

# Arabian Internet and Communications Services Co. (BUY, TP: SAR 254, 7202.SE) 1Q26 Results Review

SAR 14bn backlog and major contract wins anchor revenue visibility. TP revised to SAR 254. Maintain BUY.

Solutions delivered 1Q26 revenue of SAR 3.0bn (+6.3% Y/Y), in line with the guided 6-8% FY26 growth range. EBITDA grew 10% Y/Y to SAR 492mn (margin 16.4%), but this was supported by a SAR 63mn one-off royalty reversal (SAR 60mn retrospective for 2022-2025; SAR 3mn for 1Q26). This reversal obscures softer underlying profitability. Gross margin narrowed by 234bps Y/Y to 19.5% driven by integration project mix, intensifying ETIMAD platform competition, and upfront costs on a strategic deferred-revenue customer. Net profit grew 3.7% Y/Y to SAR 372mn (EPS: SAR 3.1). There was higher D&A charge (+21% Y/Y on cloud infrastructure), increased net finance cost vs net finance income in 1Q25, and higher zakat and taxes (+15% Y/Y). We revise our TP to SAR 254 (from SAR 268) on relatively lower recurring operating margin assumptions. Maintain BUY.

- 1Q26 revenue clocked in at SAR 3.0bn, up 6.3% Y/Y. By service line, Core ICT Services led the recovery, growing 10.1% Y/Y to SAR 1.50bn as some of the government procurement delays that had weighed on this segment through 2025 are beginning to normalize. IT Managed and Operational Services grew 3.6% Y/Y to SAR 1.04bn. Digital Services growth was subdued at 1.0% Y/Y to SAR 463mn and is below our expectation given the strategic emphasis on cloud, GPU-as-a-Service and cybersecurity as the primary growth vectors. This decline was due to cloud services declining Y/Y following completion of one-off multi-cloud implementation projects in 2025 creating a high base. On sequential basis, revenue declined 23% Q/Q due to seasonal phasing and the Ramadan/Eid effect in 1Q26.
- Segment wise, Giza Group's revenue surged 43.7% Y/Y to SAR 647mn while CCC (Upsource) had 15.7% Y/Y revenue growth to SAR 727mn. Standalone revenue grew 5.9% Y/Y to SAR 2.05bn. The continued transfer of projects to subsidiaries is compressing the standalone top line while improving operational focus. Intergroup eliminations increased sharply to SAR 424mn (from SAR 192mn in 1Q25). Geographically, KSA revenues grew 5.6% Y/Y to SAR 2.81bn, while international revenues (predominantly Egypt through Giza) grew 18.7% Y/Y to SAR 197mn.
- Gross profit declined 5.0% Y/Y to SAR 586mn despite the 6.3% revenue growth, as cost-of-revenue escalated 9.5% Y/Y to SAR 2.42bn. The gross margin compressed 234bps Y/Y to 19.5%, the weakest first-quarter gross margin since 2021. The compression is attributable to a combination of factors including the increased market competition via the ETIMAD and a mix shift towards lower margin integration projects. By segment, standalone Solutions saw its gross margin decline 5.8ppts Y/Y to 21.9%. Giza Group's margin improved 3.6ppts Y/Y to 11.7% and CCC gross margin also improved 1.7ppts Y/Y to 9.8%.
- Total operating expenses fell 23.8% Y/Y to SAR 187mn, due to the SAR 63mn royalty reversal. G&A was down 5.5% Y/Y to SAR 176mn. Selling and distribution expenses declined 82% Y/Y to SAR 10.5mn, but stripping out the SAR 63mn reversal, normalized S&D expenses would have been approximately SAR 73.5mn. ECL reversal within S&D was SAR 15.6mn (vs. SAR 24.8mn in 1Q25).
- EBITDA grew 10% Y/Y to SAR 0.49bn with margin of 16.4%. Normalized EBITDA (stripping the SAR 60mn retrospective royalty reversal and retaining the ongoing SAR 3mn benefit) would be approximately SAR 0.43bn, implying a normalized EBITDA margin of approximately 14.4%. Operating profit grew 7.5% Y/Y to SAR 0.40bn, however, normalized profit is below our expectation at SAR 0.34bn.

SAR mln	1Q26	4Q25	1Q25	Q/Q %	Y/Y %
Revenues	3,002	3,907	2,824	-23%	6%
Cost of Goods	-2,417	-3,208	-2,207	-25%	9%
Gross Profit	586	699	616	-16%	-5%
Operating Expenses	-187	-316	-245	-41%	-24%
Operating Profit	399	362	371	10%	8%
Net Finance Income	-1	-9	21	-89%	NA
Other gains/losses	11	-34	-1	NA	NA
Zakat and Taxes	-37	-41	-32	-11%	15%
<b>Net Income</b>	<b>372</b>	<b>279</b>	<b>359</b>	<b>34%</b>	<b>4%</b>
EPS	3.10	2.32	2.99	34%	4%

Margins (%)	1Q26	4Q25	1Q25	Q/Q bps	Y/Y bps
Gross Margin	19.5	17.9	21.8	162 bps	-232 bps
Operating Margin	13.3	9.3	13.1	402 bps	15 bps
Net Margin	12.4	7.1	12.7	527 bps	-31 bps

