

## Information Technology

**STRONG BUY: 12M TP @ 295**

*Upside +21.5%*

### Valuation Summary (TTM)

Price (SAR)	242.8
PER TTM (x)	18.1
P/Book (x)	8.0
P/Sales (x)	2.4
EV/Sales (x)	2.5
EV/EBITDA (x)	15.0
Dividend Yield (%)	3.3
Free Float (%)	19%
Shares O/S (mn)	120
YTD Return (%)	-9%
Beta	1.0

(mn)	SAR	USD
Market Cap	29,136	7,767
Enterprise value	31,241	8,328

Price performance (%)	1M	3M	12M
Arabian Internet & Comm	-8%	-14%	-13%
Tadawul All Share Index	-4%	-5%	-8%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR)	17,882	25,404	36,305
Avg Daily Volume (,000)	82	97	126
<b>52 week</b>	<b>High</b>	<b>Low</b>	<b>CTL*</b>

Price (SAR)	337.60	234.20	3.7
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\* CTL is % change in CMP to 52wk low

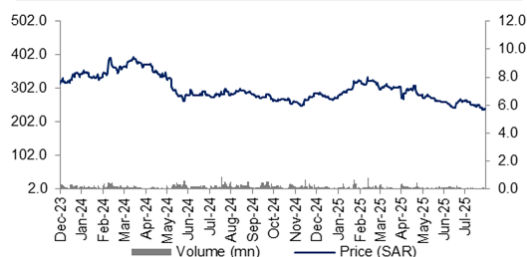
### Major shareholders

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

### Other details

Exchange	Saudi Arabia
Sector	IT
Index weight (%)	0.3%

Key ratios	2022	2023	2024
EPS (SAR)	8.77	9.93	13.31
BVPS (SAR)	23.28	27.70	33.40
DPS (SAR)	5.00	6.00	10.00
Payout ratio (%)	57%	60%	75%

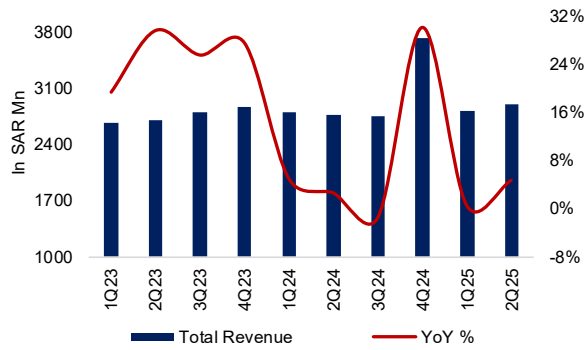


## Solutions: Profits outperform expectations

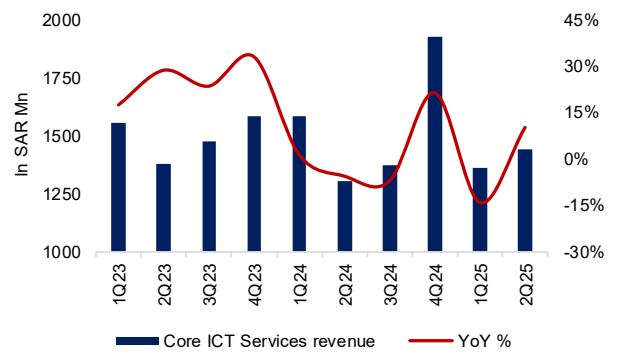
Arabian Internet and Communications Services reported 2Q25 revenue of SAR2.9bn, marking a 4.7% YoY increase but falling slightly short of our estimate of SAR3.1bn. Revenue for the 1H25 grew by 3% YoY at SAR 5.73bn. Topline growth during the quarter was driven by contributions from newly launched projects in their early execution stages, alongside increased business activity with a short Hajj break. The core ICT services contributing 50% to the topline grew by 10.4% YoY owing to early contribution from new projects. However, this growth was partially offset by a 5.3% YoY decline in digital services revenue, reflecting the cyclical nature of project milestone deliveries and a modest 2% YoY growth in IT managed and operational services revenue. Gross profit fell by 5.8% YoY as direct costs increased by 8.2% YoY, outpacing revenue growth and reflecting a shift in project mix. Hence, the gross margins slipped from 25.1% in 2Q24 to 22.6% in 2Q25. During the quarter, gross margins for Solutions (standalone) and Giza declined to 27.2% (vs 29% in 2Q24) and 20.2% (vs 31.1% in 2Q24) respectively. In contrast, Upsource's gross margin improved to 9% (vs 6.6% in 2Q24). SG&A expenses decreased by 29% YoY during the quarter resulting in a 100bps YoY improvement in both EBIT and EBITDA margins, which stood at 15.4% and 17.9%, respectively. Finance costs increased by 16% YoY, primarily due to a SAR 137mn rise in debt compared to the same period last year. Meanwhile, finance income also rose by 16% YoY, supported by a higher interest rate scenario. Other income reduced substantially during the quarter impacted by higher one-off non-operating income in 2Q24. Consequently, the net profit for the quarter was down by 1.8% YoY to SAR 448mn with net margin declining by 100bps YoY to 15.4% in 2Q25. However, profit exceeded our forecast by 11%, supported by reduced operating expenses. Aside from the gross margin, all other key margins surpassed our expectations. Net profit for 2H25 remained largely flat YoY at SAR 807mn.

