April 2025

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

مجموعة تداول السعودية
Saudi Tadawul Group

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Near-term challenges might slow the journey but growth inevitable with evolving Saudi capital market backed by product diversification and deeper market participation

Initiation Coverage Report | April 2025

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Saudi Tadawul Group (STG): Strong growth prospects amid market expansion, despite short-term pressure; but fairly valued.

STG presents compelling growth prospects as the dominant capital market operator in the MENA region. It is uniquely positioned to benefit from Saudi Arabia's economic transformation under Vision 2030, specifically the Financial Sector Development Program (FSDP) that emphasizes on developing a robust capital market in KSA by increasing market depth and liquidity, enhancing foreign investor participation and increase IPO activity. STG operates a fully integrated business model, capturing value across trading, clearing, settlement, and market technology through its subsidiaries. The group is a key beneficiary of increasing foreign investor participation, a strong IPO pipeline, and deepening market liquidity, with ADTV reaching SAR 7.6bn in FY24. Regulatory reforms, inclusion in global indices, and expanding product offerings such as derivatives and fixed-income instruments coupled with a strategic focus on monetization of data and technology would further enhance STG's growth potential. We forecast the company's revenue to grow at CAGR of 9.5% during FY24-29e, despite near-term challenges. Global economic and trade uncertainties and slower rate cuts are likely to weigh on capital market liquidity this year, while we believe market activity will gain momentum FY26 onwards. The aforementioned long-term growth is expected to be backed by ADTV CAGR of 7.6% (FY24-29e), IPO momentum and rising demand for data and technology services. With expansion of scale STG is anticipated to enjoy operating leverage, translating into operating margin expansion from 39.1% in FY24 to 49.2% in FY29e. Subsequently, net profit is forecasted to SAR 1.2bn by FY29e at CAGR of 13.2% during FY24-29e. However, we believe the stock is fairly valued at the current market price. Thus, we initiate with a TP of SAR 228.0/share and "Neutral" rating.

STG is strategically positioned to be both a key enabler and beneficiary of Saudi Arabia's evolving financial sector, driven by Vision 2030 reforms: The Saudi capital markets are expected to witness significant expansion over the next 5-6 years, supported by FSDP, the Privatization Program, and PIF strategy. These initiatives aim to deepen market liquidity, attract foreign investment, and increase IPO activity. Despite near-term challenges due to global economic uncertainties, Saudi Arabia's financial market remains resilient, with a strong pipeline of listings and increasing market participation. ADTV growth is projected to slow down to a modest 1.2% this year, before accelerating to a range of 7-12% annually during FY26-29e, driven by economic diversification, financial sector reforms and expected recovery in global liquidity as well as sentiments. With anticipated momentum in IPOs and growing market capitalization, STG is poised for sustained long-term growth.

Product diversification and technological advancement to expand growth avenues: The company is working towards increasing market participation through strategic product diversification and innovation. The introduction of Single Stock Options (SSOs) and the expansion of the derivatives were part of such initiatives. Total value trade rose from SAR 28mn in 2020 to SAR 161mn in 2023. Moreover, the sukuk and bond market has grown significantly, with total issuances reaching SAR 633.5bn by Q4 2024. Furthermore, STG has been strengthening its international association with the signing of agreements with various exchanges and taking its Capital Market Forum to international destinations. This will strengthen the potential of dual listing in Saudi market. STG is also advancing its business diversification through strategic acquisitions, such as the full ownership of Direct FN and acquisition of 32.6% stake in the Gulf Mercantile Exchange, strengthening its position in market infrastructure and data services. Additionally, investments in data analytics and monetization initiatives are expected to drive recurring revenue growth. We forecast the Data & Technology segment posting revenue CAGR of 16% during FY24-29e, emerging as the fastest growing segment for STG during this period.

Recommendation	**Neutral**
Target Price (SAR)	**228.0**
Upside / (Downside)*	**17.0%**

Source: Tadawul *prices as of 22[th] of April 2025

Key Financials

SARmn (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	**1,073**	**1,447**	**1,541**	**1,738**
Growth %	-1.6%	34.8%	6.5%	12.8%
Gross Profit	607	912	998	1,138
EBIT	**328**	**566**	**637**	**779**
Net Income	390	622	647	824
Growth %	-8.1%	59.4%	4.1%	27.3%
EPS	3.25	5.18	5.40	6.87
DPS	2.30	3.35	3.50	4.00

Source: Company reports, AlJazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	56.6%	63.0%	64.8%	65.5%
Operating Margin	30.6%	39.1%	41.3%	44.8%
Net Margin	36.4%	43.0%	42.0%	47.4%
ROE	12.3%	18.7%	18.0%	21.2%
ROA	5.1%	7.4%	6.9%	8.3%
PE	57.5	41.8	36.1	28.4
PB	7.1	7.5	6.3	5.8
EV/EBITDA	51.3	40.1	31.7	26.3
Dividend Yield	1.2%	1.5%	1.8%	2.1%

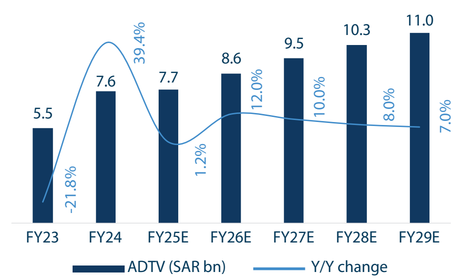
Source: Company reports, AlJazira Capital Research

Key Market Data

Current market price (SAR per share)	**194.8**
Market Cap (SAR bn)	**23.4**
Share Outstanding (mn)	**120**

Source: Company reports, AlJazira Capital Research

ADTV projections (in SAR bn)



Source: Company, AlJazira Capital research

A further growth in foreign investor participation would be key to boost market liquidity: Foreign investor participation in the Saudi capital market has surged, with the number of Qualified Foreign Investors (QFIs) rising from 100 to over 4,200. This growth has been driven by regulatory reforms, enhanced market transparency, and inclusion in global indices such as MSCI and FTSE Russell. As of Q4 2024, foreign ownership in the Main Market reached SAR 420bn, up 4.9% Y/Y. Net foreign trading also increased by 48% in 2024, reflecting rising institutional confidence. Currently, foreign ownership in Main market stands at 4.4% of market capitalization and 11.3% of free float with notable improvement since opening up the market in 2015. But there is a large room for further increase in foreign ownership. As Saudi Arabia remains underweighted in global portfolios, sustained foreign participation will provide a strong tailwind for Tadawul's long-term growth.

STG is the leading capital market operator in the MENA region: The company is leveraging a fully integrated business model to capture value across the entire financial ecosystem. As the largest exchange in the region, STG plays a pivotal role in Saudi Arabia's economic transformation under Vision 2030, supported by its subsidiaries: Saudi Exchange (equity and debt markets), Muqassa (clearing services), Edaa (depository functions), and Wamid (market technology). In FY24, STG contributed nearly 50% of MENA's total market capitalization and over 60% of IPO activity, solidifying its leadership. Market liquidity has strengthened, with ADTV rising to SAR 7.6bn in FY24 from SAR 5.5bn in FY23. With a growing IPO pipeline, increasing foreign investment, and expanding product offerings, STG is well-positioned to drive and benefit from the continued evolution of Saudi Arabia's capital markets, and may have an upper hand over regional peers.

Net income to post FY24-29e CAGR of 13.2% driven by expansion of trading activity, rapid growth in data & technology services demand and margin expansion: We forecast STG's net profit to growth at CAGR of 13.2% to SAR 1.2bn during FY24-29e. In FY25e, the bottom line is expected to increase by a modest 4.1% owing to slower growth in traded value. However, we foresee acceleration from FY26-29e with net profit growing in double digits consistently. Net profit growth will be driven by revenue growth as well as margin expansion. We forecast a revenue CAGR of 9.5% during FY24-29e, led by 16% CAGR for Data & Technology segment, further supported by an estimated ADTV CAGR of 7.6% during this period. Given certain fixed costs such as CMA fees STG's margins will benefit from operating leverage as the scale grows. Moreover, the company is expected to leverage and monetize the investments made in technology. Thus, EBITDA and operating margins are projected to improve to 54.7% and 49.2% by FY29e from 44.7% and 39.1% in FY24, respectively.

Investment thesis and Valuation: Saudi Tadawul Group (STG) is well-positioned to capitalize on Saudi Arabia's FSDP under Vision 2030, leveraging its fully integrated business model across trading, clearing, settlement, and market technology. The program's focus on expanding capital market through various initiatives to increase depth and liquidity of the market bodes well for STG's growth. As the leading capital market operator in MENA, STG benefits from increasing foreign investor participation, a robust IPO pipeline, and expanding product offerings, including derivatives and fixed-income instruments. Moreover, with the company's efforts to connect with global exchanges, we see potential for dual listings in the future. Foreign ownership in the Main Market has risen to SAR 420bn, with QFIs growing from 100 to over 4,200, while market liquidity continues to strengthen, with ADTV expected to grow at a **CAGR of 7.6% (FY24-29E)**. STG's strategic acquisitions, such as Direct FN and a stake in the Gulf Mercantile Exchange, alongside data and technology monetization initiatives, are set to drive revenue growth, with the Data & Technology segment forecasted to achieve **16% CAGR** during this period. Overall, STG's revenue is projected to grow at a **CAGR of 9.5% to FY29E**, while operating margins expand from **39.1% to 49.2%**, leading to a net profit **CAGR of 13.2% to SAR 1.2bn by FY29E**.

We value STG with a 100% weightage to P/E multiple of 37.0x applied to average EPS of FY25-26. Our P/E multiple is at 35% premium to global peers considering healthy growth prospects (double-digit earnings growth FY26-29e) in evolving Saudi Capital market with huge untapped potential and strong government support in financial sector development and above average ROE (FY26-29e average 22%). STG historically traded at 54% premium over global peers. However, STG has already recognized part of the growth and hence we value it at a comparatively lower premium. We take an average of FY25 and FY26 EPS as we believe FY25 EPS does not truly depict the company's potential given the pressure from the current global macro environment. Accordingly, we arrive at a TP of **SAR 228.0/share**. Given the strong fundamentals but fair valuation, we initiate with a "**Neutral**" rating.

