

Arabian Internet and Communications Services Co. (BUY, TP: SAR 268, 7202.SE) 4Q25 Results Review

Accelerating shift to high-margin recurring cloud revenues and healthy increase in backlog (SAR 13.7bn) giving medium term revenue visibility. Maintain BUY.

Solutions' 4Q25 revenue accelerated 26% Q/Q to SAR 3.91bn on project ramp-ups. Gross profit reached SAR 699mn (margin 17.9%, -189bps Y/Y) due to higher weighting of integration projects and timing effects. Net profit was SAR 1.50bn (-5.9% Y/Y, margin 11.8%), as FY24 had one-offs. Operating cash flow normalized in 4Q25 (SAR 355mn inflow) with full-year free cash flow at negative SAR 364mn due to working-capital timing.

For FY25, SOLUTIONS delivered healthy top-line growth of 5.5% Y/Y to SAR 12.73bn, driven by strong execution in digital services and managed services, even as Core ICT moderated (+3% Y/Y to SAR 6.39bn) amid government procurement delays under ETIMAD. FY25 EBITDA rose 2.0% Y/Y to SAR 1.99bn (margin 15.6%).

- 4Q25 revenue accelerated sharply to SAR 3.91bn (+26% Q/Q), driven by Core ICT ramp (+9% Y/Y), Digital Services (+27% Y/Y), and project execution normalization. However, managed services declined 11% Y/Y due to high base effect. Digital services revenue growth is in areas of cloud and cyber segments. FY25 revenue of SAR 12.73bn is also up 5.5% Y/Y with Digital Services (16% share) showing the strongest momentum. Core ICT increased 3% Y/Y while Managed & Operational Services contributed 34% to overall revenue and was up 10% Y/Y.
- Gross profit in 4Q25 declined to SAR 699mn as margin compressed 5ppts Q/Q and 2ppts Y/Y to 17.9%. Margin compression was driven by integration-project mix, subcontracting, and timing, but cloud/GPU-as-a-Service and managed services (higher-margin recurring streams) offset that pressure slightly and is expected to improve the margin profile going forward. Giza Systems gross margins improved substantially to 45% in 4Q25. FY25 gross profit declined 3.8% Y/Y to SAR 2.68bn (margin 21.0%, -203bps Y/Y).
- Operating expenses remained flat Y/Y at SAR 315mn, with the increase in administrative expenses offset by decline in selling and distribution expenses. For FY25, G&A clocked in at SAR 731mn (+1.5% Y/Y), Selling & Distribution expenses were SAR 306mn, down 24% Y/Y, benefiting from SAR 45mn ECL reversal compared to SAR 50mn ECL charge in FY24.
- 4Q25 EBITDA margin clocked in at 17.4% while FY25 EBITDA margin held at 15.6% (-50bps Y/Y).
- In 4Q25, Finance expense increased 46% Y/Y and 38% Q/Q to SAR 29mn. This was largely driven by higher short term debt which was up 61% Y/Y to SAR 150mn. Finance income declined 42% Y/Y but was up 13% Q/Q to SAR 20mn. For FY25, finance expense increased 22% Y/Y to SAR 89mn, due to higher cost of lease liabilities (up SAR 14mn Y/Y) while finance income was down 7% Y/Y to SAR 106mn.
- 4Q25 included one-off early retirement expenses amounting to SAR 21.3mn while zakat expense declined 17% Y/Y. For FY25, net other expenses declined to SAR 26mn versus SAR 65mn in FY24 due to lower foreign exchange losses.
- 4Q25 net profit was SAR 279mn (-33% Q/Q) on typical project phasing. FY25 net profit was SAR 1.50bn, down 6% Y/Y. Excluding FY24 one-offs (provision reversals/non-op income), underlying profitability remained healthy at SAR 1.52bn in FY25, up 2% Y/Y.
- Operating cash flow normalized sharply in 4Q25 (SAR 355mn positive) with receivables days improving to 121. However, FY25 FCF was negative SAR 364mn due to working-capital build on accelerated execution, but net cash stayed healthy at SAR 1.34bn. Capex fell 25% Y/Y to SAR 190mn (1.5% of revenue).

