

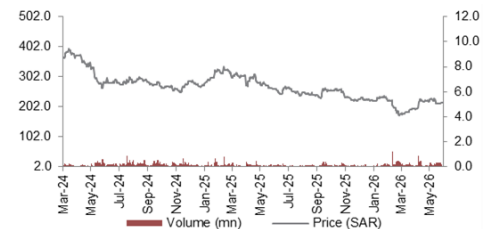
Arabian Internet and Communications Services (Solutions)

BUY

7 June 2026

Sector : Information Technology

- **Revenue grew 6.3% YoY in 1Q26, supported by stronger core ICT services.**
- **Gross and net margins declined YoY, while EBIT and EBITDA margins improved slightly due to lower operating expenses.**
- **Profit up 3.7% YoY and came in slightly above our projections.**
- **For 2026e, we retain our revenue forecast of SAR 13.54bn and raise profit to SAR 1.59bn. We increase our target price to SAR 241 per share and retain our BUY rating.**

Target price (SAR) 241.00
Current price (SAR) 216.40
Return 11.40%

 Exchange Saudi Arabia
 Index weight (%) 0.2%

(mn)	SAR	USD
Market Cap	25,968	6,917
Enterprise value	22,398	5,960

Major shareholders

Saudi Telecom Co	79%
Vanguard Group Inc/T	0.9%
Arabian Internet & C	0.8%
Others	19.3%

Valuation Summary

PER TTM (x)	17.0
P/Book (x)	5.6
EV/EBITDA (x)	11.4
Dividend Yield (%)	3.7
Free Float (%)	19%
Shares O/S (mn)	120
YTD Return (%)	-4%
Beta	1.1

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%	20%	-17%
Tadawul All Share Index	0%	2%	0%

52 week	High	Low	CTL*
Price (SAR)	272.0	170.1	27.2

* CTL is % change in CMP to 52wk low

Arabian Internet and Communications Services (Solutions) reported 1Q26 revenue of SAR 3bn, up 6.3% YoY and broadly in line with our estimate. Growth was driven by new projects added to the backlog in 2H25 reaching execution milestones and contributing to revenue recognition. The company reported a large and diversified backlog of SAR 14bn in 1Q26, reflecting strong demand and high win rates in KSA's IT market. Core ICT services, which contributed 50% of revenue, were the primary growth driver, with revenue increasing 10% YoY, supported by accelerated delivery of projects secured in 2H25. IT managed and operational services revenue grew 4% YoY, while digital services revenue rose modestly by 1% YoY, marking a slowdown in activity following strong delivery in 4Q25.

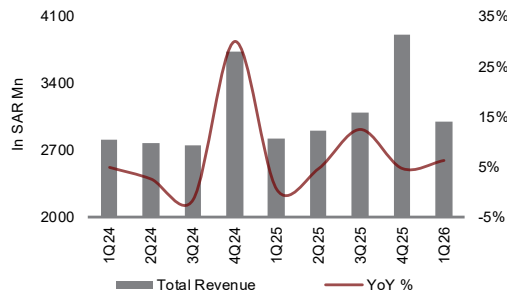
Gross profit fell 5% YoY as direct costs increased 9.5% YoY, outpacing revenue growth. As a result, gross margin contracted 230bps YoY to 19.5% in 1Q26 due to an evolving project mix, upfront costs related to a strategic customer, and regulatory developments affecting pricing dynamics. Gross margins for Solutions (standalone) declined to 21.9% (vs 27.7% in 1Q25), while Giza margins improved to 18.5% (vs 9.1% in 1Q25) and Upsource margins increased to 11.5% (vs 8.9% in 1Q25). SG&A expenses decreased 24% YoY during the quarter, supported by ongoing cost efficiency initiatives, with the largest impact stemming from revised royalty terms with STC. Consequently, EBIT and EBITDA margins improved by 10bps and 50bps YoY to 13.3% and 16.4%, respectively. Finance costs increased 25% YoY, mainly due to higher lease liabilities compared with the same period last year. Meanwhile, finance income declined 45% YoY amid lower interest rate environment. During the quarter, the company reported other income of SAR 11mn, compared with other expense of SAR 3mn in 1Q25. Additionally, tax expense increased 15% YoY in 1Q26. Overall, supported by lower operating expenses and higher other income, net profit for the quarter increased 3.7% YoY to SAR 372mn, although net margin contracted 30bps YoY to 12.4%. Profit came in slightly above our forecast, with net margin also slightly exceeding expectations.