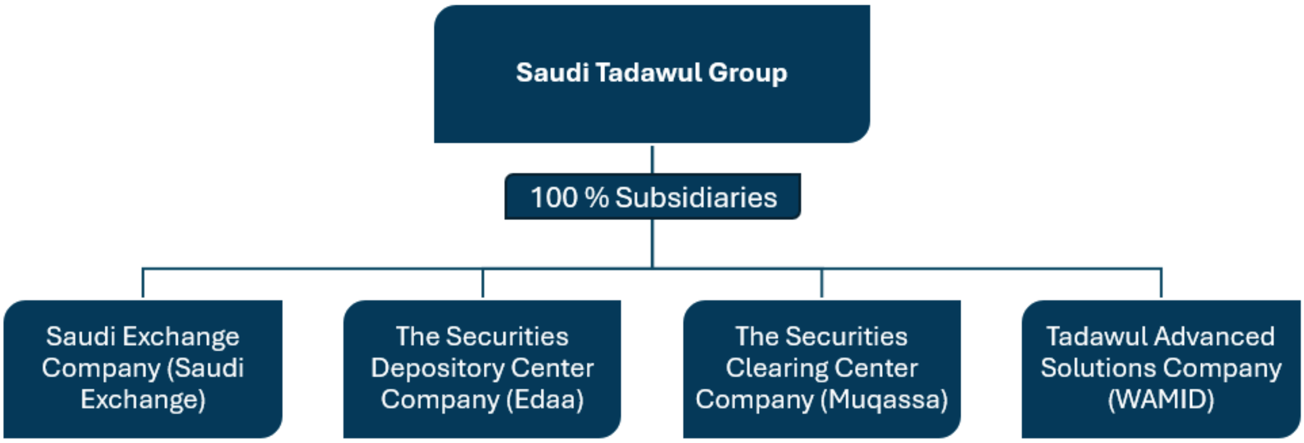
Key Upside Risks: Quicker recovery in global macro, stronger-than-expected market activity, more aggressive implementation of FSDP initiatives, foreign inflows growing beyond expectations, accelerated IPO momentum, and successful data monetization.

Key Downside Risks: Global economic downturn squeezing liquidity for longer period, slower-than-expected IPO growth, and potential regulatory changes impacting market participation adversely or increasing the costs.

Company Overview

Saudi Tadawul Group Holding Company (STG) is a holding company established in 2007. The company primarily manages its subsidiaries and invests funds in shares and other securities. Through its subsidiaries, the company provides, configures, and manages the mechanisms of securities and carries out the settlement of securities clearing and registration of ownership and dissemination of information about them. It has four fully owned subsidiaries: 1) Saudi Exchange Company (provides a listing and trading platform for securities, provides market information), 2) Edaa (provides depository, settlement, and ownership registration of listed securities and registry services), 3) Muqassa (provides clearing services), 4) WAMID (provides financial technology solutions, R&D in engineering and technology, market research, and opinion polls). Saudi Tadawul Group also owns 33.1% stake in TREC, which develops commercial towers and 32.6% stake in Gulf Mercantile Exchange.

Fig 1. Details of the company's subsidiaries

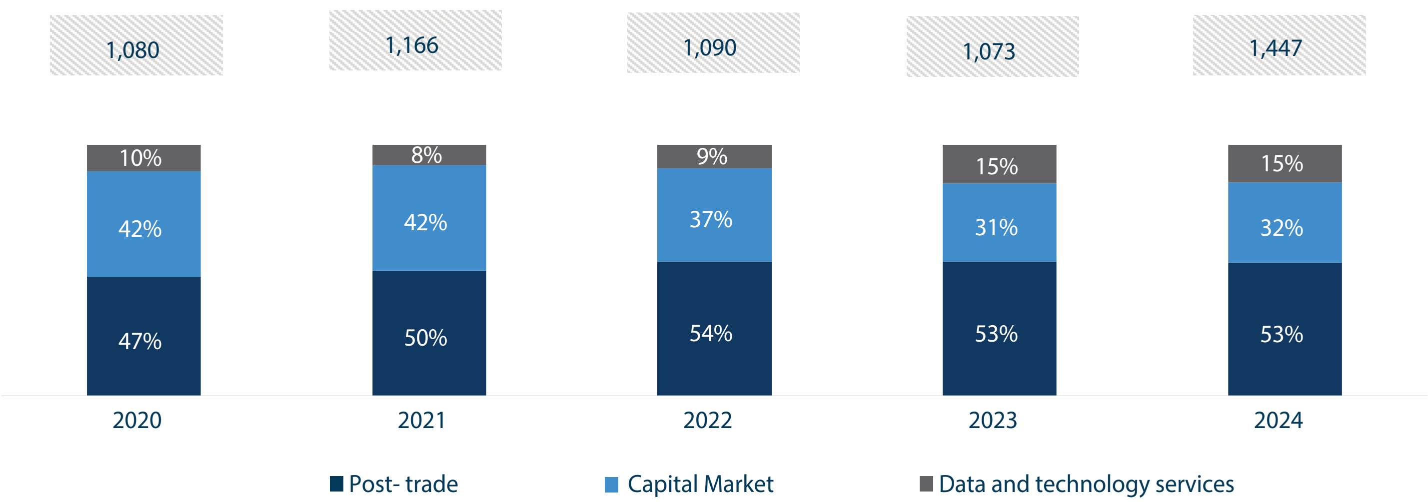


Source: Company, AlJazira Capital Research

Business segments

The company operates solely in the Kingdom of Saudi Arabia. Its business is structured into distinct segments based on the services it offers, which include Capital Market, Post-Trade, and Data & Technology Services. Over the past five years, the contribution of the Data & Technology segment has increased from 10% in FY20 to 15% in FY24. Post-trade revenue contribution rose from 47% to 53%, while that of Capital Market segment dropped from 42% to 32% during the same period.

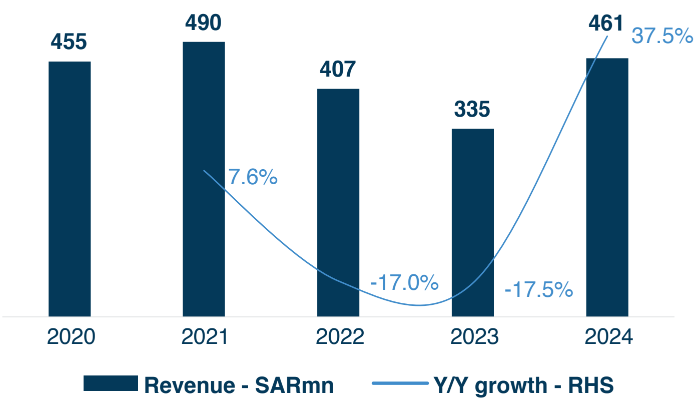
Fig 2. Revenue contributions from Post-Trade and Data & Technology segments have grown over the past five years



Source: Company, AlJazira Capital Research

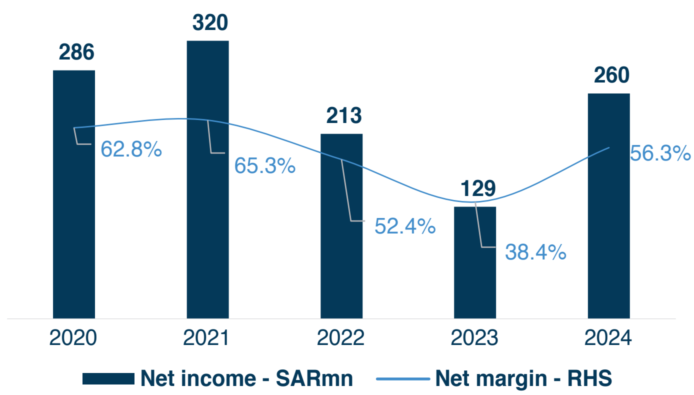
- **Capital Market:** This segment's activities encompass trading commissions for securities and derivative markets, admission fees from initial listings and subsequent capital raises, annual fees for securities traded on the company's markets, and fees from secondary market services. The segment's revenue was dictated by fluctuation in the average daily traded value, which reached SAR 8.5bn in 2020 and the highest of SAR 9.1bn 2021 owing to surge in liquidity during the pandemic supported by lower interest rates. However, the liquidity dried up as elevated inflation and aggressive monetary tightening overpower, leading decline in ADTV to SAR 7.0bn in 2022 and SAR 5.5bn in 2023 before recovering to SAR 7.6bn in 2024. Accordingly, the Capital Market segment's revenue navigated from SAR 455mn in 2020 to SAR 461mn in 2024. The revenue recovered significantly in 2024, growing 37.5% Y/Y after dipping to SAR 335mn in 2023, aided by positive sentiments in H1-24 related to hopes of interest rate cuts coupled with secondary offering from Aramco in June 2024. In 2024, the majority of the capital market segment's revenue came from trading services (73.9%), followed by listing services (24.5%), membership fees (1.3%), and the derivatives market (0.3%). The net margin declined for the segment declined from 62.8% in 2020 to 56.3% in 2024. However, the segment maintains the highest margin compared to other segments.

Fig 3. Capital market revenue witnessed volatility owing market activity



Source: Company, AlJazira Capital Research

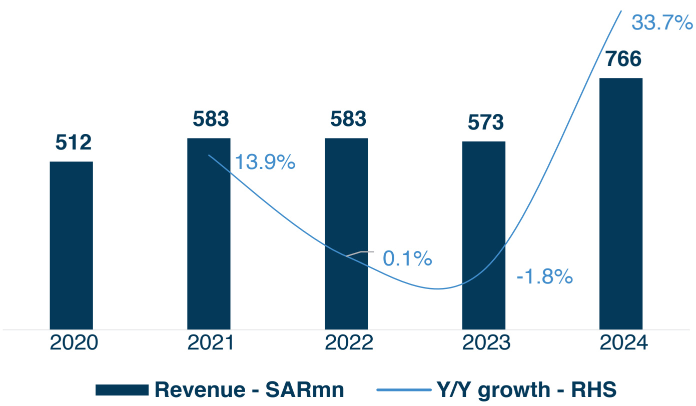
Fig 4. Capital market maintains the highest margin as compared to other segments



Source: Company, AlJazira Capital Research

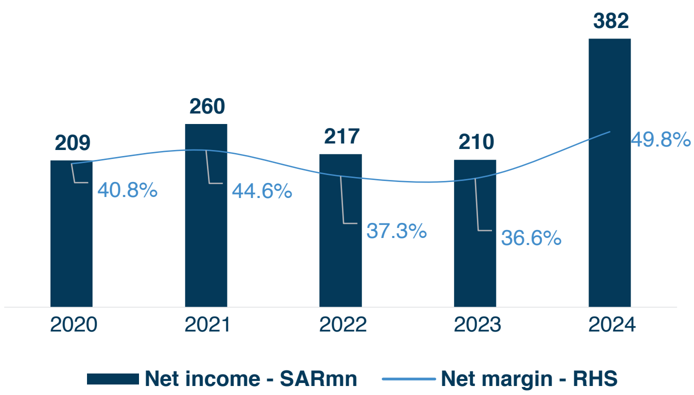
- **Post-trade:** This segment handles investment portfolio registration, ownership filing, transfer, settlement, clearing, and safekeeping of securities. It also manages ownership restrictions, collaborates with market members and settlement agents, and maintains records of securities issuers. Additionally, it organizes general assemblies, offers remote voting, and provides reports and notifications in accordance with financial market regulations. The segment revenue grew from SAR 512mn in 2020 to SAR 766mn in 2024, representing a CAGR of 10.6%. The segment's largest share of revenue came from post-trade services, contributing 85.6%, followed by treasury income from clearing at 14.1%. Membership fees accounted for 0.3%, while the derivatives market made a minimal contribution. The net margin expanded from 40.8% in 2020 to 49.8% in 2024.

