Arabian Internet and Communications Services (Solutions)

BUY

Sector : Information Technology

06 September 2026

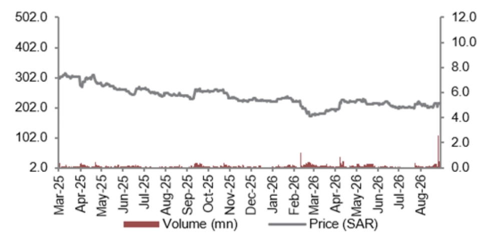
- **Revenue grew 11.7% YoY in 2Q26, supported by stronger core ICT services.**
- **While net margins declined YoY, all other margins improved and exceeded expectations.**
- **Profit rose by a modest 1.6% YoY, beating our estimates by 16%.**
- **For 2026e, we raise our revenue forecast to SAR 13.65bn and profit to SAR 1.64bn. We increase our target price to SAR 250 per share and retain our BUY rating.**

Arabian Internet and Communications Services (Solutions) reported 2Q26 revenue of SAR 3.24bn, up 11.7% YoY and slightly above our estimate. Revenue for the 1H26 grew 9% YoY to SAR 6.2bn. Growth was supported by accelerated execution and monetization of projects secured during 2025 and early 2026. The company reported a strong and diversified backlog of SAR 14.5bn as of 2Q26, reflecting healthy demand and high win rates in KSA's IT market. Core ICT services, which contributed 57% of revenue, remained the key growth driver, with revenue increasing 28.6% YoY on stronger delivery momentum across existing projects. IT managed and operational services revenue grew 3% YoY, while digital services revenue declined 23.4% YoY due to the project-based nature of the portfolio, resulting in uneven project delivery and revenue recognition.

Gross profit grew 20% YoY, as direct costs increased only 9.2% YoY. As a result, gross margin improved 170bps YoY to 24.3% in 2Q26 supported by project execution timing, higher margin milestone recognition and stronger contributions from consulting, professional and managed services. Solutions (standalone) gross margin improved to 29% (vs 27.2% in 2Q25), while Upsource margin increased to 10.6% (vs 9% in 2Q25), supported by cost controls and rebates. Giza, rebranded as "Pulse by Solutions" in May 2026, maintained a broadly stable margin of 20.3%. Despite a 34% YoY increase in SG&A, EBIT and EBITDA margins improved by 30bps and 50bps YoY to 15.6% and 18.4%, respectively. Finance costs rose 11.6% YoY, due to increased lease liabilities and borrowings, while finance income declined 31% YoY due to reduced cash balances. Other expenses stood at SAR 26mn, compared with other income of SAR 16mn in 2Q25, while tax expense increased 19% YoY. Consequently, net profit rose a modest 1.6% YoY to SAR 455mn, with net margin narrowing 140bps YoY to 14.1%. However, profit exceeded our forecast by 16%, with overall margins also ahead of expectations. For 1H26, net profit grew 3% YoY to SAR 828mn.

During the quarter, the board recommended doubling the company's capital from SAR 1.2bn to SAR 2.4bn, through a 1 for 1 bonus issue of 120mn shares. Solutions also signed a SAR 485mn contract with STC to develop internal internet and communications networks, with the financial impact expected from 3Q26.

Target price (SAR)	**250.00**
Current price (SAR)	**217.60**
Return	**15.0%**



Exchange	Saudi Arabia
Index weight (%)	0.2%

(mn)	SAR	USD
Market Cap	26,112	7,005
Enterprise value	24,091	6,462

Major shareholders	
Saudi Telecom Co	79%
Vanguard Group Inc/T	1.1%
Dimensional Fund Adv	0.2%
Others	19.7%

Valuation Summary	
PER TTM (x)	17.0
P/Book (x)	6.2
EV/EBITDA (x)	10.1
Dividend Yield (%)	3.7
Free Float (%)	20%
Shares O/S (mn)	120
YTD Return (%)	-4%
Beta	1.0

Key ratios	2023	2024	2025
EPS (SAR)	9.93	13.31	12.52
BVPS (SAR)	27.70	33.40	35.73
DPS (SAR)	6.00	10.00	8.00
Payout ratio (%)	60%	75%	63%

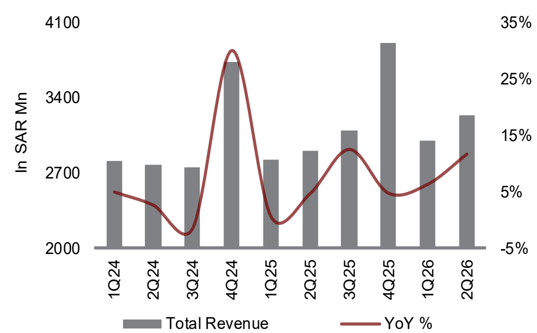
Price performance (%)	1M	3M	12M
Arabian Internet & Comm	-1%	0%	-11%
Tadawul All Share Index	2%	0%	4%

