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Investors' Guide to FY26

Strategy Report - January 2026

Moderating Global Uncertainty Amid Divergent Monetary Policies; Saudi Growth Remains Resilient Despite Ongoing Macro Headwinds

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Key Highlights

Global economy: Global economic uncertainty is projected to moderate in 2026, following the heightened volatility observed throughout 2025. Persistent trade tensions will continue to act as a drag on the global economy throughout 2026. While the US is expected to see a marginal uptick in growth, economic activity will likely remain suppressed compared to pre-tariff benchmarks. In China, the fundamental impact of tariffs will become increasingly evident as the temporary buffer provided by trade front-loading finally dissipates. Eurozone growth is projected to soften slightly, as a modest recovery in domestic consumption is largely neutralized by trade-related headwinds. Conversely, the Middle East is set for a notable growth acceleration, fueled by expanded oil production and stabilized maritime shipping conditions. **Global equity** expectations for 2026 are healthy, driven by the earnings growth, AI-driven growth, and lower interest rates. S&P 500 is expected to deliver double-digit returns. However, expectations of transformative productivity gains from AI if fail to materialize can have serious implications.

Interest rates and inflation: As global monetary policy transitions towards "Normalization" in 2026, trade risks and persistent service costs are driving a sharp divergence between the US, Eurozone, and Japan. While global inflation generally trends towards target, US price pressures may stay elevated due to tariff-induced shocks, unlike the faster disinflation seen in Europe. Although the FOMC median suggests a 25 bps cut, we anticipate a potential 50 bps reduction given labor market vulnerabilities and the highly fragmented range of opinions among Fed officials.

Oil and commodities: In 2026, the oil market faces a significant surplus as non-OPEC+ supply outpaces demand. This imbalance is expected to keep prices at USD 55-60/bbl, down from the USD 68/bbl average in 2025. While geopolitics could tighten the market, a Russia-Ukraine resolution would increase oversupply. Meanwhile, precious metals recently hit record highs (silver rose +149% and gold +65%). Looking toward 2026, energy prices may soften, but gold and silver should remain resilient due to central bank and industrial demand.

KSA Macroeconomics: Saudi Arabia's outlook for 2026 is anchored by a strategic pivot towards growth, as the phased unwinding of OPEC+ production cuts is expected to significantly boost GDP in line with recent IMF upward revisions. We estimate average oil price of USD 64/bbl will be required to achieve the budgeted revenue for 2026, while to fully cover the budgeted deficit oil prices need to average at USD 83/bbl. The Kingdom maintains low debt level at 29.8% of GDP and foreign exchange reserves covering over 12 months of imports, granting it the flexibility to fund Vision 2030 projects even in fluctuating oil price environments. Saudi Arabia has rapidly built a national digitalization agenda – from positioning digitalization as a core enabler under Vision 2030, to forming key institutions. This has created a clear roadmap of AI adoption and ecosystem building. This transition is yielding tangible results, with non-oil activities now comprising over 55% of GDP, effectively dampening hydrocarbon volatility.

TASI fair value and top picks: In our base case we see fair value estimate is 11,796, based on a 17.3x P/E multiple applied to our FY26 earnings forecast, suggesting a 12.4% upside from current levels. The upside potential is backed 13.9% expected earnings growth (ex-Aramco) backed by normalization of profits in Materials and Transportation after recording one-offs last year. Additionally, Banks (+6.2%), Utilities (+13.6%), Healthcare (+14.8%) and Software (+14.0%). However, we would also like to mention a downward risk to equity valuation if liquidity crunch worsens and oil prices drop significantly. We have a positive outlook on the Banking, Telecom, Travel, Tourism and Car Rental, Healthcare, Software sectors. Our top picks include **Alinma, Mobily, Budget Saudi, Tasheel, Yamama Cement, National Care, Avalon, Solutions by STC, AWPT**.

Global Macroeconomics

Global economic growth is projected to edge down to 3.2% in 2025 and 3.1% in 2026, still below pre-Covid level

World economy was supported by preponement of trade orders in 2025 which masked the impact of tariffs

Trade tensions would continue to weigh on global economy in 2026. A minor increase in growth is expected in US; however, it will still be below pre-tariff levels. Impact of tariffs would be more visible in China from here on as effect of trade front loading subsides. Growth in Euro area is expected to edge down in 2026 as recovery in consumption would be offset by tariffs. In Middle east, higher oil output & improvement in shipping conditions would result in a notable uptick in growth in 2026.

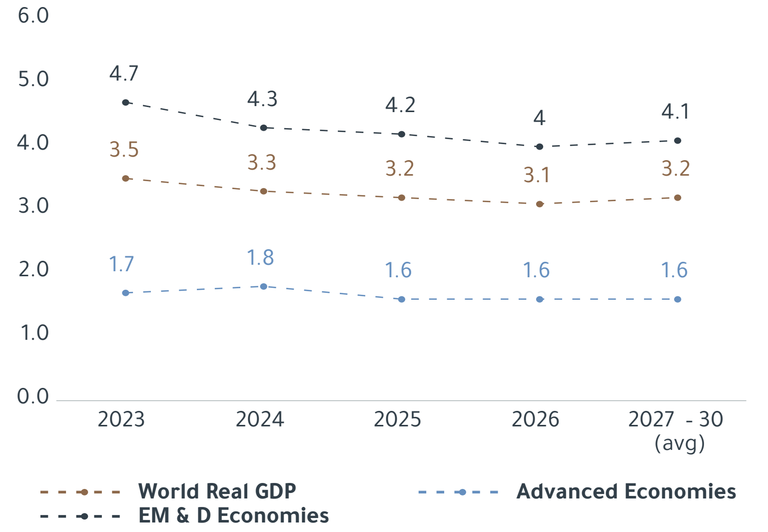
- **US and advanced economies stagnant but stable in 2026 with persistent pressure from protectionism; policy uncertainty still elevated but easing from the peak:** While the economic shock from tariffs has proven smaller than initially expected, persistent policy uncertainty and rising protectionism are expected to weigh on global economy in 2026. That said, uncertainty levels (indicated by US and global uncertainly indices) are still high but normalizing from the peak in April. The IMF's World Economic Outlook projects global growth to slow to 3.1% in 2026, down from 3.2% in 2025E and 3.3% in 2024. Growth in advanced economies would remain stable at 1.6% in 2026. US to edge up modestly to 2.1% in 2026E from 2.0% in 2025E, but remain below pre-tariff levels, amid ongoing policy uncertainty, trade barriers, slower labor force and employment growth. After a modest recovery to 1.2% in 2025E, Euro area growth is expected to ease to 1.1% in 2026E as consumption gains from higher real wages and German fiscal easing are offset by higher tariffs. Emerging and Developing Europe, by contrast, is expected to rebound to 2.2% in 2026 from 1.8% in 2025E, driven by developments in Russia, where growth is expected to rise to 1.0% in 2026 vs 0.6% in 2025.
- **EMs growth slowdown weighed by China's property drag and tariff impacted international trade:** Growth in Emerging & Developing economies is projected to slow from 4.3% in 2024, to 4.2% in 2025 & 4.0% in 2026. In Emerging & Developing Asia growth is projected to decline from 5.3% in 2024 to 5.2% in 2025 and 4.7% in 2026. Growth in China is projected to slowdown to 4.2% in 2026 as compared to 4.8% in 2025E & 5.0% in 2024; the front loading in international trade muted the impact of tariffs in 2025. Prospects for China are weak given that it still hasn't fully recovered from the real estate crisis. Growth is projected to pick up in Middle East and Central Asia from 2.6% in 2024 to 3.5% in 2025 and 3.8% in 2026, driven by increase in oil production, improvement in red sea shipping disruption (that had increased journey time and costs).
- Key risks to growth estimates include (1) further increase in tariffs and change in trade policies on new technologies (chips, rare earth metals), (2) change in immigration rules and their impact on labor supply, (3) increase in borrowing costs of governments (increasing spread of long-term government bond yield) and (4) worsening of geo-political conditions in Europe and Middle East.

Economic growth projections

GDP growth (%)	2023	2024P	2025P
World Output	**3.3**	**3.2**	**3.1**
Advanced Economies	**1.8**	**1.6**	**1.6**
United States	2.8	2	2.1
Euro Area	0.9	1.2	1.1
EM & Dev Econ	**4.3**	**4.2**	**4**
China	5	4.8	4.2
India	6.5	6.6	6.2
Saudi Arabia	2	4	4

Source: IMF, Fed, Aljazira Capital Research

Long term economic growth trend (%)



Source: IMF, Aljazira Capital Research

There is growing divide in Fed & divergence in global monetary policies while debts levels look unsustainable

Geopolitical risks are expected to remain elevated as world realigns trading partnerships after Trump tariffs

Growing divide in Fed & divergence in global monetary policies, mounting fiscal imbalances, continuation of US-China trade truce, successful integration of AI into workflows, China's domestic woes, policy uncertainty & increasing protectionism, are dominant themes of 2026.

- **Growing divide in Fed & divergence in global monetary policies:** Although the FOMC median projection currently indicates a modest 25 bps cut for 2026, the unusually scattered nature of the dot plot reveals a growing internal divide that—when combined with a potential shift in direction under a new Fed Chair post-April—suggests the actual pace of easing could be significantly faster than projected. While an aggressive move toward lower rates by new leadership could jeopardize inflation progress and weigh on equities, the broader global landscape remains generally accommodative as most policy rates sit above their neutral levels; however, this is tempered by a growing divergence, specifically from the European Central Bank's limited room for further cuts and the Bank of Japan's continued tightening stance.
- **Geopolitical risks that will shape 2026:** Geopolitical risks are expected to remain elevated as world realigns trading partnerships after Trump tariffs, the tech and AI race - between two of worlds largest economies - that have implications for national security and economics will further intensify. Temperature in conflict areas (Russia-Ukraine and middle east) have moderated, but there are risks of reignition that can disrupt supply chains and business operations. 2026 can be flashpoint for EU-China trade war, as EU toughens defensive trade instruments.
- **Expectations of transformative AI gains if don't materialize would have serious economic implication:** AI-driven optimism has pushed equity markets to record highs, with the Nasdaq-100 now trading at 35.8x P/E (ex-items) versus a 22.4x long-term average, implying a ~60% valuation premium after nearly three years of strong gains. Economists argue that investments in AI (~half a trillion USD in 2024) have been the primary factor preventing US economy from entering recession in 2025. However, monetization risks of AI, increasing reliance on debt, growing circularity, run up in AI valuations, higher retail participation & speculation are all causes of concern. Ten largest US tech firms, that are driving majority of investments in AI, constitute ~20% of global equity market cap, hence, expectations of transformative productivity gains from AI if fail to materialize would erode massive amounts of wealth, reduce consumption and slowdown economic growth.

Fed dot plot table

Target Rate	2025	2026	2027	208
4.0				
3.87	6	3	2	2
3.75				
3.62	12	4	2	2
3.5				
3.37	1	4	3	2
3.25				
3.12		4	6	6
3.0				
2.87		2	3	3
2.75				1
2.62		1	2	3
2.5				
2.37			1	
2.25				
2.12		1		
2.0				

Source: CME Fed watch, Aljazira Capital Research

Gross Debt (% of GDP)

	2023	2024	2025	2026E
United States	119.8	122.3	125	128.7
Euro Area	87.1	87.2	87.8	88.9
Japan	240.5	236.1	229.6	226.8
United Kingdom	100.4	101.2	103.4	104.8
Canada	107.7	111.3	113.9	113

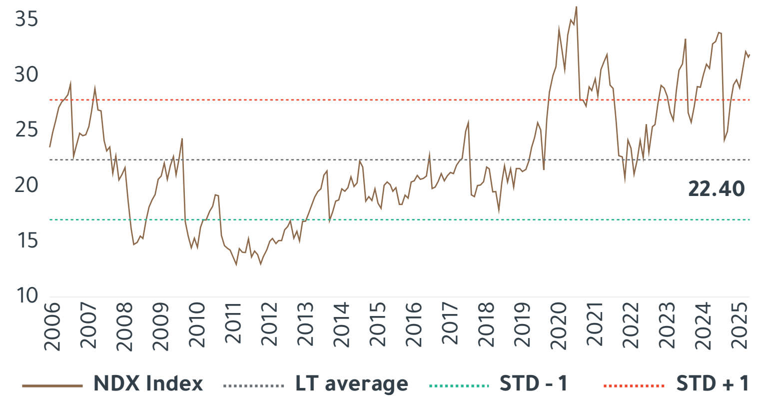
Source: IMF, Aljazira Capital Research

Headwinds from policy uncertainty & protectionism are expected to weigh on global economy in 2026

China's domestic headwinds, escalating sovereign debt pressures, and fragile US-China trade agreement are key risks

- **Slower output growth from uncertainties and protectionism:** While the economic shock from tariffs is much smaller than initial expectations, head winds from policy uncertainty and increasing protectionism are expected to weigh on global economy in 2026. A minor increase in growth is expected in US; however, it will still be below pre-tariff levels. Impact of tariffs would be more visible in China from here on as effect of trade front loading subsides. In Middle east, higher oil output and improvement in shipping conditions would result in a notable uptick in growth in 2026. Overall world economic growth is expected to slowdown from 3.2% in 2025E to 3.1% in 2026E.
- **China's domestic woes will take time to improve;** In China exports will pick up in 2026, however rebound would be modest given the mediocre world growth outlook. Domestically fundamentals are still weak, household income is sluggish due to slow wage growth. Housing downturn has not stabilized; prices continue to fall amidst weak sentiment and unfinished projects. Domestic confidence indicators are weak, after years of cost cutting that led to job losses and wage cuts. Fixed asset investment growth has slumped to negative levels. That said there is upside risk from AI products, robotics and biotech. Chinas trade in policy (subsidy for certain consumer products like auto, consumer appliances) has lifted demand, however it has limited lasting power.
- **Unsustainable fiscal dynamics & soaring debt levels lifting long term rates:** Some of the worlds largest economies have been running massive budget deficits for years, inflating debt to levels that have become unsustainable (Gross debt to GDP for US is 125%, and for euro area is 87.8%). Debt driven fiscal pressures resulted in US government credit rating downgrade, yields on 30 years treasuries crossed 5% (long term yields remained around 3% in much of the decade after 2008 crisis). In Euro area, there are growing concerns if fiscal stress has reached levels seen during sovereign debt crisis of 2010-12.
- **Collapse of trade agreement between China & US poses serious risk to inflation & growth:** The US and China after months of heightened tensions reached a series of agreements in October 2025 to deescalate the trade conflict on tariffs and export controls. These agreements have not ended the trade war, rather they have deferred it till late 2026 - thanks to the critical one-year sunset clause. A collapse in trade agreement between US and China and reimposition of tit for tat tariffs poses serious risk to inflation and economic growth outlook.

Tech has driven Nasdaq PE to multi year high



Source: Bloomberg, Aljazira Capital Research

Slower growth projections

GDP growth (%)	2024	2025E	2026E
World Output	3.3	3.2	3.1
Advanced Economies	**1.8**	**1.6**	**1.6**
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India	6.5	6.6	6.2
Saudi Arabia	2	4	4.4

Source: IMF, Aljazira Capital Research

Divergent monetary policy amidst "sticky" last-mile inflation and trade risks

Interest rates are falling globally, but stubborn prices mean the Europe will cut rates slower than US

Global monetary policy is entering a phase of "Normalization" in 2026; however, trade policy risks and sticky service costs are creating a divergence between the US, Eurozone, and Japan. While global inflation is broadly projected to return close to targets, US price pressures are expected to remain elevated due to potential tariff shocks, contrasting with a faster cooling trend in Europe. FOMC median projections indicate a 25 bps rate cut, however, we see potential for 50 bps given job market vulnerability and prevailing diverse opinion in FOMC.

- Global inflation is projected to largely stabilize near central bank targets by mid-2026, driven by the delayed effects of past tightening and normalizing supply chains; consensus forecasts see Global GDP growth moderating to 2.9%-3.2%, allowing monetary policy to shift from "restrictive" to "neutral."
- Interest rates in major advanced economies are set to move at varied pace in 2026. The Federal Reserve is transitioning to supporting labor markets and growth, while the European Central Bank (ECB) has already made aggressive cuts and expected to maintain status quo. On the other hand, BoJ is likely to continue with tightening.
- US inflation is forecast to settle at 2.4% in 2026, a significant improvement from mid-decade highs. However, service sector inflation (wages and housing) remains elevated, keeping it above 2% target. Additionally, end of US-China trade truce pose an upside risk to inflation, as it may lead to increased tariffs and increase cost of imported goods with higher tariffs.
- FOMC projections indicate one rate cut in 2026, while market expects 2-3 cuts in **United States** with the Fed Funds rate projected to settle at a "neutral" in the range of 3.1%-3.25%. This is higher than the previous decade's average, reflecting a structural shift in the US economy. Rate cuts could be paused if tariff-induced price spikes materialize in H1-26.
- In contrast, **the Eurozone** is expected to see inflation hovering around or below the target (~1.7%-2.2%) due to weaker economic demand. This will allow ECB to maintain the deposit facility rate at current 2.00% after series of cuts in 2024-25 (200 bps through 8 cuts). Thus, ECB seems to have reached a "neutral" stance, with slight possibility of 25 bps cut in 2026.
- **Japan** stands as the global outlier in 2026, continuing its exit from negative interest rate policy (NIRP). The Bank of Japan (BoJ) is projected to hike rates to approximately 1.00%, driven by sustainable wage growth and a long-awaited return to positive inflation dynamics. **China** may see couple of rate cuts due to extremely low inflation.
- Key risks to this 2026 outlook include the potential for renewed trade wars (tariffs), which could add a ~1.0%-1.5% inflationary wedge in the US, and geopolitical conflicts impacting energy prices. If these risks materialize, it could force central banks to halt rate cuts. Conversely, if tariffs are settled and energy prices remain in check but job market show weakness adding pressure on growth, US Fed could extend monetary easing (especially with expected change in Chairperson)

Inflation Outlook	2024	2025E	2026E
Advanced Economies	**2.60%**	**2.50%**	**2.20%**
United States	**3.00%**	**2.70%**	**2.40%**
Euro Area	2.60%	2.40%	2.20%
Emerging Market and Dev	7.90%	5.30%	4.70%
EM & Dev Asia	**1.90%**	**1.30%**	**2.10%**
EM & Dev Europe	16.90%	13.50%	9.30%
Middle East & Central Asia	14.00%	10.90%	9.50%

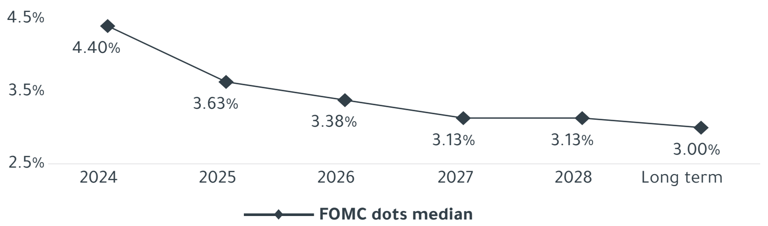
Source: IMF, Aljazira Capital Research

FOMC projections

Fed Median proj. (%)	2025	2026	2027	2028	long run
Change in real GDP	**1.7**	**2.3**	**2**	**1.9**	**1.8**
September Proj.	**1.6**	**1.8**	**1.9**	**1.8**	**1.8**
Change	0.1	0.5	0.1	0.1	0.0
Unemployment rate	**4.5**	**4.4**	**4.2**	**4.2**	**4.2**
September proj.	**4.5**	**4.4**	**4.3**	**4.2**	**4.2**
Change	0.0	0.0	-0.1	0.0	0.0
PCE inflation	**2.9**	**2.4**	**2.1**	**2**	**2**
September proj.	**3**	**2.6**	**2.1**	**2**	**2**
Change	-0.1	-0.2	0.0	0.0	0.0
Core PCE inflation	**3**	**2.5**	**2.1**	**2**	
September proj.	**3.1**	**2.6**	**2.1**	**2**	
Change	-0.1	-0.1	0	0	
Federal funds rate	**3.6**	**3.4**	**3.1**	**3.1**	**3**
September proj.	**3.6**	**3.4**	**3.1**	**3.1**	**3**
Change	0.0	0.0	0.0	0.0	0.0

Source: Fed, Aljazira Capital Research

Lower number of cut expected in 2026



Source: Bloomberg, Aljazira Capital Research

Structural oversupply and inventory builds to pressurize oil prices

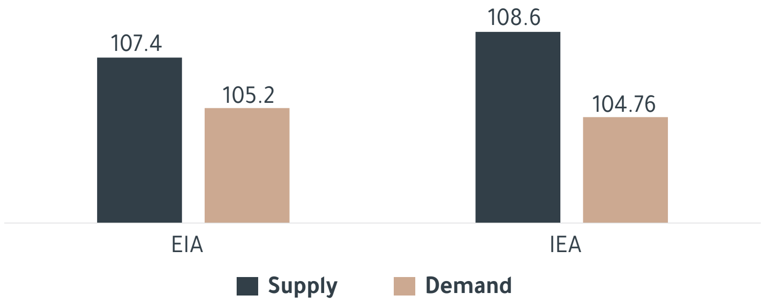
Non-OPEC+ production surge drives market imbalance; Brent expected to average USD 55-60/bbl

The global oil market in 2026 is projected to shift into a significant surplus. While demand growth remains positive but modest (driven by Asia), it will be outpaced by resilient, low-cost supply expansion from Non-OPEC+ nations. Consequently, large-scale inventory builds are anticipated to act as a primary headwind for crude prices throughout the year. While escalation of any geopolitical issues including US-Venezuela and Middle East could tighten supply to some extent, alternatively resolution of Ukraine-Russia conflict may add to supply surplus pressure.

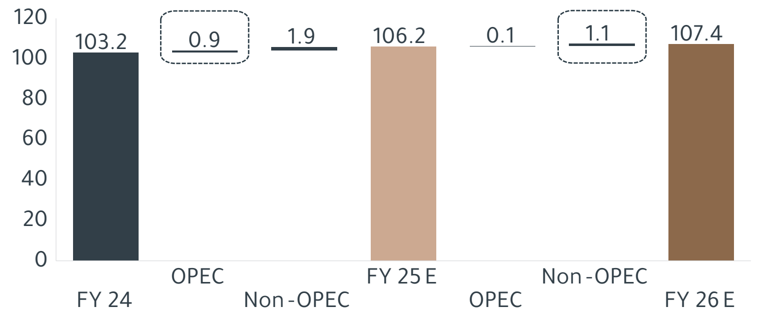
- Brent crude prices are projected to undergo a structural correction, averaging between **USD 55-60 per barrel** in 2026 (Consensus: EIA, Goldman Sachs) falling from USD 79.9 in 2024 and USD 68.2 in 2025. This downward trajectory reflects the market's inability to absorb new barrels, with supply consistently exceeding consumption. The persistent imbalance is likely to keep bearish sentiment dominant, making it unviable for prices to stabilize above USD 65.
- **OPEC+'s pause on production hikes to partially aid market stability:** OPEC+ has proactively extended its output hikes till Q1-26 after a cumulative increase of 1.8 mbpd since April, showcasing disciplined market management and strong cooperation to ensure a stable price environment.
- **Non-OPEC+ surge, led by US Shale, to neutralize OPEC+ efforts:** The supply landscape is defined by resilient, low-cost output from Non-OPEC+ nations, which are projected to contribute roughly two-thirds of total production growth in 2026. The US, Brazil, and Guyana are the primary engines of this expansion. US shale production remains particularly robust despite lower prices, driven by efficiency gains and "sunk cost" infrastructure, effectively neutralizing OPEC+ attempts to tighten the market. As per EIA, non-OPEC (+1.1mbpd) is expected to account for ~ 87% increase in supply in FY26, while OPEC+ supply is estimate to increase by 0.1mbpd.
- **Demand growth steady at ~1.2 mbpd; OECD consumption stagnating:** EIA forecasts global demand growth to remain steady at approximately 1.2 mbpd in FY26 (1.1 mbpd in FY25). Growth is almost exclusively concentrated in Non-OECD Asia (India, Southeast Asia). Conversely, demand in established OECD economies is flattening or declining.
- **Accelerating inventory builds to weigh on futures curve:** The divergence between robust supply and tepid demand is expected to trigger large-scale inventory builds. These rising stock levels will exert substantial downward pressure on crude oil futures. As tanks fill, the market may face rising storage costs, further deepening the discount on near-term prices. OECD inventories are projected to rise throughout 2026 reaching 3,075mn barrels by the end of the year.
- **Key upside and downside risks:** 1. Potential US policy shifts regarding sanctions on producers like Iran and Venezuela. 2. OPEC+ members' ability to stick to decided production levels. 3. Weaker Chinese demand due to ineffectiveness of economic stimulus. 4. Escalation of geopolitical conflict, involving oil producing regions.

Source: Bloomberg, Argaam, Aljazira Capital Research

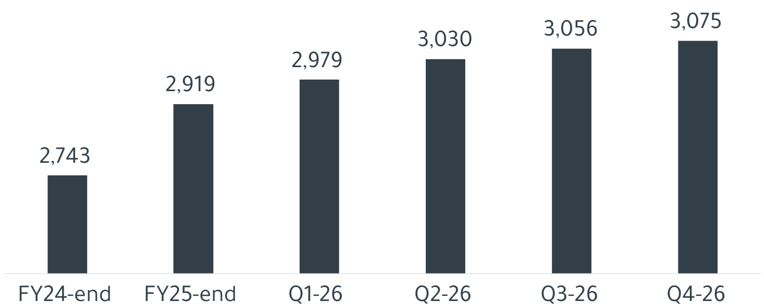
World oil supply-demand in FY26 (in mbpd)



Supply increase led by Non-OPEC (mbpd)



Large scale inventory* builds in FY26E (mn bbl)

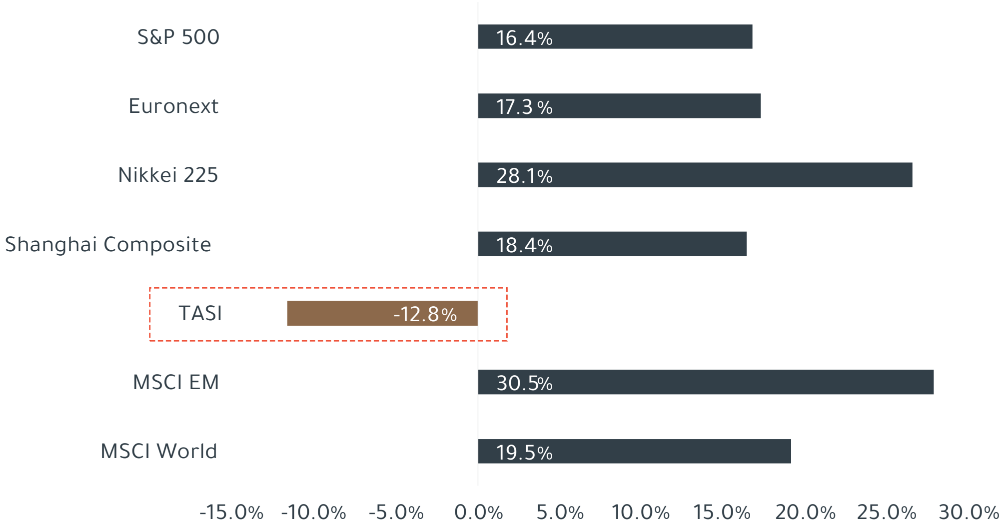


Global Equity

Global equities rally in 2025; AI-driven growth underpins 2026 expectations

Most major banks call for strong returns for the S&P in 2026 due to AI boom, with valuation risks lingering

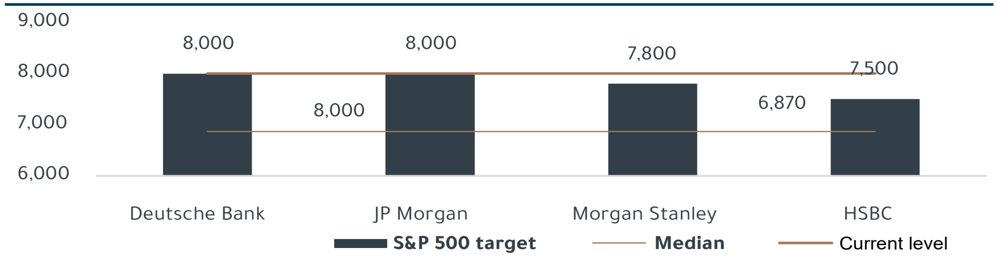
Global equity indices performance in FY25



Global indices current PE vs. 10-year historical average

	Current P/E	Average P/E	Premium/Discount
S&P	25.4x	20.7x	23%
Nikkei	22.6x	21.0x	7%
Shanghai Composite	17.9x	15.6x	15%
TASI	17.0x	18.9x	-10%
MSCI EM	16.1x	14.1x	14%
MSCI World	22.7x	18.9x	20%

Market consensus: S&P 500 target for 2026



- In FY25, equities in emerging markets (EM) outperformed those in developed markets (DM). Within DMs, Japan's Nikkei delivered the strongest performance (+28.1% returns), followed by Euronext at +17.3% and S&P 500 at +16.4%. EM markets showed even strong momentum, with the MSCI EM index rising 30.5% and the Shanghai Composite gaining 18.4%. In contrast, KSA's TASI lagged global peers, posting a decline of 12.8%.
- Most major banks call for strong returns for the S&P 500 in the year 2026, offering a bullish signal for the investors. Various aspects of the economic cycle could support a further advance including increased capital expenditures outside of big technology, boost from overseas economic recovery, AI boom continuing shaping the economic and financial market, lower interest rates, and higher labor market productivity. However, the unprecedented AI-related capex cycle poses a key risk—if these investments fail to translate into measurable productivity gains by 2026, it could trigger valuation compression. While markets remain enthusiastic about AI, any underperformance versus expectations could lead to a valuation correction and act as a headwind.
- Within the global indices, S&P 500's current P/E trades the highest in terms of premium (23%) to its 10-year historical average, followed by MSCI World at 20% premium, Shanghai Composite at 15% premium, MSCI EM at 14% premium and Nikkei 225 at 7% premium. Whereas Saudi Arabia's TASI index trades at 10% discount. According to, market consensus based on forecast from leading global banks, S&P is estimated to end 9-16% higher by end of FY26 from the current level.
- Among commodities, precious metals saw a historic rally as silver (+149%) became the standout performer, while gold (+65%) to hit record highs on the back of central bank buying and safe-haven demand. Conversely, crude oil faced a challenging year, declining nearly 18.5% to as chronic oversupply and a looming global surplus outweighed geopolitical supply risks. In 2026, lobal commodity market is expected to soften due to ample supply and weak global growth, particularly oil prices would be weighed down by oversupply, while gold and silver would receive support strong market fundamentals.