Fig 5. Post-trade revenue grew at a CAGR of 10.6% between 2020 and 2024



Source: Company, AlJazira Capital Research

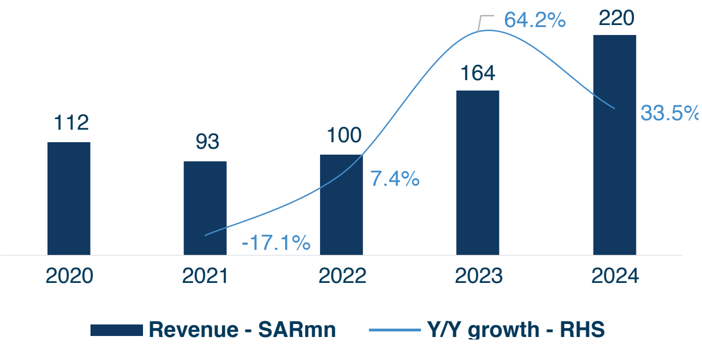
Fig 6. Net margin expanded to 49.8% in 2024, down from 40.8% in 2020



Source: Company, AlJazira Capital Research

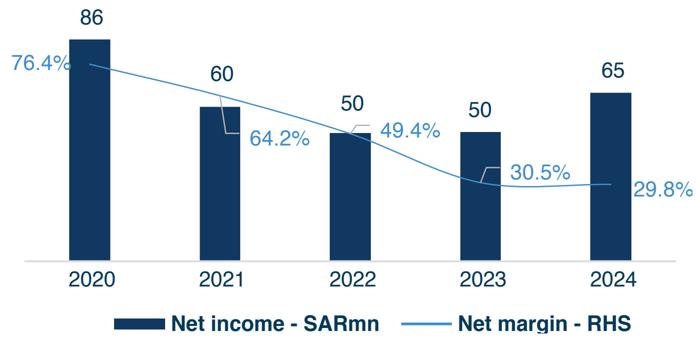
- **Data and technology services:** This segment focuses on growing Data and Technology Services, offering real-time trading data, market indices, financial information, and financial technology solutions to the financial community. It also develops financial technology and content for stakeholders to use. The segment's revenue increased to SAR 220mn in 2024, reflecting a CAGR of 18.2% from SAR 112mn in 2020. In 2024, market information was the primary revenue driver accounting for 51.3%, followed by Direct FN (35.5%) and co-location & Liqaa services (13.2%). The net margin fell sharply from 76.4% in 2020 to 29.8% in 2024.

Fig 7. Data and technology revenue recorded the highest growth rate, growing at a CAGR of 18% from 2020 to 2024



Source: Company, AlJazira Capital Research

Fig 8. Despite strong revenue growth, the net margin contracted to 29.8% in 2024, down from 76.4% in 2020

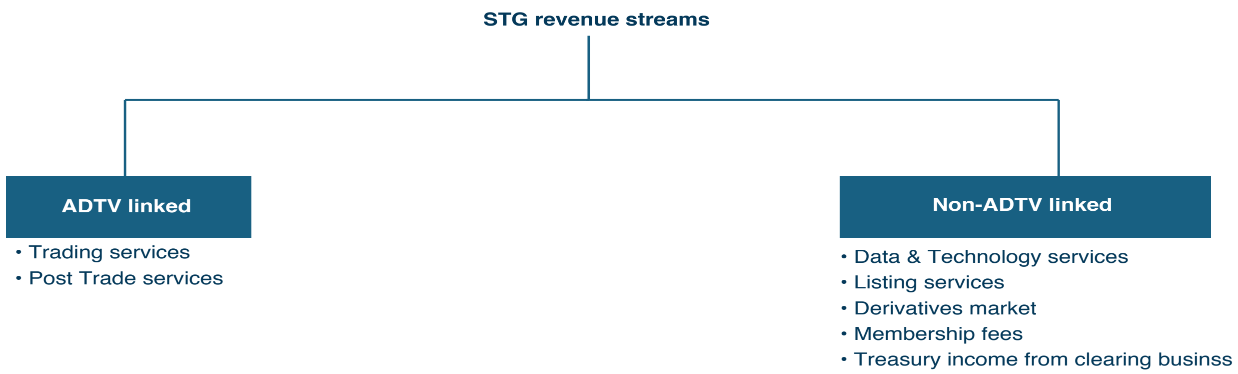


Source: Company, AlJazira Capital Research

Business segments

STG's business model is based on two key categories of revenue streams: 1) ADTV-linked (trading) and 2) non-ADTV (non-trading). Trading services and post-trade services are linked to ADTV, while Data & Technology, Listing, Derivative market, Membership fees and Treasury income are not linked to ADTV.

Fig 9. Revenue model



Source: Company, AlJazira Capital Research

ADTV linked revenue: Trading services are fully linked to ADTV, while Post Trade services are both ADTV and non-ADTV linked. The company generates the bulk of its revenues from trading and post-trade services. Commissions are based on a fixed fee model, with 15.5 bps of every trade being paid to the exchange, brokers, and regulators. Out of 15.5bps, 10.5bps is paid as brokerage, while CMA receives 3 bps, and 2 bps is the commission earned by STG. STG's 2 bps is further divided across its four subsidiaries viz. Saudi Exchange, Edaa, Muqassa, and WAMID.

Fig 10. Breakdown of commission

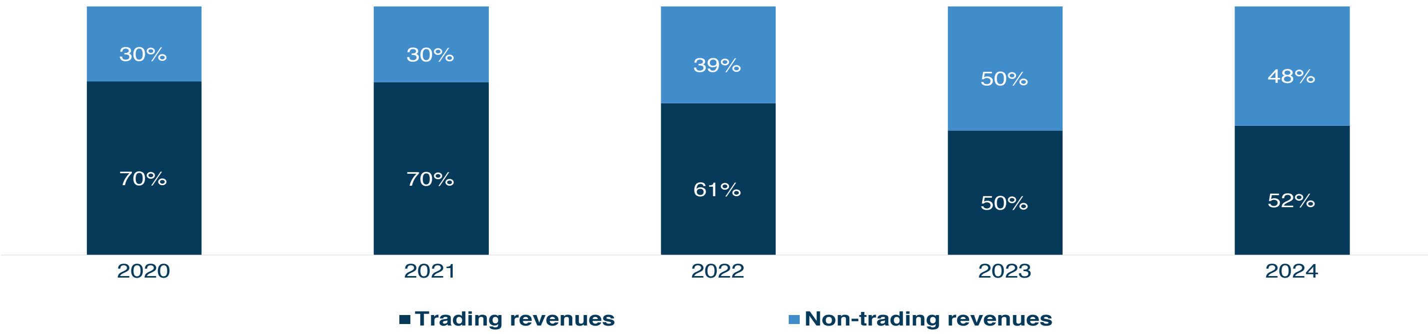
Component	Commission in bps of traded value
Total commission	15.5
Brokers	10.5
CMA (Capital Market Authority)	3.0
Saudi Tadawul Group (Exchange)	2.0

Source: Company filings, AlJazira Capital research

Non-ADTV linked revenue: Non-ADTV linked revenue consists of Data & Technology, Listing, Derivative market, Membership fees and Treasury income. As fixed fees are charged one-time or periodically against various services provided under these segments. For example, a one-time initial listing fee of SAR 50,000 is charged for new listings of securities on Main and Nomu market as well as listings of REITs and ETFs, while an annual listing fee is charged based on pre-defined mechanism based on market capitalization and other factors. Similarly, membership fees also consist of one-time initial membership fee and annual membership fee.

In the last five years, STG's revenue mix has shifted from 30% non-trading and 70% trading revenue in FY20 to a more balanced 48% non-trading revenue and 52% trading revenue. This diversification would help the company safeguard against market volatility, lowering its revenue dependence on traded value.

Fig 11. Revenue mix shifted to a good balance of trading and non-trading revenue



Source: Company filings, AlJazira Capital Research

STG to be a key enabler and beneficiary of financial sector development in the Kingdom; untapped market potential to help sail through near term headwinds

Saudi Arabia's capital markets are expected to experience strong growth over the next 5-6 years. This growth will be largely driven by the structural reforms under Vision 2030, which aim to diversify the economy and attract foreign investment. STG stands at the forefront of Saudi Arabia's evolving financial landscape, poised to benefit from the ongoing reforms. The government's comprehensive economic transformation strategy, including various Vision Realization Programs (VRPs), provides a favorable macroeconomic environment for STG's growth and expansion.