52 week	High	Low	CTL*
Price (SAR)	271.6	170.1	27.6

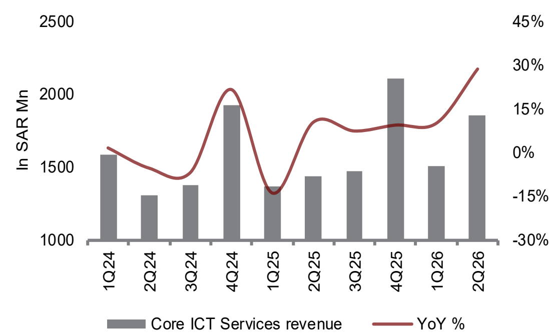
* CTL is % change in CMP to 52wk low

Valuation and outlook: Solutions maintains a leading position in KSA's IT service market, supported by long term relationships with key public and private sector clients. The company continues to target opportunities in the private sector, while expanding its data center, cloud, managed-services, Ispan cloud products and GPU-as-a-service offerings to increase recurring revenue. Upsource is also developing BPO services to diversify its offering amid delays in government outsourcing and manpower contracts. Management reiterated its 2026 guidance of 6-8% revenue growth and a 14-16% EBITDA margin. Management does not provide PAT guidance due to uncertainties around non-operating finance income, foreign exchange movements, and Zakat assessments. Revenue, profitability and margins across the board outperformed forecasts. Accordingly, we increase our 2026e revenue forecast to SAR 13.65bn (from SAR 13.54bn) and net profit to SAR 1.64bn (from SAR 1.59bn). We therefore raise our target price to SAR 250/share (from SAR 241), implying an upside potential of 15% from current levels and retain our BUY rating. At the current price, the stock trades at 16x 2026e EPS and offers a dividend yield of 3.8%.

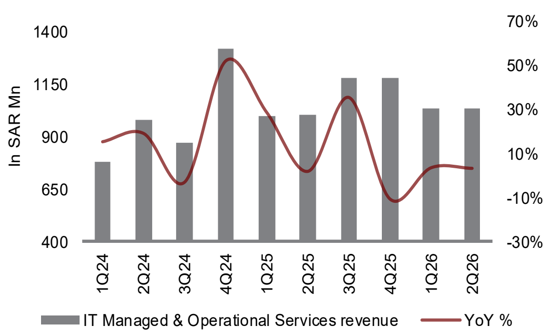
Revenue grew on strong core ICT performance



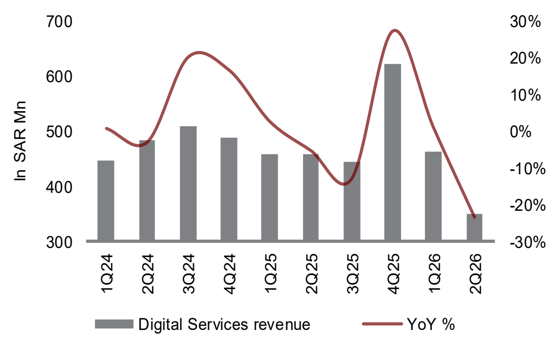
Core ICT revenue driven by project delivery ramp-up



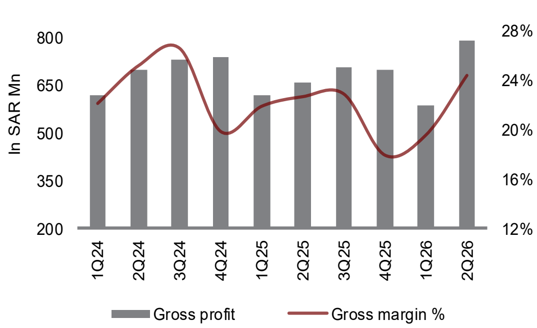
IMOS revenue grew by a modest 3% YoY in 2Q26



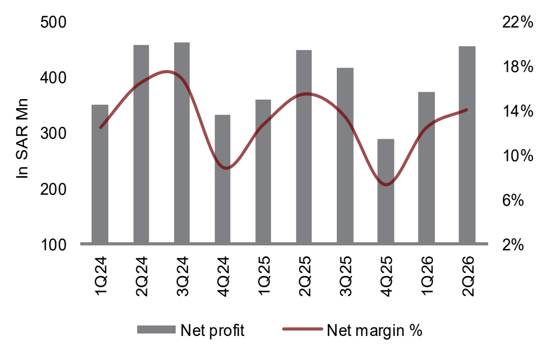
Digital revenue down due to uneven project delivery