**Valuation and outlook:** Solutions, with its resilient business model and technological leadership is well placed to seize the lucrative opportunities offered by the digital transformation in Saudi Arabia. The company expects the newly secured projects to increase their revenue contribution in 2H25, accompanied by continued cost efficiency and profitability improvements. Management has reaffirmed its guidance for revenue growth of 8–10% and an EBITDA margin of 14–16%. Based on the current results and guidance, we maintain our 2025e revenue estimate at SAR 13.1bn despite the slight revenue miss and upgrade our profit estimate to SAR 1.74bn (vs SAR 1.67). Given the company's robust project backlog, we retain our target price of **SAR 295** per share, implying an upside potential of 21.5% from current levels. Hence, we upgrade our rating from HOLD to **STRONG BUY**. At the current price, the stock trades at 16.8x 2025e EPS and offers a dividend yield of 3.6%.

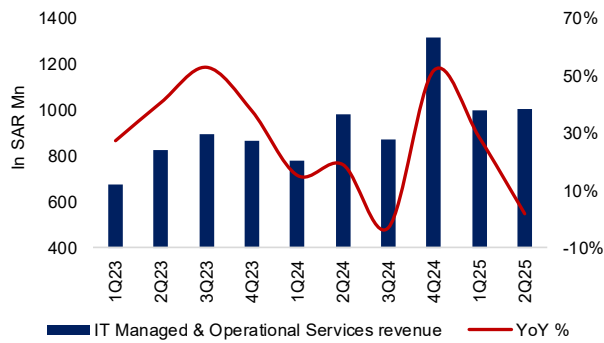
#### Revenue grew by 4.7% YoY on addition of new projects



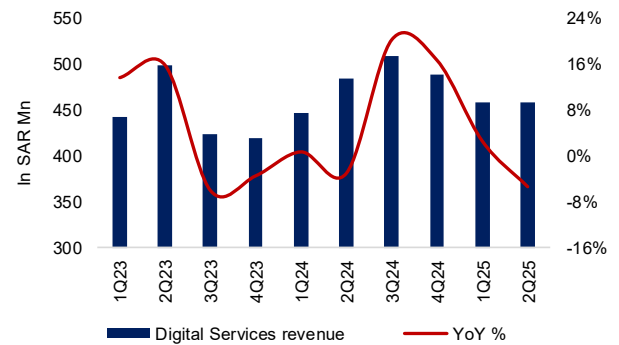
#### Core ICT revenue grew with contribution from new projects



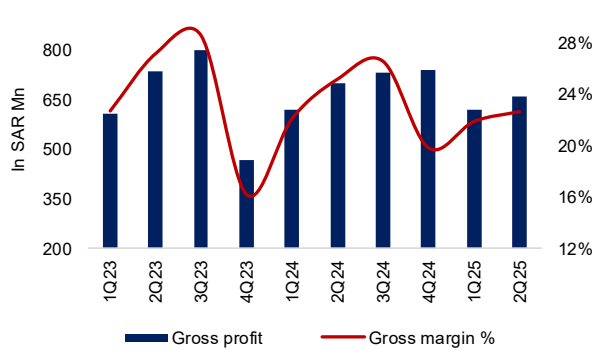
#### IMOS revenue grew by a meagre 2% YoY in 2Q25