Source: Bloomberg, Yahoo Finance, Reuters, Aljazira Capital Research, Prices as of December 31, 2025

Failure to achieve desired productivity gains from Artificial Intelligence (AI) could trigger serious implications to equity valuation

Monetization risk, increasing debt level, circular investments and steep run up in valuation are concerning

AI's failure to make transformative productivity gains would have serious implications to equity valuation: Several economists argue that investments in AI (~half a trillion USD in 2024) have been the primary factor preventing US economy from entering recession in 2025. However, there are mounting concerns around AI and the sustainability of these mega investments. We highlight some of the challenges below.

- **Monetization risks of AI:** Latest research from MIT shows that only 5% of the AI pilot programs achieve rapid revenue acceleration, vast majority achieve little to no measurable impact. Moreover only 3% of people pay for AI. Hence there are reasons to be skeptical on large scale adoption of AI by people and businesses.
- **Increasing reliance on debt:** Large technology companies plan to invest ~USD 3tn in AI infrastructure by 2028, with nearly half of this spending expected to be debt-financed. These investments are predicated on assumptions of exponential growth in AI demand and monetization. While leverage is manageable if it translates into sustainable earnings and cash-flow generation, a shortfall in expected profitability would heighten the risk of overinvestment, weaken balance sheet and materially impair the value of associated debt.
- **Growing circularity:** AI industry is seeing deals where vendors are funding customer, this might be inflating demand for AI. The most prominent being the USD 100bn deal between Nvidia and OpenAI, where Nvidia will invest USD 100bn in OpenAI to bank roll data centers which will use NVDIA's chips, essentially Nvidia would be subsidizing its biggest customer.
- **Run up in AI valuations, retail participation and speculation:** US stocks have reached multi year high valuations, with AI accounting for a disproportionate share of index-level gains. In 2025 YTD, the S&P has returned 17%, of which the Magnificent-7 alone contributed~9% (50%+ of total index performance). Similar pattern was evident in 2024, when these stocks drove ~53% of the index's ~25% total return. At a point Nvidia hit USD 5trn valuation that is greater than Germany's GDP. High retail participation and speculative trades are concerning. Wall street executives are pointing towards a pull back in valuations.
- **Interconnectivity is amplifying risk:** AI industry has an entangled nature of business, with supply chain (Nvidia and OpenAI) and cloud computing (Microsoft and OpenAI) dependencies. If one business fails it might trigger a domino effect.

Overall, expectations of transformative productivity gains from AI if fail to materialize can have serious implications. Ten largest US tech firms, that are driving majority of investments in AI, constitute ~20% of global equity market cap, hence a market correction would erode massive amounts of wealth, reduce consumption and slowdown economic growth.

Mega Cap companies with highest valuations

Company Name	Market Cap (USD bn)	PE (x)
Palantir	433.2	433.5
Tesla	1,480.00	320.1
Arm Holdings	150.6	171.4
Welltower	134.4	129.1
Palo Alto	135.9	116.7
AMD	360.8	106.4
Broadcom	1,920.00	98.6
Servicenow	177.4	96.7
GE Vernova	169.7	91.5
Spotify	122.9	87.3
Applovin	244.9	82.8

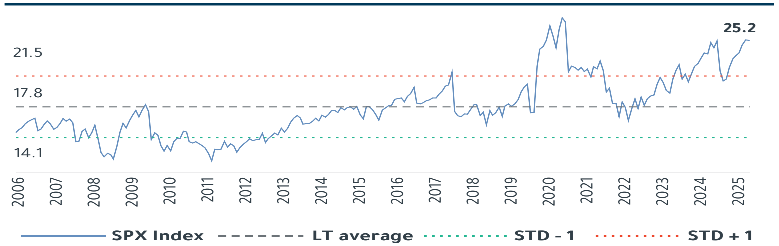
Source: Bloomberg, Aljazira Capital Research

AI related bond supply surge & market implications

Debt issuance	Major Issuers	Investor implication	Market impact
• Of the USD 1.7 tn investment grade bond issuance till date, around ~30 % relates to technology space	• Amazon, Google, Oracle, Meta	• Retail : Higher yield access • Institution: Emergence of arbitrage opportunity	• ST: Bond yield reaction and sentiment shift to technology stocks • LT: AI driven capital allocation and shifting financing strategies

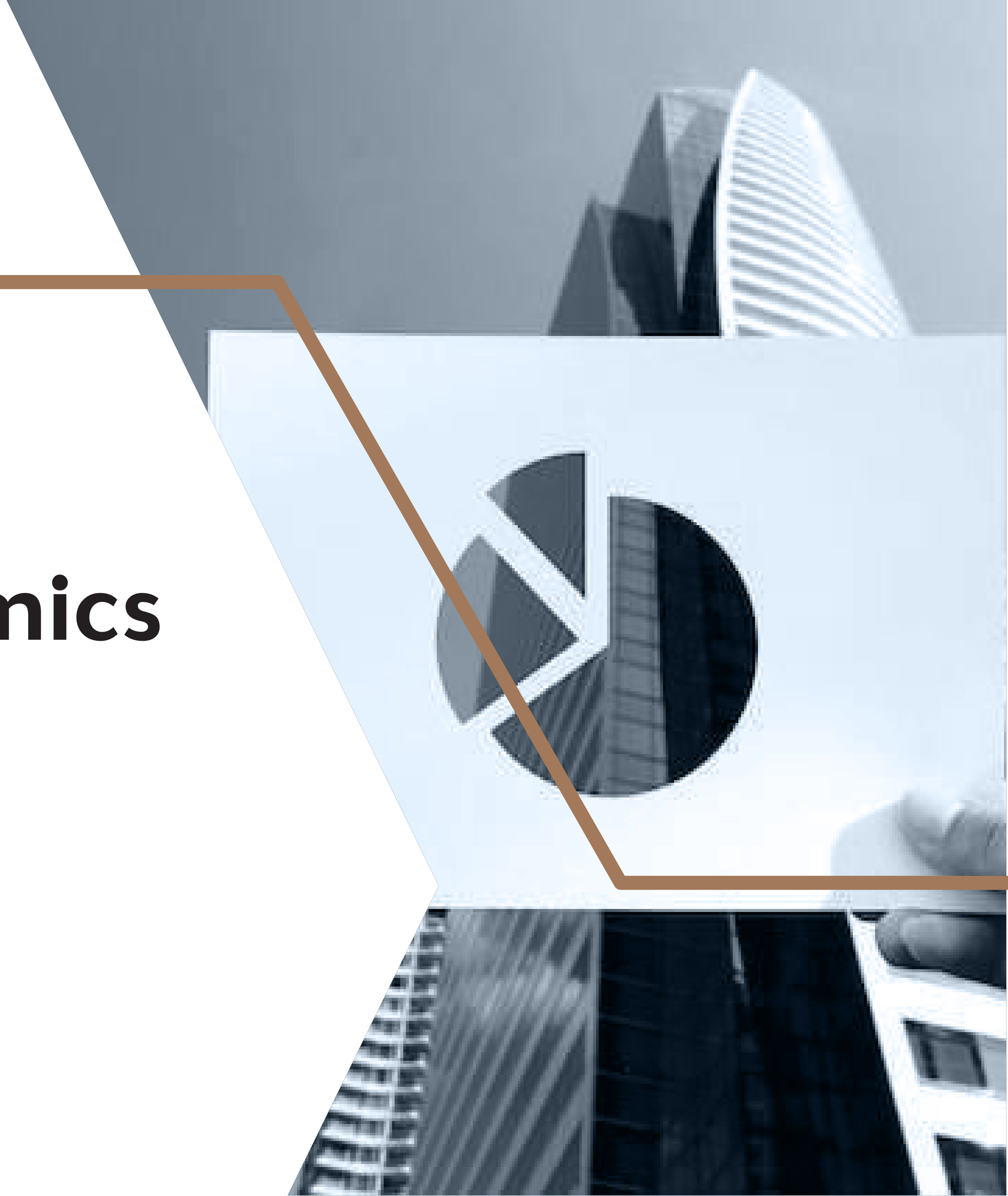
Source: Bloomberg, Aljazira Capital Research

S&P500 trading well above LT avg PE



Source: Bloomberg, Aljazira Capital Research

KSA Macroeconomics



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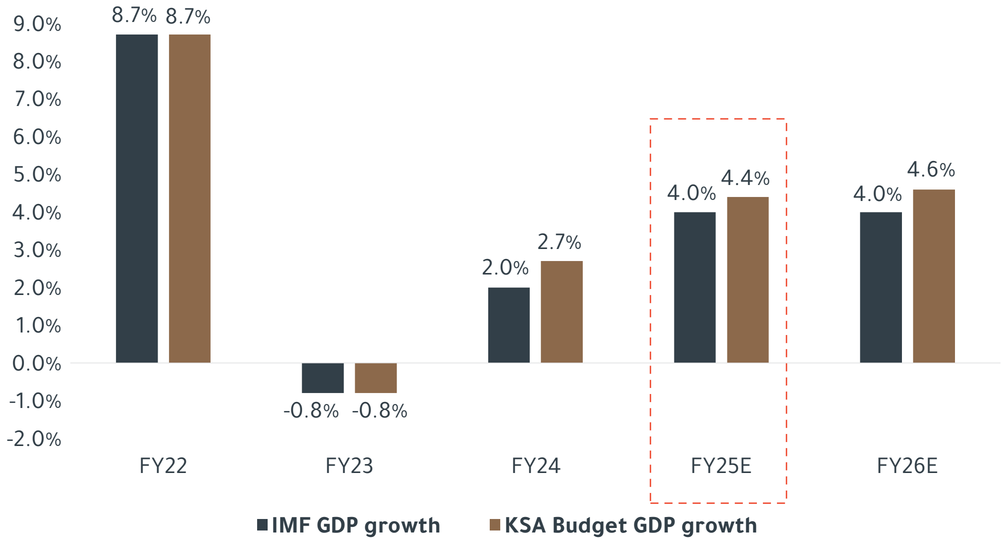
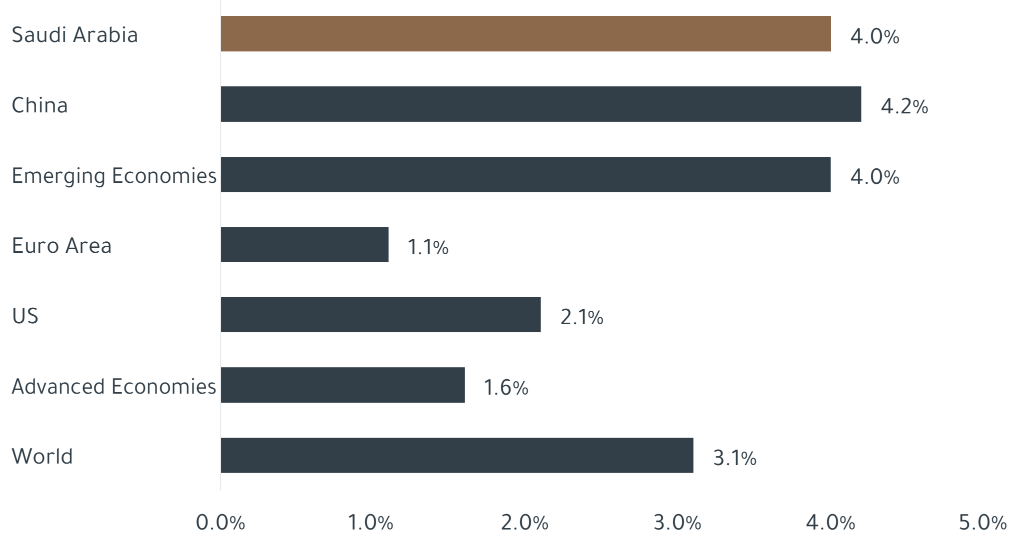
Faster easing of oil cuts and non-oil growth underpin FY26 outlook with 4.6% GDP growth

IMF predicts Saudi Arabia's GDP poised for strong GDP momentum versus global peers

Saudi Arabia GDP growth rate (%)



KSA GDP growth forecast (FY26) vis-à-vis other economies



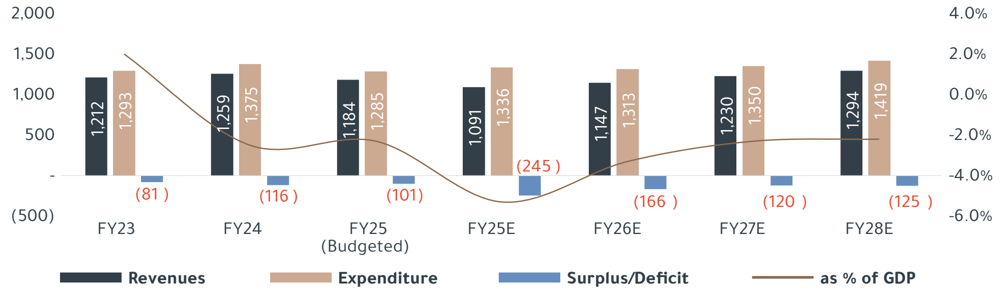
- Saudi GDP expanded 5% Y/Y in Q3-25 spurred by growth across all key economic sectors. The oil activities increased 8.2% Y/Y in Q3-25, alongside a 4.5% Y/Y increase in non-oil activities. Basis KSA's 2026 Budget, the GDP is expected to expand by 4.4% in FY25E driven by increase in non-oil activities which could grow at 5.0%, supported by expanding domestic manufacturing infrastructure - including increased local content in government procurement - as well trade, transport and logistics.
- The GDP growth is expected at 4.6% in FY26 (as per Saudi Budget) on the back of faster than expected easing of oil production cuts and growth of non-oil activities led by the private sector which serves as the key driver of economic growth in the coming period. A significant jump in oil GDP in 2026 is expected due to unwinding of production cuts and a lower base effect. Saudi Arabia is expected to increase its crude output toward 10.2 mbpd in 2026 from 9.5 mbpd in 2025. Non-oil GDP will continue it momentum backed by growth in Tourism, Hospitality, Manufacturing and Logistics sectors and private consumption.
- The IMF has marginally increased its global growth forecast in FY25E at 3.2% and expects it to marginally decline to 3.1% in FY26E led by slower growth in China and muted expansions in some of the advanced economies. China. On the other hand, IMF projects Saudi Arabia's economy to grow at 4.0% in FY25E and 4.0% in FY26E, driven by a rebound in oil production and continued strength in non-oil economic activity under Vision 2030. This indicates that Saudi's GDP growth to be better than most of the major advanced and emerging economies.

Source: IMF, MoF, GASTAT, Aljazira Capital Research

Revenue growth & controlled spending to reduce deficit while maintaining low debt levels

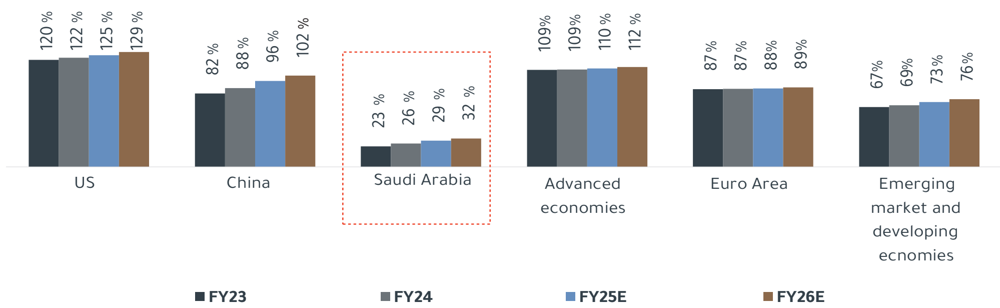
Surge in tax and non-oil revenues to narrow budget deficit; Debt to GDP at 32.7% in FY26, still moderate and below G20 average

Saudi Arabia Fiscal Surplus/Deficit (SAR bn)



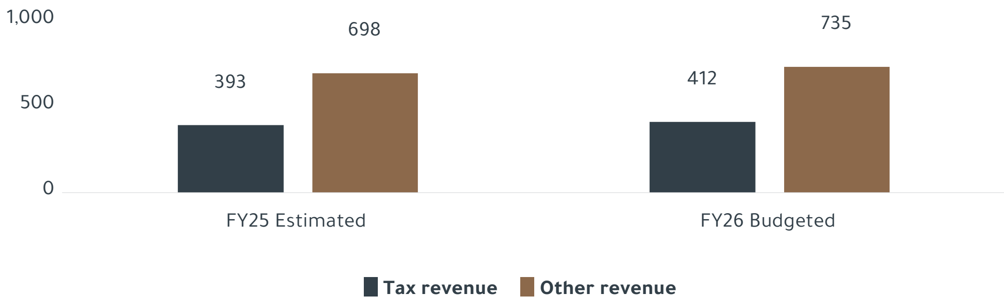
FY25E revenues and expenditures are expected to be SAR 1,091bn and SAR 1,336bn, implying a budget deficit of SAR 245bn. In FY26 higher non-oil revenues alongside increased oil production could lift revenues and expenditure to SAR 1,147bn and SAR 1,313bn, thus narrowing the deficit to SAR 166bn. Further, deficit could decline to SAR 120bn/125bn in FY27/28E driven by sustained surge in the revenues.

Gross Government Debt (as % of GDP)



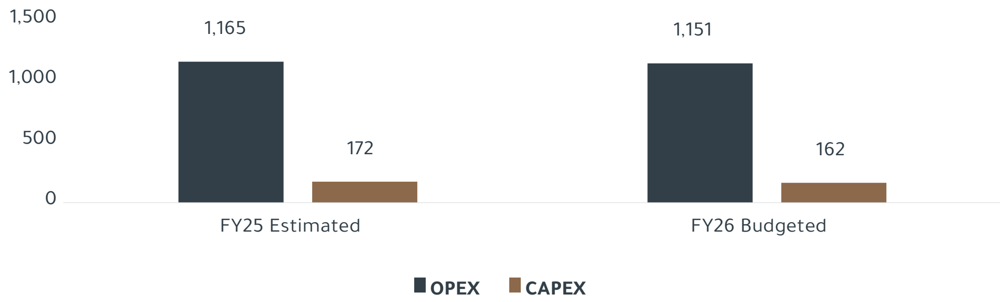
KSA's debt levels are moderate and remain comfortable (29.2% of GDP in FY25) compared to other economies. The lower debt will enable the Kingdom to fund Vision 2030 requirements and manage the budget deficit. KSA's debt to GDP ratio budgeted at 32.7% in FY26E vs 80% average for G20 nations and 35% average globally.

Revenue bifurcation (SAR bn)



Tax revenue could grow to SAR 412bn in FY26 from SAR 393bn in FY25, as the increase in economic activity will reflect in higher taxes being collected. While Other revenue could grow from SAR 698bn in FY25 to SAR 735bn in FY26

Expenditure bifurcation (SAR bn)



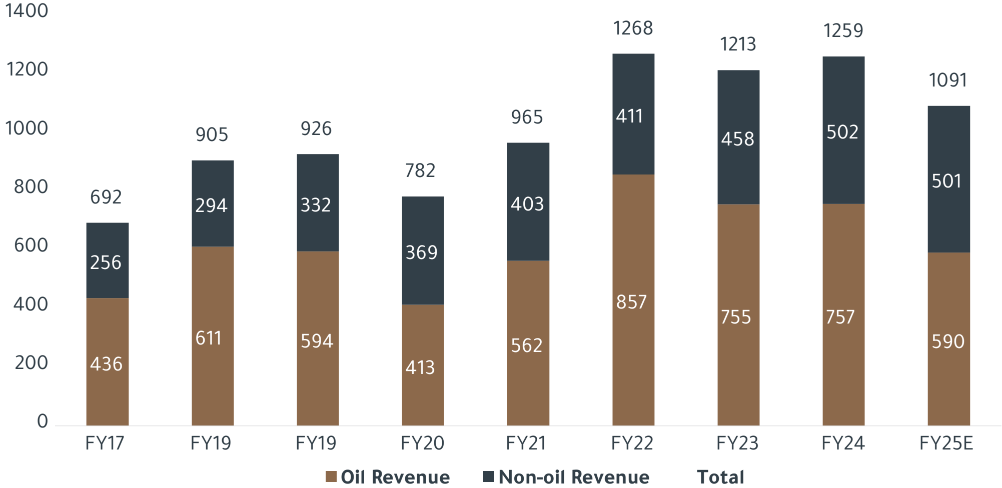
OPEX to decline from SAR 1,165bn in FY25 to SAR 1,151bn in FY26. Meanwhile FY26 CAPEX could decline 5.8% Y/Y to reach SAR 162bn, due to achievement of certain objectives and completion of several projects.

Source: Gastat, SAMA Open Market data, MoF, Argaam, Aljazira Capital Research

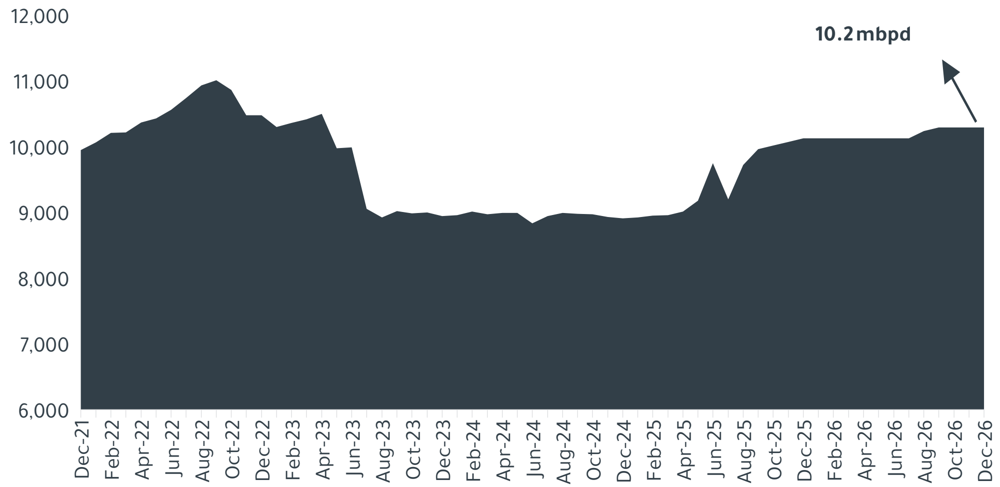
Non-oil strength and oil production normalization to underpin FY26 growth; USD 64/bbl oil price to achieve budgeted revenue

PIF investment in a group of companies across sectors to support the growth in non-oil activities

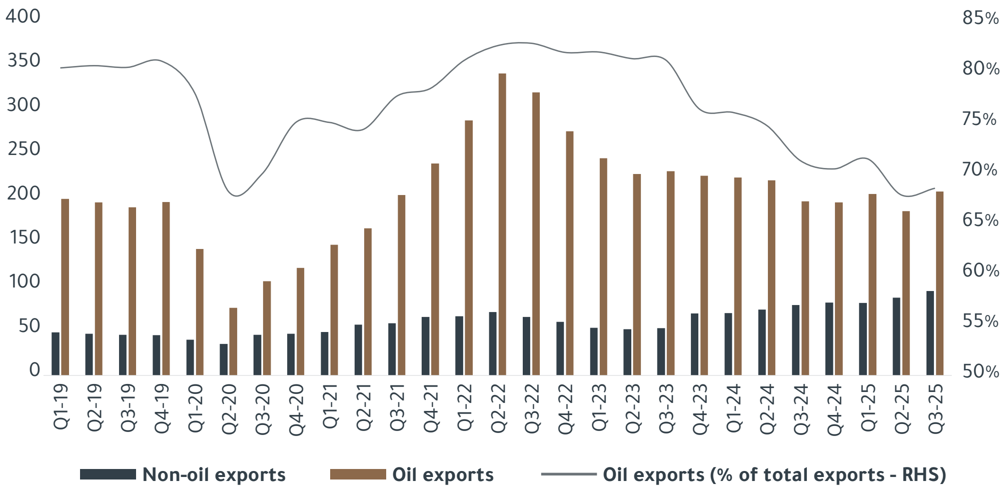
Saudi Arabia Oil and Non-oil Revenues (SAR bn)



Saudi Arabia Crude Oil Production, tb/d



Saudi Arabia Oil and Non-oil Exports (SAR bn)



Source: IMF, GASTAT, OPEC Monthly Reports, Aljazira Capital Research

- Oil revenues are projected to decrease sharply to SAR 590bn in FY25E from SAR 757bn in FY24 due to declining oil prices as well as sluggish collection of performance-linked dividends compared to FY24. While, non-oil revenues remain stable at SAR 501bn in FY25E, driven by economic growth and the ongoing implementation of fiscal reforms within the Kingdom. In FY26E, oil revenue could face pressure due to a combination of softer global demand growth, rising non-OPEC supply. Oil prices could average in USD 55-60 per barrel range, driven by supply surplus where non-OPEC+ production growth is likely to outpace the rise in global demand. We estimate average oil price of **USD 64/bbl** will be required to achieve the budgeted revenue for 2026, while to fully cover the budgeted deficit oil prices need to average at **USD 83/bbl**.
- Expansionary spending over medium-term through PIF will support non-oil activity GDP growth and help mitigate sluggish oil revenues due to voluntary production cuts. Oil exports gained 5.5% Y/Y in Q3-25 to SAR 208bn. Oil exports as a % of total exports reflects 68.5% in Q3-25 compared to 71.3% Q3-24.

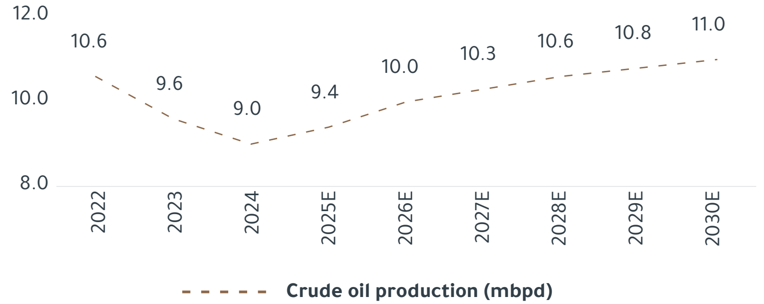
Saudi economy is more resistant to worldwide economic challenges

Higher oil production, Nonhydrocarbon activities, lower debt levels and currency peg to help weather uncertain times

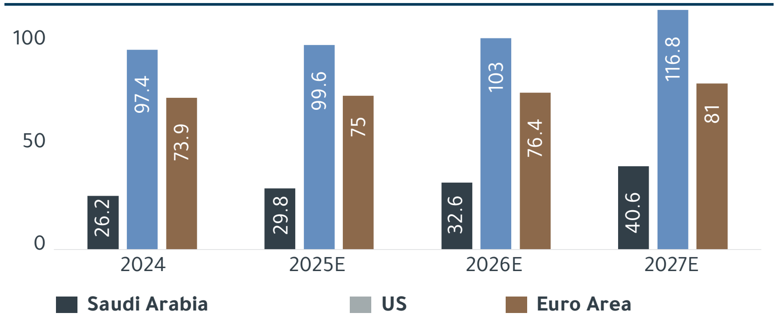
Saudi Arabia has resilient banking system, limited exchange rate risk due to currency peg, and a robust fiscal position that is defined by low debt levels and growing revenue diversification

- **Growth to be supported by unwinding of production cuts:** In a bid to stabilize oil dynamics OPEC+ had cut oil production by almost 5.8mnbpd in recent years. According to the OPEC+ agreement announced in May 2025, production cuts are being phased out in 2025 and 2026. Higher oil production is expected to support GDP growth, IMF recently revised up Saudi Arabia's growth forecast for 2025 and 2026 by 0.4ppts and 0.1ppts due to expected increase in oil production.
- **Lower debt level and strong import cover:** Unlike many developed countries Saudi Arabia benefits from low debt levels, 29.8% of GDP as of 2025E (IMF) as compared to 99.6/75.0% for US and euro area. Additionally, total foreign exchange reserves cover more than 12 months of imports, with assets held by PIF and other government entities offering strong additional buffers. Given the strong fiscal position Saudi Arabia has the flexibility to run deficits in the short term and achieve investment goals even during low oil price environment.
- **Growing diversification towards non-hydrocarbon activities:** Saudi's ambitious plans to diversify economy, through the vision 2030 mega and giga projects, would reduce dependence on hydrocarbon activities. The aforementioned will reduce volatility and be the main growth driver for the economy. Since the start of 'Vision 2030' in 2016 contribution of non-oil activities in GDP has increased from 45.4% to 55.1% in Q3-25, where the non-oil revenue jumped from SAR 186bn in 2016 to almost SAR 526bn in 2025E.
- **Currency peg to USD:** Saudi riyals peg to USD provides additional resilience to economy against forex shocks, especially during prevailing time where world faces heightened forex risk. USD peg helps bring stability, set interest rate expectations and investor confidence. For equity markets there is less risk of capital outflows.
- **Banking system can weather shocks relatively well:** Kingdom has a strong banking system which remains well capitalized, deposits contribute most of funding and funding costs remain low due to large non-remunerative deposit base. Asset quality remains pristine as sector NPL ratio stood at 1.12% in Q3-25, while coverage is at a healthy 130.2%.