Gross margin improves on high-margin services



Higher costs & lower other income pressured net margin



Income statement (in SAR Mn)	2022	2023	2024	2025	2026e	2027e	2028e	2029e
Revenue	**8,805**	**11,040**	**12,064**	**12,730**	**13,650**	**14,821**	**16,039**	**17,398**
Direct Costs	-6,794	-8,443	-9,281	-10,052	-10,729	-11,486	-12,430	-13,397
Gross Profit	**2,011**	**2,598**	**2,783**	**2,678**	**2,921**	**3,335**	**3,609**	**4,002**
General and admin expenses	-605	-715	-720	-731	-795	-889	-962	-1,044
Selling and distribution expenses	-246	-496	-402	-306	-323	-445	-481	-522
EBIT	**1,160**	**1,387**	**1,661**	**1,641**	**1,803**	**2,001**	**2,165**	**2,436**
EBITDA	**1,392**	**1,669**	**1,948**	**1,987**	**2,168**	**2,469**	**2,676**	**2,973**
Finance income	-	145	114	106	82	82	82	82
Finance cost	38	-76	-74	-89	-93	-96	-96	-96
Other income/(expenses), net	-28	-52	-65	-26	-30	-15	-16	-17
PBT	**1,171**	**1,405**	**1,642**	**1,645**	**1,775**	**1,985**	**2,148**	**2,417**
Tax	-118	-210	-39	-132	-132	-159	-172	-193
Net Profit	**1,054**	**1,195**	**1,603**	**1,512**	**1,643**	**1,826**	**1,976**	**2,224**

Balance Sheet (in SAR Mn)	2022	2023	2024	2025	2026e	2027e	2028e	2029e
Cash and cash equivalents	544	2,588	1,127	1,749	1,767	2,131	2,764	3,546
Murabaha time deposits	2,701	850	2,575	370	70	70	70	70
Other current assets	195	554	436	589	956	1,037	1,123	1,218
Contract assets	1,277	1,691	2,249	2,970	3,686	4,002	4,331	4,698
Inventories	322	249	212	406	590	632	684	737
Total current assets	**9,383**	**10,296**	**10,359**	**10,745**	**11,572**	**12,763**	**14,264**	**16,009**
Non-current investments and other assets	12	150	268	481	485	485	485	485
Investment in equity accounted investees	-	3	341	348	349	349	349	349
Intangible assets and goodwill	373	626	557	608	594	585	582	587
Property and equipment	473	390	425	363	485	529	417	295
Right of use assets	41	50	90	372	446	535	620	635
Total non-current assets	**899**	**1,220**	**1,681**	**2,172**	**2,359**	**2,483**	**2,453**	**2,351**
TOTAL ASSETS	**10,282**	**11,516**	**12,040**	**12,917**	**13,931**	**15,246**	**16,717**	**18,361**
Share capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Reserves	9	-60	-261	-300	-313	-313	-313	-313
Treasury Shares	-156	-154	-151	-145	-139	-139	-139	-139
Retained earnings	1,432	2,338	3,220	3,532	4,215	5,060	5,947	6,991
Total Equity attributable to shareholders	2,794	3,324	4,008	4,287	4,963	5,809	6,695	7,739
Minority Interest	29	29	22	40	43	43	43	43
Total equity	**2,823**	**3,353**	**4,030**	**4,327**	**5,006**	**5,851**	**6,738**	**7,782**
Lease and other liabilities	16	19	104	236	198	198	198	198
End of service indemnities	261	450	582	702	734	734	734	734
Borrowings	502	499	642	632	111	111	111	111
Total non-current liabilities	**803**	**968**	**1,328**	**1,569**	**1,043**	**1,043**	**1,043**	**1,043**
Trade payables, accruals and other liabilities	2,573	3,315	3,887	4,512	5,043	5,398	5,842	6,296
Deferred revenue	3,266	3,049	2,090	1,879	1,609	1,723	1,865	2,009
Contract liabilities	488	380	467	320	385	385	385	385
Zakat and income tax payable	136	240	146	159	83	83	83	83
Bank overdraft and borrowings	194	211	93	151	763	763	763	763
Total current liabilities	**6,656**	**7,195**	**6,683**	**7,020**	**7,882**	**8,351**	**8,937**	**9,536**
Total liabilities	**7,459**	**8,164**	**8,010**	**8,590**	**8,925**	**9,394**	**9,980**	**10,579**
Total equity and liabilities	**10,282**	**11,516**	**12,040**	**12,917**	**13,931**	**15,246**	**16,717**	**18,361**

Cash Flow (in SAR Mn)	2022	2023	2024	2025	2026e	2027e	2028e	2029e
Cash from operations	2,091	1,715	1,509	-101	1,260	2,041	2,307	2,499
Investing cash flow	-3,191	1,036	-2,127	2,018	-42	-371	-241	-261
Financing cash flow	57	-689	-807	-1,298	-1,200	-1,306	-1,433	-1,456
Change in cash	-1,064	2,044	-1,461	622	18	365	633	782
Beginning cash	1,608	544	2,588	1,127	1,749	1,767	2,131	2,764
Ending cash	**544**	**2,588**	**1,127**	**1,749**	**1,767**	**2,131**	**2,764**	**3,546**