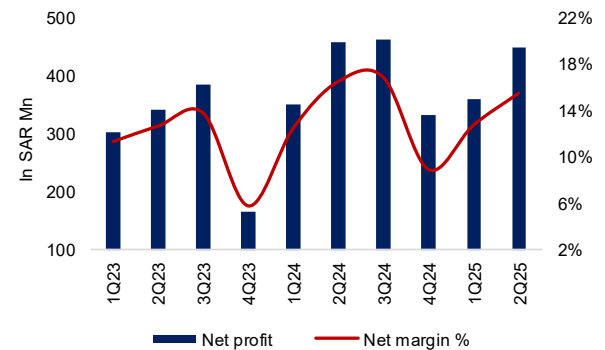
#### Digital services revenue down on low project delivery



#### Gross margin drops to 22.6% on changes in project mix



#### Net margin lower by 100bps YoY on higher one-off in 2Q24



Income statement (in SAR Mn)	2021	2022	2023	2024	2025e	2026e	2027e	2028e
<b>Revenue</b>	<b>7,208</b>	<b>8,805</b>	<b>11,040</b>	<b>12,064</b>	<b>13,069</b>	<b>14,364</b>	<b>15,806</b>	<b>17,414</b>
Direct Costs	-5,500	-6,794	-8,443	-9,281	-10,056	-10,989	-12,092	-13,234
<b>Gross Profit</b>	<b>1,708</b>	<b>2,011</b>	<b>2,598</b>	<b>2,783</b>	<b>3,013</b>	<b>3,376</b>	<b>3,714</b>	<b>4,179</b>
General and admin expenses	-462	-605	-715	-720	-846	-1,005	-1,106	-1,219
Selling and distribution expenses	-347	-246	-496	-402	-365	-503	-553	-609
<b>EBIT</b>	<b>899</b>	<b>1,160</b>	<b>1,387</b>	<b>1,661</b>	<b>1,802</b>	<b>1,867</b>	<b>2,055</b>	<b>2,351</b>
<b>EBITDA</b>	<b>1,108</b>	<b>1,392</b>	<b>1,669</b>	<b>1,948</b>	<b>2,107</b>	<b>2,266</b>	<b>2,496</b>	<b>2,838</b>
Finance income	-	-	145	114	126	126	126	126
Finance cost	3	38	-76	-74	-81	-84	-84	-84
Other income/(expenses), net	2	-28	-52	-65	-9	-14	-16	-17
<b>PBT</b>	<b>904</b>	<b>1,171</b>	<b>1,405</b>	<b>1,642</b>	<b>1,837</b>	<b>1,894</b>	<b>2,080</b>	<b>2,374</b>
Tax	-71	-118	-210	-39	-101	-95	-104	-119
<b>Net Profit</b>	<b>833</b>	<b>1,054</b>	<b>1,195</b>	<b>1,603</b>	<b>1,736</b>	<b>1,799</b>	<b>1,976</b>	<b>2,256</b>