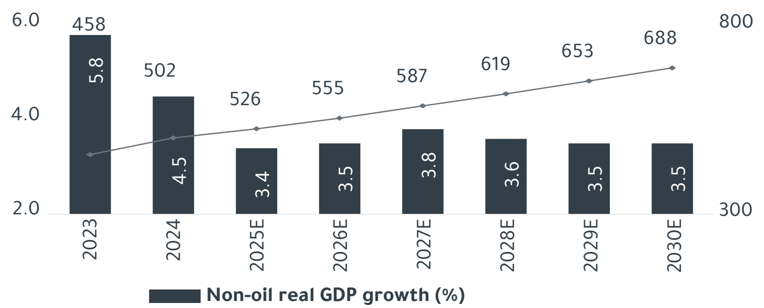
Oil production is expected to increase (mbpd)



Debt to GDP well below developed economies (%)



Oil dependence to further decrease



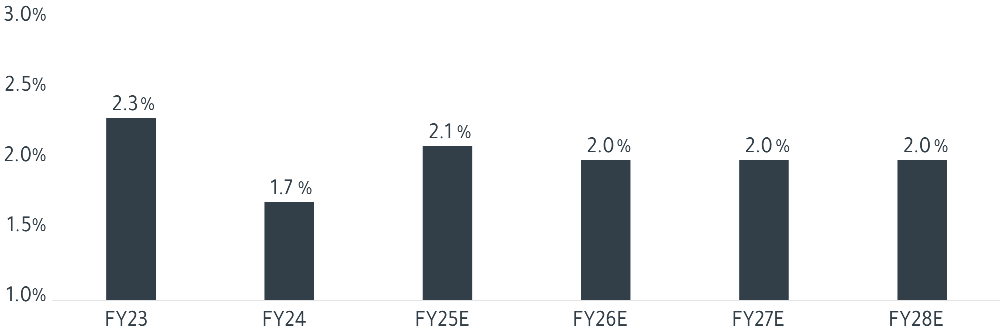
Source: Bloomberg, Aljazira Capital Research

KSA Economic indicators

Economic indicators point towards favorable economic condition for the Kingdom, despite weak oil fundamentals

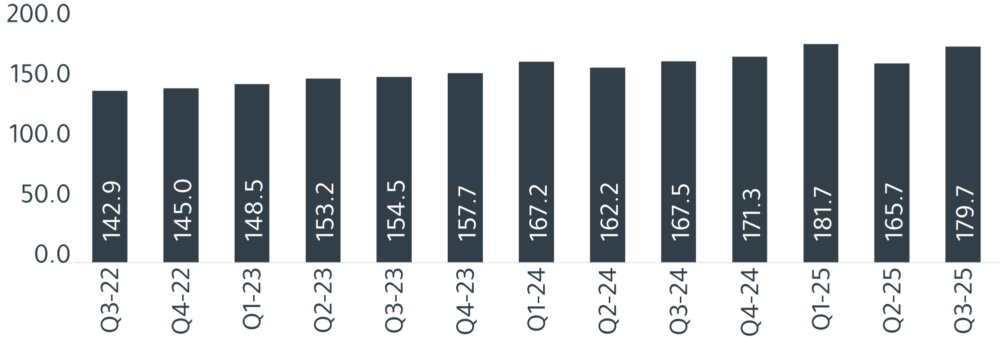
In control inflation levels, rising consumer spending, low unemployment levels and expansion in non-oil private sector activity

Saudi Arabia Consumer Price Index (Y/Y)



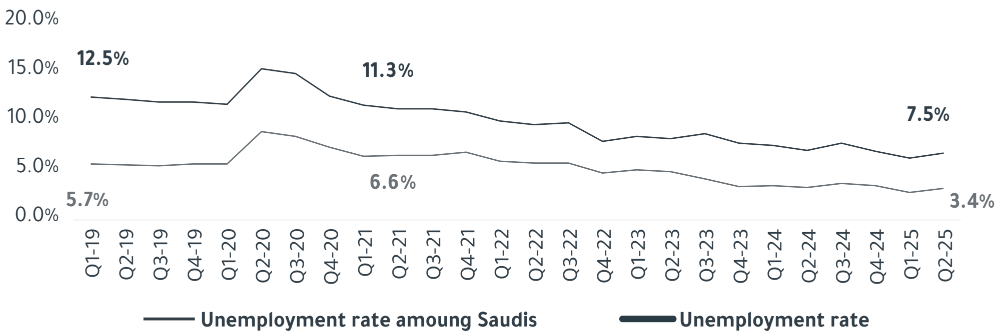
Saudi Arabia's inflation will reach 2.1% in FY25E as the Kingdom has maintained relatively acceptable levels of inflation compared to global inflation. It is expected to stabilize at 2.0% from FY26E onwards.

Saudi Arabia Consumer Spending (POS Sales in SAR bn)



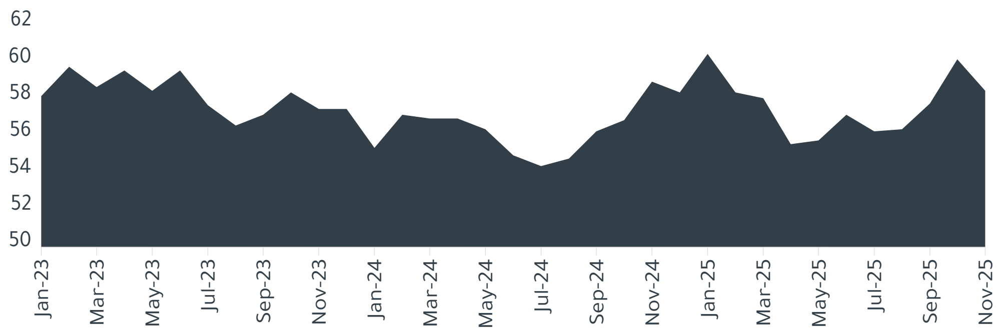
POS sales increased 7.3% Y/Y to SAR 179.7bn in Q3-25. The increase was driven by following sectors- Furniture (+75.1% Y/Y), Jewelry (+42.1% Y/Y), Telecom (+42.0% Y/Y).

Saudi Arabia Unemployment Rate (%)



Unemployment among Saudi nationals has trended down from double-digit levels to 7.5% by Q3-25. This reflects steady job creation and the effectiveness of labor market reforms. Same trends can be seen in overall unemployment rate which has reached 3.4%.

Saudi Arabia's Manufacturing PMI



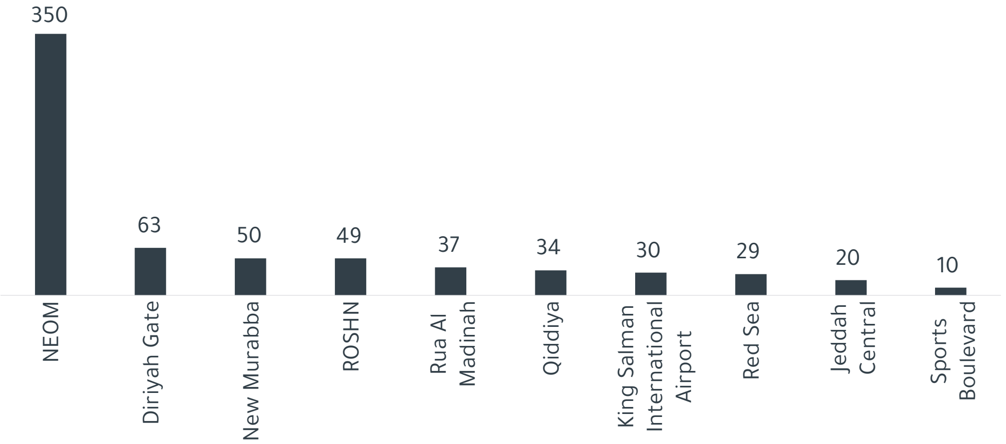
Saudi Arabia's manufacturing PMI remained in the expansionary territory, underscoring resilient industrial activity. The PMI stood at 58.5 in November 2025, stabilizing above contraction territory, thus signaling healthy non-oil manufacturing momentum supported by domestic demand and diversification efforts.

Source: Gastat, SAMA Open Market data, MoF, Argaam, Aljazira Capital Research

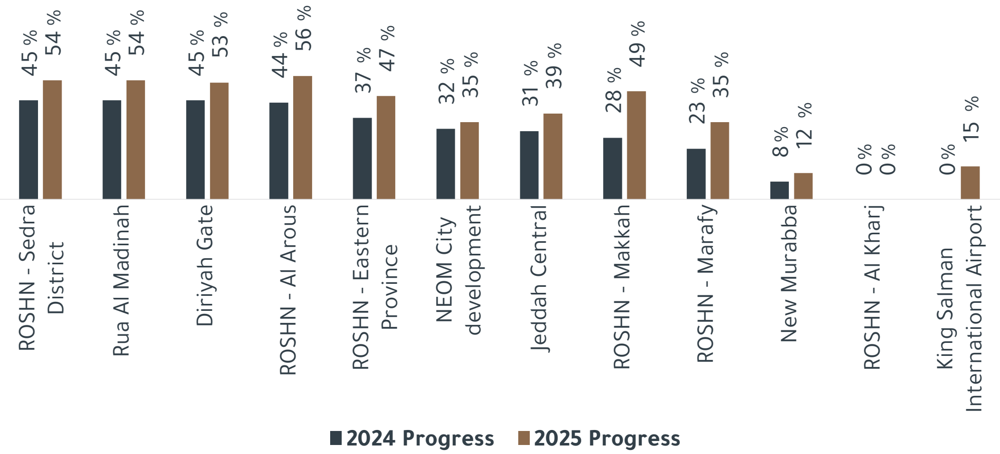
Mega-projects planned by the Kingdom at the center stage over the medium to long term

Mega projects to help promote economic growth and diversify the economy in-line with Vision 2030

Giga Projects estimated budget (USD bn)



Giga Projects Execution Progress till date



- **NEOM City Development:** A greenfield project with estimated budget of USD 350bn
- **New Murabba:** A greenfield project in Riyadh with an estimated budget of USD 50bn, which aims to develop the world's largest modern downtown
- ROSHN: Affordable residential housing project for the nationals, which is dedicated to support KSA's goal of 70% homeownership by 2030. It has an estimated budget of USD 49.1bn
- **Rua Al Madinah:** Project aiming to enhance tourism and cultural development, with an estimated budget of USD 37bn
- King Salman International Airport: Project aiming to undertake development of King Salman International Airport powered by renewable energy, in Riyadh with an estimated budget of USD 30bn
- **Jeddah Central:** Project to revamp Jeddah's waterfront corniche which would help in creating a unique tourist, residential and commercial destination. It has an estimated budget of USD 20bn
- **Diriyah:** Project aiming to develop a new culture and lifestyle tourism destination in Riyadh, with an estimated project value of USD 63.2bn
- **Sports Boulevard:** A long multi-use sports & wellness corridor in Riyadh, designed to improve quality of life and increase physical activity levels among residents, with an estimated project value of USD 9.9bn

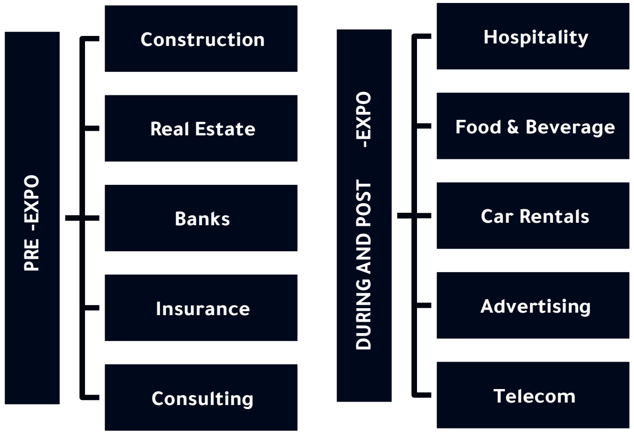
Source: FY26 Budget report, MEED, Aljazira Capital Research

Mega Events as Catalyst for Saudi Arabia's Economic Growth & Diversification

Linking Expo-led Investment, Sectoral Spillovers, and Mega Events to Long-term Growth

Saudi Arabia Expo 2030 at a glance

Sectors benefitting from Saudi Expo 2030



Pipeline of global mega events

- Saudi Arabia is set to host a series of global events, including major sporting tournaments and Riyadh Expo 2030, reinforcing its push to become a leading international hub. These events are expected to boost economic growth by driving tourism, stimulating hospitality and retail activity, and accelerating infrastructure and urban development. They also support job creation, private-sector participation, and foreign investment by enhancing global visibility. Overall, the events pipeline strengthens non-oil growth and underpins long-term economic diversification under Vision 2030.
- Saudi Arabia's Expo 2030 is set to be a mega-scale event, delivering a significant economic and developmental push. It is expected to generate SAR 21bn in GDP during operations and SAR 241bn during the construction phase, supported by large-scale spending of USD 7.5bn. With an estimated 40mn visitors, the event is poised to create over 171k direct and indirect jobs, underscoring its role as a major economic catalyst
- Expo 2030 is expected to stimulate a wide range of sectors in Saudi Arabia. Before the Expo, activity will accelerate in construction, real estate, banking, insurance, and consulting as infrastructure and planning advance. During and after the Expo, sectors such as hospitality, food and beverage, transportation services (car rentals), advertising, and telecom will benefit from the surge in visitors and city-wide economic activity. Taken together, these sectoral spillovers can support long-term diversification and enhance Riyadh's position as a global destination

Source: PwC, JagranJosh, Aljazira Capital Research

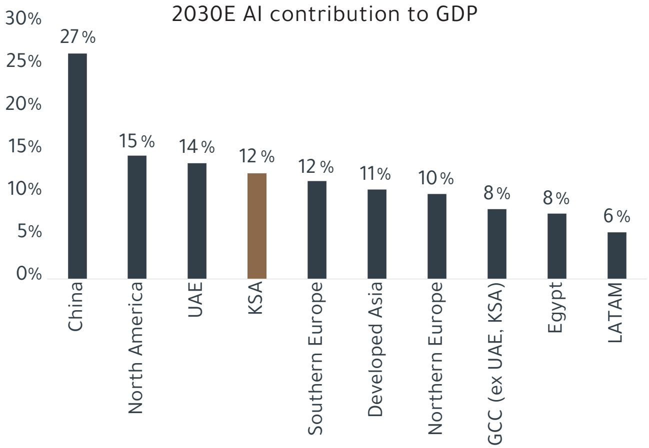
Saudi Arabia's Accelerating AI Transformation and Global Positioning

Saudi Arabia' strengthening its AI position through strategy impact and investment leadership

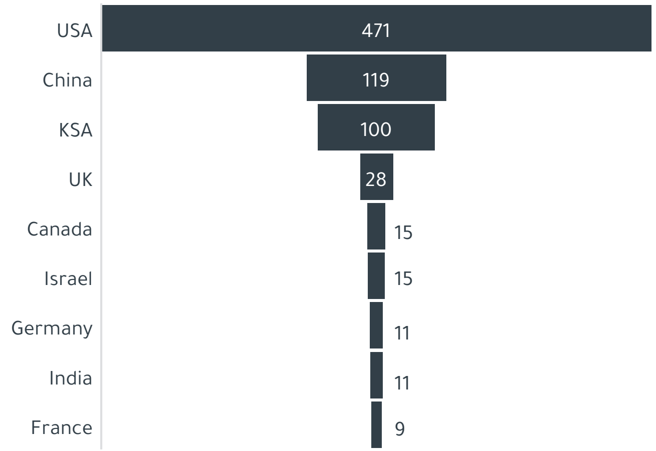
Saudi accelerating AI journey since 2016

- **2016**
  - AI positioned as core enabler in Vision 2030
- **2019**
  - Established SDAIA
- **2020**
  - Launched NSDAI
  - Initiated Global AI partnerships
- **2022**
  - Launched LEAP Tech Conference
  - SenseTime JV announced USD 776 mn investments
- **2023**
  - Launched DeepFest (AI Festival)
  - LEAP announced USD 9.5 bn AI investments
- **2025**
  - Additional USD 14.9 bn AI investments by LEAP
  - Launch of HUMAIN (National AI company) by PIF
  - HUMAIN signed AI chips & infra deals

Saudi's AI driven GDP potential vs globally



Saudi among top-3 nations in AI investments



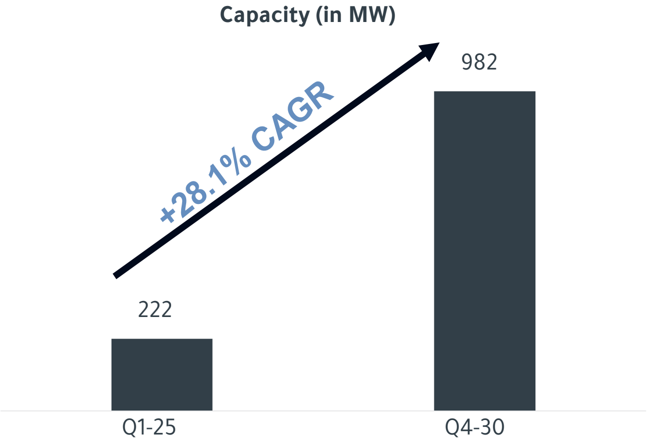
- Since 2016, Saudi Arabia has rapidly built a national digitalization agenda – from positioning digitalization as a core enabler under Vision 2030, to forming key institutions. This has created a clear roadmap of AI adoption and ecosystem building. Saudi Arabia's ecosystem saw a big acceleration after 2022: with national-level conferences (e.g. LEAP, DeepFest), major investment pledges, and the creation of HUMAIN – the national AI company under PIF – to drive AI infrastructure, data centers, and advanced AI services. Alongside these developments, several global technology heavyweights committed major AI and cloud investments in Saudi Arabia, accelerating the ecosystem:
  - **Amazon**: ~USD 10bn to build AI Zone and launch new AWS cloud region in Saudi Arabia
  - **Alibaba**: Announced an AI empowerment program in Saudi Arabia, collaborating with Tuwaiq Academy and STC
  - **Salesforce: USD 500mn** to expand AI capabilities in Saudi Arabia
  - **Oracle: USD 1.5bn** to expand cloud regions in Riyadh to support AI workloads.
  - **Groq: USD 1.5bn** to supply AI inference hardware and infrastructure to Saudi partners.
- Backed by a national strategy aiming to become a top-15 AI nation, attract USD 20bn+ in AI/data investments, train 20,000 specialists, and build 300 startups, Saudi Arabia is positioning AI across priority sectors to deliver over 12.5% of GDP from AI and emerge as one of the world's most AI-intensive economies and silicon valley of the Middle East

Source: PwC, JagranJosh, Aljazira Capital Research

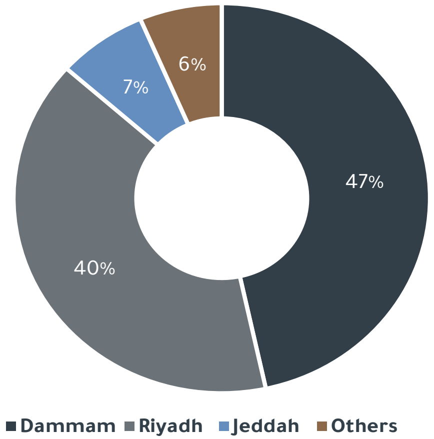
Saudi's Rapid AI and Data Center Expansion Shaping a Regional Digital Powerhouse

Power capacity surging 4x by 2030 with hyperscaler expansion and strong AI adoption in Saudi Arabia

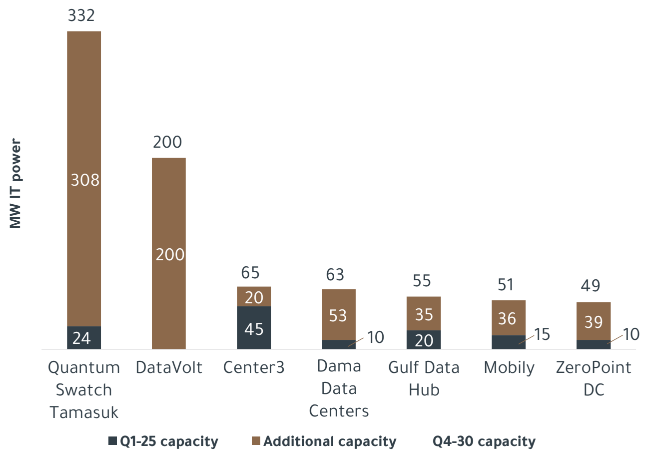
Saudi's data center capacity poised for 4x growth



Data center capacity dominant in urban hubs



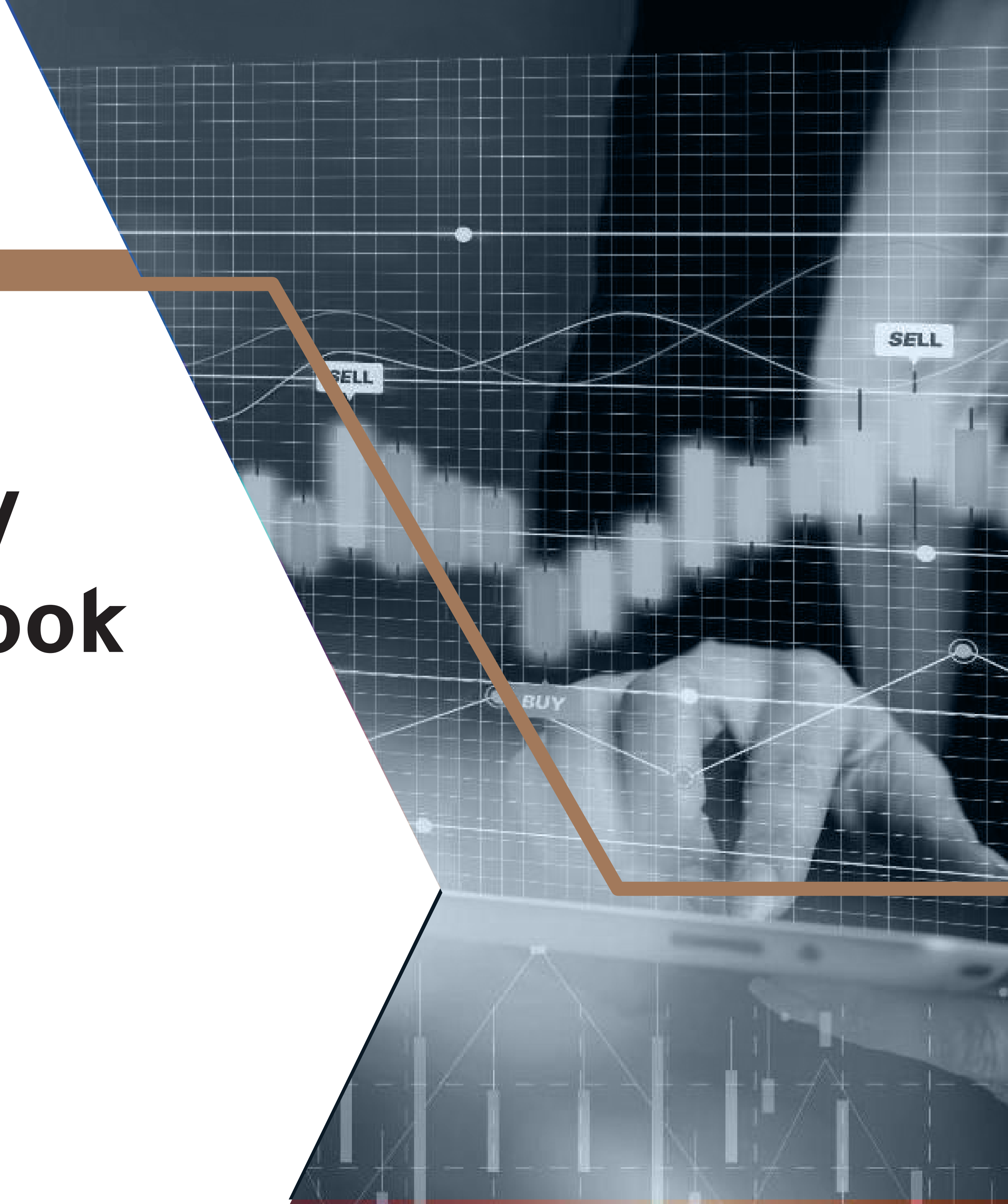
Key players scaling capacity to meet rising demand



- Saudi Arabia is rapidly transforming into a regional data-centre and digital-infrastructure hub, driven by its broader digital-economy push under Vision 2030. As of Q1 2025, the country's total data-center IT-power capacity stood at ~222 MW, with plans to add an additional 760 MW by 2030 – a ~4.4x increase. This growth corresponds to a 28.1% CAGR over 2024-30 in power-load capacity, reflecting surging demand from cloud, AI, and digital services.
- Global hyperscalers and cloud providers – such as AWS, Microsoft, and Oracle – are expanding presence in Saudi Arabia, underpinning the data-center build-out with global-scale cloud infrastructure and demand. Local and regional data-center operators are scaling up fast. Notable operators include center3, Quantum Switch Tamasuk, DataVolt, Gulf Data Hub, ZeroPoint DC, and Damac Data Centers.
- The main data-center hubs in the country are centered around the large cities: Riyadh, Dammam and Jeddah, each offering distinct advantages in infrastructure, connectivity, and strategic location. The entry of the state-backed AI-infrastructure firm HUMAIN is especially important; HUMAIN is aiming to build large-scale, hyperscale and AI-ready data centers, which could significantly reshape the Saudi data-center market.
- The data-center industry in KSA extends beyond digital infrastructure, forming the backbone of AI, cloud, and large-scale computing. Its high and rising power intensity makes it a structural driver of electricity demand, supporting long-term upside for power generation and grid investments, while aligning with Vision 2030's push toward a diversified, knowledge-based economy.

Source: S&P, Aljazira Capital Research

KSA Equity Market Outlook



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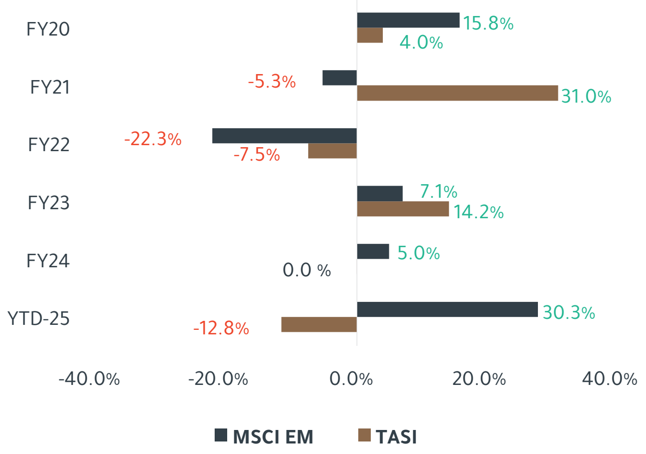
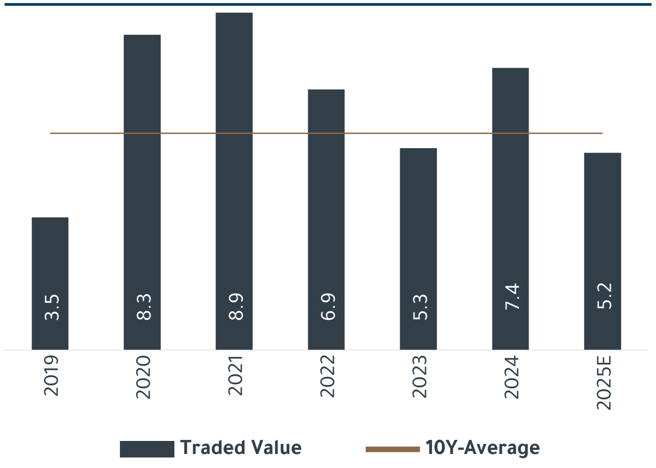
Summary of Saudi Arabia's market performance in FY25

TASI fell 12.8% in FY25; Only Telecom posted positive returns, while Media/Utilities were biggest laggards

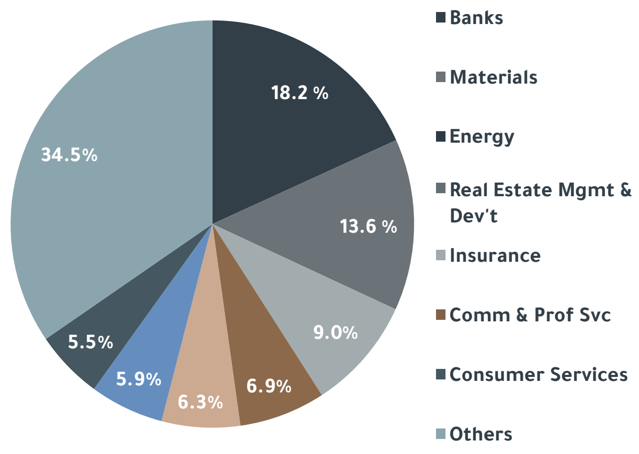
TASI Vs MSCI EM returns



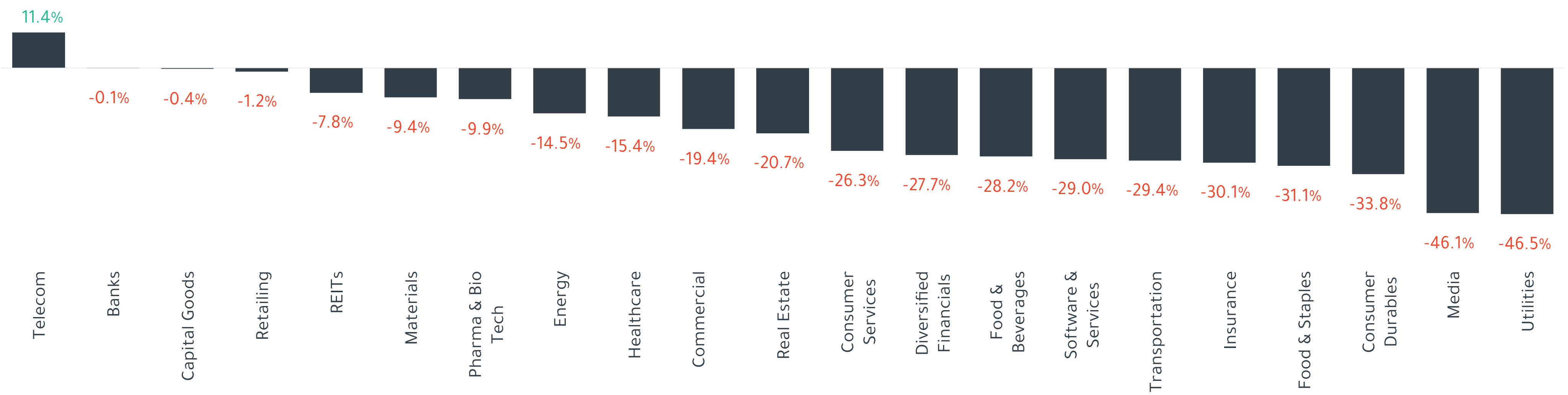
TASI avg. daily value traded (SAR bn)



Sector market share for avg. traded value



Sectors perfomance

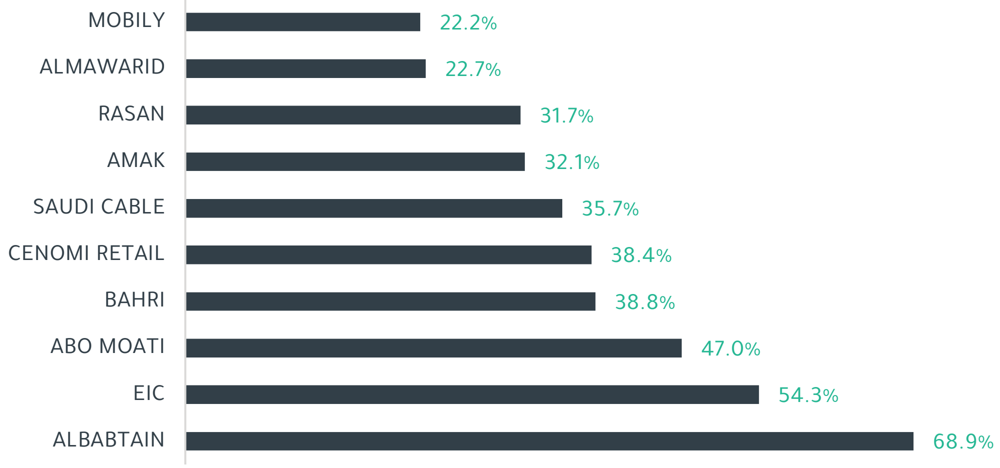


Source: Tadawul, Argaam, Aljazira Capital Research. Note: Prices for calculating sector performance are as of December 31, 2025. Sector market share based on Nov-25