SAR mln	4Q25	3Q25	4Q24	Q/Q %	Y/Y %
Revenues	3,907	3,098	3,731	26%	5%
Cost of Goods	-3,208	-2,391	-2,992	34%	7%
Gross Profit	699	707	738	-1%	-5%
Operating Expenses	-316	-271	-315	16%	0%
Impairment Losses	-21	26	-18	-181%	17%
Operating Profit	362	462	406	-22%	-11%
Net Finance Income	-9	-3	15	175%	NA
Other gains/losses	-34	-4	-44	846%	-23%
Zakat and Taxes	-41	-39	-50	6%	-17%
Net Income	279	417	327	-33%	-15%
EPS	2.32	3.47	2.73	-33%	-15%

Margins (%)					
Gross Margin	17.9	22.8	19.8	-493 bps	-189 bps
Operating Margin	9.3	14.9	10.9	-565 bps	-160 bps
Net Margin	7.1	13.5	8.8	-632 bps	-163 bps

Rating Summary and Forecasts

Rating Summary

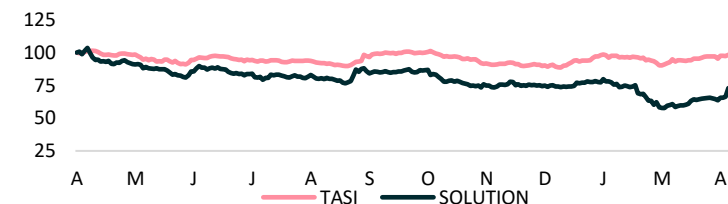
Rating	Buy
Market Price	221
12-month Target Price	268
Upside / Downside	21.3%
Mkt Cap (SAR mn)	26,520
52 week High/Low	311.4/170.1

Forecasts

	12/24 A	12/25 A	12/26 F	12/27 F
Net Income (SAR mn)	1,603	1,512	1,827	2,159
PER (x)	16.5	17.5	14.5	12.3
PBV (x)	6.6	6.1	5.1	4.3
EPS (SAR)	13.4	12.6	15.2	18.0
DPS (SAR)	10.0	8.0	8.0	10.0
RoE (%)	39.7	34.9	35.2	35.1
Dividend Yield (%)	4.5	3.6	3.6	4.5

Price Chart

● TASI ● SOLUTION



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Investment Thesis

- Solutions is successfully pivoting from traditional project-based ICT to a higher-margin, recurring-revenue model centered on its proprietary 1Cloud multi-cloud marketplace, which provides unified access to 200+ vendors and all hyperscalers. The company also offers the region's first Nvidia Cloud Service Provider partnership for GPU-as-a-Service. These initiatives enable subscription-based revenues, AI migration/consulting cross-sell, and sovereign-cloud demand from government/enterprise clients. GPU-as-a-Service is already onboarding customers and is expected to become a material contributor within three years, that will significantly enhance margins and revenue/earnings visibility.*
- Giza Systems and Upsource continue to scale and currently have combined ~31% of revenue share with strong growth. Their ramp up will help fixed cost absorption and thus help margins and underlying profitability. Company's portfolio optimization with contract transfers to relevant subsidiaries supports efficiency without revenue loss. Company is focused on prioritizing cloud, cybersecurity, digital transformation, and managed services, the areas with higher margins compared to traditional ICT, hardware supply and BPO services.*
- Solution has kept on winning contracts and maintaining ICT market share despite short term competitive pressures on government projects. Recent wins include SAR 652mn STC infrastructure modernization and SAR 300mn network contract and Nile ME JV which further broaden connectivity offerings. We posit that the company will be able to keep on adding to the backlog, that currently touches SAR 13.7bn, due to its recent exposure in data-center buildouts and given the country's huge datacenter ambitions with targets exceeding 4GW capacity over medium term. While near-term government procurement scrutiny through ETIMAD platform has lengthened cycles and pressured margins, the structural demand for sovereign cloud/AI remains good. We view the strategic transition as accretive to long-term ROIC and earnings quality. We expect continued mix shift toward digital/recurring streams and opex discipline, with capex rising modestly to 2-3% of revenue for cloud/AI infrastructure.*
- We revise our target price slightly lower to SAR 268, due to lower than expected FY26 guided growth. While near-term risks remain from government procurement competition, we believe this is outweighed by new contribution from projects like Riyadh Remat and long-term exposure to Saudi's sovereign cloud and data center buildout cycle. Maintain Buy.*

Rating and Risks

We are Buy rated on SOLUTION and our 12-month target price is SAR 268. Upside risks include faster GPU-as-a-Service ramp, stronger digital mix shift, quicker backlog conversion, and accretive M&A. Downside risks include prolonged government award delays, sustained margin pressure from project mix, higher subcontracting costs, and slower-than-expected AI adoption.

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.

BSF Capital

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