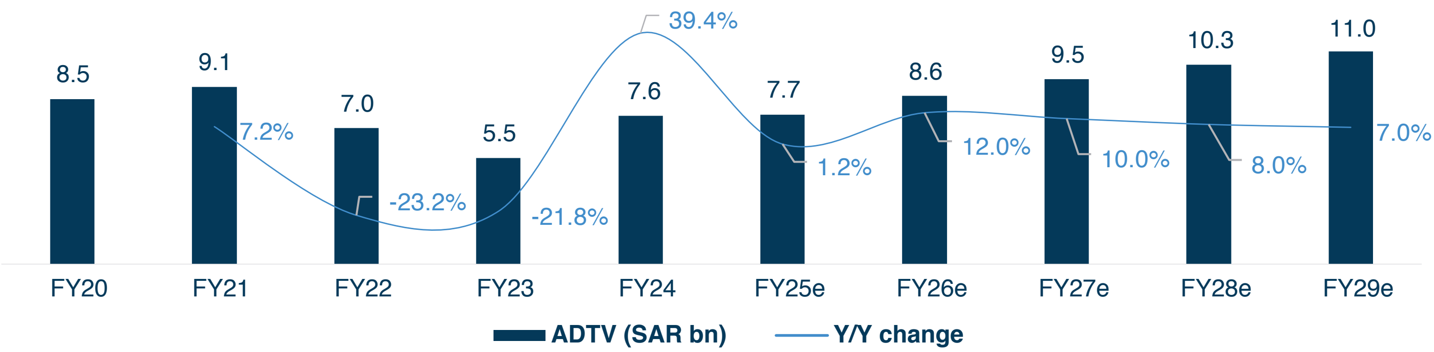
Key VRPs supporting Saudi Tadawul Group's long-term prospects

- **Financial Sector Development Program (FSDP):**
  - Focuses on expanding and diversifying the Saudi capital market by increasing market depth and liquidity.
  - Aims to increase foreign investor participation, with ownership limits eased for Qualified Foreign Investors (QFIs).
  - Target: Raise the stock market's capitalization as a percentage of GDP from 66% in 2016 to 90% by 2030.
- **Privatization Program:**
  - Seeks to promote privatization of state-owned entities, which will likely result in increased initial public offerings (IPOs) on the exchange.
  - The program has already facilitated several high-profile IPOs in sectors such as utilities, energy, software and services transportation, and logistics.
  - IPO activity surged in 2024, with 47 new listings, a 15% Y/Y increase, raising SAR 48.2bn, compared to SAR 42.0bn in 2023.
- **PIF Program:**
  - The Public Investment Fund (PIF) plays a critical role in boosting the capital market by listing portfolio companies and launching new products on Tadawul.
  - PIF's recent strategy targets listings of a significant portion of its 74 companiesin the coming years.

Current market activity is under pressure from global events, but key growth drivers are still in place

In FY24, Saudi Tadawul Group experienced a strong surge in total traded value, largely driven by favorable interest rate expectations and the Aramco IPO. However, Q4 2024 and Q1 2025 have seen a dip in trading activity, which can be attributed to both global market conditions (e.g., economic uncertainty, slower global growth, trade war concerns). However, in the long run, Saudi capital markets showcase huge potential with expected economic diversification and development of financial sector. As this potential unlocks, it will translate into increased market activity and capital inflows. Thus, we forecast ADTV to growth at a high-single to double-digit rate post FY25, once near-term headwinds in the form of global economic uncertainties recede.

Fig 12. Average daily traded value forecast (SAR bn)

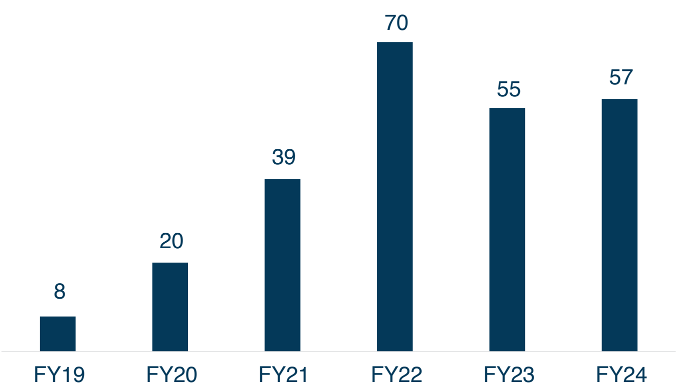


Source: Company filings, AlJazira Capital Research

Robust growth in listings and market activity momentum expected to continue

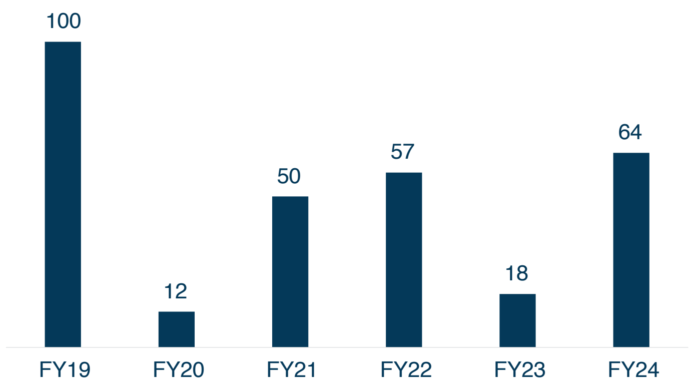
Saudi Tadawul Group is experiencing unprecedented growth in terms of new listings, driven by regulatory reforms and strategic initiatives aimed at expanding market access. As of December 2024, total market capitalization reached SAR 12.1tn, representing a 10% increase compared to 2023.

Fig 13. IPO activity – No. of IPOs* (Main market and Nomu)



Source: Company, AlJazira Capital research; *includes IPO, private offering, right issues and secondary offering

Fig 14. IPO activity – Capital raised* (SAR bn)



Source: Company, AlJazira Capital research; *includes IPO, private offering, right issues and secondary offering

Product diversification and innovation would enhance market participation

Saudi Tadawul Group has made significant strides in diversifying its product offering, introducing derivatives, fixed-income products, and ETFs to attract new investors and enhance market sophistication. Notable developments include:

Expansion of the derivatives market with the launch of single-stock futures and options

Saudi Exchange launched derivatives market in August 2020 with the MSCI Tadawul 30 Index futures. Later, single stock futures (SSFs) were launched in 2022. Single Stock Options (SSOs) were introduced in November 2023, expanding the Saudi Exchange's derivatives suite. SSO contracts represent the third derivatives product launched on the exchange and are cleared by the Securities Clearing Center Company (Muqassa) to ensure efficient settlement and risk management. Initially available for Saudi Aramco, Al Rajhi Bank, STC, and SABIC, SSOs provide investors with enhanced tools for hedging and risk management, further deepening market liquidity and sophistication. All these efforts have led to increasing trading activities in the derivative market. Total value trade rose from SAR 28mn in 2020 to SAR 161mn in 2023. However, the market still remains in the nascent phase with huge growth potential. In the future, STG aims to further expand its derivative product offerings by introducing new index options and futures products, while also broadening the range of SSFs and SSOs with additional underlying assets. Moreover, STG's acquisition of the Dubai Mercantile Exchange holds a strategic importance in the form of potential unlocking of opportunities in the commodity markets across energy, metals, and agricultural through the launch of innovative derivative contracts.

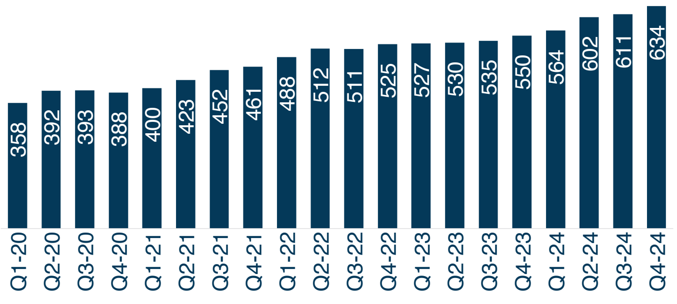
Growth in Sukuk and bond listings

The Saudi sukuk and bond market has witnessed significant growth in recent years. The total value of Saudi-listed sukuk and bond issuances reached SAR 633.5bn by the end Q4-24 from SAR 358.0bn in Q1-20. This robust growth underscores the deepening of Saudi Arabia's fixed-income market, driven by increased government issuances as the value of listed government sukuk and bonds at the end of Q4-24 represented about 97.4% (nearly SAR 617bn) of total issuances as compared to 93.5% in Q1-20.

Evolving Market making to increase market liquidity and depth

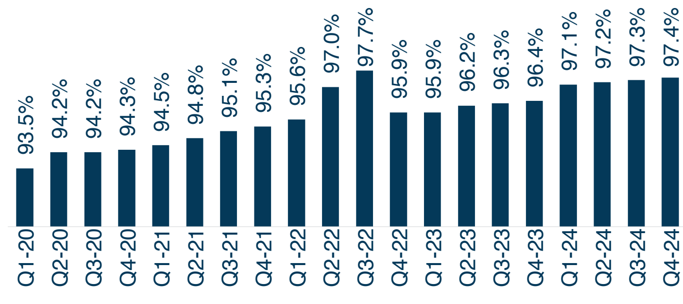
Tadawul and CMA have introduced regulatory frameworks to encourage market makers' participation, particularly in equities, ETFs, and derivatives. Recently in January 2025, Saudi Exchange has also announced the launch of its Fixed Income Market Making Framework to ensure the availability of secondary market liquidity. Tadawul has approved several domestic as well as international institutions as market makers for various securities. The growing momentum in market making will help balance between supply and demand and narrow the gap between stock buy and sell prices. Accordingly, this will improve liquidity and enhance market efficiency.

Fig 15. Listed Sukuk & Bond issuances (SAR bn)



Source: Saudi Exchange, AlJazira Capital Research

Fig 16. % of listed government sukuk and bonds



Source: Saudi Exchange, AlJazira Capital Research

Strategic initiatives such as M&As, data monetization and international associations to support diversified growth

Mergers and acquisitions

STG has indicated its intent to pursue smaller, strategic acquisitions that will help diversify its business model. The recent purchase of an additional share to fully own Direct FN, and acquisition of stake in the Gulf Mercantile Exchange were part of this strategy. It is noteworthy that 40-45% of brokers are currently using Direct FN. Thus, with such a broad market presence it will contribute to the group's data monetization efforts.

Data monetization strategy

The group's investment in data centers and analytics infrastructure represents a significant growth opportunity. Data services are becoming an increasingly important part of the business, and the launch of a new data monetization project is expected to generate substantial recurring revenue.

Global partnerships

STG has been enhancing its global partnerships by signing agreements with various exchanges and expanding its Capital Market Forum to international locations. This initiative will boost the prospects of dual listing in the Saudi market. For e.g. Saudi Exchange and Jakarta Futures Exchange (JFX) signed a Memorandum of Understanding to provide JFX members with access to the Saudi Exchange.