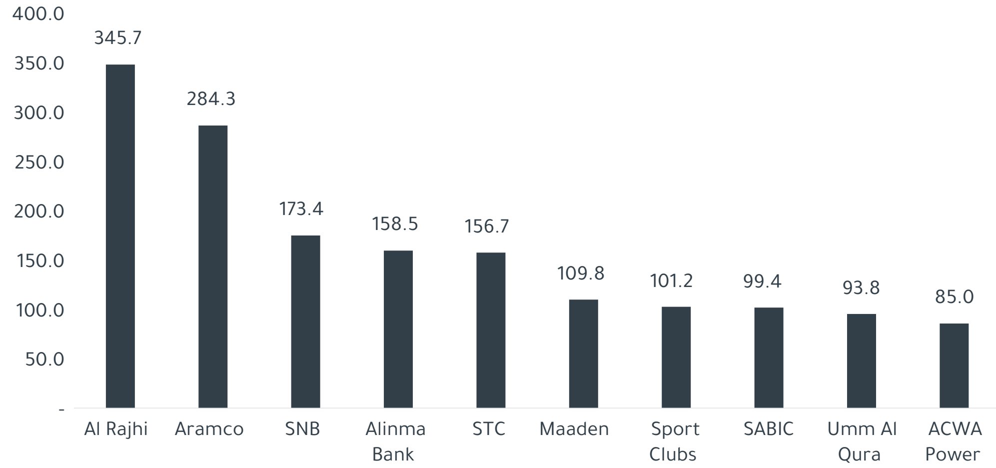
Best and worst performing companies

Albabtain gained the most in 2025, while Al Rajhi has the highest value traded, followed by Aramco

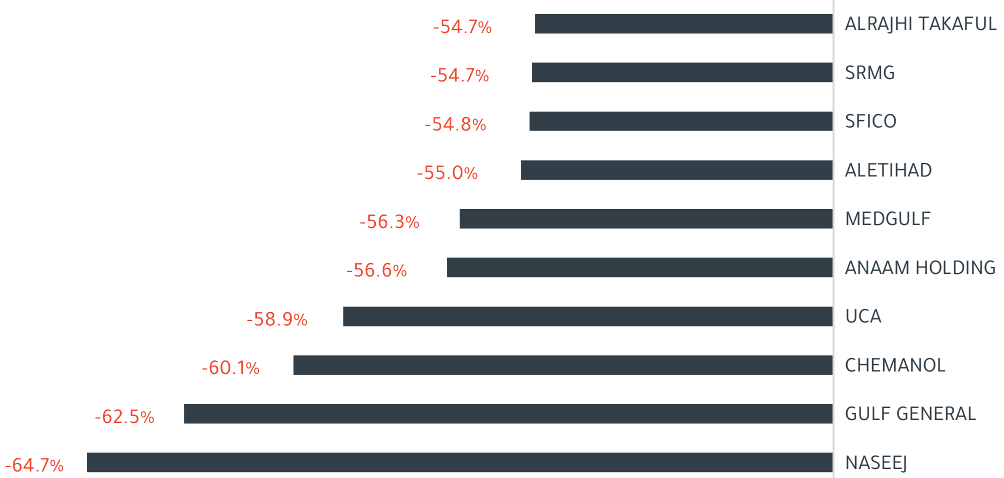
Top 10 performing companies in 2025



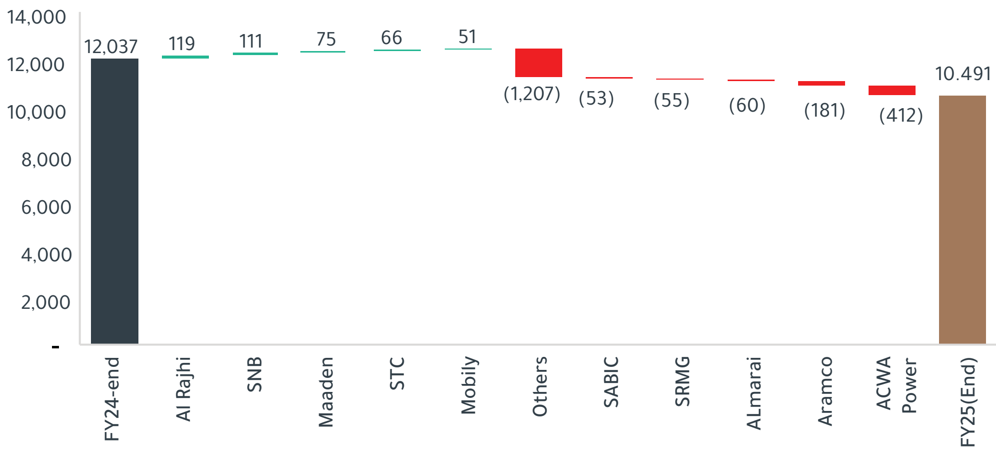
Top 10 companies by average value traded (SAR mn)



Worst 10 performing companies in 2025



Index point contributors in 2025

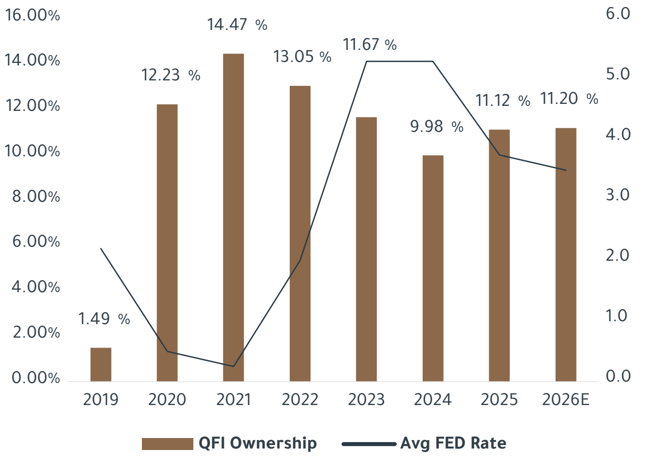


Source: Argaam, Tadawul, Aljazira Capital Research. Note: Prices as of December 31, 2025

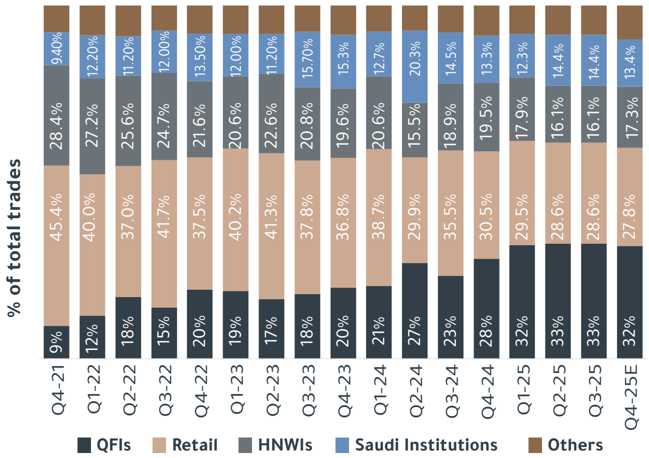
QFI and Institutional Investor presence in Saudi Equity market to intensify

Enhancing market liquidity depth, price stability & discovery

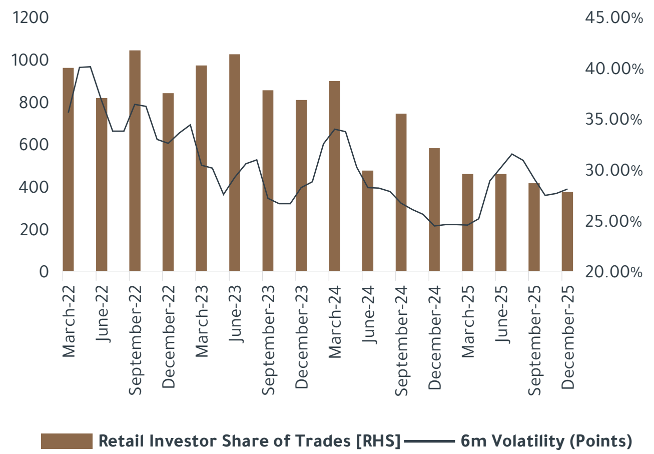
QFI presence



Saudi Arabia market participation



Index Volatility



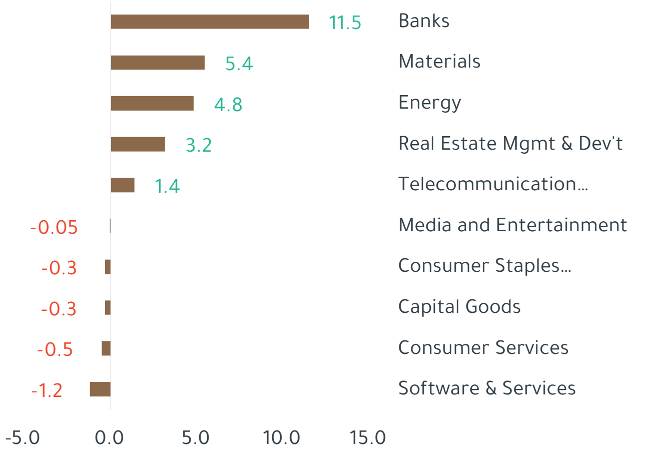
- QFI ownership of free float market cap surged from only 1.49% during FY19 to reach 11.12% as of November 2025. Since 2019, the number of listed firms increased from 191 stocks to 265 stocks, with the inclusion of Aramco decreasing QFI's share in the total market. However, while the share of free float has lessened as a result of a larger market - QFIs total holding value increased sequentially per year from FY19's SAR 134.5bn to reach SAR 336.5bn by Nov-25.
- The Saudi Equity market's market participation has been shifting to constitute more trading activity from QFI's and Saudi Institutions in a long-term trend, and away from retail investors; collectively QFIs and Institutions reached as high as 53.9% on Nov-FY25, as compared to a four years ago low of 8.3%, where retail investors reached as high as 61.2% of all trades in a quarter. Consequentially, volatility in the market has winded up from an annual average 6m standard deviation of 290 points on the main market to 387 points throughout the same period.
- The trend is expected to continue into FY26, supported by a more accommodative interest-rate outlook and rising QFI participation. Increased institutional and QFI activity is expected to improve price stability and enhance price discovery. Continued QFI allocations are likely to be driven by easier market access, improving macroeconomic fundamentals, attractive idiosyncratic opportunities, and a broader range of equity market offerings. In addition, potential easing of the Foreign Ownership Limit (FOL) in FY26 is expected to further attract QFI inflows.

Source: Bloomberg, Tadawul, Aljazira Capital Research. Note: *Based on AJC Estimates, excluding IPOs

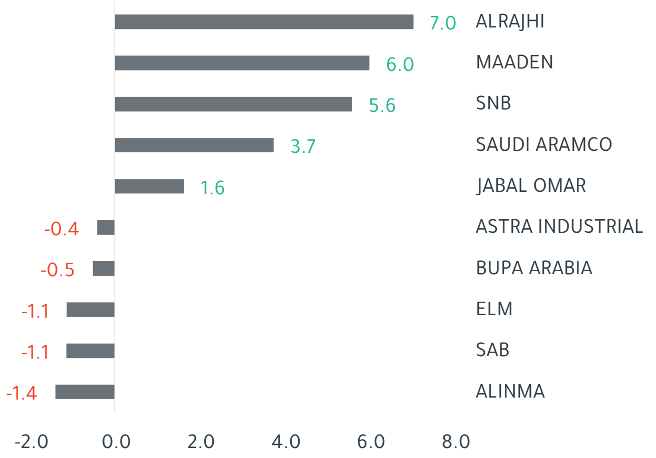
QFI activity reflect active participation towards changing rates and easing FOL in FY26

Theme-driven and selective QFI stock picking expected to continue in FY26

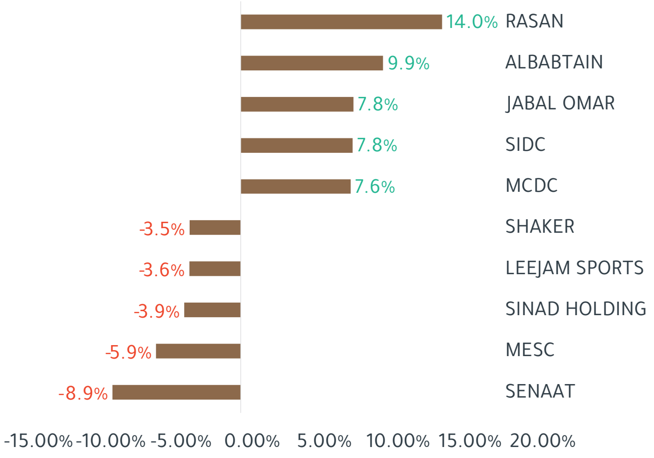
Net QFI flow per sector (in SAR bn)



Net QFI flow per company (in SAR bn)



Most QFI ownership changes (%)



- Foreign investor inflows stood at an estimated net SAR 35.46bn in YTD-25 an increase from SAR 38.16bn compared to the same period last year. On a sectoral basis, Banks and Materials saw the highest inflows of SAR 11.5bn and SAR 5.4bn, respectively. On the flip side, Software and consumer services saw the largest QFI net outflows of SAR 1.2bn and SAR 0.5bn, respectively.
- Stock-wise, QFI flows in FY25 were led by AlRajhi and Ma'aden, recording net inflows of around SAR 7.0bn and SAR 6.0bn, respectively. AlRajhi attracted foreign inflows following Bloomberg news on potential increases in foreign ownership limits, reflecting flow concentration into more liquid, benchmark-heavy banks. While Ma'aden benefited from an operational recovery and progress on key growth projects. On the flip side, Alinma Bank and SAB saw the largest outflows, at approximately SAR 1.4bn and SAR 1.1bn, respectively, with ELM's selling linked to valuation adjustment post its SAR 3.4bn Thiqah acquisition. While Alinma & SAB reflecting funded rotation within banks rather than weaker sector fundamentals.
- QFI trading activity is expected to remain agile in FY26, as easing interest-rate expectations, in addition to the anticipated removal of foreign ownership limits, while flows remain responsive to sector-specific and macro-driven themes

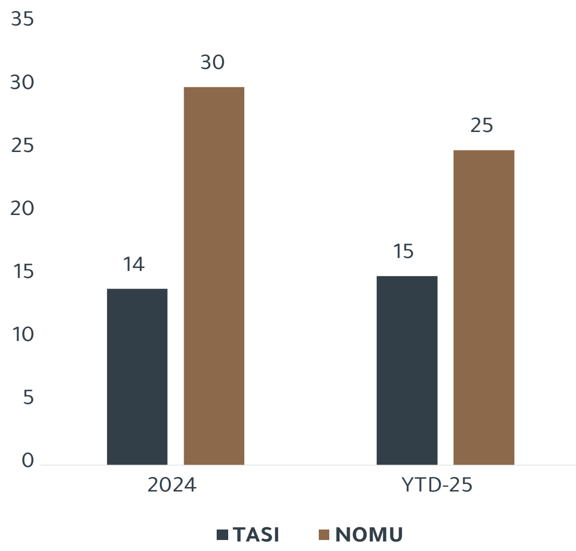
Source: Bloomberg, Tadawul, Aljazira Capital Research. Note: *Based on AJC Estimates, excluding IPOs

IPO Momentum intact, though post-listing performance and retail participation softened

TASI IPOs in FY25: Active issuance but muted post listing performance and retail coverage

Sector	Company	Listing Date	Institutional coverage (x)	Retail coverage (x)	Offer price (SAR)	Offering size (SAR mn)	First Day Change (%)	Current market price (SAR)	Change from offer price (%)
Transportation	**Flynas**	Jun-25	100.0x	3.5x	80	4,100	-3.40%	65	-18.7%
Real Estate	**Masar**	Mar-25	241.0x	20.0x	15	1,962	30.00%	17	14.6%
Healthcare	**SMC Healthcare**	Jun-25	64.7x	1.5x	25	1,875	-3.40%	18	-27.8%
Healthcare	**AlMoosa**	Jan-25	103.0x	4.1x	127	1,688	15.00%	175	38.1%
Financial Services	**Derayah**	Mar-25	162.0x	15.1x	30	1,499	30.00%	26	-14.3%
Real Estate	**Al Majdiah**	Sep-25	107.0x	2.8x	14	1,260	-1.20%	10	-28.3%
Retail	**Nice One**	Jan-25	139.4x	7.5x	35	1,213	30.00%	18	-48.9%
Real Estate	**Al Ramz**	Dec-25	11.1x	0.4x	70	900	-14.30%	54	-22.4%
Materials	**United Carton**	May-25	126.0x	8.9x	50	600	-1.50%	26	-48.5%
Consumer Services	**Almasar Alshamil**	Dec-25	102.9x	1.2x	20	599	18.40%	25	28.3%
Food & Beverages	**Entaj**	Mar-25	208.4x	30.2x	50	450	30.00%	31	-37.6%
Retail	**Marketing Home**	Sep-25	9.7x	2.0x	85	408	-4.90%	54	-36.4%
Capital Goods	**Consolidated Grunenfelder**	Dec-25	61.6x	0.7x	10	300	0.80%	9	-9.1%
Consumer Services	**Sport Clubs**	Jul-25	44.1x	5.3x	8	257	24.00%	8	10.0%
Transportation	**Cherry Trading**	Dec-25	85.6x	6.5x	28	252	-5.70%	24	-13.9%

Number of IPOs listed 2025 vs 2024



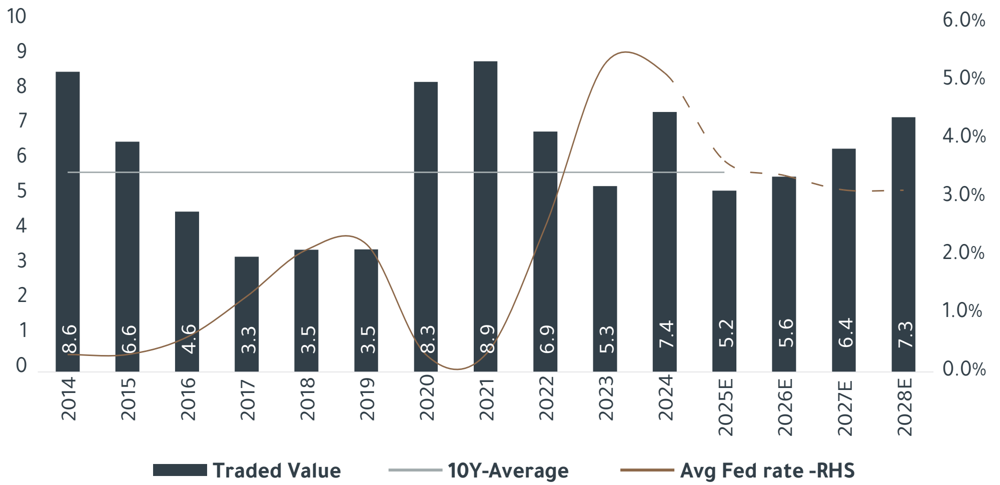
- In FY25, total 15 companies were listed on TASI, and 25 on Nomu. The IPO activity came from a range of companies across several sectors. The total value of IPOs this year till date stood at SAR 15.7bn. AlMoosa, Almasar Alshamil and Sport Clubs have given the highest returns of 38.1%, 28.3% and 10.0%, respectively from offer price. Nice One and United Carton were the worst performing IPOs, down 48.9% and 48.5% from offer price, respectively. Nomu-listed companies, on a combined basis, delivered an average performance of -15.5% based on change from offer price.
- There are multiple announced IPOs, currently, intending to list to the main market. Some key names are government owned King Fahad International Airport, Saudia Airlines, Saudi Global Ports as well as household names such as IKEA and Tabby. Sector wise, most announced listings fall under the Real Estate Management Sector (6 announcements), and 4 under Commercial Services.
- While recent IPOs continue to see multi-times oversubscription, reflecting strong liquidity and investor appetite, performance momentum has moderated versus 2024, partly due to lower retail participation and thinner post-listing coverage this year. In 2024, first-day gains ranged between 18%-30%, with post-offer performance spanning -17% to +92%, whereas in 2025 YTD, first-day performance has softened to -6% to +30%, and returns from offer price have narrowed to -49% to +38%, underscoring more cautious pricing, valuation discipline, and the dampening impact of reduced retail coverage compared to last year.
- Recent IPOs have been oversubscribed many times, showcasing investor confidence, strong liquidity and market's ample appetite for upcoming IPOs. Moreover, there is growing interest from companies outside of GCC to dual list in Saudi. According to news reports, five companies (in energy and natural resource sectors) from outside of GCC are expected to list in Saudi Arabia. Additionally, first Chinese listing might happen soon, as exchanges are exploring cross listing to increase market liquidity and access to capital.

Source: Argaam, Aljazira Capital Research. Note: Prices as of December 31, 2025

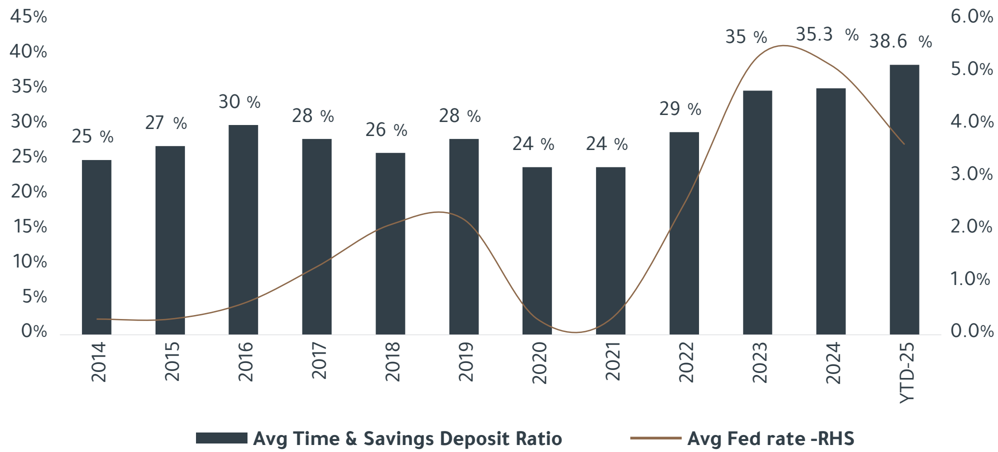
Liquidity: Deposit unwinding and foreign participation to support trading activity

Record high time deposits driven by elevated SAIBOR premiums, have constrained equity liquidity; easing in 2026 could support a shift

Lower interest rates to free up equity liquidity in Saudi Arabia



Funds parked in high-yield FY25 deposits expected to flow-out by year-end



- FY25's average daily traded value (ADTV) is SAR 5.2 bn (down 30.5% Y/Y). The ADTV was higher in H1-25 (SAR5.7bn) in comparison to H2-25 (SAR4.7bn). We believe the slowdown reflects a combination of heightened economic uncertainty in H2-25 amid escalating trade wars, increased domestic sukuk issuance that absorbed investable liquidity away from equities, and partial reallocation of capital toward global markets, particularly the US, amid relatively more attractive risk-adjusted returns.
- However, in FY26E we expect the ADTV to increase to SAR 5.6bn, implying a 8.2% Y/Y increase. This recovery is expected to be primarily driven by a potential increase in QFI ownership limits, which could be implemented in 2026 and materially enhance market liquidity, supported further by a lower interest-rate environment and favorable regulatory developments
- Furthermore, we expect the ADTV to reach SAR 6.4bn by 2027 and SAR 7.3bn by 2028. Normalization of regional geo-political issues and declining interest rates are likely to drive the recovery in participation levels.
- Time & savings deposits grew at a CAGR of 19% over the last four years (FY20-24) and saw their share in total deposits increase from 24.0% to 35%; over the same period demand deposits increased at a CAGR of just 2.9%. This robust upsurge in Time & savings deposits was mainly driven by the massive cumulative increase in interest rates and increases volatility in equities. We expect this trend to reverse as interest rates move down and some liquidity to flow into equity market.

Source: Argaam, Aljazira Capital Research

Finance Expense

TASI Finance cost to fall SAR 3.2bn; a slower rate cut transmission amid tight liquidity liquidity

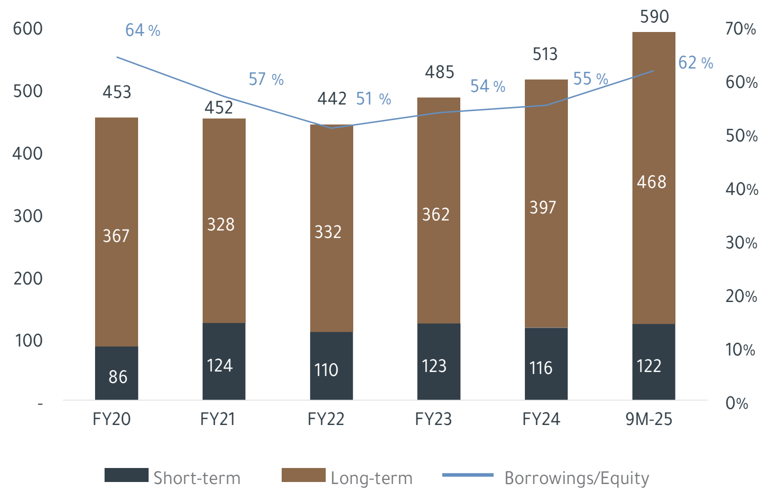
Utilities remains the most leveraged sector followed by Energy and Consumer Discretionary

- SAMA decreased interest rates by 75bps in FY25. SAIBOR 6M and 3M are down 25bps and 59bps YTD to 5.2% and 5.0%, respectively. The movement in SAIBOR is restricted by tight liquidity.
- Total debt (borrowings) for listed companies (excluding Banking, Insurance, REITs and Saudi Aramco) rose from SAR 513bn in FY24 to SAR 590bn as of September 2025. The borrowings grew ~15% YTD. Saudi Aramco's total debt rose to SAR 296bn as of September 2025 from SAR 257bn in FY24.
- Overall leverage in terms of Debt-to-equity ratio also increased to 62% in 9M25 from 56% in FY24 and 55% in FY23.
- We believe current tight liquidity will persist for some time restricting transmission of rate cuts Based on our calculations with 70-80% rate cuts transmission, finance expenses for TASI listed companies are likely to fall by SAR 3.2bn (-7.4% Y/Y) in FY26E compared to FY25E. Most companies are likely to see a mid-single-digit decline in finance costs.
- Utilities (187%), Energy (144%) and Consumer Discretionary (97%) are the most leveraged sectors. Thus, these sectors are most likely to benefit from lower finance expenses due to interest rate cuts towards the end of the year and expectations next year.
- In absolute terms, we expect interest rate cuts might potentially boost earnings of Energy sector by slightly less than SAR 900mn, while Utilities and Materials sectors can potentially benefit by more than SAR 500mn each.

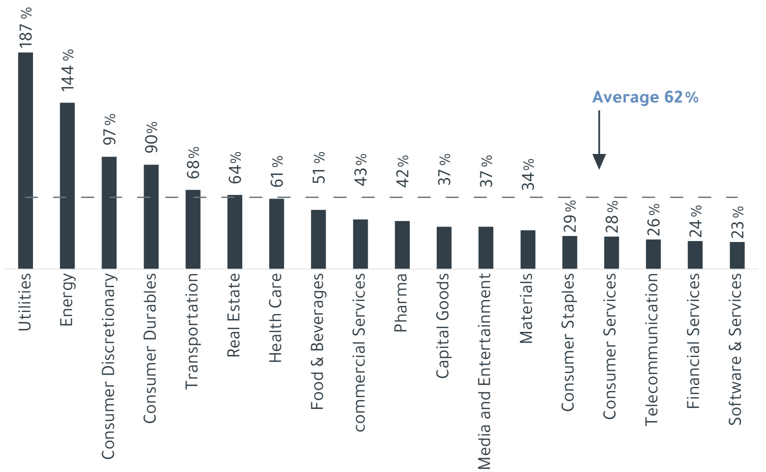
*Exclude lease liabilities
*Banking, Insurance, REITs and Saudi Aramco not included

Source: Argaam, Aljazira Capital Research

TASI Borrowings Trend (SAR bn)*



Leverage Level by Sector*



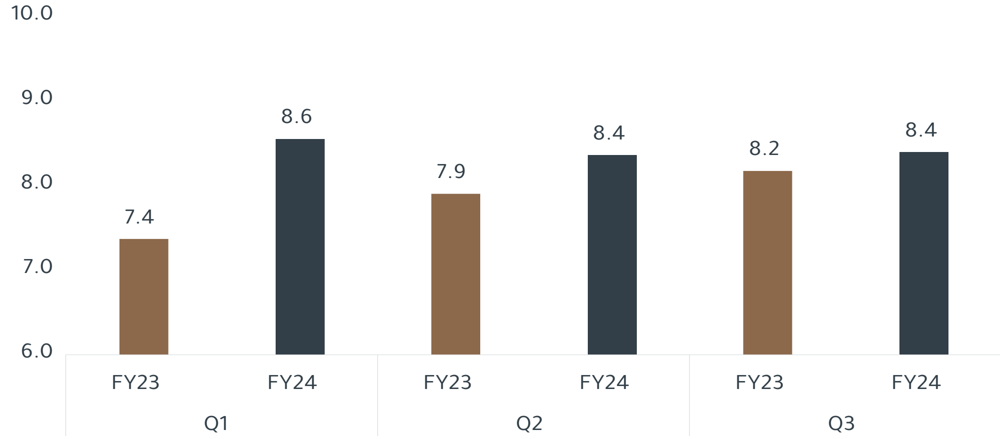
*As of September 2025, borrowings do not include lease liabilities excluding Saudi Aramco

Three rate cuts since September help lower finance cost in Q4-25 and FY26

FY25 finance cost easing lower than expected amid delayed rate cuts and high SAIBOR rate with tight liquidity

- Finance expenses for TASI universe (excluding Banking, Insurance and Saudi Aramco) fell in Q1-25 by 1.0% Y/Y. However, finance expenses increased in Q2-25 by 4.6% Y/Y and 0.3% Y/Y Q3-25, as interest rates were steady till September and debt rose. Additionally, SAIBOR did not realize expected decline despite the rate cuts as tighter liquidity led to premium in SAIBOR. FY25 did not see expected finance cost easing.
- A total 75bps interest cuts were made since September 2025. The rate cuts are expected to gradually translate into lower finance expenses in 2026 with some lag as well as resistance in SAIBOR stemming for domestic market liquidity issues. However, the interest rates are expected to stabilize in 2026 with less number cuts expected. Based on our assumption we expect finance cost to decrease from an estimated SAR 44.1bn in FY25E to SAR 40.8bn in FY26E and decline further to SAR 38.9bn FY27E.

