TOURISM | JUNE 2026

SGS

Rating Change

Q2 26

Attractive outlook despite short-term challenges

We upgrade SGS to Overweight with a revised PT of SAR41.4. Despite the short-term impact of the disruption arising from the current conflict, we believe the outlook for SGS is favourable driven by 1) sustained growth in Saudi's aviation sector underpinned by significant fleet expansions, 2) increasing passenger volumes driven by growing tourism and major events, and 3) SGS's leading market position (c91% market share in 2025) and expanding operational capabilities. We expect net income to decline by 23.4% yoy to SAR310mn in 2026f due to the impact of the current conflict, and to resume its growth trajectory thereafter to reach SAR609mn in 2028f (2025-28f CAGR of 14.6%) supported by the significant increase in the number of flights, infrastructure enhancement and cost optimization. The stock trades at 2027f P/E of 12.3x and EV/EBITDA of 8.0x vs its peer group average of 14.6x and 8.9x, respectively.

- **Attractive outlook, despite short-term headwinds**

  Although the current conflict impacted flight activity in the region, we expect international flight activity to progressively recover with a full normalization by 2027f. We note that the conflict that emerged in late February 2026 primarily affected international traffic and foreign carriers operating in the region. While local carriers largely maintained normal operations, disruptions to GCC airspace and selective route suspensions weighed on international flight volumes and SGS's key GCC clients. However, the operations of selected GCC airlines from Saudi airports and higher Saudi carriers' activities are partially moderating the negative impact. We expect Q2 to be relatively challenging for SGS with a gradual recovery afterwards. Despite the short-term headwinds, we believe the outlook for the Saudi tourism sector remains positive supported by Vision 2030 initiatives, upcoming major events and expanding airline capacities. Saudi carriers continue to pursue significant fleet expansions, with Saudia, flyadeal, flynas and Riyadh Air targeting fleet growth from 149 / 44 / 71 / 1 aircraft in 2025 to c237 / c86 / c167 / c182 aircraft respectively by 2030f. We believe SGS will continue to be a major partner for local airlines, supporting their planned growth.

- **Saudia's contract renewal-reinforcing the relationship**

  Saudia renewed its contract with SGS in May 2026, which entails providing various handling services. We highlight Saudia is SGS's largest customer contributing c42% of its revenues and its largest shareholder with a stake of 52.5%. The 5-year contract has an estimated value of SAR6.3bn, an increase of c6.8% compared to the previous one, with the financial impact commencing in Q2 26. We believe the increase is largely attributed to pricing adjustments and new services offered. Overall, we believe the renewal is positive as an increase in pricing is granted despite Saudia's expanding fleet. The contract renewal provides revenue visibility for SGS and supports the sustainability of its core business operations through 2031f.

- **Strong earnings growth supported by significant fleet expansions**

  We expect revenue to remain broadly flat yoy at SAR2.74bn in 2026f, as the relative growth in the number of flights (+4.2% to 420k) would be offset by lower prices following the decline in international flights activities due to the conflict. Thereafter, we expect the growth momentum to resume with the flights served reaching 525K and 616K respectively in 2027f and 2028f driven by the Saudi airlines fleet expansion and enhancements across Saudi airports. Accordingly, we expect revenue to grow to SAR3.87bn bn in 2028f (2025-28f CAGR of 12.3%). We expect EBIT margins to decline to 10.7% in 2026f (vs 12.1% in 2025) and gradually expand to 14.5% by 2028f supported by larger scale and cost optimisation. Accordingly, we expect net income to decline by 23.4% yoy to SAR310mn in 2026f and grow to SAR493mn and SAR609mn in 2027f and 2028f respectively, recording a 2025-28f CAGR of 14.6%.

- **Upgrade SGS to Overweight with a PT of 41.4**

  We upgrade SGS to Overweight with a PT of SAR41.4. Despite the short-term headwinds, our positive outlook reflects the company's unique positioning within Saudi's rapidly expanding aviation sector, supported by growing airline capacities and increasing tourism flows. The stock trades at 2027f P/E of 12.3x and EV/EBITDA of 8.0x vs its peer group average of 14.6x and 8.9x, respectively.

Summary Financials

SAR mn	2025	2026f	2027f	2028f	CAGR
Revenues	2,730	2,742	3,390	3,868	12.3%
Gross Profit	619	605	803	955	15.6%
EBIT	331	294	459	561	19.2%
EBIT Margin (%)	*12.1*	*10.7*	*13.5*	*14.5*	
Net income	405	310	493	609	14.6%
Net margin (%)	*14.8*	*11.3*	*14.6*	*15.7*	
EPS (SAR)	2.15	1.65	2.62	3.24	14.6%

Source: SGS, SNB Capital Research.

OVERWEIGHT

Price target (SAR)	**41.4**
Current price (SAR)	32.2
Upside/Downside (%)	28.6%

VALUATION MULTIPLES

	25	26f	27f
P/E (x)	14.9	19.5	12.3
P/B (x)	2.4	2.2	2.2
EV/EBITDA (x)	10.1	10.9	8.0
Div Yield (%)	3.1	3.1	6.2

Source: SNB Capital Research estimates. All prices a as of 01 June 2026.

MAJOR SHAREHOLDERS %

Saudia	52.5
Foreign ownership	6.8

Source: Tadawul, SNB Capital Research. As of 01 June 2026.

STOCK DETAILS

M52-week range H/L (SAR)	51.7/29.3
Market cap (USD mn)	1,592
Shares outstanding (mn)	188
Listed on exchanges	Tadawul

Price perform (%)	1M	3M	12M
Absolute	1.6	5.9	(30.8)
Rel. to market	3.2	0.80	(32.5)

Avg daily turnover (mn)	SAR	USD
3m	20.1	5.37
12m	16.3	4.35

Reuters code	4031.SE
Bloomberg code	SGS AB
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