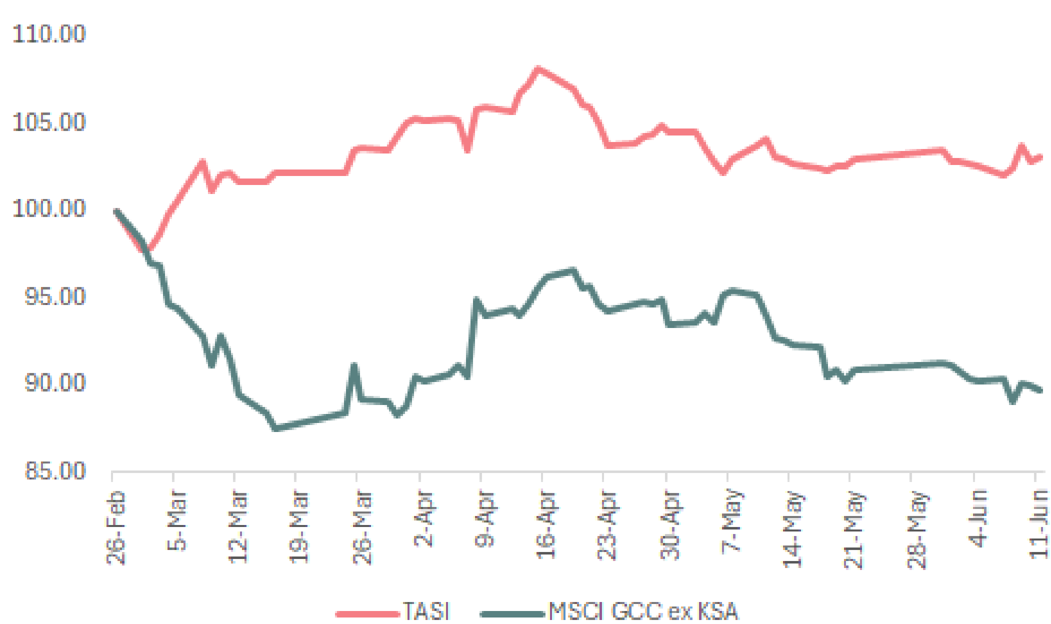
Demonstrated Resiliency

3Q26 and 2H26 Outlook

The Saudi economy and capital markets head into 2H2026 facing a mixed environment, however buoyed by the resiliency shown by the country and economy in the face of the situation in the region. From the end of February to the announcement of the ceasefire, TASI outperformed MSCI GCC xKSA by 7ppt, highlighting the relative resilience of KSA versus other GCC countries. The economy entered 2026 with strong momentum as 2025 real GDP growth hit 4.5%, the current regional situation is expected to result in growth slowing to our above consensus forecast of 2.5% in 2026, and accelerate to 4%+ in 2027. Through the remainder of 2026, the market is likely to continue to price in the negotiations around resolving the regional situation whereas in the longer term it will be driven by the pace of recovery in KSA's oil sector adding to continuing strength in the non-oil economy, how international markets price out the forward oil price curve and how the US Fed responds to the inflationary shock from the regional situation. The country and economy have displayed strong resilience in the face of the regional situation; however, we do expect greater urgency from the government to strengthen the country's resiliency against any future supply chain shocks. Alongside this, we expect a bigger push to build out digital infrastructure as Saudi Arabia emerges as a key player in AI within the region. The government is pushing ahead with reforms to strengthen the non-oil economy, with the cabinet approving the regulations for the Non-Saudi Property Ownership Law. TASI is currently trading at 13.2x 27F PER and offers a 27F dividend yield of 4.6%.

TASI outperformed the GCCxKSA index during the regional situation

26 February 2026 – 11 June 2026



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Pricing in resolution of the regional situation; but signals remain mixed

Global markets have experienced high volatility since the start of the regional situation driven by mixed messages from the three main warring parties. The situation appears to be nearing an end with success being reported in the early stages of the 60 days negotiation window. For markets, the best possible

(priced on 28th June 2026)

outcome would be a clear and credible agreement to emerge within this 60 day window, with all parties following through on the confidence building measures they are responsible for. Already we are seeing shipping traffic pick-up in the strait. In the next 6 months window, even with an agreement in place, we expect oil prices to remain elevated - average oil prices (2H2026E Brent average ~USD 73/bbl; 2027E Brent average USD 70/bbl). KSA oil production should rise through the remainder of the year. We expect OPEC+ to loosen quotas, via outright higher allocations or allowing countries to claw back volumes lost during the regional situation. While non-GCC middle east countries bring shut-in production online slowly, Saudi Arabia is likely to step in with its spare capacity.