TASI Rising Finance Expenses (SAR bn)



Most leveraged TASI-listed companies

Company	Borrowings (SAR mn)	Equity (SAR mn)	Debt/Equity
LAZURDE	1,816	269	675%
SENAAT	2,179	529	412%
SPPC	643	185	347%
NASEEJ	128	39	326%
MIS	1,252	390	321%
ADVANCED	9,178	3,139	292%
PETRO RABIGH	23,591	8,386	281%
BAAN	410	165	249%
ALARABIA	2,564	1,047	245%
SAUDI ELECTRICITY	195,346	87,285	224%

Source: Argaam, Aljazira Capital Research

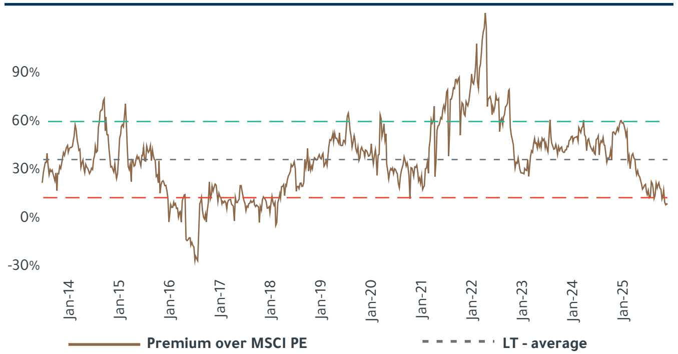
Company	Borrowings (SAR mn)	Equity (SAR mn)	Debt/Equity
MODERN MILLS	589	272	217%
CHEMANOL	555	259	214%
NAMA CHEMICALS	593	281	211%
SASCO	1,868	894	209%
THEEB	1,831	902	203%
ADES	13,154	6,589	200%
TAKWEEN	624	341	183%
EMAAR EC	8,576	4,952	173%
RETAL	1,546	911	170%
TANMIAH	1,021	641	159%

Source: Argaam, Aljazira Capital Research

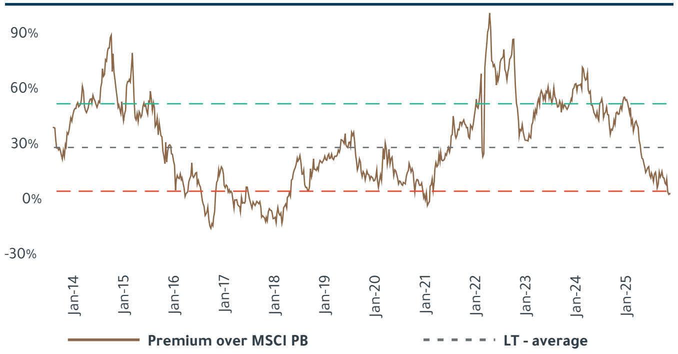
TASI absolute and relative performance

On an absolute basis TASI is undervalued on PE and DY; on relative terms TASI is undervalued on PE, PB & DY

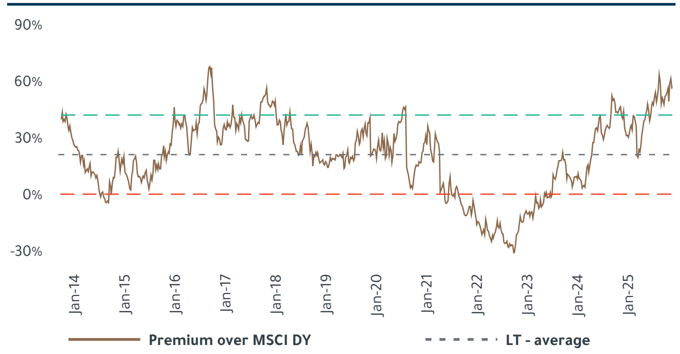
TASI PE premium over MSCI EM



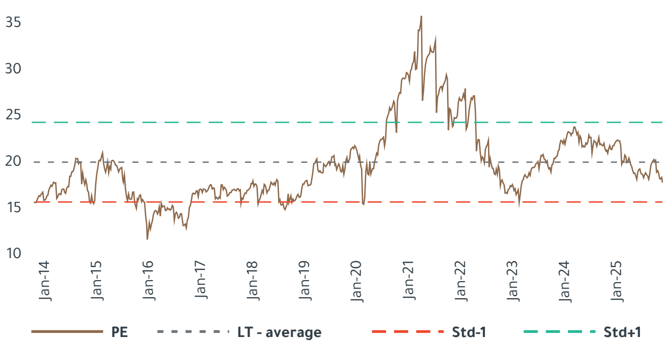
TASI PB premium over MSCI EM



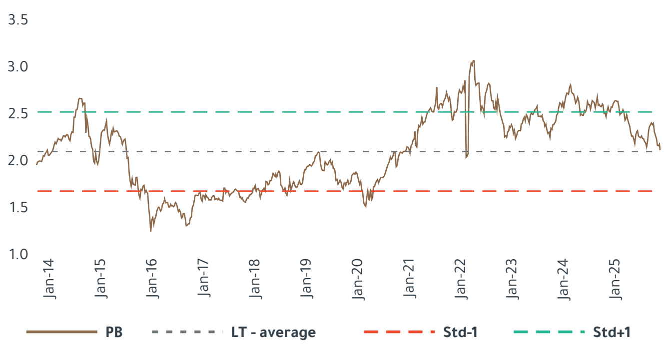
TASI DY premium over MSCI EM



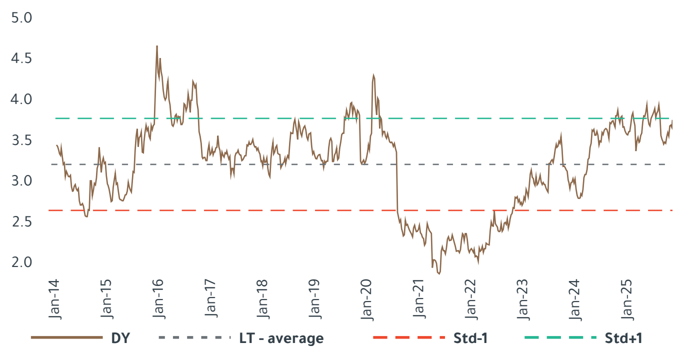
TASI PE vs historical average



TASI PB vs historical average



TASI DY vs historical average



- On a relative basis TASI is undervalued as it trades on a 7.7% premium to MSCI-EM vs historical average premium of 34.7%.
- On an absolute basis, at 17.1x TASI is trading at 11.2% discount to historical PE of 19.8x, hence it is undervalued.

- On PB basis, TASI is trading at a 1.9% premium to MSCI EM, lower than historical premium of 26.7%, hence it is undervalued.
- Compared to its own long-term average TASI trades at 0.6% premium on average, hence it is fairly valued.

- TASI's DY is at a premium of 56.3% over to MSCI EM, higher than the historical premium of 19.7%, hence TASI is under valued.
- While current DY of 3.74% is at a premium of 55bps to TASI's own historical DY of 3.19%, which implies undervaluation.

Source: Bloomberg, Aljazira Capital Research, as of December 26

Sector wise actual and expected valuations

Broadly all major sectors trade at a discount to past valuations

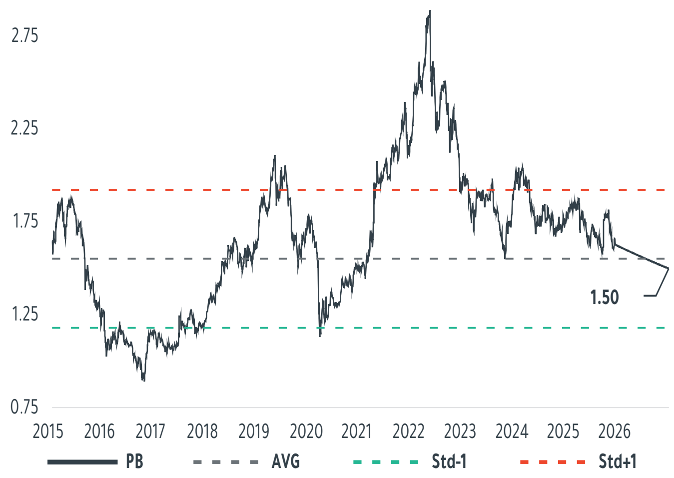
Company	2026E PE	Historical average	Debt/ Equity	NI Growth 2026
Food & Beverage	16.4	25.3	-35.00%	8.70%
Cement	14.4	19.1	-25.00%	10.60%
Health Care	24.4	32.1	-24.00%	14.80%
Banks	10.3	13.4	-23.20%	6.80%
Telecommunication	14.3	18.7	-23.00%	-1.60%
Consumer Services	21.2	27.5	-23.00%	59.70%
Energy	21.2	26.9	-21.00%	46.50%
Consumer Discretionary	16.4	20	-18.00%	0.80%
Consumer Staple	19.5	22.7	-14.00%	7.50%
Materials	29.5	34.3	-14.00%	160.00%
Banks (PB)	1.5	1.55	-3.30%	6.80%

Source: Bloomberg, Aljazira Capital Research

Banks (PE)

Source: Bloomberg, Aljazira Capital Research

Banks (PB)

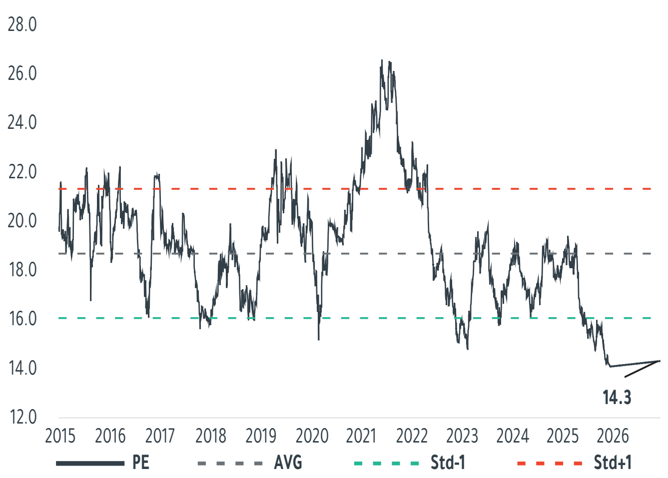


Source: Bloomberg, Aljazira Capital Research

Energy (PE)

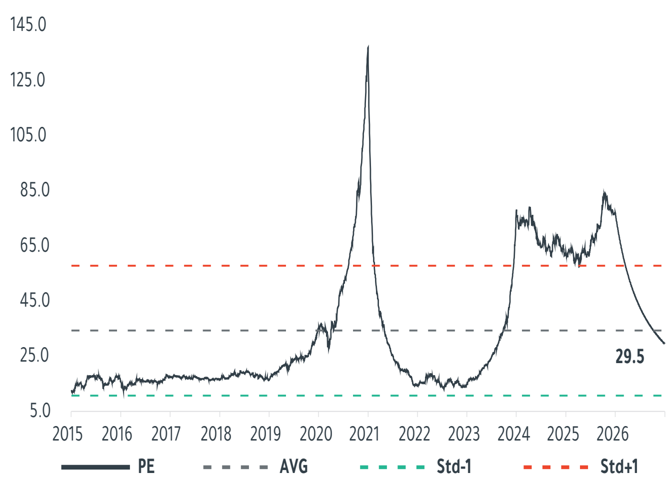
Source: Bloomberg, Aljazira Capital Research

Telecommunication (PE)



Source: Bloomberg, Aljazira Capital Research

Materials (PE)



Source: Bloomberg, Aljazira Capital Research

Sector wise actual and expected valuations

Materials, Consumer services and Energy to post strongest growth in earnings in 2026

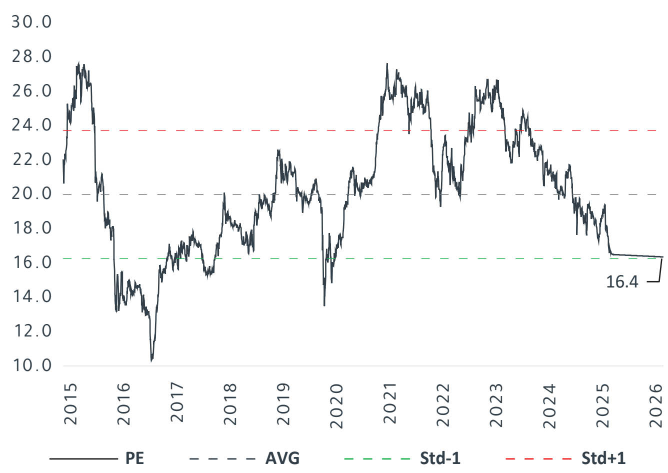
Food & Beverage (PE)

Source: Bloomberg, Aljazira Capital Research

Healthcare

Source: Bloomberg, Aljazira Capital Research

Consumer Discretionary (PE)

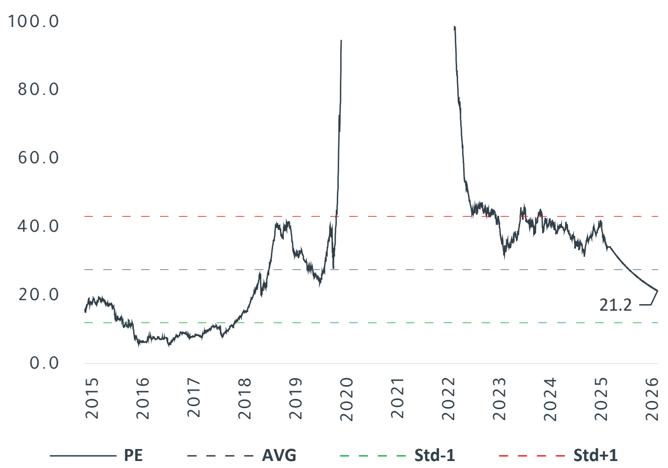


Source: Bloomberg, Aljazira Capital Research

Cement (PE)

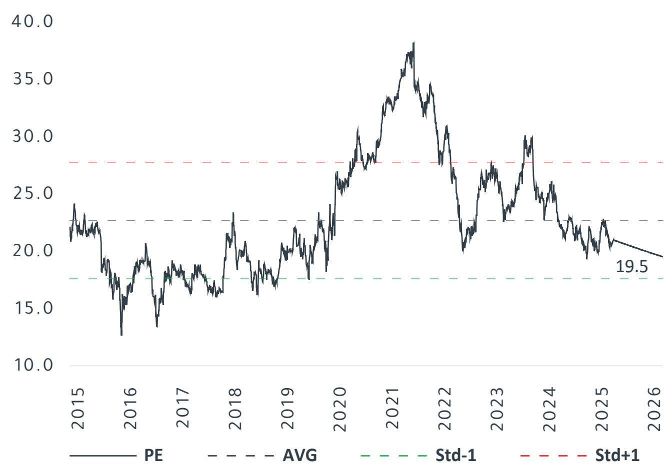
Source: Bloomberg, Aljazira Capital Research

Consumer Services (PE)



Source: Bloomberg, Aljazira Capital Research

Consumer Staples (PE)



Source: Bloomberg, Aljazira Capital Research

Strategy 2026: Attractive Valuations despite Global Economic and Oil price Headwinds

Valuations are expected to persist below historical averages

The Saudi economy is expected to grow by 4.6% in FY26 on the back of faster than expected easing of oil production cuts and growth of non-oil activities led by the private sector which serves as the key driver of economic growth in the coming period. Revenue growth & controlled spending would reduce deficit while maintaining low debt levels. Due to global economic and oil price headwinds we expect rotation towards blue chip value players. Growth stocks that are trading at or above long-term valuations won't be favored as capital market would become even more myopic. Key sectors likely to drive earnings performance include Material (large one-off expense see in SABIC in 2025), Energy, Banks, transportation and utility. Our base case estimates a fair value of 11,796 points for TASI by H2-26, implying upside of 12.4%.

- **Fiscal revenue growth and controlled spending to reduce deficit while maintaining low debt levels at 32.7% in FY26E vs 80% average for G20 nations:** The GDP is expected to grow by 4.6% in FY26 on the back of faster than expected easing of oil production cuts and growth of non-oil activities led by the private sector which serves as the key driver of economic growth in the coming period. In FY26 higher non-oil revenues alongside increased oil production could lift revenues and expenditure to SAR 1,147bn and SAR 1,313bn, thus narrowing the deficit to SAR 166bn. KSA's debt levels are moderate and remain comfortable (32.7% on FY26E vs. 29.2% of GDP in FY25) compared to other economies. The lower debt will enable the Kingdom to fund Vision 2030 requirements and manage the budget deficit. Global economic uncertainty is projected to moderate in 2026, following the heightened volatility observed throughout 2025; however, Kingdom is likely to remain resilient due to revenue diversification, low debt level, growing non-oil activities and currency Peg,
- **In 2026, TASI is expected to favor dividend plays and value stocks offering upside after the market dip, while alternative investments remain attractive;** Higher interest rates, with SAIBOR at a premium, are weighing on TASI as time and savings deposits become more attractive, evidenced by their share rising to 39.3% from 28.5% in 2022. We have a positive view on (1) high dividend plays - due to increasing attractiveness from lowering of interest rates, (2) Banks - due to unjustified valuation discount amidst better than past ROE and decent earnings growth outlook, (3) discretionary retail (Extra, Almajed and Tasheel) and (4) tech and tourism sectors - major beneficiaries of vision 2030. However, we are Neutral on (1) Energy - Higher oil and gas volumes to partially offset weaker pricing) and (2) consumer staple (Bindawood, Othaim) due to margin pressure from increased competition. We remain selective in healthcare as valuations are stretched compared to long term averages. We remain cautious on Petchems, as the global petrochemical industry is expected to remain in the "bottom of the cycle" throughout 2026, characterized by persistent overcapacity and subdued demand growth.
- **Index supported by 13.9% earnings growth (ex Aramco), with Tasi's fair value estimated at 11,796 points:** We estimate a fair value of 11,796 for TASI by H2-2026, implying upside of 12.4% from the current level (valued at -0.5 standard deviation below long-term mean P/E). Expected earnings growth of 13.9% (excluding Aramco) would drive the index upward despite global macro and oil price headwinds. Materials, Energy, Banks, and Transportation sectors are likely to contribute the most to the growth in the market earnings in FY26E. We see 19 out of 22 sectors recording earnings growth in FY26E. Potential risks to our index target in H1-26 include oil price pressure, oil production delays and heightened tensions in Europe and the Middle East. Thus, although global factors/oil prices/Macro pressures may weigh on TASI in the near-term, earnings growth and the resilience of domestic economy would support upward movement in H2-26. Based on our evaluation, TASI below 10,700 would be attractive, while above 12,775 level market would be overpriced.

TASI's base case fair value for FY26 estimated at 11,796; implying 12.4% upside potential

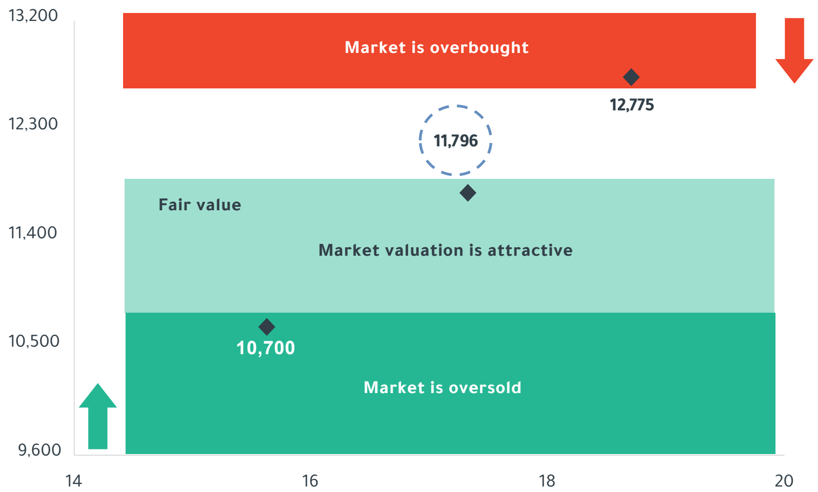
Valuation to remain at discount to historic average with a downside risk of falling to 9,600 if liquidity crunch worsens and oil prices fall sharply

- For FY26E, TASI is projected to see a 13.9% surge in earnings (ex-Aramco). Including Aramco, the growth rate moderates to 5.6%. This upward trend is primarily driven by the Materials, Energy, Banking, Transportation, and Utilities sectors. Overall market breadth remains strong, with 19 of the 22 sectors expected to post earnings gains.
- TASI is currently trading at 17.2x. Our base case assumes TASI at P/E of 17.3x (0.5 standard deviation below long term mean of 18.9x, accounting for oil market headwinds and tight domestic liquidity) and TASI EPS growth of 12%. Our earnings estimate for FY26E translate into a fair value of **11,796 for TASI**, an upside of 12.4% from the current level. Our **bull case** assumes TASI EPS growth of 14% under scenario of strong recovery in oil above USD 75/bbl, GDP growth >4.5% and 75bps cuts that will lead to valuation converging to LT average, implying TASI level of **13,118** (upside of 25.0%).

Liquidity crunch and sharp drop in oil potential downside risks forming a bear case: Money supply (M3) in Saudi Arabia remains healthy, but banking system liquidity is tightening as strong loan demand—driven by giga projects and Vision 2030 initiatives—has fueled unprecedented credit growth that continues to outpace deposit growth. Even though the Fed is cutting rates, the local competition for Riyals keeps SAIBOR high. The SAIBOR-SOFR spread is hovering around 120 bps (vs. a typical ~55 bps). Historically, similar situation occurred in 2015-16 when SAIBOR-SOFR spread expanded to over 150 bps. As a result, equity market saw a sharp correction in valuation to around 20% discount LT average. Thus, our **bear case** assumes TASI P/E of 15.6x (1 standard deviation below LT mean) and TASI EPS growth of 1%, considering worsening liquidity situation with only 25 bps rate cut, oil price below USD 52/bbl and GDP growth below 4.0%. This implies TASI fair value of **9,601**.

Source: Bloomberg, EIA Short Term Energy Outlook November 2025, IEA, Aljazira Capital Research, *OECD commercial inventory

TASI fair value



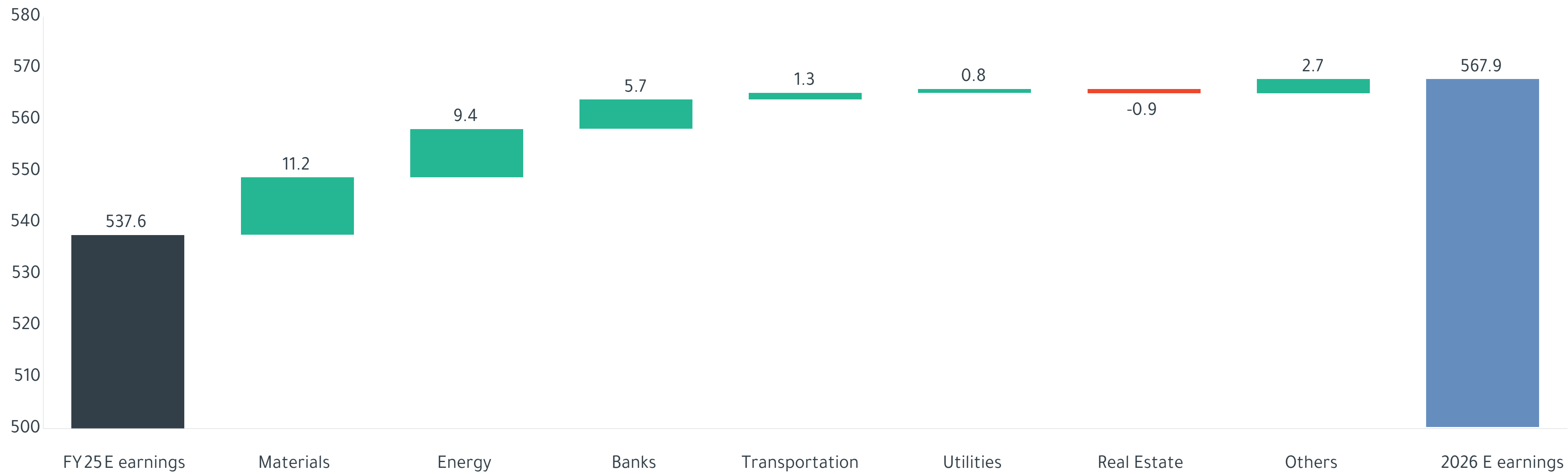
TASI Scenario Analysis

Case	Weighted Earnings growth 2026	PE	Index 2026	Downside	Assumptions		
					Brent	GDP growth	interest rate
Bull case	14%	18.9	13,118	25.0%	> USD 75/bbl	>4.5%	75bps cut
Base case	12%	17.3	11,796	12.4%	USD 55-64/bbl	4.0-4.5%	50bps cut
Bear Case	1%	15.6	9,601	-8.5%	< USD 52/bbl	<4.0%	25bps cut

Materials, Energy and Banks to lead TASI's earnings growth, real estate a key dragger

FY26E growth to be driven by normalization of earnings, lower interest rates and economic momentum

TASI earnings analysis (FY26E, SAR bn)



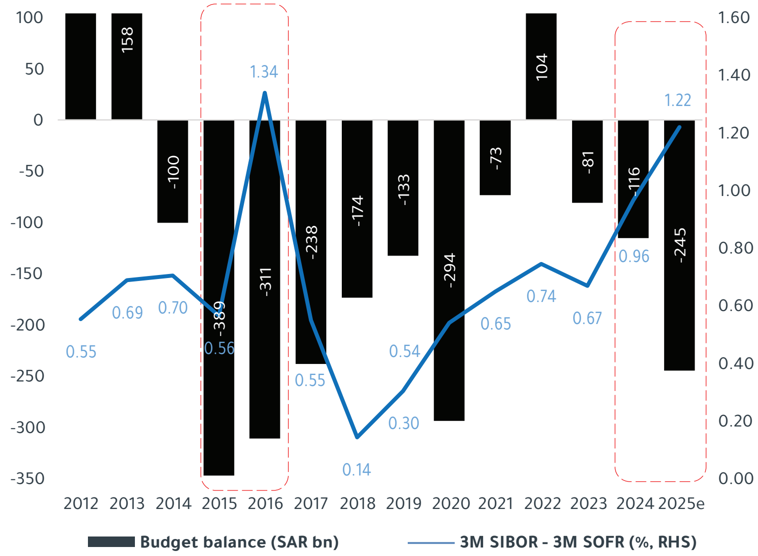
Source: Bloomberg, Aljazira Capital Research

- Combined earnings for the TASI listed companies are estimated at SAR 568bn in FY26E vs. estimated earnings of SAR 538bn in FY25E, up 5.6% Y/Y. The earnings growth would be 13.9% excluding Aramco, as Aramco is expected to post a modest 2.3% rise in earnings supported by improved refinery margins and higher volumes but curtailed by lower oil prices. Notably, Materials, Energy, Banks, Transportation, and Utilities are expected to exhibit growth and contribute the most to the TASI earnings growth.
- **Materials** sector is estimated to be the largest contributor to the earnings growth, mainly driven by SABIC returning to profit after posting huge losses due to impairments owing to portfolio optimization. Moreover, Maaden is also likely to see healthy earnings growth on account of favorable commodity prices.
- **Energy** is also likely to be one of the major contributors to TASI earnings with an estimated 2.5% Y/Y growth in FY26E as expected growth in Aramco's earnings due to higher production of oil and gas will be further supported by reduction in Petro Rabigh losses, and drilling rigs re-calls.
- **Banks** are expected to register 6.2% Y/Y growth in earnings in FY26E backed by credit growth amid lower interest environment and anticipated momentum in economic activities.
- **Transportation** sector will also be one of the key contributor to TASI earnings growth, as Flynas recorded losses in FY25 owing non-recurring IPO related expenses worth SAR 1.1bn.

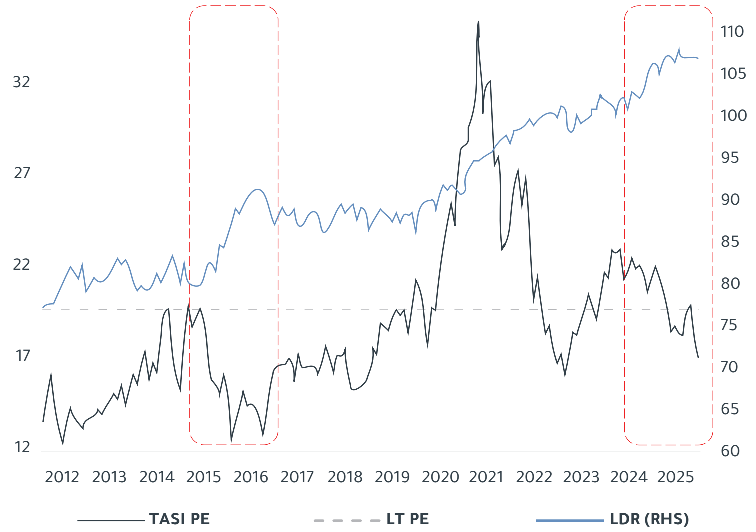
Bear case: A low probability event that would be driven by prolonged and substantial decline in oil prices

Sustained widening of twin deficits and tighter liquidity would shape this scenario

- **In 2015-16 market experienced sharp derating due to weak macros:** During the US shale-driven, oil prices slump of 2014-16, Saudi Arabia saw a rapid increase in LDR ratio, as deposit growth sizably lagged loan growth, which resulted in a sharp increase in SAIBOR-SOFR spread. Budget balance turned negative and country recorded deficit of SAR 145/326bn in 2015/16. Trade surplus shrank to SAR 108bn in 2015 vs SAR 632bn in 2014. TASI derated to lows of 12.6x in 2016 vs long term average of 16.2x during 2015. Later market rerated to PE of 16.5x in 2017, and to ~20x in late 2019 as oil prices stabilized and fiscal conditions improved.
- **Macros have weakened but are far from 2015-16 levels:** The country is currently experiencing a very similar confluence of macro factors, **(1)** in last twelve months loans grew by 13.0% vs deposit growth of 7.9% amidst stable M3 growth of 7.8%, **(2)** 3MSAIBOR-SOFR spread is at multi year high of 120bps vs long term average of 55bps, (3) budget deficit as percentage of GDP has expanded (5.3% for 2025e vs budgeted 2.3%), **(4)** capital expenditures have undershot expectations (2025e SAR 172bn vs 2025 budget SAR 184bn), **(5)** trade surplus is shrinking (2025e SAR 228bn vs SAR 424/273bn for 2023/24) and (6) TASI has de-rated to 17.2x as compared to long-term average of **19.8x**.
- **High interest rates are impacting equity market through multiple channels:** Higher interest rates (3M SAIBOR at 4.9%) as compared to long term average (2.36%) are affecting TASI through several channels, (1) bonds & saving instruments have become more attractive, this can be seen by the growing share of Time & savings deposits - up from 28.5% in 2022 to 39.3% in Sept-25, (2) borrowing costs remain elevated eating up earnings (3) stock valuations are being impacted by higher risk free rate.
- **Fiscal position is expected to improve in 2026; however, there are risks attached:** According 2026 budget statement, revenues are expected to increase by 5.1% to SAR 1,147bn, expenses are projected to decline by 1.72% to SAR 1,313bn and budget deficit is anticipated to improve to SAR 165bn (3.3% in GDP terms). Government has cut 2026 capital expenditure target to SAR 162bn. However, if oil prices stay at current levels there is a risk that government might miss the budget deficit target again in 2026, we estimate average oil price of USD 64/bbl to achieve budgeted revenue which is ~5% above the current oil prices. We believe if oil prices fall below USD 52/bbl, it would substantially worsen the fiscal balance and lead to further liquidity tightening with decline government deposits (major part of banking deposits). This is likely to trigger our bear case for TASI at **9,600 level**.



