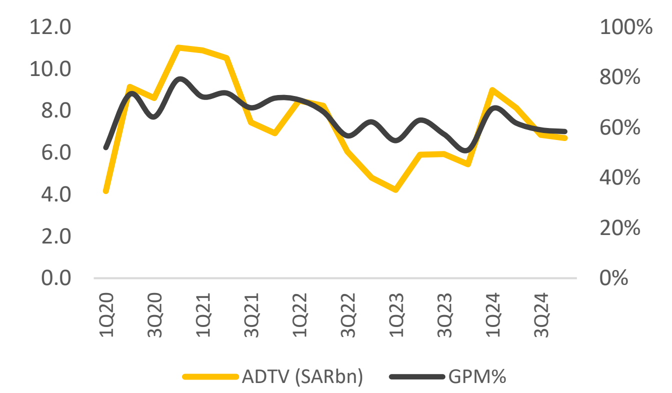
While realizing the targets/potential is certain, forecasting the timing of these drivers is hardly feasible, which is why we assign a premium valuation multiple (40x on 2025e EPS of SAR5.94) to account for the potential. Post downward revision in our estimates and rolling forward our valuation to 2025, we slightly revise our TP to SAR259/sh. (SAR263/sh. earlier) with a Neutral rating.

Figure 3: 3Q24 results summary

SARmn	3Q24	3Q23	y/y %	2Q24	q/q %	GIBC est.	Variance %
Revenues	**359**	**298**	**20.6%**	**354**	**1.6%**	**344**	**4.3%**
Cost of sales	147	127	15.7%	135	8.6%	133	10.4%
Gross profit	**212**	**171**	**24.3%**	**218**	**-2.7%**	**211**	**0.4%**
Opex	89	74	20.2%	73	22.2%	68	30.1%
Operating profit	**124**	**97**	**27.4%**	**146**	**-15.2%**	**143**	**-13.7%**
Net income	**140**	**102**	**37.2%**	**164**	**-14.3%**	**155**	**-9.1%**
Gross margin	59.1%	57.3%		61.7%		61.4%	
Operating margin	34.4%	32.6%		41.2%		41.6%	
Net margin	39.1%	34.4%		46.3%		44.9%	

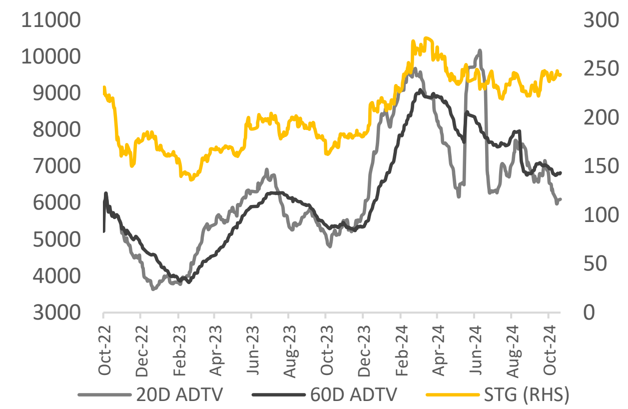
Source: Company data, GIB Capital

Figure 4: Quarterly ADTV vs. Gross profit margin



Source: Tadawul, GIB Capital

Figure 5: ADTV (SARmn) vs. stock price.



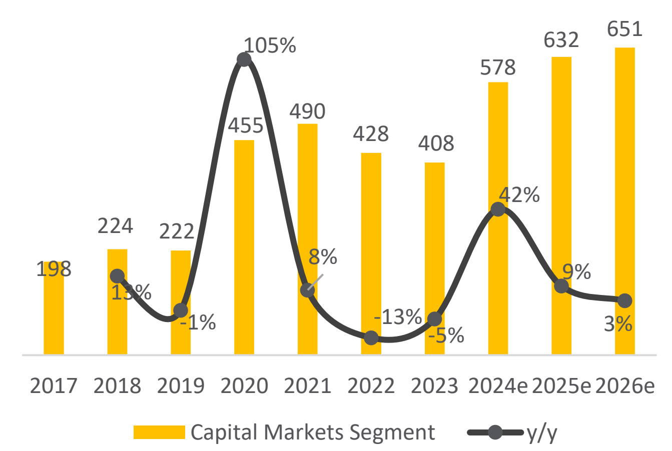
Source: Bloomberg, GIB Capital

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 an 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.