US Fed Policy

Prior to the regional situation, the market consensus was that the US Fed would slow the pace of easing, however remain accommodative. The supply side shock from the regional situation, and the continuing strength in the US economy has generally shifted the consensus, wherein now markets are pricing in a hike in the December 2026 meeting. Generally, we are witnessing a divergence in policy amongst major global central banks, central banks of countries that are more exposed to imported energy are approaching the issue with more caution, i.e. the ECB raised rates. For the US Fed, with a new Chairman in place, we do foresee some hesitancy to hike as a result of an exogenous shock and into mid-term elections. The market is probably right in seeing the December meeting as the first potential window for a reversal in policy, but a lot will depend on the 2nd and 3rd round effects of the regional situation. As of now, we feel a December 2026 hike by the US Fed is unlikely.

Stronger oil prices should support pick-up in public capex following prioritization review

Over recent years, and explicitly from the last budget announcement, the government has signaled to the market that it is now reevaluating projects. This represents a prudent mid-course assessment of the efficacy of spending on various projects as parameters change. In some areas, the government's continued focus is very clear, for instance in continued expansion in logistics, infrastructure developments for major events such as Expo 2030 and the 2034 Football World Cup and the development of digital / AI infrastructure. The private sector has also been building out new capacity as a result of the Vision 2030 reforms, and we expect capacity utilization thresholds begin to hit in 2H26 and into 2027. The real estate sector is likely to continue to take the lead in investment driven by the expansion of the white land tax framework and more recently the cabinet approval of the regulations for non-Saudi property ownership in the country.

Building additional resiliency likely to become government priority

TASI's performance since the beginning of the regional situation, across reports from multilateral institutions to earnings calls by TASI companies, the view has been that Saudi Arabia's economy has demonstrated strong resiliency in the face of this crisis. Beyond mitigating the loss of its supply of oil to global markets, its relative resiliency has also been a boon for the region, as it has stepped in alongside Oman to provide alternative supply chains. Covid-era disruptions drove the last push towards investing in resiliency, and its likely this latest regional situation will drive a further round of public capex. In our view, this is likely to focus on areas like logistics, water distribution, potentially building more bypass capacity for oil exports, adding redundancies in digital infrastructure, etc.

Sectoral View

For the remainder of the year, we are overweight on the banking, energy, real estate and utilities sectors. In terms of stocks, we like the following names:

ADES Holding Co. | ADES (BUY, TP SAR 23.4): The market is being too cautious on ADES, as the 2026 EBITDA guidance already embeds rig suspensions through Oct'26, reducing downside risk to our estimates, while Shelf's full-year consolidation remains underappreciated as an upside driver.

SABIC Agri-Nutrients Co. | SAFCO (BUY, TP SAR 143): A ~21% correction from its 52-week high has improved the risk-reward, with the stock trading at around 13x trailing P/E and offering above 6% expected dividend yield, while stronger 2Q26 fertilizer prices and higher expected 2026 urea prices versus 2025 support earnings upside into end-2026.

Miahona Co. | MIAHONA (BUY, TP SAR 18): We expect the company to win at least one of the upcoming tender bids for LTOM 14, LTOM 12 and Riyadh East ISTPs. In addition, commissioning of Ras Tanura and AlHaer could be a key trigger in 4Q. With recent correction, there remains upside at current levels with visible triggers.

Arabian Internet and Communications Services Co. | SOLUTION (BUY, TP SAR 254): The 22.3% TTM price correction places stock at an attractive valuation relative to peers as it trades at 15.5x/13.3x FY26/FY27 PE (ELM: 25x/21x, MIS: 29x/31x), we expect FY27F net profit to beat consensus by 7%. The company is accelerating the shift toward higher-quality recurring revenues, growing exposure to Saudi Arabia's sovereign cloud, AI infrastructure and digital transformation spending. The country's revised FY30 datacenter target of up to 4.3GW, bolsters backlog/pipeline and provides good revenue visibility.

Saudi Awwal Bank | SAB (BUY, TP SAR 41.5): The bank diverged from peers in terms of how it provisioned for the downside as a result of the regional situation in 1Q26, while peers generally fed in higher oil prices to ECL models which acted to mute provision requirements. Given the latest indications are that the regional situation appears to be winding down, whilst oil prices are expected to remain relatively elevated, the bank stands to unwind the precautionary provisions, and deploy the additional liquidity it has been holding. Both should be earnings accretive through the remainder of the year. Appears attractively priced at 1x trailing PBV vs 5-year fwd ROAE forecast of 12.5%.

Retal Urban Development Co | RETAL (BUY, TP SAR 17.2) : The stock is down 17.2% (12 months) vs TASI (-1.4%). Strong momentum expected in residential construction activity, which reported a rebound in May 2026 (S&P Saudi construction index is expected to remain above 50). The company has a SAR 8.2bn unrecognized project portfolio (March 2026), and stands to benefit from the gradual opening of selected geographic areas to foreign investors. Over the medium term, KSA was already a diversification play in GCC real estate portfolios, a trend that the regional situation could accelerate and amplify, given the country's relative resilience amid this geopolitical shock.

Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

Important Disclaimer

Saudi Fransi Capital

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