Source: Bloomberg, Aljazira Capital Research



Source: Bloomberg, Aljazira Capital Research

Key bull case triggers: policy-led structural shifts and oil price recovery

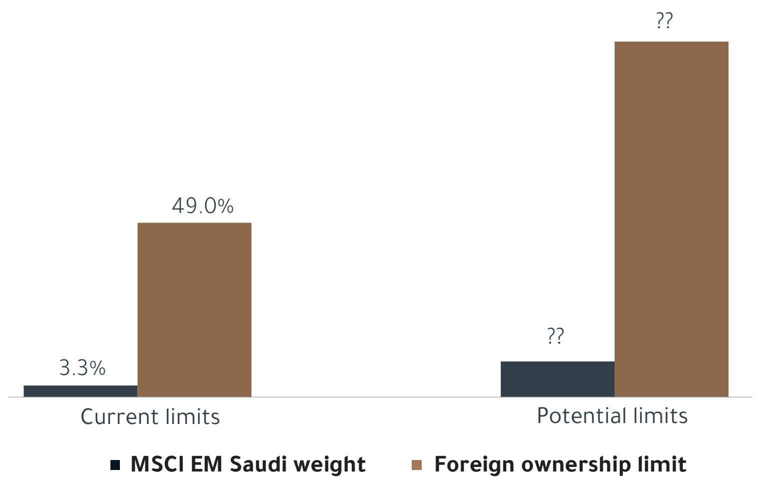
Oil price recovery, fiscal resilience, liquidity normalization set the stage for mean reversion of TASI's valuation

- **Oil price dynamics:** We believe oil prices stabilizing above USD 75/bbl would support Saudi Arabia's fiscal position and GDP growth (though below our estimated fiscal breakeven of USD 83/bbl), improving revenue visibility, sustaining capex execution, and reducing fiscal uncertainty. Stronger fiscal durability underpins uninterrupted Vision 2030 spending, enhancing earnings visibility across cyclical and domestic sectors, while improved macro credibility lowers sovereign and equity risk premia, enabling valuation multiple expansion.
- **Foreign ownership limits:** Incremental easing of foreign ownership at the stock and sector level is structurally expanding the investable universe for global investors despite the unchanged 49% aggregate cap. Higher free-float improves index weights and attracts passive and quasi-passive flows, enhancing liquidity and price discovery while compressing equity risk premia—hallmarks of sustained bull markets rather than transient rallies.
- **Liquidity conditions:** Liquidity has been constrained by widening in the SAIBOR-SOFR spread, currently around 120bps versus a long-term average of ~55bps, which has also elevated funding costs. Normalization of this spread toward historical levels would improve system liquidity, lower funding costs and supporting credit growth and earnings leverage for banks. Such normalization could be driven by normalization of loan growth, higher-than-expected policy rate cuts (75bps or more), higher government and quasi-sovereign deposits in the banking system.
- **Feedstock allocations:** Incremental feedstock allocations from the Jafurah Phase 1 gas ramp-up improve cost visibility and scale economics for downstream and integrated players. Enhanced feedstock security reduces earnings volatility, strengthens balance sheets, and supports dividend capacity, while structurally lowering reliance on oil-linked inputs and improving long-term ROIC. Notably, companies such as Kayan, where feedstock has been approved but not yet allocated, represent embedded optionality, with allocation acting as a catalyst for earnings upgrades, selective rerating even in softer global demand environment.

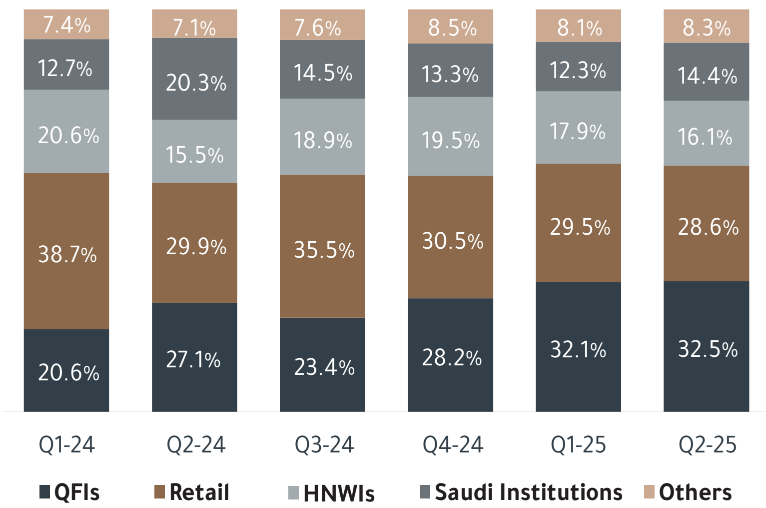
In sum, our bull case assumes oil prices recover above USD 75/bbl, 4.5%+ GDP growth and cumulative rate cuts of at least 75bps, driving liquidity normalization and valuation convergence toward long-term averages. Under this scenario, we assume 14% EPS growth and a TASI P/E of 18.9x, implying a TASI target of **13,118** and 25.0% upside from current levels.

Source: MSCI, Argaam, Tadawul, Aljazira Capital Research

Rising foreign investor access to act as catalyst for index flows and weightage



Saudi equity market moving towards institutional dominance



Sector Outlook & Top Picks

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Sector Outlooks: Ongoing economic transformations and macro factors driving developments bottom-up in FY26

BANKS
Overweight

We are overweight on banks based on (1) continued earnings momentum - AJC banking universe is expected to deliver earnings growth of 9.5% in 2026e, (2) pristine asset quality with gross NPL ratio of 1.17%, (2) improved balance sheet mix which will limit NIM compression due to higher fixed rate investments & mortgage exposure, and (3) valuation discount - banks trade at 2026e PB/PE of 10.3/1.5x, a 23.2/3.4% discount to long term averages respectively, despite 2026e ROE of 14.6% vs long term ROE of 11.8%. **Alinma** is our top pick in the sector.

ENERGY
Neutral

In FY26, the Saudi energy landscape is expected to pivot toward a volume-led strategy to counteract the softening of global crude prices. As OPEC+ gradually unwinds production constraints, domestic oil output is anticipated to rise to an average of 10.2 mbpd, providing a substantial boost to upstream activity and oilfield services. This operational momentum, further bolstered by the strategic expansion of the Jafurah gas field, acts as a critical buffer for Aramco. Although we are "Neutral" on Energy sector, we remain "Overweight" on Aramco. While lower oil prices will impact financial performance, this is partly offset by higher oil production and rising gas output from Jafurah. However, pressure on FCF may lead to steady or potentially lower dividend payments.

PETCHEM
Cautious

The global petrochemical sector continues to navigate a "bottom-of-the-cycle" environment, defined by a surplus of supply and lagging demand growth through 2026. However, as the pace of new global capacity additions begins to decelerate, a market transition is appearing on the horizon. Saudi producers remain uniquely resilient in this climate; their advantageous feedstock costs and an increasing pivot toward specialty, high-margin products provide a competitive edge even as major trade partners like China pursue greater self-sufficiency. However, Saudi petrochemical stocks are trading at deep discounts, with many significantly below their historical Price-to-Book (P/B) ratios and most of the Petchem companies are currently trading below their replacement value. For example, SABIC and Sipchem are trading at discounts of 38% and -42% respectively compared to their historical average P/B, while SABIC is estimated to be at 10-20% discount to its replacement value and Kayan at as high as 50% discount to replacement value.

TELECOM
Overweight

Growth in the Saudi telecommunications sector is increasingly anchored by high-value enterprise demand, specifically through "Sovereign Cloud" initiatives and the massive infrastructure requirements of Giga-projects. While the shift toward B2B services and network modernization may temporarily compress margins, a steady rise in 5G ARPU and subscriber numbers supports a low-to-mid single-digit revenue trajectory. With capital intensity now stabilizing, major players like STC and Mobily are focusing investments on 5G densification and hyperscale data centers to secure long-term digital leadership. **Mobily** is our top pick in the telecom sector due to its superior operational momentum. Mobily is capturing outsized growth in the consumer segment (Subscribers +14.8% Y/Y in Q3-25 to ~13.4mn) and rapidly scaling its B2B order book.

CEMENT
Neutral

Saudi Arabia's cement sector remains structurally supported by Vision 2030-linked giga and mega projects, EXPO 2030 preparations, and broader infrastructure spending; however, near-term conditions are becoming more mixed. Cement sales reached a post-FY16 high of 49.9MT, reflecting strong construction momentum, but growth is expected to moderate in early FY26 amid a slowdown in real-estate activity and softer mortgage growth following mid-FY25. Pricing remains fragile after significant ASP volatility in 9M-25, with only a gradual 3-5% recovery expected in FY26. While inventory normalization and project execution should support volumes over the medium term, risks from demand timing, feedstock cost pressures, and uneven regional recovery temper the sector's near-term outlook. **Yamama Cement** is our top pick in the sector.

Sector Outlooks: Ongoing economic transformations and macro factors driving developments bottom-up in FY26

HEALTHCARE
Overweight

KSA's healthcare sector is entering a structurally supportive growth phase, driven by favorable demographics, rising disease prevalence, medical tourism, and Vision 2030 reforms that are accelerating the shift toward private-sector-led healthcare delivery. The sector is currently in a multi-year capacity expansion cycle, which has supported revenue growth but temporarily pressured margins and valuations due to rising labor costs, slow ramp-up of new facilities, and pricing constraints, leading to margin contraction in 9M-25 and a ~16% YTD sector decline in FY25. Despite near-term challenges, long-term demand visibility remains strong, supported by population growth, rapid aging, expanding insurance coverage, PPP frameworks, and the phased introduction of DRG-based pricing. The competitive landscape is consolidated, with the top four listed operators controlling ~70% of listed bed capacity, favoring scaled players despite heightened competition in key markets such as Riyadh. As utilization improves and insurance-led volumes scale over the next 2-3 years, earnings and free cash flow are expected to normalize, creating selective opportunities, with **National Care** our top pick given its recent expansions, improving operational metrics, and ability to deliver ~21% earnings CAGR over the next five years.

RETAIL
Neutral

Sales growth in retail sector is at healthy 6.41% for trailing twelve months (TMM) ending Sept-25, however margins are under pressure due to growing competition and expansion related expenses. Operating margin for AJC retail universe is down 36bps to 9.7% in TTM; only three (Americana, SACO, Extra) out of twelve companies under AJC coverage have seen an improvement in OPM in past twelve months. Over the long run declining commodity prices, population growth, increase in tourism (Expo 2030 & FIFA world cup) and government's push for localization, especially for essential food items like poultry (Tanmiah, Almunajem, Almarai), would act as structural tailwinds for the Saudi retail sector. We assign market weight to retail; **Tasheel** are our top picks in the sector.

SOFTWARE
Overweight

KSA's software & services sector benefits from strong structural visibility, driven by Vision 2030-led government digitalization and a supportive regulatory framework, with the majority of revenues sourced from public entities, ensuring recurring and scalable demand. The ICT market is expected to grow from ~USD 43.5bn in 2024 to ~USD 59.1bn by 2030 (~5.3% CAGR), with growth gradually shifting from mature legacy ICT services toward higher-value AI, cloud, data-center, and managed services, enhancing revenue quality. While recent fundamentals have been weighed down by margin pressure, rising execution costs, slower government contract awards, and a ~29% sector index decline in FY25, structural demand remains intact, supported by long-tenure contracts and robust backlog visibility. Players with strong balance sheets and execution capability are best positioned to capitalize on this policy-driven growth. Amid this landscape, we maintain **Solutions by STC** as our top pick, supported by a cash-rich balance sheet (SAR 1.7bn), 150+ new contracts in 9M-25, improving deployment of IT and managed services, disciplined capital allocation, and consistent cash flow, offering clear earnings visibility and dividend sustainability at an attractive forward FY26E P/E and dividend yield

TOURISM
Overweight

Saudi Arabia's tourism engine has remarkably outpaced its Vision 2030 milestones, hosting 116 million visitors in 2024 and transforming the nation's travel balance of payments into a SAR 50 billion surplus. This surge—powered by a mix of robust domestic travel and 30 million international arrivals—has elevated the sector's total GDP contribution to an estimated 11.4%. As inbound spending continues to break records, tourism has solidified its role as a structural pillar in the Kingdom's move away from oil-heavy economic models. **Budget Saudi** is our top pick in the sector, as we believe with its market leadership the company is positioned well to benefit from expanding tourism and transportation sectors activities. Also, valuation seems attractive at current levels.

Pharma
Neutral

Pharmaceutical sector continues to benefit from favorable demographics, rising healthcare access and expanding insurance coverage, which together underpin steady, volume-driven demand growth. However, the sector remains structurally constrained by intense competition, heavy reliance on generics, and a tightly regulated pricing environment, limiting margin expansion potential. Vision 2030 initiatives—including localization targets, centralized procurement through NUPCO, and insurance-led generic substitution—provide support for scale, capacity utilization and operational efficiency. That said, much of this policy support is already reflected in current valuations, which constrains sector-wide upside. Against this backdrop, we maintain a Neutral stance on the broader sector. Within this context, **Avalon Pharma** stands out as our top pick. The company's relatively attractive valuation, consistent growth trajectory, steady pipeline of product launches, and improving utilization position it to outperform peers, driven primarily by execution rather than multiple expansion or margin improvement. Its disciplined operational approach and ability to capitalize on volume opportunities give it a clearer path to delivering incremental shareholder value

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Positive

Banking Sector Outlook

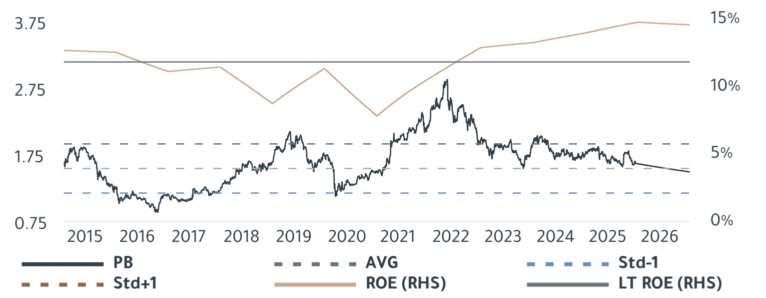
Continued earnings momentum, superior asset quality and valuation discount back our liking

We are overweight on banks based on (1) continued earnings momentum - AJC banking universe is expected to deliver earnings growth of 9.5% in 2026e, (2) pristine asset quality with gross NPL ratio of 1.17%, (2) improved balance sheet mix which will limit NIM compression due to higher fixed rate investments & mortgage exposure, and (3) valuation discount - banks trade at 2026e PB/PE of 10.3/1.5x, a 23.2/3.4% discount to long term averages respectively, despite 2026e ROE of 14.6% vs long term ROE of 11.8%.

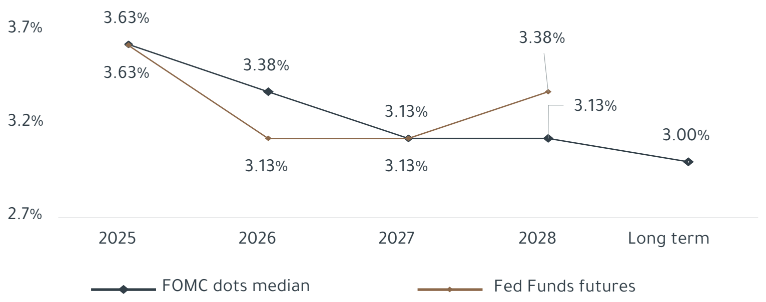
- In line with market's expectation, we expect US Fed to make two quarter percentage point cuts in interest rates in 2026; FOMC members expects one 25bps cut in 2026. We expect SAMA to follow Fed due to exchange rate peg.
- Banking sector, despite a 24bps Y/Y contraction in NIMs, has posted record high earnings in 9M-25 on the back of double-digit growth in earning assets (up 13.9% Y/Y) and strong increase in non-funded income (up 21.1% Y/Y). However, we highlight that growth in funded income is showing notable moderation as compared to last few quarters (up 5.7% Y/Y in Q3-25 vs 11.1/9.4% Y/Y in Q1-25/Q2-25).
- We expect earnings momentum to continue, with AJC banking universe expected to post growth of 9.5% Y/Y in 2026; driven by strong balance sheet growth, steady NIMs, and stable cost of risk. During declining rates Interest margins would be supported by higher exposure to fixed rate investments, mortgages, rate sensitive deposits & inter bank borrowings. Normalization of fee income growth would act as a headwind for profitability in 2026.
- We expect total loans to private sector to record a 12.2% Y/Y increase in 2025, where a slowdown in mortgage loan issuances (retail mortgage issuance stood at SAR 4.6bn per month in 2025 vs SAR 6.0bn in 2024) would be more than offset by the increase in MSME loans (up 32.2% Y/Y in 2025E). We foresee sector loan growth to edge down to 11.5% Y/Y in 2026, with mortgage issuances regaining some momentum on account of changes in white land rules. Corporate loans are forecasted to grow by 11.5% next year (13.2% 2025E), whereas we see recovery in non-mortgage retail to remain muted (up 5% in 2026E vs 4.0% in 2025E).
- We expect prevailing tight liquidity conditions (3M Saudi riyal - SOFR interest rate differential has expanded to multi-year high of 1.20%) to improve with normalization of loan growth. Prolonged decline in oil prices pose a potent threat to our assumptions - especially for corporate loans, exposing corporate heavy banks (Alinma) to higher risk.
- Deposit growth is expected to stay in single digits in 2026, while shift from Demand to Time & Saving deposits will continue, lifting the cost of funding for banks. We expect banks to continue to diversify their funding mix by tapping into sukuk market (sukuk issuances for AT1 doubled in 2025).

Source: Bloomberg, Argaam, Aljazira Capital Research

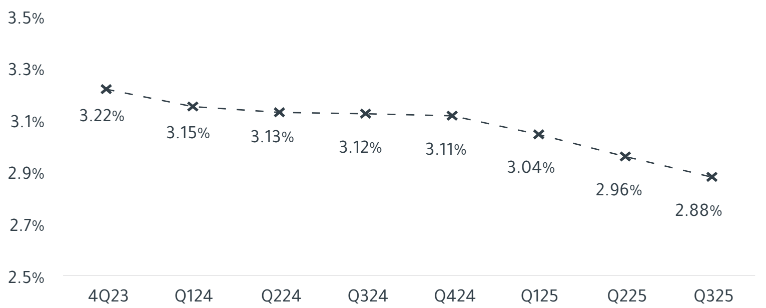
Valuation discount despite higher ROE



Market expects 50bps cut in 2026



NIMs have contracted by 24bps Y/Y



Banking Sector Outlook

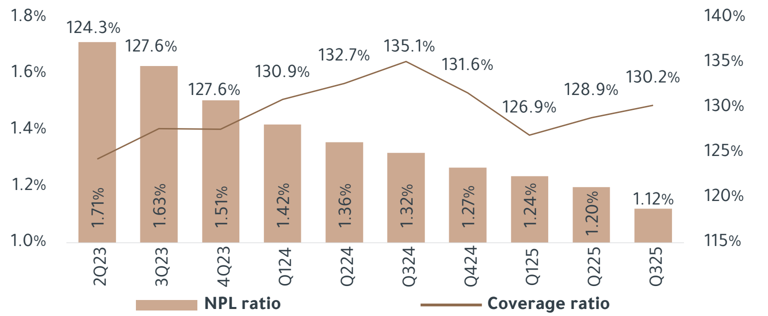
Positive

Liquidity & capital limits are being met, albeit payouts have been cut; Overweight Alinma

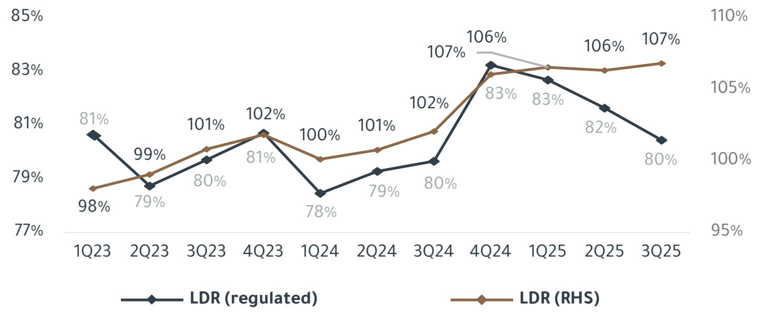
- Sector's asset quality continues to improve; Gross NPL ratio of the sector declined by 20bps Y/Y (8bps Q/Q) to 1.12% in Q3-25, while coverage stood at a healthy 130.2% (down 485bps and +139bps Y/Y and Q/Q). CoR declined by 10bps Y/Y (-1bps Q/Q) to 24bps in Q3-25. We expect asset quality matrices to remain around current levels in 2026, however, in the medium term we see NPLs to edge up because of the rapid growth in the riskier MSME segment. The high proportion of salary-linked fixed-rate mortgages are likely to keep retail bad loans under control. Moreover, due to increased non-oil economic activity, corporate asset quality is likely to see minimal deterioration even in a low oil price environment.
- Normal Loan-to-deposit (LDR) ratio increased by 4.75ppts Y/Y (up 49bps Q/Q) to reach 106.8% in Q3-25; regulatory LDR saw an increase of 79bps Y/Y (-119bps Q/Q),as it reached 80.4% in Q3-25. The increase in LDR ratios is owed to the sizable 14.4% Y/Y increase in net loans & advances in Q3-25 and a smaller 7.8% Y/Y increase in deposits. The 3M Saudi riyal - SOFR interest rate differential expanded to multi-year high of 1.20%, due to liquidity shortage in the banking system. We expect sector to remain well within regulatory LDR limits in 2026.
- Sector capital adequacy remains sizably above regulatory requirement, with CAR/Tier-1 ratio for the sector at **19.5/18.2%**, hence we see limited risks on this front in 2026. however, we highlight that the increase in counter cyclical buffer made in May-25 (along with liquidity shortage) has resulted in banks reducing pay outs, in our universe Alrajhi cut its 1H25 payout to 26% vs 58% in SPLY.
- Our top pick in the sector is **Alinma** due to, (1) change in outlook on interest rate cuts; which will result in smaller NIM compression for Alinma, and (2) growing valuation discount; after the 14.6% decline in stock price over the last 12 months the stock trades at 2025/26e PB of **1.7/1.8x as compared to last 3 year average of 2.4x.** We expect Alinma to deliver 2024-28 earnings CAGR of 9.8% and average ROE of 17.7%. We reiterate that reduction in NIMs (down 30bps over 2024-28) would be more than compensated by the robust loan growth (2024-28 CAGR 10.2%) and improvement in operating efficiencies (cost to income -379bps over 2024-28). We reiterate our "**Overweight**" recommendation with a TP of **SAR 32.7 per share**.

Source: Bloomberg, Argaam, Aljazira Capital Research

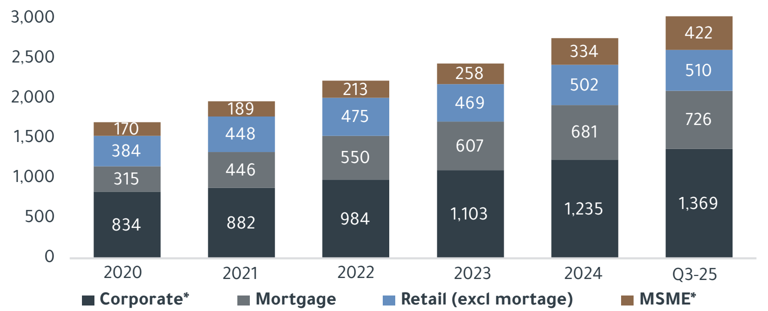
Asset quality



LDR is down from recent highs



Loan breakup



aljazira capital الجزيرة كابيتال

Energy Sector Outlook

Neutral

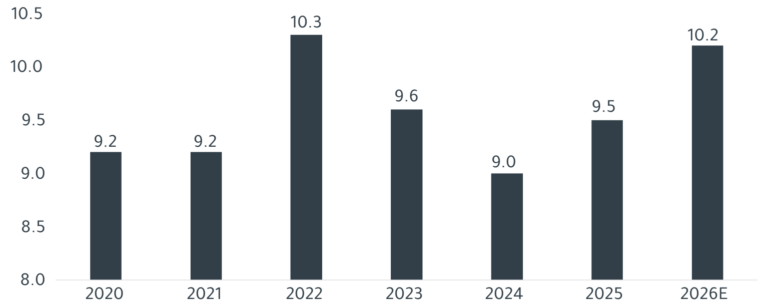
Higher oil and gas volumes to partially offset weaker pricing; strategic gas expansion remains a key catalyst

Saudi Energy sector is expected to rely on higher sales volumes to help make up for lower oil prices in FY26. While global oil market fundamentals point to a supply surplus that will keep pressure on crude prices, Saudi Arabia's (OPEC+) strategic unwinding of production cuts will drive a material recovery in output volumes. Oil production is forecast to average 10.2 mbpd in 2026 (vs. 9.5 mbpd in 2025), directly stimulating upstream activity. Additionally, the ramp-up of the Jafurah gas field will support increase in gas production. While lower oil prices may weigh on sector-wide free cash flow, the volume recovery offers a distinct operational tailwind for Aramco and key drilling contractors.

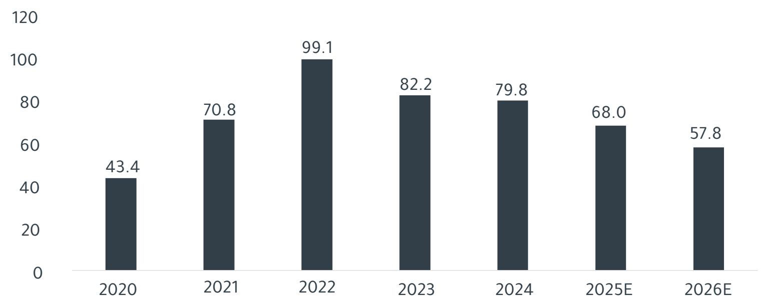
- **Supply surplus weighs on market balance, but KSA volumes rebound:** The global oil market outlook for 2026 is characterized by a structural supply surplus, driven by robust non-OPEC supply growth and the return of OPEC+ barrels. Under such scenario, Saudi Arabia's narrative has shifted from production restraint to volume recovery (~1.1mbpd increase since April 2025). We project Saudi oil output to average 10.2 mbpd in 2026, a significant increase from 9.5 mbpd in 2025, as the Kingdom (in line with OPEC+ direction) is likely to continue maintain current production level in Q1-26 and a very gradual increase later. Furthermore, the anticipated Jafurah gas field production ramp up would lead to rise in gas production.
- **Pricing pressure persists:** We expect Brent Crude prices to remain under pressure in 2026, averaging USD 55-60 per barrel due to the overarching supply glut (2025: USD 68.2). While the lower price environment poses a headwind to top-line realizations, this will be partially mitigated by the ~7% year-on-year increase in crude production volumes. The higher output is also expected to drive higher utilization across the value chain.
- **Drilling activity could receive support from volume return:** The unwinding of cuts and the expected 10.2 mbpd output level will necessitate higher rig activity, reversing the "suspension" trend seen in prior years. ADES and Arabian Drilling are positioned to benefit directly, with activity levels expected to improve as some of the suspended rigs are already being recalled.
- Despite the macro pricing headwinds, we see resilience in specific names driven by operational growth. We remain positive on **Aramco**. While lower oil prices will impact financial performance, this is partly offset by higher oil production and rising gas output from Jafurah. However, pressure on FCF may lead to steady or potentially lower dividend payments. **ADES** has a strong foothold in the attractive offshore market and continued inorganic expansion, which insulates it well against broader volatility. **Arabian Drilling** is expected to see a visible improvement in performance in 2026, driven by the recall of previously suspended rigs. makes its current valuation compelling.

Source: Bloomberg, Argaam, Aljazira Capital Research

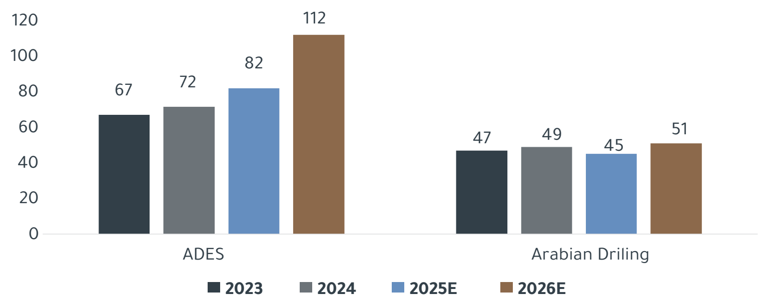
KSA oil production (mbpd)



Brent Crude Oil Price (USD / barrel)



Total active rigs (by end of the year)



*ADES 2026 rigs include Shelf Drilling

Petrochemicals Sector Outlook

Cautious

Downcycle extends further, still searching for the bottom; capacity addition effect and weak demand to weigh on prices

The global petrochemical industry is expected to remain in the "bottom of the cycle" throughout 2026, characterized by persistent overcapacity and subdued demand growth. While structural oversupply continues to pressure margins, the market is entering a transitional phase where new capacity additions are beginning to moderate. Saudi Arabian producers remain competitively positioned due to their resilient feedstock cost structure and strategic focus on high-margin specialty products, despite broader global volatility and a relentless self-sufficiency drive from major importers like China.

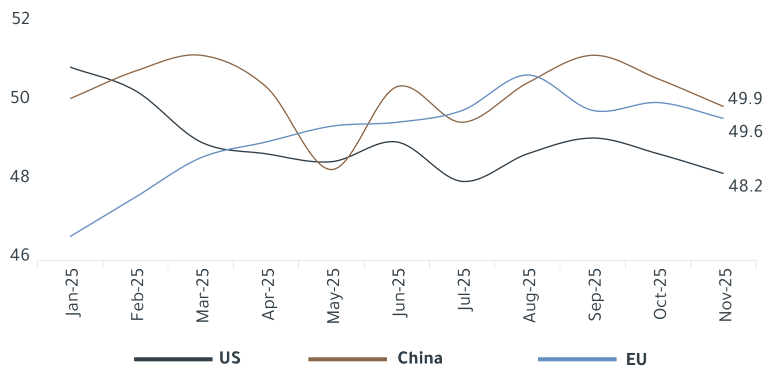
- The petrochemical market is expected to remain under significant pressure throughout 2026, effectively extending the current downcycle as massive global capacity additions continue to outpace a sluggish and uneven demand recovery. This weak demand outlook is fundamentally underscored by persistent manufacturing sector weakness; November 2025 manufacturing PMI figures for the US (48.2), China (49.9), and the EU (49.6) all trended in contraction territory, signaling a profound lack of industrial momentum. Consequently, global chemical production growth is forecasted at a modest 2.0% for 2026 by the American Chemistry Council, reflecting a "sticky" economic spot where a global surplus of approximately 226mn tonnes (ICIS estimate) in capacity is chasing too little demand. Beyond these supply-demand imbalances, the sector is struggling with record-low utilization rates, estimated to remain below 80%, and intensifying trade protectionism as global trade growth slows to 0.6%. Furthermore, a fundamental shift in China's growth model from a high-growth importer to a self-sufficient producer has permanently lowered its petchem growth prospects from 6-8% to just 1-4% per year, forcing major trade flow realignments.
- **AJC View:** We believe that while 2026 will be undeniably challenging. However, the slowing pace of new capacity additions - combined with increasing plant closures in low margin regions like Europe and South Korea - suggests the industry is finally nearing the cycle's trough. There are also news on China's capacity rationalization but there are no solid steps/plan of action confirmed yet. A potential recovery could be triggered by end of 2026 or in 2027 as the cumulative effect of lower interest rates begins to stimulate broader economic activity. This shift may catalyze a release of pent-up consumer demand in critical, rate-sensitive end-use sectors such as construction, automotive, and consumer electronics, potentially providing the necessary spark to rebalance the market and improve operating rates toward the end of the decade.
- **Key product and feedstock outlook for FY26E:** Product prices are expected to remain mostly under pressure, particularly for bulk polymers like PP and PE where the structural oversupply is most pronounced. However, some supply-demand balancing is expected for methanol downstream products (specifically Acetic Acid, EVA, and VAM) which are likely to experience a lower impact compared to polymers due to more favorable market dynamics. MEG and PET are also anticipated to see a lower impact from the down cycle compared to previous years. On the other hand, the feedstock outlook is supported by anticipated lower oil prices, which may provide relief on spreads. In Saudi Arabia, we do not expect major increases in fixed domestic pricing for Methane and Ethane in 2026, though some minor adjustments to align with energy subsidy reforms remain a possibility. Key feedstocks, including Propane, Butane, Ethane, and Methane, are expected to remain stable or ease in price. Specifically, the forecast for Propane (-13.4%) and Butane (-11.5%) indicates significant cost-side support for regional producers.