During the quarter, Solutions signed a SAR 520mn contract with National Water company to provide ICT managed services over a 5-year period, with financial impact expected from 2Q26. The company also signed a SAR 1.4bn contract with Saudi Aramco, with revenue contribution expected from 1Q27. Recently, Solutions signed a SAR 132mn contract with STC to design and upgrade digital infrastructure for cloud services data centers over three years, with financial impact expected from 4Q26.

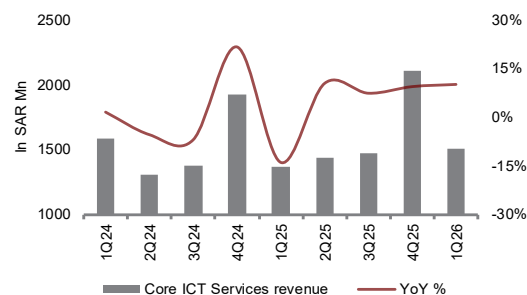


Valuation and outlook: Solutions market share in the IT services market is estimated to be between 20% and 24% as of 2025. However, the company’s portfolio extends beyond IT services to include IT integration, managed services, outsourcing, and BPO, making it difficult to define a single addressable market size for the company. The current geopolitical environment has led to a slight uptick in demand for VSAT (geostationary satellite) products from clients. Supply chain disruptions have been minimal, although the company incurred additional costs related to air freight and alternative shipping routes, with shipments redirected to Red Sea ports. Management also noted minimal exposure to potential disruptions related to undersea cables in the Strait of Hormuz. The Riyadh parking project is progressing well, with activated zones supporting improvement in monthly revenue streams, although its contribution to topline growth remains minimal. Management remains confident in achieving 6-8% revenue growth and an EBITDA margin of 14-16% for the 2026e, expecting gross profit levels to normalize throughout the year. This outlook is supported by a strong backlog from projects secured in 2025 and a healthy pipeline in 2026. While revenue came broadly in line with expectations, profit and margins slightly outperformed forecasts, although gross margin underperformed. Accordingly, we maintain our 2026e revenue forecast of SAR 13.54bn and slightly increase our profit to SAR 1.59bn (from SAR 1.54bn). We therefore raise our target price to SAR 241/share (from SAR 210), implying an upside potential of 11.4% from current levels and retain our BUY rating. At the current price, the stock trades at 16.4x 2026e EPS and offers a dividend yield of 3.6%.

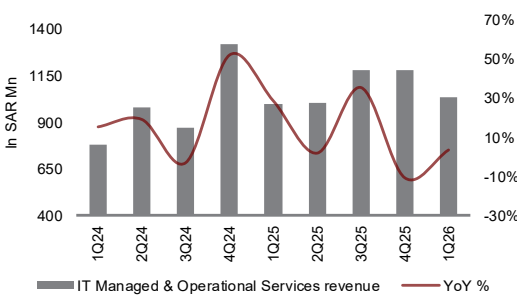
Revenue grew on strong core ICT performance



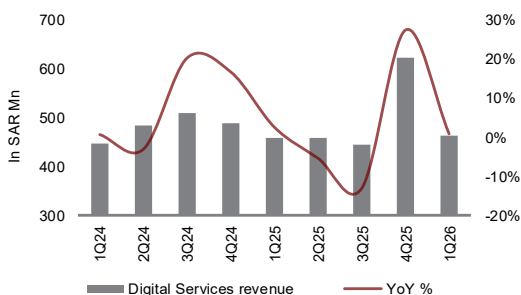
Core ICT revenue driven by ramp-up in project delivery



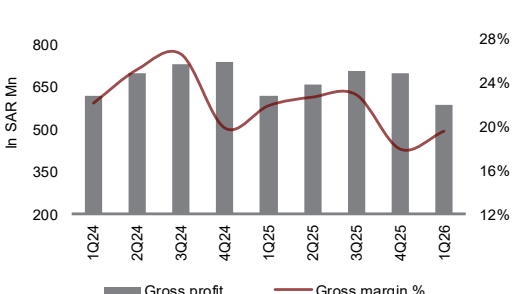
IMOS revenue grew 4% YoY in 1Q26



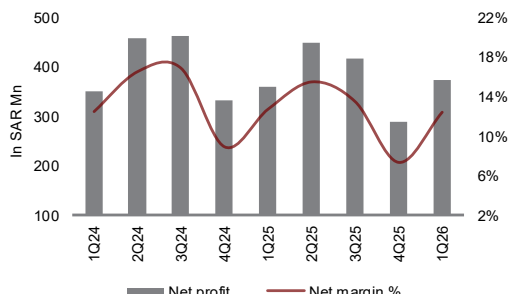
Digital revenue up 1% YoY due to slowdown in activity