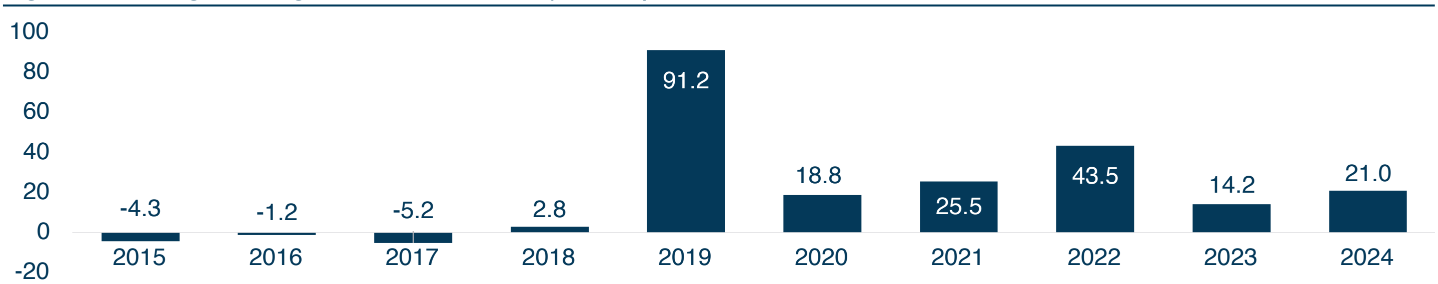
Foreign investor participation increased notably, expected to expand further

The number of Qualified Foreign Investors (QFIs) has surged, from just 100 to over 4,200. QFI participation is a critical element in increasing market liquidity and enhancing the quality of investor participation. Overall, foreign investor participation has seen an upward trajectory in the Saudi capital market over the past few years, supported by regulatory reforms such as relaxing foreign ownership restrictions, improvements in trading infrastructure, better market transparency, and adopting international standard. Moreover, the market's inclusion in global indices such as MSCI and FTSE Russell Emerging Markets has also helped increase foreign investor participation. These developments have enhanced market accessibility, attracting increased foreign capital inflows.

Uptrend in foreign ownership and sustained foreign buying activity underlines foreign investors' interest in Saudi market

As of Q4-24, foreign investor holdings grew 1.3% Q/Q to SAR 420.4bn, reflecting a 4.9% Y/Y increase in the Main Market. Furthermore, foreign investors have been net buyers since 2018 with the highest net foreign trading of SAR 91.2 in 2019 due to Aramco listing. Net foreign trading reached SAR 21.0bn in 2024, marking a 48% increase from SAR 14.2bn in 2023. This, highlights growing institutional interest and confidence in the Saudi markets.

Fig 17. Net foreign trading in the Saudi market (SAR bn)



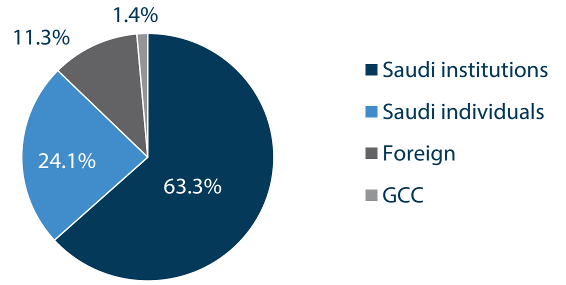
Source: Saudi Exchange, AlJazira Capital Research

Regulatory tailwinds coupled with efforts to deepen liquidity and enhanced market access to driving further growth

Total foreign investments in the Saudi Exchange exceeded SAR 400bn by the end of 2024, underlining the market's increasing attractiveness. The largest inflows of QFIs have come from the US and UK, but growing interest is now being seen from Asia, particularly Japan and Hong Kong. These markets have historically underweighted Saudi assets, and the ongoing efforts to promote the Saudi market at global forums (e.g., the Global Capital Market Forum) should lead to further growth. Additionally, the recent regulatory change allowing foreign investors to own shares in listed real estate companies operating in Makkah and Madinah is expected to further support foreign inflows.

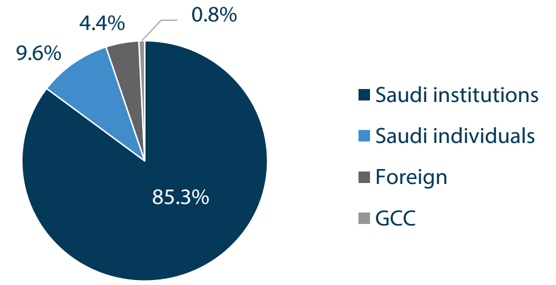
There has been a notable improvement in foreign ownership since opening the market in 2015, reaching 4.4% of market capitalization and 11.3% of free float market capitalization, as of March 13, 2025. However, there is a large room for further increase in foreign ownership. We expect continued foreign participation growth, providing a strong tailwind for Tadawul's growth.

Fig 18. Ownership by free float market cap



Source: Saudi Exchange, AlJazira Capital Research; As of March 13, 2025

Fig 19. Ownership by market cap



Source: Saudi Exchange, AlJazira Capital Research; As of March 13, 2025

Unmatched regional leader with integrated business model

Saudi Tadawul Group operates a fully integrated business model, positioning itself as the sole beneficiary across the value chain of Saudi Arabia's capital markets. As the largest stock exchange in the Middle East and North Africa (MENA), the group is strategically placed to capitalize on the country's economic transformation under Vision 2030.

Integrated business model helps capturing value across the ecosystem

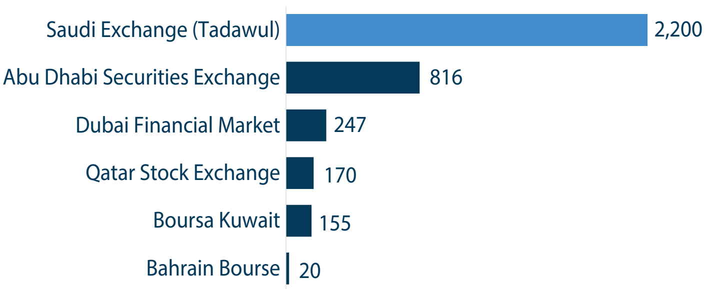
STG's diversified business model ensures stable revenue streams and operational efficiency through its subsidiaries:

- Saudi Exchange: The core entity managing equity, debt, and derivatives markets.
- Securities Clearing Center Company (Muqassa): Central clearing services for securities, enhancing market stability and operational efficiency.
- Securities Depository Center Company (Edaa): Provides custody, registration, and settlement services.
- Wamid: A technology subsidiary supporting market innovation and product development.

Solid position as the largest exchange in the region

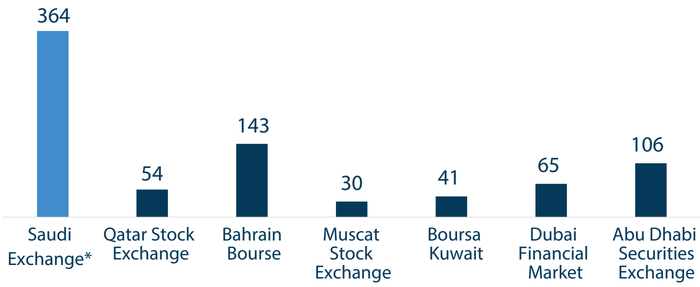
Saudi Tadawul Group is the dominant exchange in GCC region, leading in market capitalization and companies listed.

Fig 20. Market capitalization of GCC exchanges (USD bn)



Source: Bloomberg, World Federation of Exchanges, AlJazira Capital research; data as of February 2025

Fig 21. No. of listed company on GCC exchanges



Source: Bloomberg, World Federation of Exchanges, AlJazira Capital research; *Main market+Nomu

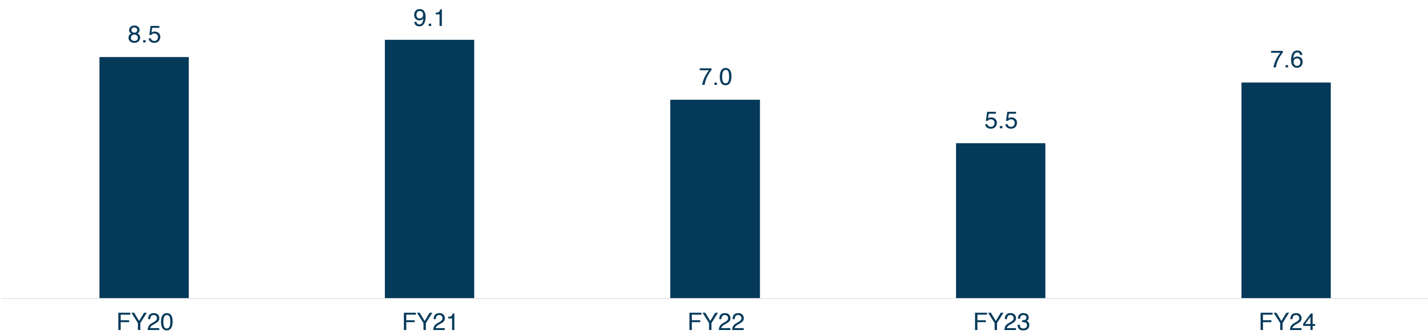
In FY24, Saudi Tadawul accounted for nearly 50% of MENA's total market capitalization and over 60% of IPO activity, driven by robust economic growth and increasing investor interest.

Increasing market liquidity bodes well for future growth

The group's integrated model and dominant market position have enabled it to capture substantial market liquidity growth.

- The average daily trading value (ADTV) reached SAR 7.6bn in FY24, up from SAR 5.5bn in FY23.
- ADTV previously reached a high of SAR 9.1bn in FY21, indicating market potential.

Fig 22. Average Daily Trading Value (FY20-24)



Source: Company filings, AlJazira Capital Research

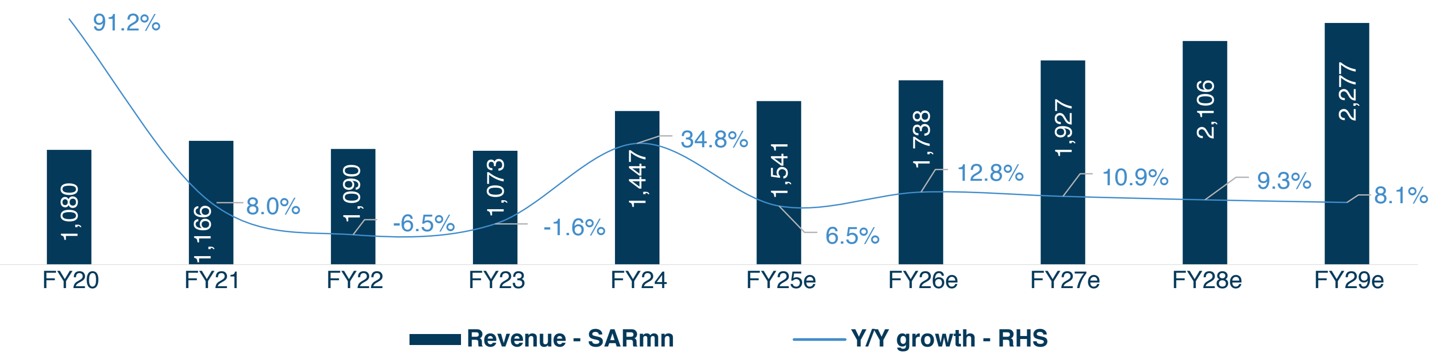
Saudi Tadawul Group's integrated business model and leadership in the MENA capital markets make it the only player to fully capture growth across the capital market ecosystem. With a strong pipeline of IPOs, increasing market liquidity, and expanding product offerings, STG offers a compelling investment case for exposure to Saudi Arabia's rapidly evolving capital markets.