Source: ICIS, Reuters, S&P Global, IMF, Argaam, Aljazira Capital Research

Price outlook (average prices USD/ton)

	FY24	FY25	FY26E	FY25E Y/Y change
Naphtha	676	596	554	-7.00%
Propane	610	565	489	-13.40%
Butane	608	546	483	-11.50%
HDPE	939	862	863	0.10%
PP	905	893	843	-5.60%
Ammonia	364	370	440	18.90%
Methanol	292	270	262	-3.10%
MEG	539	510	481	-5.80%
MTBE	831	680	652	-4.10%
Acetic Acid	472	427	428	0.20%
VAM	851	790	817	3.40%
EVA	1,212	1,207	1,233	2.10%
Polycarbonate	1,790	1,568	1,558	-0.70%
Urea	340	414	396	-4.40%

Manufacturing PMI trend



Petrochemicals Sector Outlook

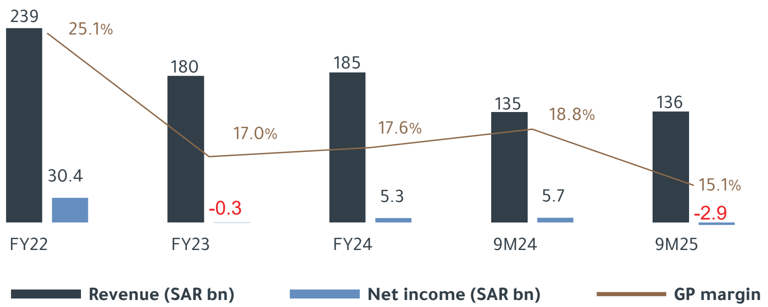
Cautious

Global industry weakness demands caution; rebound potential depends on visible recovery signals

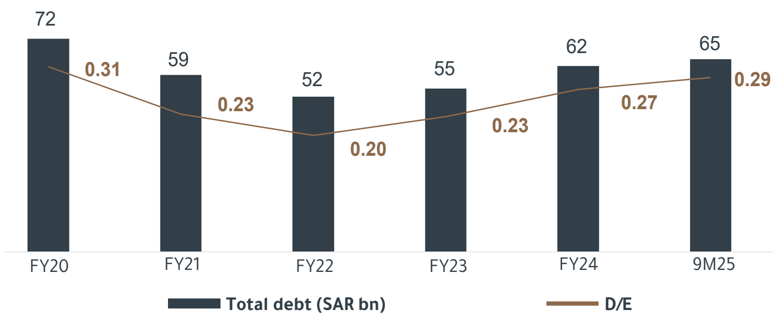
- **Persistent financial pressure and non-cash impairments:** The Saudi petrochemical sector's 9M25 performance has been significantly impacted by the broader global industrial slump, with total revenue stabilizing at SAR 136bn (SAR 135bn in 9M24) while bottom-line dipped to losses of SAR 2.9bn. A primary catalyst for this downturn was SABIC's reported net loss of SAR 4.84bn for the first nine months of 2025. This loss was not purely operational but largely driven by SAR 3.78bn in non-cash impairment charges related to the strategic closure of the Teesside cracker in the UK and SAR 925m in impairments from European joint ventures, reflecting the de-industrialization trend in Europe due to high energy costs. Beyond these one-off accounting adjustments, the sector faced "contribution margin" compression as average selling prices for polymers and liquid chemicals remained under pressure due to global oversupply. However, operational resilience is evident; SABIC achieved SAR 489m in cost-optimization savings across SG&A and R&D in Q3-25 alone, demonstrating a sector-wide pivot toward cash preservation and "profit prioritization" during the downcycle.
- **Expansion projects on cards to support growth post recovery; leverage increased but still headroom for CAPEX projects:** Strategic leverage across the Saudi petrochemical sector has trended upward, with total debt reaching SAR 65bn and the Debt-to-Equity (D/E) ratio rising to 0.29 as of 9M-25, compared to SAR 52bn and 0.20 in FY22. This uptick is primarily a tactical outcome of Advanced Petrochemicals securing debt to fund its 800k mtpa PDH-PP complex—now in its final startup phase with full capacity expected by Q2-2026—alongside SABIC's growth capex and equity erosion from non-cash impairments. Despite higher debt levels, the sector retains significant headroom to fund a robust pipeline of high-value projects, including the USD 6.4bn SABIC Fujian JV set for H2-26 commissioning, Alujain's 600k mtpa PP expansion by H1-27, Sipchem's PDH-PP expansion completing by Q4-26 and EVA expansion by Q4-27, and potential blue ammonia facilities from Sipchem and SABIC Agri. This strategic shift toward high-margin, world-scale assets ensures that the recent rise in leverage is underpinned by long-term capacity-led growth intended to redefine regional profitability as the market rebalances.
- **U-shaped recovery and valuation opportunities:** We anticipate a U-shaped recovery for the sector as global demand rebalances, and the pace of new capacity additions begins to moderate globally. Currently, Saudi petrochemical stocks are trading at deep discounts, with many significantly below their historical Price-to-Book (P/B) ratios and some even trading below book value. For example, SABIC and Sipchem are trading at discounts of -38% and -42% respectively compared to their historical averages. Additionally, it is noteworthy that most of the **Petchem companies are currently trading below their replacement value. For e.g. SABIC is estimated to be at 20% discount to its replacement value, while companies like Kayan are trading at as high as 50% discount to replacement value.** These compressed valuations suggest that stock prices could jump rapidly once the market confirms a demand pivot, especially given that many downside risks are already factored in. A massive domestic tailwind is the successful December 2025 start-up of Aramco's Jafurah Phase I, which has launched with an initial capacity of 450 mmscf/d of gas. This milestone significantly increases the probability of additional ethane and methane feedstock allocations (already approved for companies like Kayan), which will enhance regional feedstock security and margin stability in a hyper-competitive global landscape.

Source: Bloomberg, Argaam, Aljazira Capital Research

Petchem sector financial performance



Total debt (SAR bn) and leverage trend



Saudi Petrochemicals P/B valuation

	Current P/B	Historic avg.	Discount
SABIC	1.03	1.67	-38%
SABIC Agri	2.67	4.01	-33%
Yansab	1.43	1.98	-28%
Kayan	0.72	1.16	-38%
Sipchem	0.76	1.30	-42%
Tasnee	0.62	1.12	-45%
Advanced	2.41	3.37	-28%
Alujain	0.56	1.27	-56%

Telecom Sector Outlook

Positive

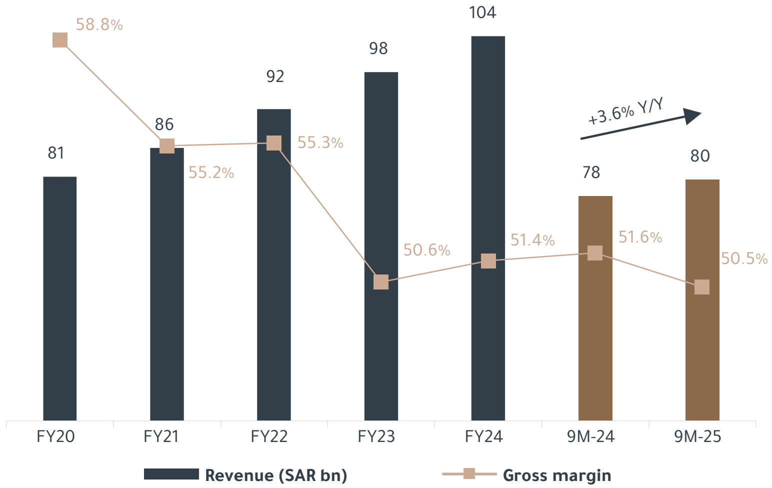
Expanding beyond connectivity: industrial digitization, cloud data, smart cities, growing 5G adoption key opportunities

The Saudi telecom sector's B2B growth is anchored by the "Sovereign Cloud" boom and Giga-project infrastructure demand, alongside a resilient consumer segment delivering subscriber growth and 5G ARPU uplift. We project low-to-mid single-digit revenue growth driven by these engines, though margins may remain under pressure due to the mix shift toward B2B and the costs of the current investment phase. Capex intensity is expected to normalize in the low-mid teens - below peak 5G levels but sufficient to fund critical requirements for Standalone 5G densification, hyperscale data centers, and subsea fiber, reinforcing the long-term outlook for key operators like Mobily and STC.

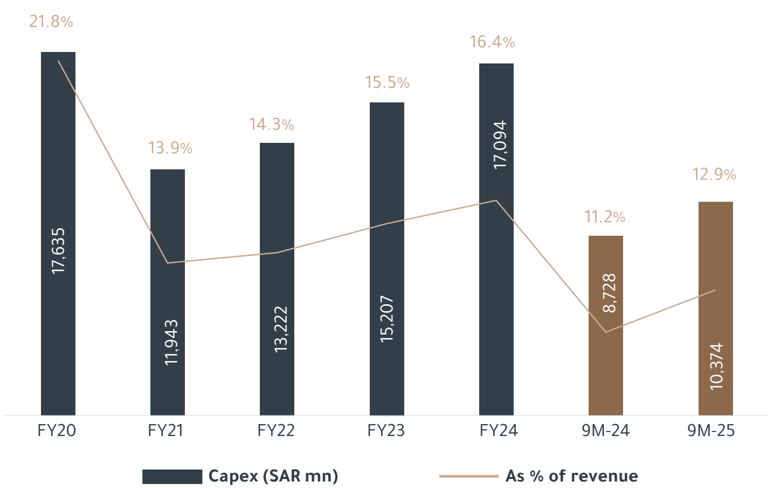
- **Sovereign cloud & data center boom could be the new B2B engine:** With the Kingdom's "Cloud First" policy and strict data residency mandates (NCA regulations), operators are pivoting from simple connectivity to becoming the exclusive landlords of "Sovereign Cloud" infrastructure. This drives high-quality, recurring B2B revenue as government entities and Mega-projects migrate workloads to local data centers.
- **Mega-projects offer the hard infrastructure revenue stream:** As giga-projects (NEOM, Red Sea, Qiddiya) accelerate construction, the demand for dedicated fiber backbones and high-density tower deployment is peaking. This represents immediate, contract-backed revenue for operators with the strong balance sheets to deploy physical infrastructure.
- **Consumer segment showcasing subscriber growth & 5G ARPU uplift:** The consumer market is defying saturation concerns. "Quality of Experience" (QoE) is replacing price as the primary churn driver. Rising 5G handset penetration is naturally accretive to ARPU (Average Revenue Per User) as data consumption surges. STC and Mobily are capturing the bulk of net-adds, leveraging superior network density to justify premium pricing.
- **Capital efficiency & FCF expansion:** The peak 5G capex cycle (historically >20% of sales) has passed. Capex intensity is normalizing toward the global average (~12-14%; expect in early teens in mid-term). This structural decline in capital intensity directly boosts FCF, creating capacity for sustained dividend growth and deleveraging without compromising network quality.

Source: Company reports, Aljazira Capital Research

Telecom sector revenue and gross margin



Sector capex as % of revenue



Telecom Sector Outlook

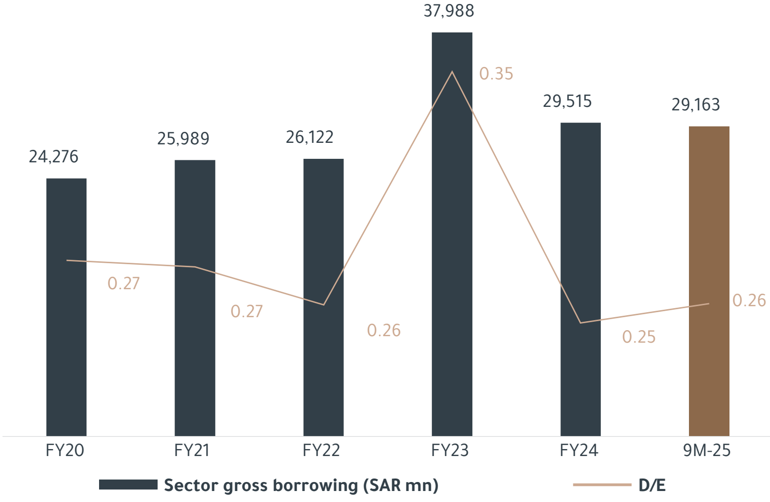
Positive

Balanced capital strategy: strategic capex to restrict rapid deleveraging

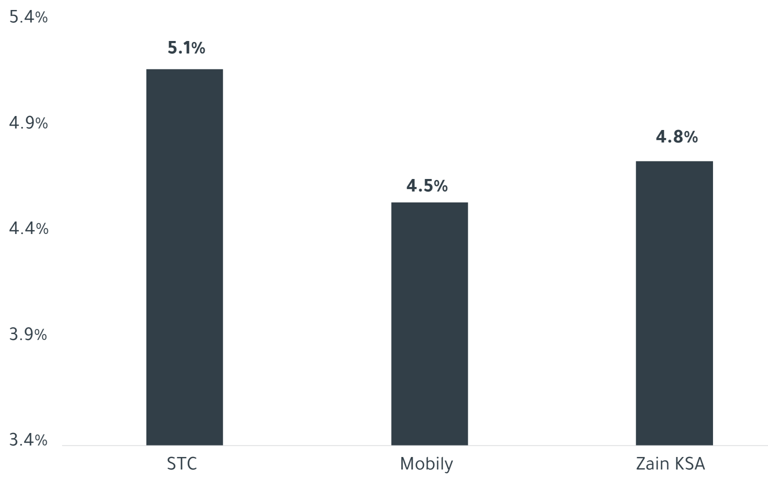
- Sector leverage remained largely steady during 9M-25 (Debt/Equity ratio at 0.26x vs. 0.25x in FY24), signaling a stabilization following the acquisition-led spikes of FY23 (0.35x). Deleveraging efforts from Mobily and cash generated from sale of assets are likely to help further deleveraging in the sector. Zain KSA might have to keep its debt level to fund its operations as well as CAPEX, in our view. Moreover, deconsolidation of TAWAL from STC help lower debt level.
- We do not anticipate a sharp drop in leverage ratios in FY26. Instead, we project gradual deleveraging. Operators are choosing to deploy free cash flow into strategic growth engines rather than aggressive debt repayment.
- **Strategic reinvestment:** Capex requirements remain substantial as the investment focus shifts from basic coverage to "Digital Ecosystem" building, continued expansion of 5G networks (densification and standalone 5G) and heavy investment in hyperscale data centers and subsea optical fiber projects to establish the Kingdom as a regional connectivity hub. There has been accelerated capital deployment into high-growth segments like Fintech (digital banking licenses), Data Security, and IoT platforms required for Giga-project B2B contracts.
- **Dividend yields attractive in a rate-cut cycle:** With the global and local interest rate cycle turning (declining SAIBOR), telecom dividends are becoming increasingly attractive. STC offers a robust 5.1% yield, serving as the sector's defensive anchor. Mobily is projected at 4.5% yield, offering a balanced mix of growth potential and income. Zain KSA (4.8% yield) will be supported by improved net income visibility.
- **Top Pick:** Mobily remains our top sector pick **(TP: SAR 74.8)** due to its superior operational momentum. Mobily is capturing outsized growth in the consumer segment (Subscribers +14.8% Y/Y in Q3-25 to ~13.4mn) and rapidly scaling its B2B order book. We are also positive on STC for its dominant scale in the Mega-project B2B space and its ability to monetize its massive infrastructure assets. Zain KSA's competitive intensity in the consumer segment limits upside compared to peers.

Source: Company announcements, Company reports, Aljazira Capital Research

Sector gross borrowing (SAR mn) and leverage



Expected dividend yield for FY26E



Cement Sector Outlook

Neutral

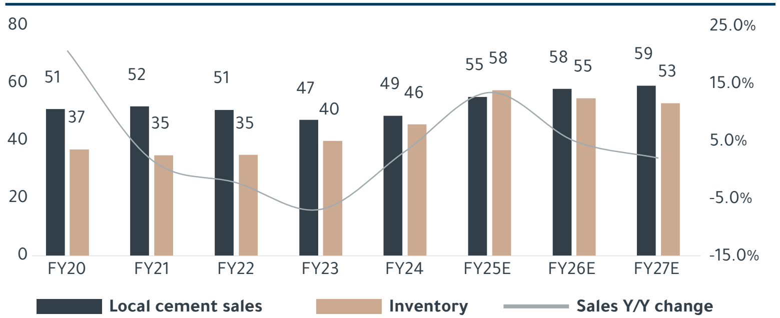
Sales reached new records since a decade, although intense competition, inventory accumulation, and feedstock hikes remain key challenges

Saudi Arabia's cement sector remains structurally supported by Vision 2030-linked giga and mega projects, EXPO 2030 preparations, and broader infrastructure spending; however, near-term conditions are becoming more mixed. Cement sales reached a post-FY16 high of 49.9MT, reflecting strong construction momentum, but growth is expected to moderate in early FY26 amid a slowdown in real-estate activity and softer mortgage growth following mid-FY25. Pricing remains fragile after significant ASP volatility in 9M-25, with only a gradual 3-5% recovery expected in FY26. While inventory normalization and project execution should support volumes over the medium term, risks from demand timing, feedstock cost pressures, and uneven regional recovery temper the sector's near-term outlook.

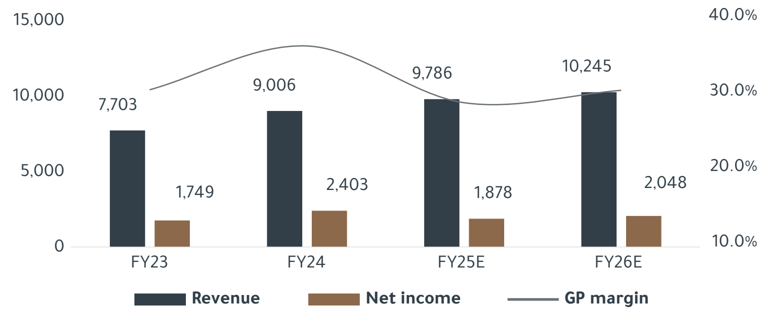
- Local cement sales recorded strong momentum from the start of FY25 through November, rising 13% Y/Y, driven primarily by accelerated construction activity. According to MEED, total awarded construction projects in 3Q-FY25 reached USD 15.1bn. While total awards are expected to be lower than last year, the shift toward execution is likely to remain supportive for cement volumes as projects transition into the construction phase.
- We expect cement volumes to grow at a mid single-digit rate in FY26. Demand momentum should continue, although a temporary slowdown in real-estate development during 1H-FY26 may weigh on near-term consumption. Inventory levels are projected to gradually normalize in FY26, supported by steady demand growth and potential feedstock cost pressures. We expect inventories to revert to FY24 levels, with the production-to-sales ratio declining to 95.7% in FY26, compared to an estimated 104% in FY25.
- ASP volatility persisted in 9M-FY25, with notable regional divergence; Prices came under pressure in the Western region from mid-FY24, falling to ~SAR 130/tonne versus a FY24 average of SAR 178/tonne. However, prices began recovering in early FY25. We expect ASPs to stabilize in the SAR 175-185/tonne range in FY26. Meanwhile the ASPs in the Central region declined to SAR 138/tonne in 3Q-25 from SAR 189/tonne. A recovery is expected in FY26, with prices trending toward SAR 170-180/tonne, supported by rising regional demand.
- Large-scale developments—including Giga and Mega projects, EXPO 2030, and preparations for the 2034 FIFA World Cup—position the sector as a key beneficiary over the medium term. As these projects enter advanced construction stages, demand is expected to rise materially, particularly in Central region, where many of these initiatives are concentrated. The FY26 government budget allocates SAR 162bn to capex (12% of total spends), underscoring momentum in construction activity.
- In 10M-25, total newly added mortgage loans rose 2.0% Y/Y to SAR 70.4bn. However, monthly growth has slowed since May 2025, influenced by the introduction of white land fees and expectations of land price adjustments. We expect housing activity to remain subdued in 1H-26, with a recovery in 2H-26, supporting cement demand and lifting total sector volumes toward ~58.0MT.
- While we remain Neutral on the sector's near-term outlook, recent correction has created selective opportunities. Our top pick is **Yamama Cement** which is well positioned to benefit from its strategic Central-region footprint, where most giga and mega projects are concentrated. It holds largest regional market share (15.1% of sales) and the third-highest production capacity (7.35MT p.a.). We expect ASP recovery in FY26 to drive a ~40 bps margin improvement, supported by its methane-based fuel mix, which limits exposure to feedstock cost volatility versus HFO and Arab Light. We maintain our "**Overweight**" recommendation on Yamama Cement with a TP of **SAR 37.1/share**.

Source: Company disclosures, Aljazira Capital Research

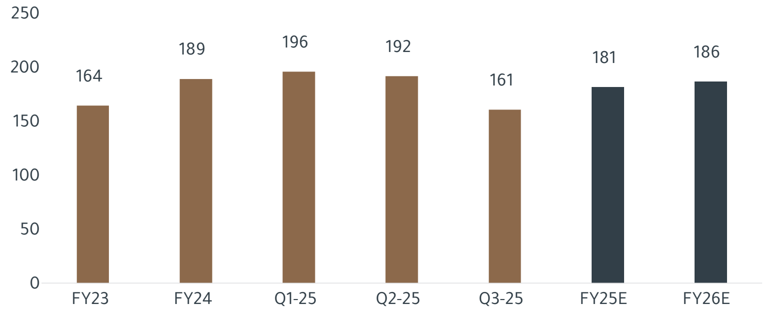
Sale and Inventory (mn Tonnes)



Average Selling Price Per Tonne (SAR)



TASI HC Index coming down from highs



Healthcare Sector Outlook

Positive

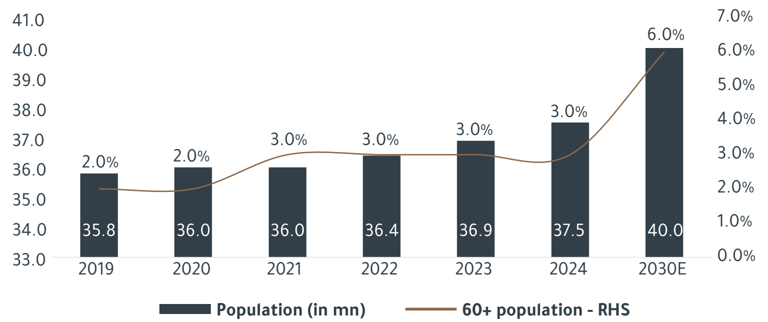
Structural Demand Tailwinds Support Long-Term Growth Prospects Despite Near-Term Pressures

KSA's healthcare sector is entering a structurally supportive growth phase, underpinned by demographic tailwinds, rising disease prevalence, and Vision 2030-led reforms that are shifting system toward private-sector-driven delivery. The sector is currently in a multi-year capacity expansion cycle, which is absorbing near-term demand and temporarily pressuring margins and valuations; however, as new capacity matures and insurance-led volumes scale up, profitability and free cash flow are expected to normalize over the medium term, creating selective opportunities among scaled private operators.

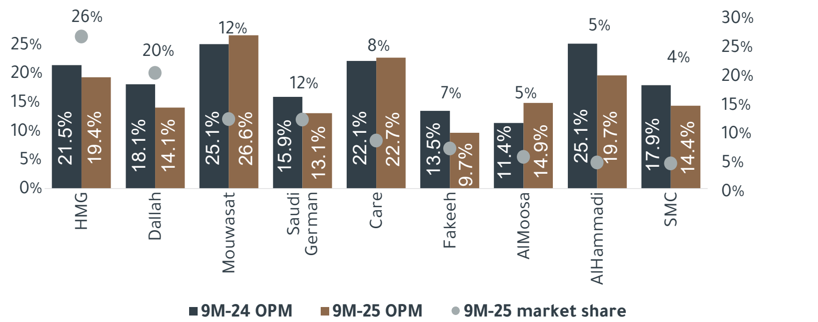
- Long-term structural trends continue to underpin healthcare demand in KSA, driven by population growth (~1.1% CAGR over 2024-30), a rapidly aging population (65+ growing at ~13.5% CAGR), and a high prevalence of lifestyle-related diseases. In parallel, the system is shifting toward a more privatized and specialized model, with private operators gaining share. Demand visibility is further supported by accelerating tourism, with 116mn visitors already achieved in 2024 and the 150mn Vision 2030 target likely to be met ahead of schedule, aiding utilization and absorption of ongoing capacity additions. Moreover, the government's objective to raise life expectancy to 80 years from 75 years further reinforces long-term healthcare demand.
- Vision 2030's Health Sector Transformation Program (HSTP) is accelerating the shift toward private-sector-led healthcare, targeting an increase in private spending from ~25% to ~35% by 2030. This is supported by PPP frameworks, the planned privatization of ~290 hospitals and ~2,300 primary health centers, the rollout of regional health clusters (~1mn people each), and expanding insurance coverage via CNHI and mandatory schemes. In parallel, the phased introduction of a DRG-based pricing system—shadow billing from 2025 and full implementation by 2027—aims to improve pricing transparency and system efficiency.
- Despite under penetration, KSA's private healthcare sector is competitive and consolidated, with top-4 listed operators controlling ~70% of the listed sector's bed capacity. Supported by strong demand and policy tailwinds, providers are into a multi-year expansion cycle, with ~33% of planned FY24-30 capacity additions already commissioned in 2025. Although this drove revenue growth, the gross/operating margins contracted by ~200/190bps Y/Y in 9M-25, reflecting margin compression from rapid capacity expansion, rising labor costs, and the slow ramp-up of new facilities, compounded by pricing and reimbursement constraints under government-led procurement, which together outpaced revenue growth despite steady demand and drove the sector index down 16% in FY25. Notably, Riyadh accounts for ~45% of the total listed sector bed capacity, heightening competition and representing a key near-term risk. With around one-third of new capacity already operational, earnings are poised to scale over the next 2-3 years, supported by rising utilization and insurance-driven volume growth. Sector-wide multiple contraction therefore creates an opportunity in our top pick, **National Care** with a TP of **SAR 188.0/share**, which is on track to deliver 21% earnings CAGR in next 5 years based on its recent expansions, rising patients' and overall improvement in operational metrics.

Source: Company disclosures, Aljazira Capital Research

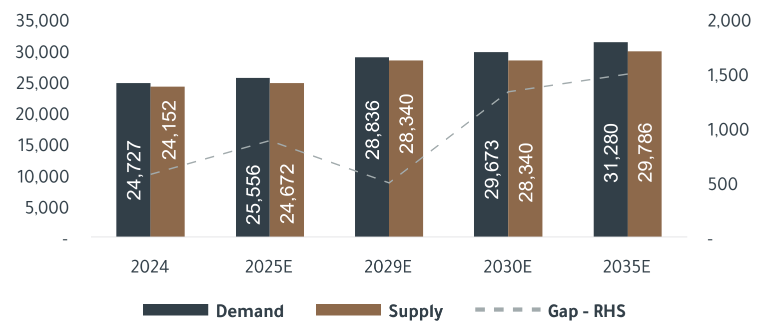
KSA's population growth & rapid ageing population



Margins compressed in 9M-25 but market share concentrated



Capacity build-out in Riyadh



Retail Sector Outlook

Neutral

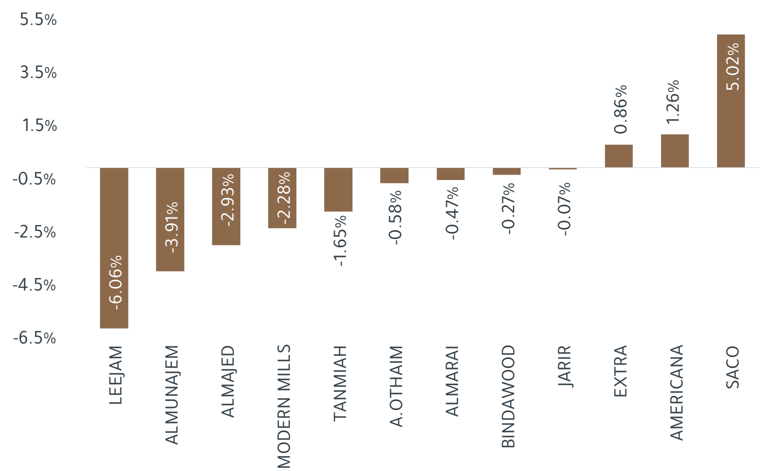
Margins under pressure due to growing competition however sales are growing steadily

Sales growth in retail sector is at healthy 6.41% for trailing twelve months (TMM) ending Sept-25, however margins are under pressure due to growing competition and expansion related expenses. Operating margin for AJC retail universe is down 36bps to 9.7% in TTM; only three (Americana, SACO, Extra) out of twelve companies under AJC coverage have seen an improvement in OPM in past twelve months. We assign market weight to retail; our preferred stocks from the retail sector include Extra, AlMajed Oud and Tasheel.