Gross margin drops to 19.5% on changes in project mix



Higher finance and tax expenses weighed on net margin





Income statement (in SAR Mn)	2022	2023	2024	2025	2026e	2027e	2028e	2029e
Revenue	8,805	11,040	12,064	12,730	13,542	14,766	15,705	16,727
Direct Costs	-6,794	-8,443	-9,281	-10,052	-10,720	-11,444	-12,172	-12,880
Gross Profit	2,011	2,598	2,783	2,678	2,821	3,322	3,534	3,847
General and admin expenses	-605	-715	-720	-731	-809	-886	-942	-1,004
Selling and distribution expenses	-246	-496	-402	-306	-295	-443	-471	-502
EBIT	1,160	1,387	1,661	1,641	1,718	1,993	2,120	2,342
EBITDA	1,392	1,669	1,948	1,987	2,088	2,462	2,629	2,875
Finance income	-	145	114	106	86	86	86	86
Finance cost	38	-76	-74	-89	-90	-86	-86	-86
Other income/(expenses), net	-28	-52	-65	-26	2	-15	-16	-17
PBT	1,171	1,405	1,642	1,645	1,730	1,992	2,117	2,338
Tax	-118	-210	-39	-132	-142	-159	-169	-187
Net Profit	1,054	1,195	1,603	1,512	1,587	1,832	1,948	2,151
Balance Sheet (in SAR Mn)	2022	2023	2024	2025	2026e	2027e	2028e	2029e
Cash and cash equivalents	544	2,588	1,127	1,749	2,067	2,466	3,182	4,044
Murabaha time deposits	2,701	850	2,575	370	390	390	390	390
Other current assets	195	554	436	589	880	960	1,021	1,087
Contract assets	1,277	1,691	2,249	2,970	3,385	3,691	3,926	4,182
Inventories	322	249	212	406	433	462	492	521
Total current assets	9,383	10,296	10,359	10,745	11,624	12,843	14,194	15,743
Non-current investments and other assets	12	150	268	481	507	507	507	507
Investment in equity accounted investees	-	3	341	348	346	346	346	346
Intangible assets and goodwill	373	626	557	608	593	584	580	581
Property and equipment	473	390	425	363	473	517	402	275
Right of use assets	41	50	90	372	449	536	618	628
Total non-current assets	899	1,220	1,681	2,172	2,368	2,490	2,452	2,336
TOTAL ASSETS	10,282	11,516	12,040	12,917	13,992	15,333	16,646	18,080
Share capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Reserves	9	-60	-261	-300	-335	-335	-335	-335
Treasury Shares	-156	-154	-151	-145	-145	-145	-145	-145
Retained earnings	1,432	2,338	3,220	3,532	4,159	5,044	5,898	6,886
Total Equity attributable to shareholders	2,794	3,324	4,008	4,287	4,879	5,764	6,618	7,606
Minority Interest	29	29	22	40	39	39	39	39
Total equity	2,823	3,353	4,030	4,327	4,917	5,802	6,656	7,644
Lease and other liabilities	16	19	104	236	223	223	223	223
End of service indemnities	261	450	582	702	716	716	716	716
Borrowings	502	499	642	632	618	618	618	618
Total non-current liabilities	803	968	1,328	1,569	1,557	1,557	1,557	1,557
Trade payables, accruals and other liabilities	2,573	3,315	3,887	4,512	5,038	5,378	5,721	6,053
Deferred revenue	3,266	3,049	2,090	1,879	1,715	1,831	1,947	2,061
Contract liabilities	488	380	467	320	416	416	416	416
Zakat and income tax payable	136	240	146	159	188	188	188	188
Bank overdraft and borrowings	194	211	93	151	161	161	161	161
Total current liabilities	6,656	7,195	6,683	7,020	7,518	7,973	8,432	8,878
Total liabilities	7,459	8,164	8,010	8,590	9,075	9,530	9,989	10,435
Total equity and liabilities	10,282	11,516	12,040	12,917	13,992	15,333	16,646	18,080
Cash Flow (in SAR Mn)	2022	2023	2024	2025	2026e	2027e	2028e	2029e
Cash from operations	2,091	1,715	1,509	-101	1,875	2,030	2,373	2,535
Investing cash flow	-3,191	1,036	-2,127	2,018	-359	-370	-236	-251
Financing cash flow	57	-689	-807	-1,298	-1,198	-1,261	-1,421	-1,422
Change in cash	-1,064	2,044	-1,461	622	318	399	716	862
Beginning cash	1,608	544	2,588	1,127	1,749	2,067	2,466	3,182
Ending cash	544	2,588	1,127	1,749	2,067	2,466	3,182	4,044