Financial Analysis

STG's revenue growth to be supported by sustained trading activity, rising demand for market data and technology solutions, and continued expansion in capital market services

STG reported a strong 34.8% Y/Y revenue increase in FY24, primarily driven by a surge in trading commissions amid a 39.4% Y/Y rise in traded value. Revenue growth is expected to moderate in FY25 given the higher base in FY24 and pressure from global macro uncertainties. However, we expect the company's topline to pick up the pace post FY25, reaching SAR 2.3bn by 2029 expanding at a CAGR of 9.5%. During this period, we estimate ADTV to record a CAGR of 7.6%. We expect non-trading revenue to lead revenue growth in future with the Data & Technology segment posting revenue CAGR of 16% during FY24-29e. Moreover, Listing services and Membership fees are also likely to demonstrate double-digit growth.

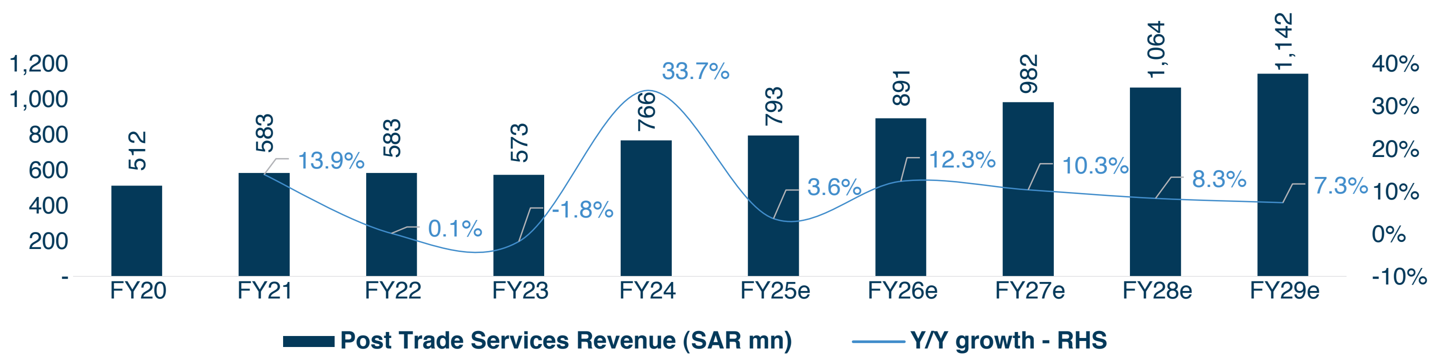
Fig 23. Revenue CAGR of 9.5% over the next 5 years supported healthy expansion in trading activity



Source: Company filings, AlJazira Capital Research

The Post Trade Services segment, which accounts for 53% of STG's total revenue (FY24), is projected to grow at a CAGR of 8.3% over FY24-29e, reaching SAR 1,142mn by FY29e. This growth is expected to be driven primarily by an estimated 7.6% CAGR increase in ADTV, which will be further aided by a modest gradual improvement in post-trade services yields but partially offset by steady treasury income.

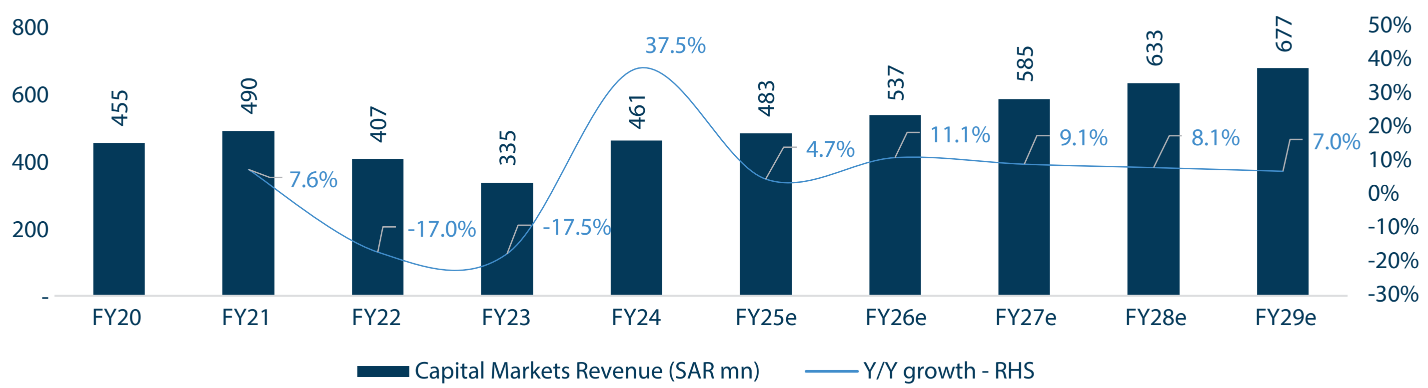
Fig 24. Post Trade Services revenue growth (SAR mn)



Source: Company, AlJazira Capital Research

The Capital Markets segment, which currently contributes 32% to STG's total revenue, is projected to grow at a CAGR of 8.0% over FY24-29e, reaching SAR 677mn by FY29e. Growth is likely to be in line with 8.0% CAGR for Trading services revenue, which currently accounts for 73.9% of the segment's revenue (FY24), supported by an estimated 7.6% CAGR increase in ADTV and a modest growth in pricing. Additionally, listing services, representing 24.5% of the segment's revenue, are expected to grow to a CAGR of 12.9%, benefiting from continued capital market activity and a healthy IPO pipeline.

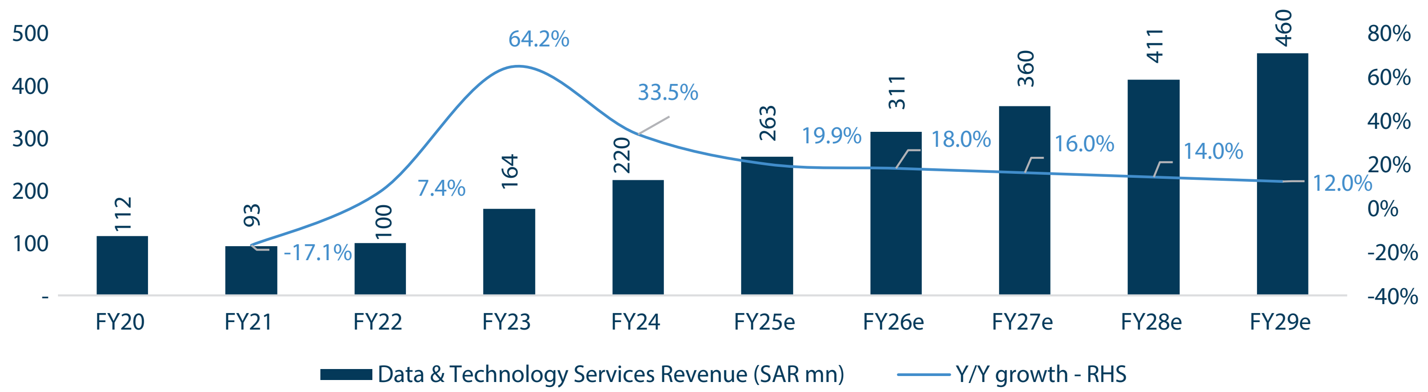
Fig 25. Capital Markets segment revenue growth (SAR mn)



Source: Company, AlJazira Capital Research

The Data & Technology Services segment, which currently contributes 15.2% to STG's total revenue, is projected to grow at a strong CAGR of 16.0% over FY24-29e, reaching SAR 460mn by FY29e. This growth is expected to be driven by increasing demand for market data and technology solutions and backed by the company's capital investment in the segment as well as human resources. Data & Technology Services revenue contribution is expected to rise to 20.2% by FY29e from 15.2% in FY24, reflecting the segment's strategic importance as one of the major growth drivers.

Fig 26. Data & Technology Services segment revenue growth

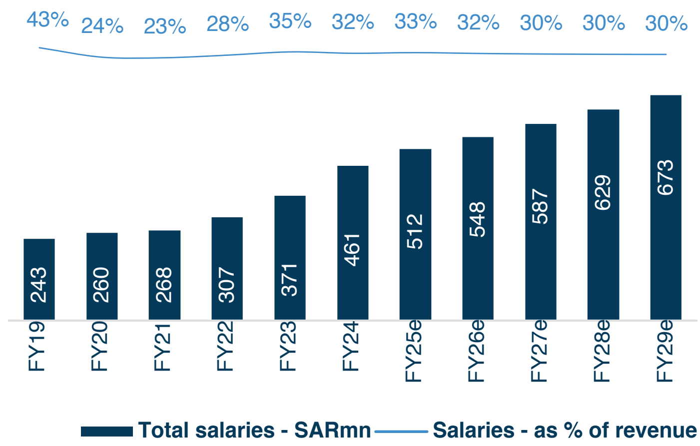


Source: Company, AlJazira Capital Research

STG's stable cost structure, combined with increasing operating leverage, is expected to drive significant margin expansion and strong earnings growth over the coming years

STG's primary cost drivers have been salaries and related benefits (salaries), which accounted for an average of 49% of total operating expenses (including both operating costs and G&A). Over FY19–24, these costs averaged a balanced allocation, with operating costs accounting for 50% and G&A expenses comprising the remaining 50%. Historically, salaries grew at a CAGR of 13.7% over FY19–FY24, partly driven by an increase in headcount. The management has indicated that the ongoing hiring campaign will continue until mid-2025. Looking ahead, we expect salaries to grow at a comparatively moderate pace of 7.9% CAGR over FY24–FY29e, as hiring slows down post FY25. Thus, salaries cost to stabilize at ~30% of revenue by FY29e.