- Sales growth for retail sector is healthy at 6.41% for trailing twelve months. POS sales/transactions grew by 6.2/11.6% Y/Y in YTD Oct-25, while e-commerce sales/transactions using Mada cards increased by 65.0/55.0% Y/Y in YTD Oct-25. In terms of sales growth Almajed oud (up 18.9% Y/Y) and Americana (up 14.3%) led AJC retail coverage in TTM Sept-25, while Almunajem (down 0.7%) and AlOthaim (+ 3.6%) were the biggest laggards.
- Margins are under pressure due to growing competition (especially in consumer staple distribution & poultry sector) and expansion related expenses (Leejam, Othaim). Operating margin for AJC retail universe is down 36bps to 9.7% in TTM; Leejam (down 606bps) and Almunajem (down 391bps) saw the biggest decline in operating margins, while Saco (+502bps) and Americana (+126bps) saw the largest improvements.
- We believe grocery retail segment would continue to be pressured by growing competition from brick & mortar and online stores. In the near term, poultry sector would continue to face competitive pricing pressure from imports and increased local production.
- Over the long run declining commodity prices (will reduce input costs for Almarai, Tanmiah, Almunajem), population growth, increase in tourism (Expo 2030 & FIFA world cup) and government's push for localization especially for essential food items like poultry (Tanmiah, Almunajem, Almarai), would act as structural tailwinds for the Saudi retail sector. Improvement in security situation in middle-east can boost LFL sales for Americana.
- **Extra** is our prefered stock in the sector, it's investment case is supported by (1) partnership with Panda - 90% roll out done, (2) growing brick & mortar stores, (3) continued migration to e-commerce - where Extra has one of the best platforms and (4) renewed momentum in consumer finance business - led by successful new product launches. The company has displayed resilience despite sectoral headwinds such as diminishing buying power of consumers, changing consumer preference (discretionary spending shifting from electronics to HORECA) and growing competition in both online and offline channels. We see JV with Nowpay as a potential game changer for Tasheel. Trading at 2026E PE of 11.6x with a DY of 5.5%, we reiterate our "**Overweight**" rating on the company with PT of **SAR 107.4/share**.

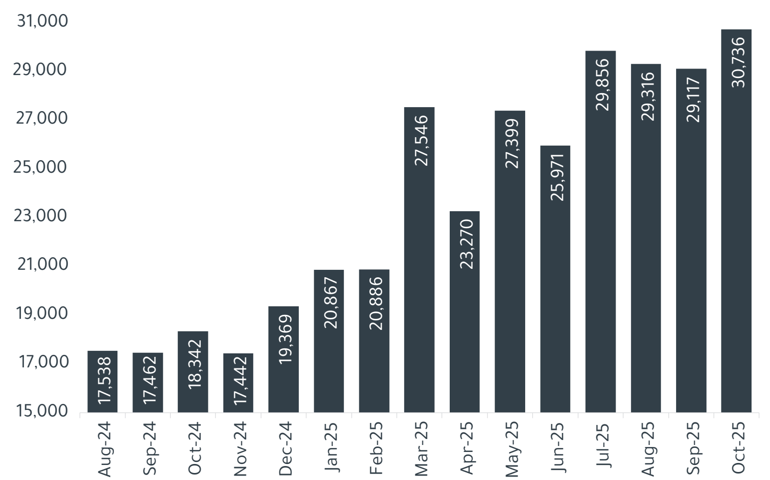
Source: Company accounts, SAMA, Aljazira Capital Research

Operating margins change TTM Sept-25



Source: SAMA, Aljazira Capital Research

E-commerce sales using MADA cards (SAR mn)



Source: Company accounts, Aljazira Capital Research

Retail Sector Outlook

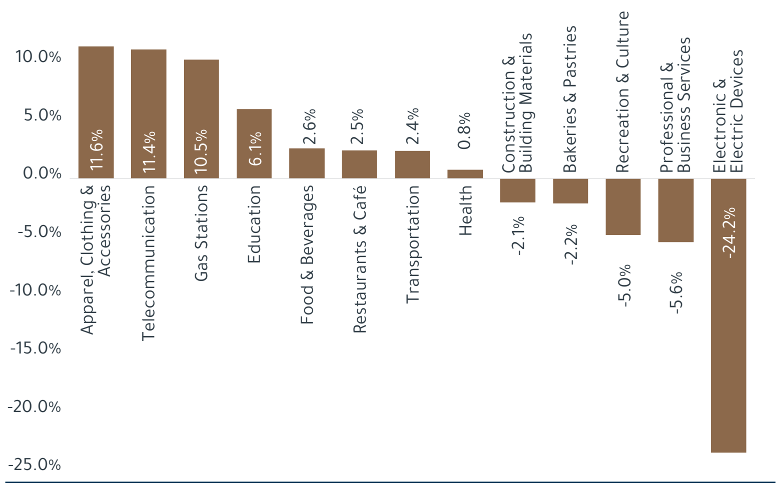
Neutral

Margins under pressure due to growing competition however sales are growing steadily

- We like **Al Majed Oud**, due to branch additions, new product launches and higher LFL sales. We expect the company to post sales growth of 13.7% Y/Y in 2025 and deliver sales CAGR of 7.6% over 2024-28. We expect gross margins to improve by 60bps over 2024-28, while we expect operating margin to expand by 351bps over the same period, due to ramping up of new stores. Overall, in this backdrop, we expect the company to post earnings growth of 25.9% in 2025 and a medium term 2024-28 net income CAGR of 12.1%. The company trades at a 2025E PE of 17.1x, at which we see room for re-rating, hence we maintain "**Overweight**" rating with a target price of **SAR 149.4/share**.
- **Tasheel** is also our preferred pick in retail, our investment thesis is premised on its new fintech venture which has the potential to add SAR 14.5-18.6 per share to our target price, our view is supported by company's success track record, leading position in the micro lending business and Nowpay's expertise in the advance salary business. Tasheel's strategy of, 1) capitalizing existing strategic relationships and 2) expanding existing IT infrastructure could lift the loan book by 1.8x from SAR 2,892mn in Q3-25 to SAR 5,224mn by FY29e, (FY24- 29e CAGR of 16.8%). However, stiff competition and lower yielding products are expected pressure NIMs contracting from 25.4% in FY24 to 23.9% by FY29e. We have "**Overweight**" rating and a TP of **SAR 170.5/share**.

Source: SAMA, Aljazira Capital Research

POS sales chg Y/Y in YTD Oct-25



Positive

Software & Services Sector Outlook

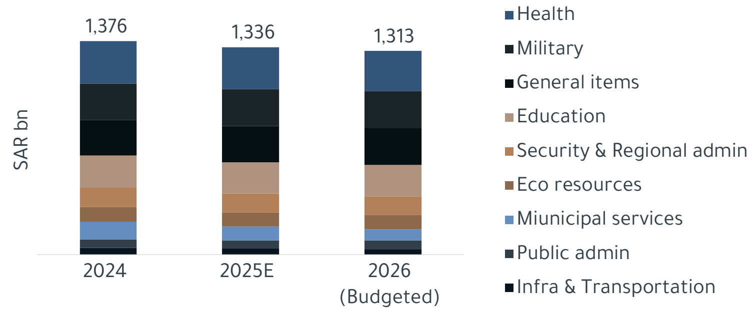
Structural visibility anchored by Vision 2030, with growth shifting to higher-value digital services

KSA's software & services sector benefits from strong structural visibility, anchored by Vision 2030-driven government digitalization and a supportive regulatory framework. With majority of revenues sourced from public entities, demand is recurring and scalable, as the ICT market expands from ~USD 43.5bn in 2024 to ~USD 59.1bn by 2030. Growth increasingly shifting from maturing legacy ICT toward higher-value AI, cloud, data-center, and managed services, improving revenue quality. Despite recent equity underperformance, fundamentals remain supported by robust backlog visibility and long-tenure contracts. Players with balance-sheet strength and execution capability are best positioned to translate policy momentum into sustained earnings growth and resilient shareholder returns.

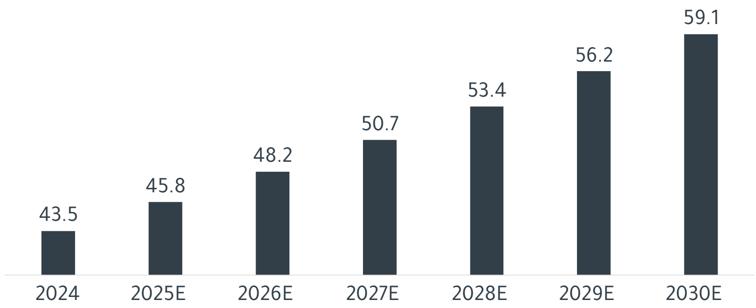
- Long-term growth visibility for KSA's technology and solutions sector is closely tied to the continued rollout of Vision 2030, with government-led digital transformation acting as the primary demand anchor. Over the years KSA's regulatory environment has undergone significant legislative developments, with major focus on supporting digital transformation. Majority of the sector revenues are sourced from government entities, spanning e-government platforms, smart-city infrastructure, mega and giga projects, tourism and pilgrimage initiatives, and digital enablement across ministries such as healthcare, investment, and interior. This structural demand is reinforced by the expansion of ICT market at 8% CAGR over 2019-24. This momentum could continue as the market could grow from ~USD 43.5bn in 2024 to ~USD 59.1bn by 2030, (~5.3% CAGR). Legacy ICT such as connectivity and contact-center services are approaching maturity, resulting in more measured growth profiles. In contrast, the sector's expansion is driven by next-generation technologies—including AI, Bigdata, Blockchain—which are accelerating investment across cloud infrastructure and data centers. Thus, the demand could structurally shift towards higher-value outsourced and managed services.
- Recent project wins reaffirm the structural importance of government-led demand for the sector; however, this is tempered by a visible slowdown in the number of government contracts awarded in 2025 versus 2024, which remains a near-term negative. During 2025, Elm partnered with NCIO to enhance regulatory efficiency and continued to deepen its government exposure, while Solutions extended its smart public parking contract with Remat Riyadh Development by five years, and 2P secured sizable mandates from GOSI and the Eastern Health Cluster. Despite lower contract wins this year, we believe the government demand to be the key growth driver for the sector in the medium-long term.
- KSA's software & services sector continues to benefit from Vision 2030, but near-term challenges have weighed on performance, with the sector index down ~29% YTD. This decline reflects margin compression from rising labor and execution costs, slower ramp-up and weaker award momentum of government contracts versus last year and a valuation de-rating after elevated starting multiples, which together pressured earnings visibility and investor sentiment despite intact structural growth drivers. With this challenging backdrop, we retain **Solutions by STC** as our top pick with a **TP of SAR 331/share**, supported , supported by a robust balance sheet (c. SAR 1.7bn in cash; net D/E of -0.24x), 150+ new contracts signed in 9M-25, and improving deployment of IT and managed services contracts, combined with disciplined capital allocation and consistent cash flow generation, provide visibility on earnings growth and dividend sustainability, with the stock trading at an attractive forward FY26E P/E of 14.4x and c.4.5% dividend yield.

Source: Company disclosures, IMARC, Aljazira Capital Research. Note: Size of the Dark Blue bubble denotes 9M-25 RoE

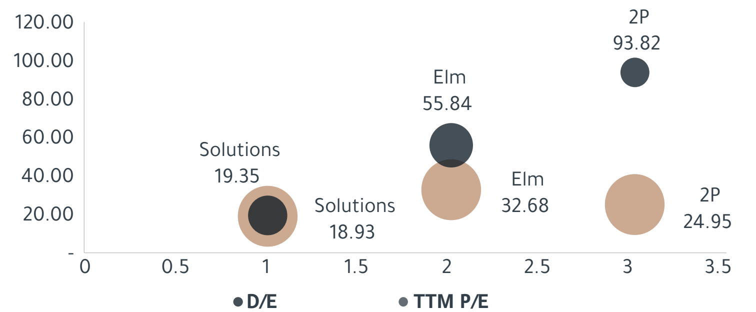
FY26 government expenditure (in SAR bn)



KSA's ICT market size (USD bn)



9M-25 RoE, D/E, TTM P/E



Travel, Tourism and Car Rental Sector Outlook

Positive

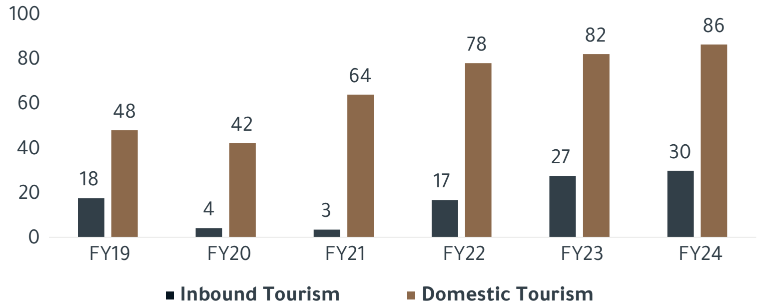
Tourism surpasses targets ahead of schedule; sector contributions to GDP accelerate

Saudi Arabia reached ~116mn tourists in 2024, beating the original 2030 target years early, driven by a strong domestic base (~74% share) and record 30mn inbound arrivals. Revenues near USD 40bn lifted tourism's GDP contribution to ~4.7%, while WTTC estimates total (direct + indirect) impact at ~11.4% with a 10% target for 2030. Robust inbound spending flipped the travel balance of payments to a SAR 50bn surplus in FY24 after years of deficits, underscoring tourism's structural role in diversification.

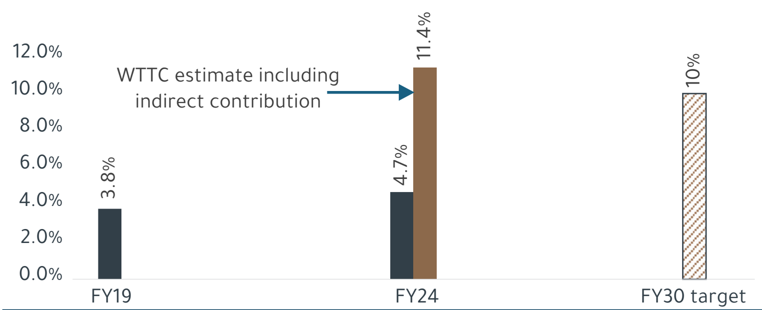
- **Momentum in tourism and expanding scale:** 2019-24 tourists grew at ~10% CAGR, powered by a resilient domestic base (~74% share) and a rapid rebound in inbound travel. Inbound arrivals rose ~59% Y/Y in 2023 and reached ~30mn in 2024 vs. a 50mn target for 2030, cementing KSA as the fastest-growing G20 destination. This surge reflects both pent-up demand and structural gains from marketing, connectivity, and destination upgrades.
- **GDP lift and resilience:** Tourism's share of GDP climbed from ~3.8% (2019) to ~4.7% (2024), while WTTC's total-impact estimate at ~11.4% underscores the broader multiplier effects of tourism on services, retail, transport, and hospitality. The combination of higher occupancy, elevated spend per visitor, and diversified source markets supports sustained contribution toward Vision 2030's diversification goals.
- **Tourist spending surplus:** The travel BoP posted a ~SAR 50bn surplus in FY24, reversing multi-year deficits. Strong inbound spending, outpacing outbound flows, highlights improved destination competitiveness and higher-value inbound mix. This surplus buffers the current account and signals greater capture of global travel wallet.
- Tourism supported roughly 2.7mn jobs in 2024 (~1 in 5 jobs), making it a critical channel for youth and female employment. Growth spans airlines, airports, hotels, F&B, retail, and events, with continued hiring leverage as room keys, flights, and venues expand.
- **Capacity still expanding:** Targets have been upgraded to 150mn tourists, with ongoing investments in airports, hotels, transport links, and digital/visa facilitation. These capacity and service upgrades extend the runway for both volume and value growth into 2030, even as benchmarks are surpassed ahead of schedule.
- **Car rental business also a beneficiary:** Car rental and leasing fleets are expanding alongside airport and hotel capacity, ensuring first/last-mile coverage for religious, leisure, and event travelers, and lifting per-visitor spend through bundled transport offerings. However, it is noteworthy short rental segment is going though intense competitive phase and thus growth for key players has stagnate recently.

Source: GASTAT, Argaam, Aljazira Capital Research

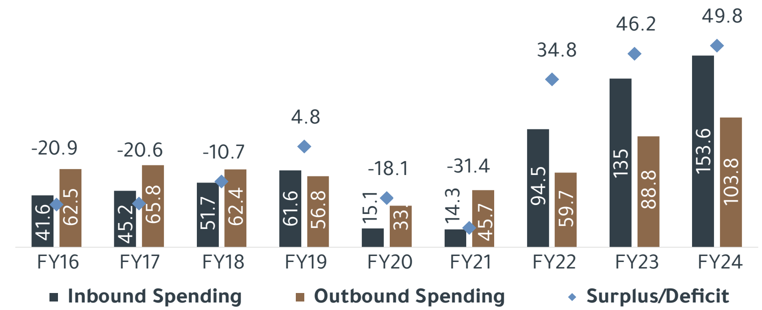
Saudi Arabia total tourists (in mn)



Tourism sector contribution to GDP



Tourist spending (in SAR bn)



Travel, Tourism and Car Rental Sector Outlook

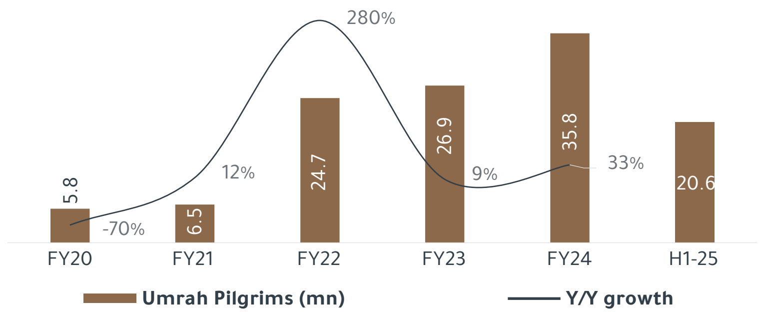
Positive

Religious tourism surge; aviation build-out; events pipeline broaden demand base

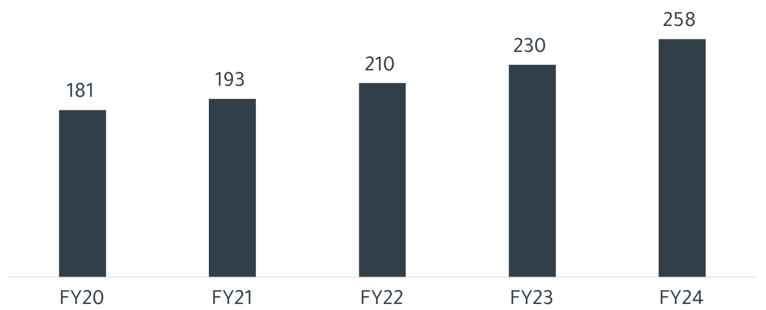
- **Religious tourism remains solid:** Umrah pilgrims reached ~35.8mn in FY24 (+33% Y/Y), beating the Vision 2030 goal of 30mn six years early. Visa easing (eVisa, 96-hour stopover), Grand Mosque expansion, Haramain high-speed rail, and digital tools (Nusuk) streamline the pilgrim journey, anchoring a durable base of religious travel. In H1-25, total number of Umrah pilgrims was 20.6mn.
- **Aviation experiencing a traction:** FY24 passenger traffic hit ~128mn (+15% Y/Y), underpinned by ~905k flights (+11% Y/Y) across domestic and international routes. Balanced growth in both segments supports higher connectivity, frequency, and resilience to shifts in demand. Local carriers have expanded to ~258 aircraft (FY20-24 CAGR ~7.3%) with sizable order books (Saudia, Flynas, Flyadeal) and Riyadh Air's launch plan (B787 orderbook) targeting >100 destinations by 2030. Expanded fleets enable more international city pairs and better domestic coverage.
- **Infrastructure pipeline and events driven activities key drivers:** King Salman International Airport targets 120mn passengers by 2030 (up to 185mn by 2050); Madinah Airport capacity is set to double to ~17mn. Broader airport and hotel capacity additions align with rising inflows, reducing bottlenecks and improving service levels. Mega-events (Expo 2030, FIFA 2034, Asian Winter Games 2029, Asian Games 2034) plus recurring cultural, entertainment, and esports events broaden the visitor mix beyond religious travel. This pipeline is designed to sustain multi-year demand, lengthen stays, and lift spend per visitor.
- Policy and facilitation: Continued focus on streamlined visas, public-private partnerships, and targeted investment incentives lowers friction for inbound travelers and accelerates private-sector participation key to scaling services, experiences, and quality consistently with demand.
- **Infrastructure & Momentum:** Lodging supply and occupancy are scaling in tandem in KSA. Licensed tourist hospitality facilities grew steadily through FY25, while regional occupancy remains solid (e.g., Madinah ~70%, Riyadh ~64%, Eastern ~55%, Makkah ~50%). This capacity plus healthy utilization underpins the sector's ability to absorb higher pilgrim and event-driven inflows.
- Our top picks in the sector are is **Budget Saudi** **(TP: SAR 84.0)**, as we believe with its market leadership the company is positioned well to benefit from expanding tourism and transportation sectors activities. Also, valuation seems attractive at current levels.

Source: GASTAT, GACA, Argaam, Aljazira Capital Research. Note: The fleet size for car rental companies is as on 9M25 and Budget Saudi is approximate number

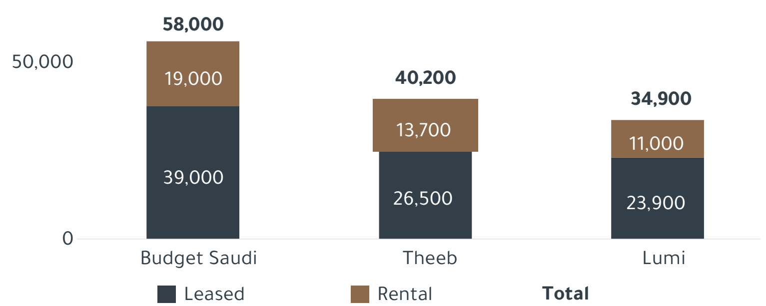
Umrah pilgrims (mn) and Y/Y change



No. of commercial aircraft



Car rental companies fleet size



Pharma Sector Outlook

Neutral

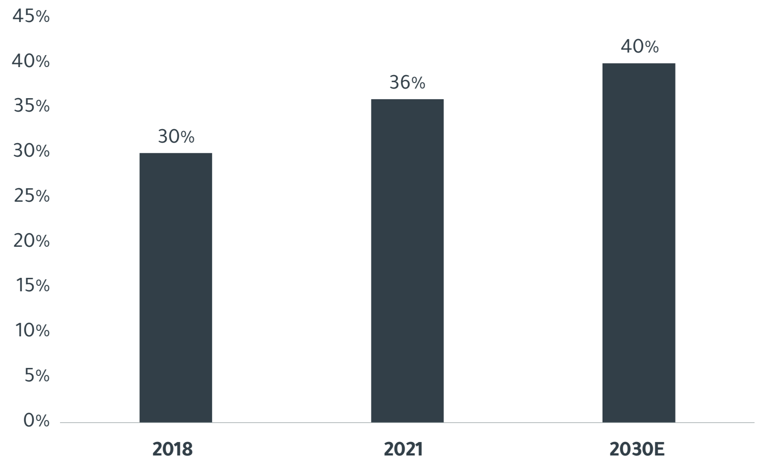
Sector strength anchored in favorable demographics and rising localization, with regulated pricing capping upside

KSA's pharma sector is supported by favorable demographics, rising healthcare access, and expanding insurance coverage, underpinning steady demand growth. However, while these macro tailwinds support volumes, the market remains structurally constrained by intense competition, and a strictly regulated pricing regime, leaving volume growth as the primary earnings driver and limiting the scope for sustained margin expansion. That said, government-led tendering and localization initiatives under Vision 2030 should continue to support capacity utilization for domestic manufacturers, partially offsetting pricing pressures.

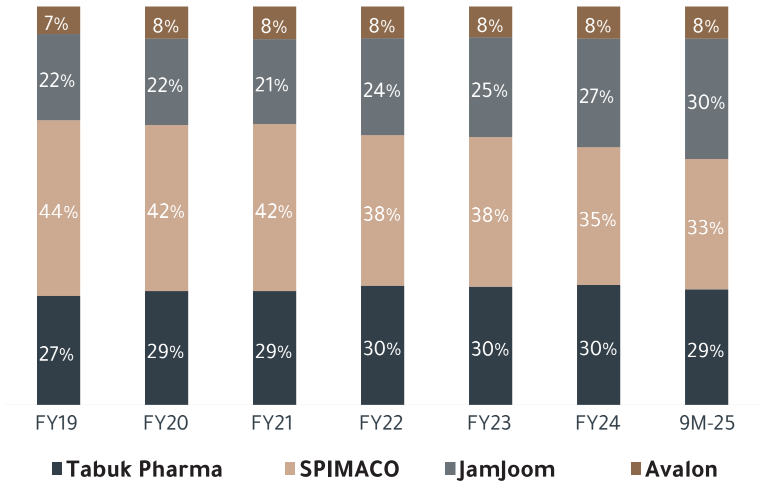
- Reduction in interest rates could be highly favorable for KSA REITs, as they often depend on debts for expansion. KSA's scale in the pharma sector is supported by population growth, rapid aging and a high prevalence of chronic diseases. Rising healthcare access, expanding insurance coverage, and improving consumer economics further support pharmaceutical demand.
- The sector is a key beneficiary of Vision 2030's healthcare and industrial reform agenda, which prioritizes localization and supply-chain resilience. Between 2015-23, KSA imported USD 47.3bn of pharmaceutical products—~40% of total chemical and allied imports—while domestic production met only ~36% of consumption as of 2021. Under the Health Sector Transformation Program (HSTP), KSA targets at least 40% local production by 2030. Regulatory oversight by the SFDA ensures quality and pricing discipline, while PIF-owned NUPCO anchors demand through centralized procurement, with tender frameworks increasingly favoring domestic manufacturers. In parallel, CHI-led insurance and reimbursement policies promote generic adoption through mandated substitution and formulary bias toward cost-effective therapies.
- Despite strong demand visibility, the market remains competitive and fragmented, with pricing regulation, import reliance, and intense generics competition shaping sector dynamics. NUPCO's SAR 21bn tender market provides a large, recurring volume channel that supports utilization, albeit with margin pressure. The listed space is dominated by SPIMACO, Jamjoom Pharma, Avalon Pharma, and Tabuk Pharma; as localization accelerates and tender participation deepens, volume visibility and capacity utilization are expected to improve, while margins remain sensitive over the medium term.
- Given volume-led growth, regulated pricing environment, and intensifying competition, we maintain a "Neutral" stance. Much of the anticipated policy support and localization-driven benefits appear to be largely reflected in current valuations, while rising competition in the local market could limit further margins expansion. As such, stock performance is likely to remain selective and driven more by execution than sector-wide rerating; **Avalon (TP: SAR 137.4)** is our top pick due to its cheaper valuation despite comparable growth profile, product launch cadence and profitability metrics versus peers

Source: Company disclosures & Prospectus, Aljazira Capital Research

Locally produced products as % of total drug consumption



Jamjoom Pharma continue to gain market share in 2025



AJC Top Picks for 2026

Attractive valuations and strong fundamentals support upside potential in our top picks for 2026

- **Yamama Cement:** Dominant Central-region exposure to giga projects, strong market share and capacity, Margin upside from ASP recovery and a cost-efficient methane-based fuel mix
- **Solutions by STC:** Cash-rich balance sheet, Strong contract wins, Improving IT and managed services deployment, Disciplined capital allocation and Attractive valuation.
- **National Care:** Recent expansions, Improving Operational metrics and Ability to deliver ~21% earnings CAGR over the next five years
- **Alinma:** Limited NIM compression, Attractive valuation discount versus history, Strong medium-term earnings visibility
- **Budget Saudi:** Market leadership making it well positioned to benefit from expanding tourism and transportation sectors activities and Attractive valuations
- **AWPT:** Strong revenue visibility from SAR 6.4bn backlog, Preferred-bidder on Jazan project, Structural tailwinds from accelerating water and wastewater infrastructure spends in Saudi Arabia
- **Avalon Pharma:** Attractive valuation, Consistent growth outlook, Steady product launch pipeline, Improving utilization
- **Mobily:** strong operational momentum driven by outsized consumer subscriber growth, Accelerating B2B scale, Improving efficiency that supports margins and cash flow
- **Tasheel:** Upside from new fintech venture, Strong micro-lending franchise, Proven execution, Scalable IT and partnership-led loan book growth despite some NIM pressure

			Valuations				Returns	Performance
Company	TP (SAR)	Up/Down	TTM P/B	TTM P/E	FY26E PE	FY26E DY	TTM RoE	YTD
Yamama Cement	37.1	59.1%	1.0	12.1	11.9	4.3%	8.6%	-33.3%
Solutions by STC	331.0	47.0%	6.8	17.6	14.5	4.5%	40.4%	-17.2%
National Care	188.0	31.7%	3.6	21.9	19.0	1.6%	20.1%	-16.7%
Alinma	32.7	34.1%	1.8	9.8	8.6	5.3%	18.5%	-16.1%
Budget Saudi	84.0	34.6%	1.7	13.9	10.9	3.6%	12.9%	-23.2%
AWPT	161.5	20.1%	5.3	17.7	15.3	3.0%	32.7%	-13.3%
Avalon	137.4	23.6%	6.0	22.9	17.8	2.9%	27.9%	-8.1%
Mobily	74.8	13.3%	2.6	15.4	15.5	4.5%	18.8%	22.2%
Tasheel	170.5	10.1%	2.9	14.7	11.7	4.2%	22.3%	-14.3%

Source: Tadawul, Aljazira Capital Research, Price as of December 31, 2025

Dividend play picks for 2026

Dividend Portfolio for 2026

Strong dividend yield stocks that can be good value addition for investors

- We present our preferred dividend stocks from AJC coverage that offer FY26E dividend yields in the range of 5.1 - 7.8% as compared to market yield that currently stands at 3.5%. The average FY26E dividend yield of our portfolio is 6.3%. We highlight that yields for Riyadh Cement and SADAFCO are amongst the highest due to dip in stock prices. However, we recommend a more diversified exposure to lower the risk profile. Our portfolio consists of Cement, Petrochemical, Retail, Energy, Telecom and Food & Beverages companies. We believe that these stocks have good re-rating potential due to expected decline in interest rates. Amongst our recommended stocks **RIYADH CEMENT, SADAFCO** and **Jarir** are expected to make higher payouts in FY26 as compared to FY25.

	Company	CMP	DPS		DY		P/E	Price change 2015 (%)
		(in SAR)	FY25E	FY26E	FY25E	FY26E	FY26E	%
	Riyadh Cement	23.7	1.60	1.85	6.8%	7.8%	12.5	-26.6%
	SADAFCO	247.0	16.00	17.00	6.5%	6.9%	14.4	-26.9%
	Sabic-Agri	110.7	7.00	7.00	6.3%	6.3%	13.4	-0.3%
	Jarir	12.8	0.80	0.80	6.3%	6.3%	14.4	1.0%
	Extra	84.5	5.00	5.00	5.9%	5.9%	11.3	-6.3%
	Aramco	23.8	1.32	1.32	5.5%	5.5%	16.3	-15.0%
	STC	43.0	2.20	2.20	5.1%	5.1%	14.9	7.5%

Source: Tadawul, Aljazira Capital Research, Price as of December 31, 2025

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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