Balance Sheet (in SAR Mn)	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Cash and cash equivalents	1,608	544	2,588	1,127	1,940	2,442	3,089	3,836
Murabaha time deposits	-	2,701	850	2,575	-	-	-	-
Prepayments, short-term investments and other assets	288	195	554	436	653	718	790	871
Contract assets	1,256	1,277	1,691	2,249	3,398	3,735	4,110	4,528
Inventories	274	322	249	212	553	604	665	728
<b>Total current assets</b>	<b>6,446</b>	<b>9,383</b>	<b>10,296</b>	<b>10,359</b>	<b>10,596</b>	<b>11,952</b>	<b>13,554</b>	<b>15,361</b>
Non-current investments and other assets	23	12	150	268	379	379	379	379
Investment in equity accounted investees	-	-	3	341	341	341	341	341
Intangible assets and goodwill	98	373	626	557	530	507	490	480
Property and equipment	551	473	390	425	448	405	347	274
Right of use assets	55	41	50	90	104	116	129	142
<b>Total non-current assets</b>	<b>726</b>	<b>899</b>	<b>1,220</b>	<b>1,681</b>	<b>1,802</b>	<b>1,748</b>	<b>1,687</b>	<b>1,617</b>
<b>TOTAL ASSETS</b>	<b>7,173</b>	<b>10,282</b>	<b>11,516</b>	<b>12,040</b>	<b>12,399</b>	<b>13,700</b>	<b>15,240</b>	<b>16,978</b>
Share capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Reserves	88	9	-60	-261	-294	-294	-294	-294
Treasury Shares	-181	-156	-154	-151	-145	-145	-145	-145
Retained earnings	960	1,432	2,338	3,220	3,755	4,516	5,416	6,491
Total Equity attributable to shareholders	2,271	2,794	3,324	4,008	4,517	5,277	6,178	7,253
Minority Interest	-	29	29	22	30	30	30	30
<b>Total equity</b>	<b>2,271</b>	<b>2,823</b>	<b>3,353</b>	<b>4,030</b>	<b>4,547</b>	<b>5,307</b>	<b>6,208</b>	<b>7,282</b>
Lease and other liabilities	31	16	19	104	139	139	139	139
End of service indemnities	237	261	450	582	637	637	637	637
Borrowings	-	502	499	642	641	641	641	641
<b>Total non-current liabilities</b>	<b>268</b>	<b>803</b>	<b>968</b>	<b>1,328</b>	<b>1,417</b>	<b>1,417</b>	<b>1,417</b>	<b>1,417</b>
Trade payables, accruals and other liabilities	1,931	2,573	3,315	3,887	4,022	4,395	4,837	5,294
Deferred revenue	2,277	3,266	3,049	2,090	1,810	1,978	2,177	2,382
Contract liabilities	354	488	380	467	399	399	399	399
Zakat and income tax payable	72	136	240	146	82	82	82	82
Bank overdraft and borrowings	-	194	211	93	122	122	122	122
<b>Total current liabilities</b>	<b>4,634</b>	<b>6,656</b>	<b>7,195</b>	<b>6,683</b>	<b>6,435</b>	<b>6,976</b>	<b>7,616</b>	<b>8,279</b>
<b>Total liabilities</b>	<b>4,902</b>	<b>7,459</b>	<b>8,164</b>	<b>8,010</b>	<b>7,852</b>	<b>8,393</b>	<b>9,033</b>	<b>9,696</b>
<b>Total equity and liabilities</b>	<b>7,173</b>	<b>10,282</b>	<b>11,516</b>	<b>12,040</b>	<b>12,399</b>	<b>13,700</b>	<b>15,240</b>	<b>16,978</b>

Cash Flow (in SAR Mn)	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Cash from operations	1,395	2,091	1,715	1,509	23	2,013	2,230	2,475
Investing cash flow	-171	-3,191	1,036	-2,127	2,327	-273	-300	-331
Financing cash flow	-610	57	-689	-807	-1,536	-1,239	-1,283	-1,396
Change in cash	614	-1,064	2,044	-1,461	813	501	647	747
Beginning cash	993	1,608	544	2,588	1,127	1,940	2,442	3,089
<b>Ending cash</b>	<b>1,608</b>	<b>544</b>	<b>2,588</b>	<b>1,127</b>	<b>1,940</b>	<b>2,442</b>	<b>3,089</b>	<b>3,836</b>