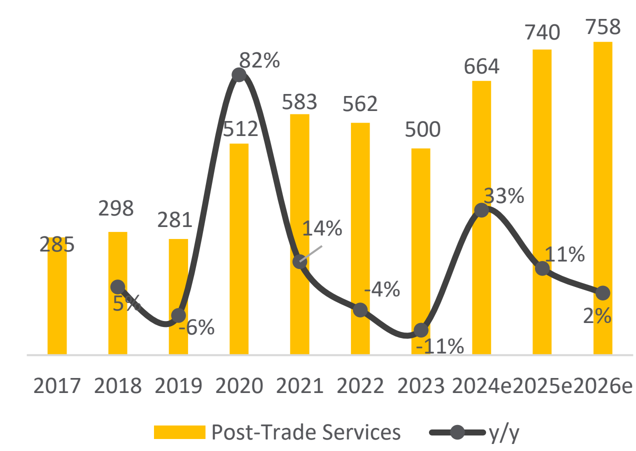
Financial analysis in charts

Figure 6: Capital market revenue (SARmn)



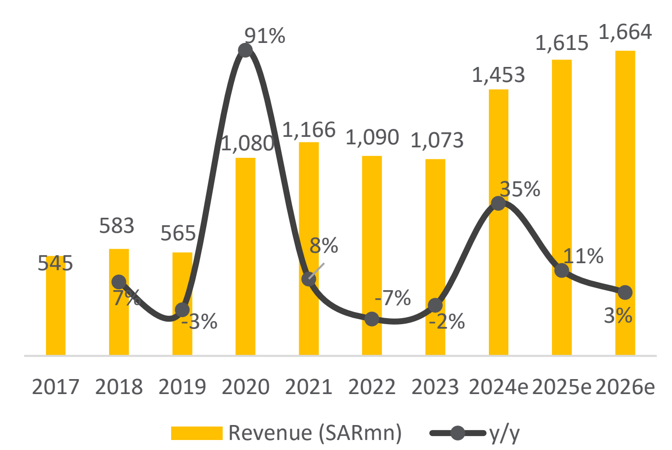
Source: Company data, GIB Capital

Figure 7: Post-Trade services reveneu (SARmn)



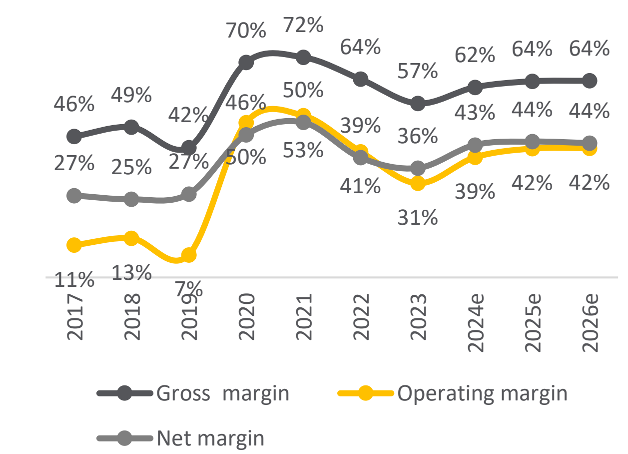
Source: Company data, GIB Capital

Figure 8: Revenue growth (SARmn)