Ratio Analysis	2022	2023	2024	2025	2026e	2027e	2028e	2029e
Per Share								
EPS (SAR)	8.774	9.935	13.305	12.521	13.624	15.143	16.388	18.441
BVPS (SAR)	23.285	27.700	33.397	35.728	41.360	48.405	55.790	64.490
DPS (SAR)	5.000	6.000	10.000	8.000	8.174	9.086	9.833	11.065
FCF per share (SAR)	-9.167	22.929	-5.147	15.977	10.149	13.919	17.218	18.650
Valuation								
Market Cap (SAR, Millions)	29,136	41,976	32,400	27,012	26,112	26,112	26,112	26,112
EV (SAR, Millions)	29,304	40,117	32,112	26,281	25,417	25,052	24,419	23,638
EBITDA	1,392	1,669	1,948	1,987	2,168	2,469	2,676	2,973
P/E (x)	27.7	35.2	20.3	18.0	16.0	14.4	13.3	11.8
EV/EBITDA (x)	21.0	24.0	16.5	13.2	11.7	10.1	9.1	8.0
Price/Book (x)	10.4	12.6	8.1	6.3	5.3	4.5	3.9	3.4
Dividend Yield (%)	2.1%	1.7%	3.7%	3.6%	3.8%	4.2%	4.5%	5.1%
Price to sales (x)	3.3	3.8	2.7	2.1	1.9	1.8	1.6	1.5
EV to sales (x)	3.3	3.6	2.7	2.1	1.9	1.7	1.5	1.4
Liqiudity								
Cash Ratio (x)	0.1	0.4	0.2	0.2	0.2	0.3	0.3	0.4
Current Ratio (x)	1.4	1.4	1.6	1.5	1.5	1.5	1.6	1.7
Quick Ratio (x)	1.4	1.4	1.5	1.5	1.4	1.5	1.5	1.6
Returns Ratio								
ROA (%)	10.2%	10.4%	13.3%	11.7%	11.8%	12.0%	11.8%	12.1%
ROE (%)	37.3%	35.6%	39.8%	35.0%	32.8%	31.2%	29.3%	28.6%
ROCE (%)	29.1%	27.7%	29.9%	25.6%	27.2%	26.5%	25.4%	25.2%
Cash Cycle								
Inventory turnover (x)	21	34	44	25	18	18	18	18
Accounts Payable turnover (x)	2.6	2.5	2.4	2.2	2.1	2.1	2.1	2.1
Receivables turnover (x)	2.0	2.5	3.2	2.7	3.0	3.0	3.0	3.0
Inventory days	17	10.7	8.3	14.8	20.1	20.1	20.1	20.1
Payable Days	138	143	153	164	172	172	172	172
Receivables days	180	144	114	134	120	120	120	120
Profitability Ratio								
Net Margins (%)	12.0%	10.8%	13.3%	11.9%	12.0%	12.3%	12.3%	12.8%
EBITDA Margins (%)	15.8%	15.1%	16.1%	15.6%	15.9%	16.7%	16.7%	17.1%
PBT Margins (%)	13.3%	12.7%	13.6%	12.9%	13.0%	13.4%	13.4%	13.9%
EBIT Margins (%)	13.2%	12.6%	13.8%	12.9%	13.2%	13.5%	13.5%	14.0%
Leverage								
Total Debt (SAR, Millions)	712	729	839	1,018	1,071	1,071	1,071	1,071
Net Debt (SAR, Millions)	168	-1,859	-288	-731	-695	-1,060	-1,693	-2,474
Debt/Equity (x)	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Net Debt/EBITDA (x)	0.1	-1.1	-0.1	-0.4	-0.3	-0.4	-0.6	-0.8
Net Debt/Equity (x)	0.1	-0.6	-0.1	-0.2	-0.1	-0.2	-0.3	-0.3

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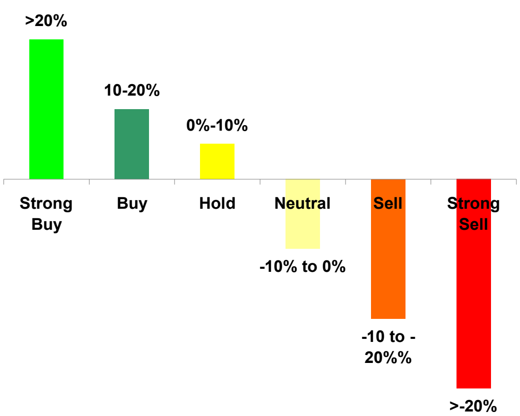
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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