Ratio Analysis	2021	2022	2023	2024	2025e	2026e	2027e	2028e
<b>Per Share</b>								
EPS (SAR)	6.941	8.774	9.935	13.305	14.429	14.932	16.399	18.721
BVPS (SAR)	18.921	23.285	27.700	33.397	37.642	43.977	51.483	60.439
DPS (SAR)	4.000	5.000	6.000	10.000	8.657	8.959	9.839	11.233
FCF per share (SAR)	10.200	-9.167	22.929	-5.147	19.577	14.503	16.084	17.864
<b>Valuation</b>								
Market Cap (SAR, Millions)	22,584	29,136	41,976	32,400	29,136	29,136	29,136	29,136
EV (SAR, Millions)	21,008	29,304	40,117	32,112	28,097	27,596	26,949	26,201
EBITDA	1,108	1,392	1,669	1,948	2,107	2,266	2,496	2,838
P/E (x)	27.1	27.7	35.2	20.3	16.8	16.3	14.8	13.0
EV/EBITDA (x)	19.0	21.0	24.0	16.5	13.3	12.2	10.8	9.2
Price/Book (x)	9.9	10.4	12.6	8.1	6.5	5.5	4.7	4.0
Dividend Yield (%)	2.1%	2.1%	1.7%	3.7%	3.6%	3.7%	4.1%	4.6%
Price to sales (x)	3.1	3.3	3.8	2.7	2.2	2.0	1.8	1.7
EV to sales (x)	2.9	3.3	3.6	2.7	2.1	1.9	1.7	1.5
<b>Liquidity</b>								
Cash Ratio (x)	0.3	0.1	0.4	0.2	0.3	0.3	0.4	0.5
Current Ratio (x)	1.4	1.4	1.4	1.6	1.6	1.7	1.8	1.9
Quick Ratio (x)	1.3	1.4	1.4	1.5	1.6	1.6	1.7	1.8
<b>Returns Ratio</b>								
ROA (%)	11.6%	10.2%	10.4%	13.3%	14.0%	13.1%	13.0%	13.3%
ROE (%)	36.7%	37.3%	35.6%	39.8%	38.2%	33.9%	31.8%	31.0%
ROCE (%)	32.8%	29.1%	27.7%	29.9%	29.1%	26.8%	25.9%	25.9%
<b>Cash Cycle</b>								
Inventory turnover (x)	20	21	34	44	18	18	18	18
Accounts Payable turnover (x)	2.8	2.6	2.5	2.4	2.5	2.5	2.5	2.5
Receivables turnover (x)	2.4	2.0	2.5	3.2	3.2	3.2	3.2	3.2
Inventory days	18	17	10.7	8.3	20.1	20.1	20.1	20.1
Payable Days	128	138	143	153	146	146	146	146
Receivables days	153	180	144	114	113	113	113	113
<b>Profitability Ratio</b>								
Net Margins (%)	11.6%	12.0%	10.8%	13.3%	13.3%	12.5%	12.5%	13.0%
EBITDA Margins (%)	15.4%	15.8%	15.1%	16.1%	16.1%	15.8%	15.8%	16.3%
PBT Margins (%)	12.5%	13.3%	12.7%	13.6%	14.1%	13.2%	13.2%	13.6%
EBIT Margins (%)	12.5%	13.2%	12.6%	13.8%	13.8%	13.0%	13.0%	13.5%
<b>Leverage</b>								
Total Debt (SAR, Millions)	31	712	729	839	902	902	902	902
Net Debt (SAR, Millions)	-1,576	168	-1,859	-288	-1,039	-1,540	-2,187	-2,935
Debt/Equity (x)	0.0	0.3	0.2	0.2	0.2	0.2	0.1	0.1
Net Debt/EBITDA (x)	-1.4	0.1	-1.1	-0.1	-0.5	-0.7	-0.9	-1.0
Net Debt/Equity (x)	-0.7	0.1	-0.6	-0.1	-0.2	-0.3	-0.4	-0.4

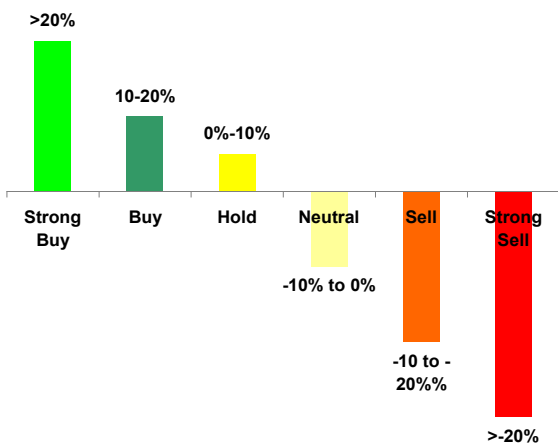
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## Rating Criteria and Definitions

### Rating



### Rating Definitions

<b>Strong Buy</b>	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
<b>Buy</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
<b>Hold</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
<b>Neutral</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
<b>Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
<b>Strong Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe

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