Fig 27. Salaries as % of revenue



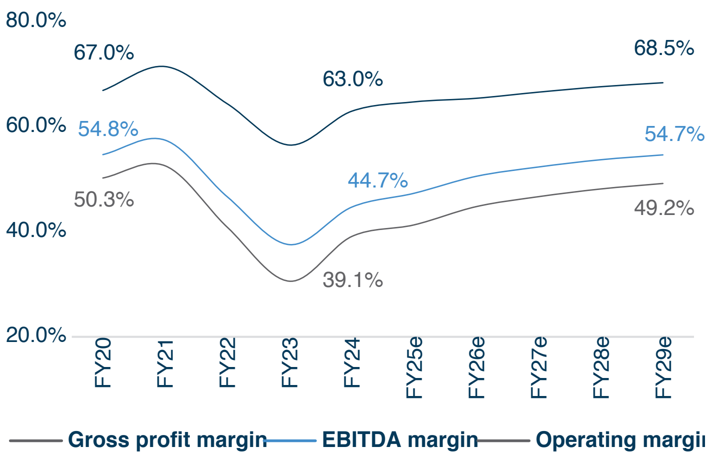
Source: Company, AlJazira Capital Research

Fig 28. Salaries composition

Source: Company, AlJazira Capital Research

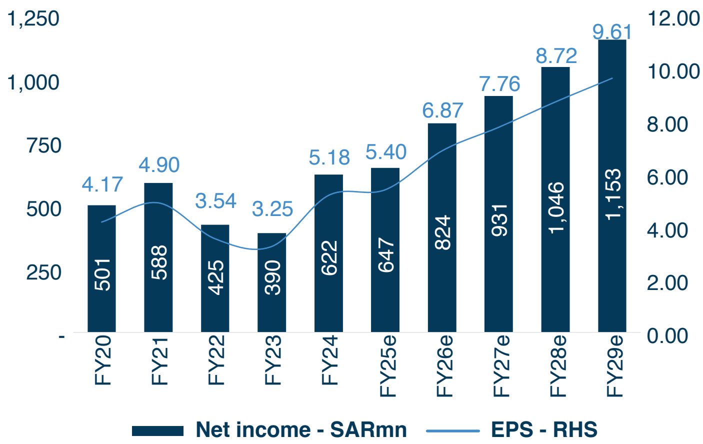
The second largest cost component, the CMA fee, accounted for an average of 17% of total operating expenses and is expected to remain stable in absolute terms. Given the current fixed fee structure, STG is poised to benefit from operating leverage as revenue increases. As a result, gross margins are projected to expand to 68.5% by FY29e from 63.0% in FY24. We expect total operating expenses (including both operating costs and G&A) as a percentage of sales to average around 54% over FY25e–FY29e, compared to 61% in FY23, reflecting the benefits of scale. Consequently, EBITDA and operating margins are projected to improve to 54.7% and 49.2% by FY29e, respectively, from 44.7% and 39.1% in FY24. Investment income is expected to grow at a CAGR of 2.2% over FY24–FY29e, impacted by expected lower interest rates. Net income is projected to grow at a CAGR of 13.2% over the same period, reaching SAR 1,166mn by FY29e, on topline growth coupled with margin expansion.

Fig 29. Margins expansion backed by operating leverage



Source: Company, AlJazira Capital Research

Fig 30. Robust bottom line expansion ahead

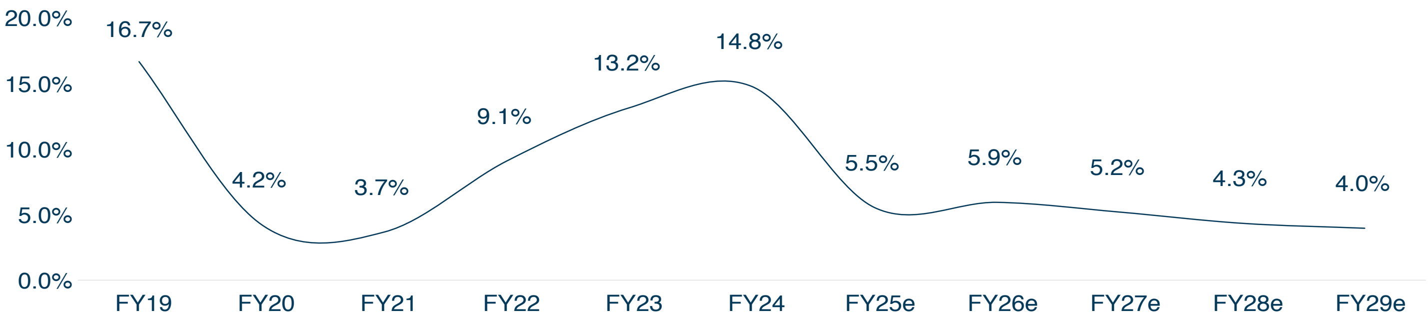


Source: Company, AlJazira Capital Research

Following key technical investments, the company's capital expenditure intensity is set to ease

The company launched several technical initiatives in FY20 to enhance its business capabilities, including upgrading its IT network infrastructure, launching a new data center, and expanding storage capacity. The company had targeted SAR 565mn capital expenditure program focused on infrastructure, software products, and service enhancements. Key initiatives included a new office, post-trade technology developments, and an out-of-region data centre, collectively accounting for approximately two-thirds of the total program, while planned software enhancements made up the remaining third. Over FY20–FY24, the company deployed SAR 542mn in total capex, with capex intensity averaging 9.0% of revenue during this period. However, we expect a normalization in capital spending going forward, with capex as a percentage of revenue averaging 5.0% over FY25e–FY29e.

Fig 31. Capex intensity is expected to moderate

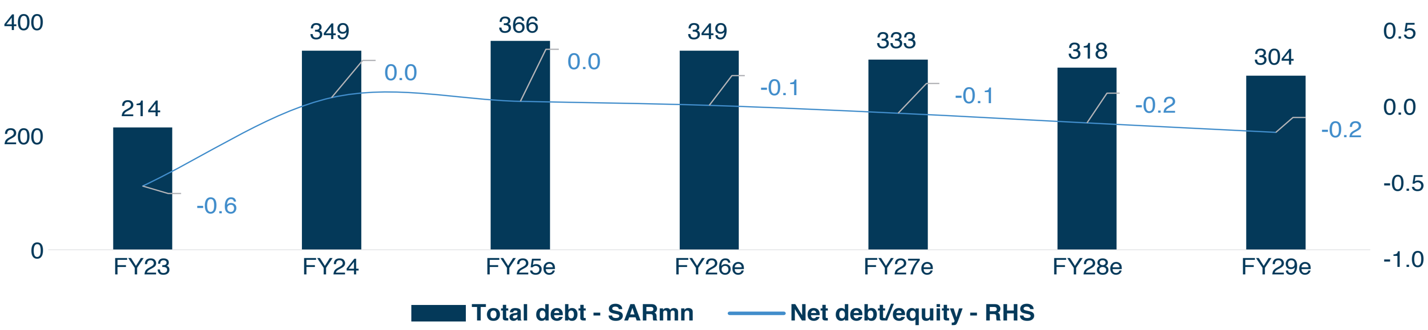


Source: Company, AlJazira Capital Research

Strong balance sheet with low debt level; expected to be net cash positive

The company's balance sheet was almost debt-free until FY23. As of FY24, the company's total debt stands at SAR 349mn (including lease liabilities). Given the limited CAPEX requirements and expected improvement in cash flow generation we expect STG to maintain a net cash position in the future.

Fig 32. Debt trend

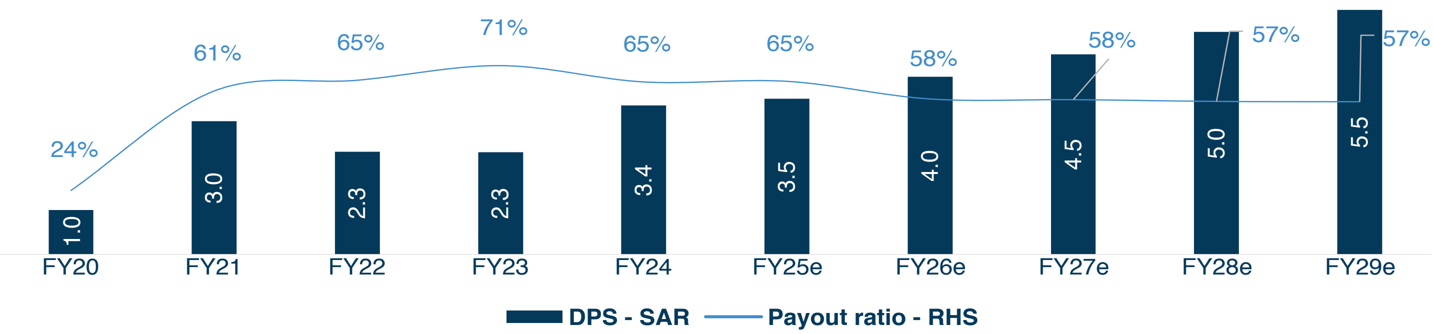


Source: Company filings, AlJazira Capital Research

Dividend payout is estimated to average at 59% in FY25e-29e

The company has a history of dividend payout as high as 85% in FY22. However, the payout ratio dropped to 44% in FY24 owing to capital investments and M&A activities. We remain conservative with our dividend estimates, expecting an average payout of 59% over the next five years, considering the possibility that the company may hold some cash to be ready to grab any M&A opportunity. However, there

Fig 33. Dividend trend



Source: Company filings, AlJazira Capital Research

Investment thesis and valuation

STG is well-positioned to capitalize on Saudi Arabia's FSDP under Vision 2030, leveraging its fully integrated business model across trading, clearing, settlement, and market technology. The program's focus on expanding capital market through various initiatives to increase depth and liquidity of the market bodes well for STG's growth. As the leading capital market operator in MENA, STG benefits from increasing foreign investor participation, a robust IPO pipeline, and expanding product offerings, including derivatives and fixed-income instruments. Moreover, with the company's efforts to connect with global exchanges, we see potential for dual listings in the future. Foreign ownership in the Main Market has risen to SAR 420bn, with QFIs growing from 100 to over 4,200, while market liquidity continues to strengthen, with ADTV expected to grow at a **CAGR of 7.6% (FY24-29E)**. STG's strategic acquisitions, such as Direct FN and a stake in the Gulf Mercantile Exchange, alongside data and technology monetization initiatives, are set to drive revenue growth, with the Data & Technology segment forecasted to achieve **16% CAGR** during this period. Overall, STG's revenue is projected to grow at a **CAGR of 9.5% to FY29E**, while operating margins expand from **39.1% to 49.2%**, leading to a net profit **CAGR of 13.2% to SAR 1.2bn by FY29E**.