Ratio Analysis	2022	2023	2024	2025	2026e	2027e	2028e	2029e
Per Share								
EPS (SAR)	8.774	9.935	13.305	12.521	13.159	15.192	16.153	17.835
BVPS (SAR)	23.285	27.700	33.397	35.728	40.658	48.031	55.150	63.383
DPS (SAR)	5.000	6.000	10.000	8.000	7.895	9.115	9.692	10.701
FCF per share (SAR)	-9.167	22.929	-5.147	15.977	12.635	13.837	17.808	19.034
Valuation								
Market Cap (SAR, Millions)	29,136	41,976	32,400	27,012	25,968	25,968	25,968	25,968
EV (SAR, Millions)	29,304	40,117	32,112	26,281	24,903	24,503	23,788	22,926
EBITDA	1,392	1,669	1,948	1,987	2,088	2,462	2,629	2,875
P/E (x)	27.7	35.2	20.3	18.0	16.4	14.2	13.4	12.1
EV/EBITDA (x)	21.0	24.0	16.5	13.2	11.9	10.0	9.0	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%	3.6%	4.2%	4.5%	4.9%
Price to sales (x)	3.3	3.8	2.7	2.1	1.9	1.8	1.7	1.6
EV to sales (x)	3.3	3.6	2.7	2.1	1.8	1.7	1.5	1.4
Liquidity								
Cash Ratio (x)	0.1	0.4	0.2	0.2	0.3	0.3	0.4	0.5
Current Ratio (x)	1.4	1.4	1.6	1.5	1.5	1.6	1.7	1.8
Quick Ratio (x)	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.7
Returns Ratio								
ROA (%)	10.2%	10.4%	13.3%	11.7%	11.3%	11.9%	11.7%	11.9%
ROE (%)	37.3%	35.6%	39.8%	35.0%	32.3%	31.6%	29.3%	28.1%
ROCE (%)	29.1%	27.7%	29.9%	25.6%	24.5%	24.9%	23.7%	23.4%
Cash Cycle								
Inventory turnover (x)	21	34	44	25	25	25	25	25
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	14.8	14.8	14.8	14.8
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%	11.7%	12.4%	12.4%	12.9%
EBITDA Margins (%)	15.8%	15.1%	16.1%	15.6%	15.4%	16.7%	16.7%	17.2%
PBT Margins (%)	13.3%	12.7%	13.6%	12.9%	12.8%	13.5%	13.5%	14.0%
EBIT Margins (%)	13.2%	12.6%	13.8%	12.9%	12.7%	13.5%	13.5%	14.0%
Leverage								
Total Debt (SAR, Millions)	712	729	839	1,018	1,002	1,002	1,002	1,002
Net Debt (SAR, Millions)	168	-1,859	-288	-731	-1,065	-1,465	-2,180	-3,042
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	-0.5	-0.6	-0.8	-1.1
Net Debt/Equity (x)	0.1	-0.6	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4



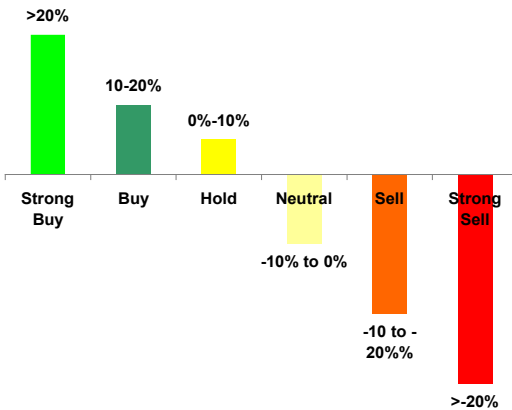
Key contacts

Research Team

		Contact Address
Joice Mathew	Manna Thomas ACCA	P. O Box: 2566; P C 112
Sr. Manager - Research	Research Associate	Sultanate of Oman
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Tel: +968 2476 3300
Tel: +968 2476 3311	Tel: +968 2476 3347	

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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