## Rating Summary and Forecasts

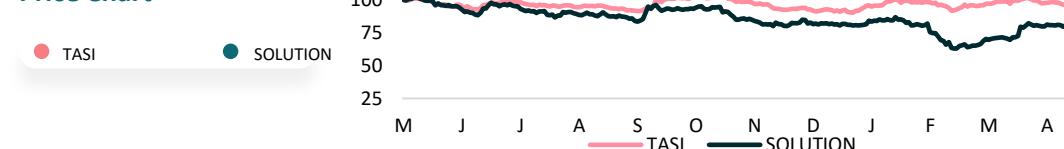
### Rating Summary

Rating	Buy
Market Price	228.6
12-month Target Price	254.0
Upside / Downside	11.1%
Mkt Cap (SAR mn)	27,432.0
52 week High/Low	284.8/170.1

### Forecasts

	12/24 A	12/25 A	12/26 F	12/27 F
Net Income (SAR mn)	1,603	1,512	1,589	1,860
PER (x)	17.1	18.1	17.3	14.7
PBV (x)	6.8	6.3	5.7	5.0
EPS (SAR)	13.4	12.6	13.2	15.5
DPS (SAR)	10.0	8.0	8.0	10.0
RoE (%)	39.7	34.9	33.1	33.7
Dividend Yield (%)	4.4	3.5	3.5	4.4

### Price Chart



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- Finance income fell 45.4% Y/Y to SAR 21.4mn (despite a higher ending cash balance), while finance cost rose 25.1% Y/Y to SAR 22.4mn, flipping the net to a cost of approximately SAR 1mn vs. income of SAR 21mn in 1Q25.
- Other income recovered to SAR 11.2mn (vs. -SAR 3.0mn in 1Q25). The equity-accounted investee line swung to negligible loss of SAR 0.01mn from a profit of SAR 1.6mn in 1Q25.
- Zakat charge declined 5% Y/Y to SAR 27.9mn, while income tax, primarily of Egypt operations, rose 3.5x Y/Y to SAR 8.8mn.
- Net profit grew 3.7% Y/Y to SAR 372mn. NCI swung to +SAR 2.0mn from -SAR 1.6mn in 1Q25, primarily due to Giza's improved profitability. On a normalized basis (excluding SAR 60mn retrospective royalty reversal), attributable net profit would be approximately SAR 312mn, down 13% Y/Y.
- On the balance sheet front, cash grew to SAR 2.08bn (from SAR 1.75bn in Dec'25), with short-term Murabaha of SAR 390mn alongside. Total borrowings of SAR 779mn yield a net cash position of approximately SAR 1.69bn, up 26% Q/Q. Trade receivables fell 15% Q/Q to SAR 3.96bn while contract assets rose 11% Q/Q to SAR 3.33bn. Payables held at SAR 4.51bn.
- The FCF swing was the positive element of the quarter. Operating cash flow improved to +SAR 400mn (from -SAR 417mn in 1Q25), driven by better collections and working capital normalization. Capex fell 69% Y/Y to SAR 18mn. FCF was +SAR 344mn vs. -SAR 488mn in 1Q25.

## Investment Thesis

- *Solutions is pivoting towards recurring revenue streams. In 1Q26, over-time revenue recognition grew to 88.6% of revenue, up 3.6ppts Y/Y, continuing the shift away from point-in-time hardware and project delivery. The royalty renegotiation with stc which reduces the royalty scope to joint go-to-market and direct-stc revenue provides approximately SAR 12mn/year of annualized cost saving on an ongoing basis. Company's GPU-as-a-Service is in active customer onboarding phase and is expected to be a material contributor within three years. Giza and Upsource continue to scale positively as combined they now account for 32% of group revenues and their gross margin trajectories (Giza 11.7% vs. 8.1% in 1Q25; Upsource 9.8% vs. 8.1%) are moving in the right direction, improving fixed cost absorption and reducing dependency on the standalone entity. Revenue is gradually diversifying as non-stc revenue now represents two-thirds of total. The SAR 14bn backlog, a healthy win rate and DGA Category A qualification sustain a strong competitive moat for government digital transformation tenders.*
- *We revise our 12-month TP to SAR 254 (from SAR 268), as we have adjusted forecasts inline with lower 1Q26 normalized recurring EBIT than our estimates. At current levels, Solutions trades at approximately 17x FY26E earnings. It has dominant market position, and deep exposure to Saudi sovereign cloud, AI infrastructure, and digital government. Maintain BUY.*

## Rating and Risks

We are Buy rated on SOLUTION and our 12-month target price is SAR 254. Upside risks include faster standalone gross margin recovery, Aramco contract margin outperformance, GPU-as-a-Service revenue inflection earlier than expected, accelerated digital services growth in cybersecurity and cloud. Downside risks include ETIMAD pricing pressure, sustained Digital Services growth deceleration, higher D&A from ongoing cloud capex, and some execution and macro risks.

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## Rating Framework

### Buy

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

### Hold

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

### Sell

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

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