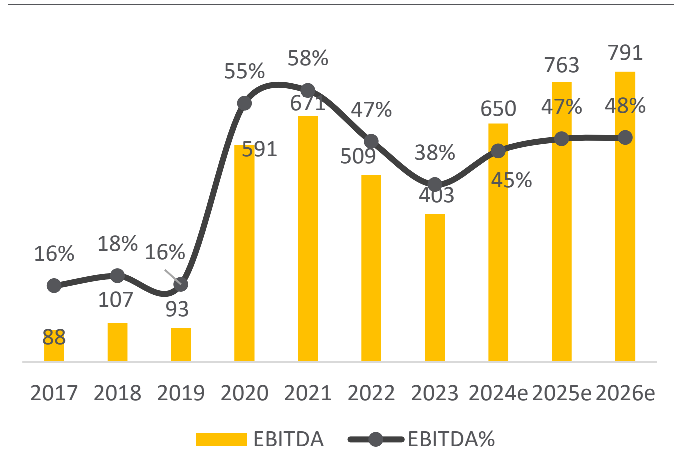
Source: Company data, GIB Capital

Figure 9: Margins trend



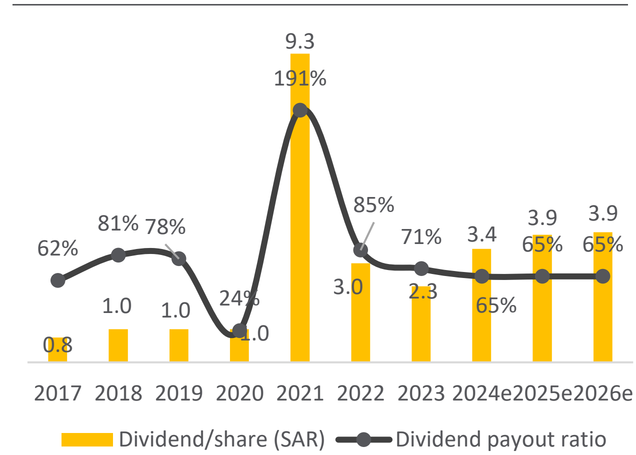
Source: Company data, GIB Capital

Figure 10: EBITDA (SARmn) and EBITDA margin



Source: Company data, GIB Capital

Figure 11: Dividend and payout (%)



Source: Company data, GIB Capital

Financials

Figure 12: Summarized basic financial statements (SARmn)

Income statement	2023a	2024e	2025e	2026e
Revenue	**1,073**	**1,453**	**1,615**	**1,664**
revenue y/y	*-2%*	*35%*	*11%*	*3%*
Operating Costs	466	555	585	600
Gross Profit	**607**	**898**	**1,029**	**1,064**
Gross Profit margin	*57%*	*62%*	*64%*	*64%*
G&A	279	331	353	364
Operating profit	**328**	**568**	**676**	**700**
Operating margin	*31%*	*39%*	*42%*	*42%*
Investment Income	127	150	134	124
Other income	3	3	3	3
Net income	**381**	**626**	**713**	**727**
Net margin	*36%*	*43%*	*44%*	*44%*
y/y	*-10%*	*64%*	*14%*	*2%*
EPS	**3.3**	**5.3**	**5.9**	**6.1**
DPS	2.3	3.4	3.9	3.9
Payout	71%	65%	65%	65%
EBITDA	**403**	**650**	**763**	**791**
Net debt	(2,039)	(841)	(1,169)	(1,459)

Balance Sheet	2023a	2024e	2025e	2026e
Investments	269	1,886	1,886	1,886
Accounts receivable	95	104	115	119
Prepaid expenses and other current assets	137	152	160	165
Clearing participant financial assets	3,527	4,291	4,781	4,900
Cash and cash equivalents	2,051	960	1,288	1,578
Total Current Assets	**6,078**	**7,392**	**8,231**	**8,646**
Property and equipment	218	226	221	216
Intangible assets	349	360	343	324
Equity-accounted investee	384	515	515	515
Investments	391	182	182	182
Total Non-Current Assets	**1,559**	**1,500**	**1,478**	**1,454**
Total Assets	**7,637**	**8,892**	**9,709**	**10,100**
Current Liabilities	4,069	4,997	5,549	5,681
Non-current Liabilities	439	553	568	572
Equity	3,129	3,343	3,592	3,847
Total Equity and Liabilities	**7,637**	**8,892**	**9,709**	**10,100**
BVPS	26.1	27.9	29.9	32.1

Cashflow	2023a	2024e	2024e	2026e
Cashflow from Operations	395	865	868	840
Cashflow from Investing	-108	-1,640	-65	-67
Cashflow from Financing	-355	-315	-475	-484
Total Cashflows	**-68**	**-1,091**	**329**	**289**

Source: Company data, GIB Capital

Figure 13: Key ratios

Key ratios	2023a	2024e	2025e	2026e
Profitability ratios				
RoA	5%	7%	7%	7%
RoE	12%	19%	20%	19%
Sales/Assets	14%	16%	17%	16%
Net margin	35.6%	43.1%	44.2%	43.7%
Liquidity ratios				
Current Assets/ Current Liabilities	1.5	1.5	1.5	1.5
Receivable Days	32	26	26	26
Payable days	39	37	37	37
Cash conversion cycle	-7	-11	-11	-11
Debt ratios				
Net Debt/EBITDA (w/o IFRS liab.)	-5.1	-1.3	-1.5	-1.8
Net Debt/Equity (w/o IFRS liab.)	-0.65	-0.25	-0.33	-0.38
Valuation ratios				
P/E	75.1	46.2	41.1	40.3
P/B	9.4	8.8	8.2	7.6
EV/EBITDA	63.5	39.4	33.6	32.4
Dividend Yield	0.9%	1.4%	1.6%	1.6%

Source: Company data, GIB Capital

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