We value STG with a 100% weightage to P/E multiple of 37.0x applied to average EPS of FY25-26. Our P/E multiple is at 35% premium to global peers considering healthy growth prospects (double-digit earnings growth FY26-29e) in evolving Saudi Capital market with huge untapped potential and strong government support in financial sector development and above average ROE (FY26-29e average 22%). STG historically traded at 54% premium over global peers. However, STG has already recognized part of the growth and hence we value it at a comparatively lower premium. We take an average of FY25 and FY26 EPS as we believe FY25 EPS does not truly depict the company's potential given the pressure from the current global macro environment. Accordingly, we arrive at a TP of **SAR 228.0/share**. Given the strong fundamentals but fair valuation, we initiate with a "**Neutral**" rating.

Peer Comparison Table

Company Name	P/E (FY25E)	Historical avg. (FY21-24) P/E
BSE Ltd.	47.7x	34.9x
Bursa Malaysia Bhd	21.8x	21.1x
DFM	32.6x	32.9x
Euronext NV	18.1x	18.4x
Honk Kong Exchanges and Clearing	28.8x	36.4x
ICE	24.1x	27.5x
London Stock Exchange Group	29.9x	NA
Nasdaq Inc	26.3x	28.5x
Sector Median	**27.5x**	**28.5x**
STG	39.3x	44.0x

Source: Bloomberg, AlJazira Capital Research

P/E Valuation

All figures in SAR mn, unless specified	
Sector Median P/E	27.5x
Premium	35%
P/E multiple	37.2x
Average net income (Average FY25-26e)	736
Implicit Market Cap	27,337
Shares (mn)	120
Relative value (SAR/share)	**228.0**

Source: Bloomberg, AlJazira Capital Research

Key Upside Risks: Quicker recovery in global macro, stronger-than-expected market activity, foreign inflows growing beyond expectations, accelerated IPO momentum, and successful data monetization.

Key Downside Risks: Global economic downturn squeezing liquidity for longer period, slower-than-expected IPO growth, and potential regulatory changes impacting market participation adversely or increasing the costs.

Key Financial Table

Amount in SAR mn, unless otherwise specified	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement										
Revenues	1,080	1,166	1,090	1,073	1,447	1,541	1,738	1,927	2,106	2,277
Y/Y	**91.2%**	**8.0%**	**-6.5%**	**-1.6%**	**34.8%**	**6.5%**	**12.8%**	**10.9%**	**9.3%**	**8.1%**
Cost	(356)	(332)	(388)	(466)	(535)	(542)	(600)	(642)	(680)	(718)
Gross profit	**723**	**834**	**702**	**607**	**912**	**998**	**1,138**	**1,284**	**1,426**	**1,559**
Y/Y	**203.1%**	**15.4%**	**-15.8%**	**-13.6%**	**50.3%**	**9.5%**	**14.0%**	**12.9%**	**11.0%**	**9.3%**
Gross margin	**67.0%**	**71.5%**	**64.4%**	**56.6%**	**63.0%**	**64.8%**	**65.5%**	**66.7%**	**67.7%**	**68.5%**
General and administrative expenses	(180)	(222)	(256)	(279)	(342)	(361)	(359)	(384)	(411)	(437)
EBITDA	**591**	**671**	**509**	**403**	**647**	**730**	**879**	**1,009**	**1,132**	**1,245**
Y/Y	**536.1%**	**13.4%**	**-24.1%**	**-20.8%**	**60.5%**	**12.8%**	**20.5%**	**14.8%**	**12.2%**	**10.0%**
EBITDA margin	**54.8%**	**57.5%**	**46.7%**	**37.6%**	**44.7%**	**47.4%**	**50.6%**	**52.4%**	**53.8%**	**54.7%**
Operating profit	**543**	**614**	**446**	**328**	**566**	**637**	**779**	**900**	**1,015**	**1,121**
Y/Y	**NM**	**13.0%**	**-27.3%**	**-26.4%**	**72.4%**	**12.5%**	**22.3%**	**15.6%**	**12.7%**	**10.5%**
Operating margin	**50.3%**	**52.6%**	**40.9%**	**30.6%**	**39.1%**	**41.3%**	**44.8%**	**46.7%**	**48.2%**	**49.2%**
Investment Income	39	41	56	127	151	153	144	137	146	155
Finance cost	-	(3)	(2)	(4)	(11)	(20)	(25)	(22)	(20)	(18)
Income before zakat	**584**	**654**	**492**	**437**	**681**	**734**	**896**	**1,012**	**1,137**	**1,254**
Zakat	(84)	(66)	(68)	(55)	(60)	(86)	(72)	(81)	(91)	(100)
Net income	**501**	**588**	**425**	**390**	**622**	**647**	**824**	**931**	**1,046**	**1,153**
Y/Y	**226.5%**	**17.4%**	**-27.8%**	**-8.1%**	**59.4%**	**4.1%**	**27.3%**	**13.0%**	**12.4%**	**10.2%**
Net margin	**46.4%**	**50.4%**	**38.9%**	**36.4%**	**43.0%**	**42.0%**	**47.4%**	**48.3%**	**49.7%**	**50.7%**
EPS	**4.17**	**4.90**	**3.54**	**3.25**	**5.18**	**5.40**	**6.87**	**7.76**	**8.72**	**9.61**
DPS	**1.00**	**3.00**	**2.31**	**2.30**	**3.35**	**3.50**	**4.00**	**4.50**	**5.00**	**5.50**
Balance sheet										
Assets										
Cash & equivalent	97	86	2,119	2,051	352	461	531	711	979	1,316
Account receivables	57	61	64	95	99	113	127	133	136	139
Other current assets	3,238	2,758	4,795	3,933	7,008	7,195	7,785	8,304	8,751	9,133
Total current assets	**3,392**	**2,905**	**6,979**	**6,078**	**7,459**	**7,769**	**8,443**	**9,148**	**9,866**	**10,588**
Property plant & equipment	21	56	110	218	367	367	368	370	374	379
Other non-current assets	680	583	601	1,369	1,315	1,441	1,541	1,621	1,676	1,715
Total assets	**4,093**	**3,543**	**7,690**	**7,665**	**9,141**	**9,576**	**10,351**	**11,139**	**11,916**	**12,682**
Liabilities & owners' equity										
Current portion of long-term borrowings	-	-	-	10	42	40	39	38	37	36
Total current liabilities	**363**	**354**	**4,431**	**4,069**	**5,046**	**5,223**	**5,658**	**6,057**	**6,388**	**6,661**
Total non-current liabilities	**96**	**97**	**80**	**439**	**604**	**634**	**630**	**628**	**627**	**628**
Paid -up capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Statutory reserves	377	360	360	-	-	65	147	240	345	460
General reserves	1,114	-	-	-	-	-	-	-	-	-
Retained earnings	943	1,532	1,620	2,090	2,437	2,600	2,861	3,159	3,501	3,879
Total owners' equity	**3,635**	**3,092**	**3,180**	**3,157**	**3,492**	**3,719**	**4,063**	**4,454**	**4,900**	**5,394**
Total equity & liabilities	**4,093**	**3,543**	**7,690**	**7,665**	**9,141**	**9,576**	**10,351**	**11,139**	**11,916**	**12,682**
Cashflow statement										
Operating activities	634	650	470	395	625	813	937	1,090	1,214	1,327
CAPEX	(46)	(43)	(99)	(141)	(214)	(85)	(103)	(100)	(91)	(90)
Financing activities	(133)	(374)	(372)	(355)	(160)	(483)	(571)	(625)	(679)	(734)
Change in cash	456	232	(1)	(102)	251	245	263	364	443	503
Ending cash balance	**97**	**847**	**2,119**	**2,051**	**352**	**461**	**531**	**711**	**979**	**1,316**
Key fundamental ratios										
Liquidity ratios										
Current ratio (x)	9.4	8.2	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.6
Quick ratio (x)	9.2	8.0	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.6
Profitability ratios										
Gross profit margin	67.0%	71.5%	64.4%	56.6%	63.0%	64.8%	65.5%	66.7%	67.7%	68.5%
Operating margin	50.3%	52.6%	40.9%	30.6%	39.1%	41.3%	44.8%	46.7%	48.2%	49.2%
EBITDA margin	54.8%	57.5%	46.7%	37.6%	44.7%	47.4%	50.6%	52.4%	53.8%	54.7%
Net profit margin	46.4%	50.4%	38.9%	36.4%	43.0%	42.0%	47.4%	48.3%	49.7%	50.7%
Return on assets	13.1%	15.4%	7.6%	5.1%	7.4%	6.9%	8.3%	8.7%	9.1%	9.4%
Return on equity	14.5%	17.5%	13.5%	12.3%	18.7%	18.0%	21.2%	21.9%	22.4%	22.4%
Leverage ratio										
Debt / equity (x)	0.0	0.0	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Market/valuation ratios										
EV/sales (x)	NM	13.0	18.1	19.3	17.9	15.0	13.3	11.9	10.8	9.8
EV/EBITDA (x)	NM	22.5	38.7	51.3	40.1	31.7	26.3	22.7	20.0	17.9
Dividend yield	NM	2.4%	1.3%	1.2%	1.5%	1.8%	2.1%	2.3%	2.6%	2.8%
EPS (SAR)	4.17	4.90	3.54	3.25	5.18	5.40	6.87	7.76	8.72	9.61
BVPS (SAR)	30.3	25.8	26.5	26.3	29.1	31.0	33.9	37.1	40.8	44.9
Market price (SAR)*	NM	126	181	187	217	195	195	195	195	195
Market-Cap (SAR mn)	NM	15,096	21,720	22,416	26,016	23,376	23,376	23,376	23,376	23,376
P/E ratio (x)	NM	25.7	51.2	57.5	41.8	36.1	28.4	25.1	22.3	20.3
P/BV ratio (x)	NM	4.9	6.8	7.1	7.5	6.3	5.8	5.2	4.8	4.3

Source: Company, AlJazira Capital research, * Market price as of April 22, 2025

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer