Arabian Internet and Communications Services Co.

Investment Update

aljazira capital

Structural pricing pressure weighs on margins; growth visibility strengthens on large contract wins & inorganic opportunities ahead, maintained "Overweight"

Following a broader slowdown in Saudi Arabia's ICT services sector and continued pricing pressure in public sector tenders after the implementation of the Etimad platform, Solutions by STC continues to face near-term margin pressure amid intensifying competition and slower project execution cycles. Nevertheless, the company's medium-term growth outlook remains supported by a healthy SAR14bn backlog, improving project conversion, recent large-scale contract wins from Saudi Aramco (i.e. SAR 1.4bn), National Water Company (SAR 520mn) and STC (SAR 132mn), alongside increasing contribution from subsidiaries including Giza Systems, LABS and CCC. In addition, contained operating expenses (-7% Y/Y in 2026) improving free cash flow generation, and a net cash (SAR 1.6bn) balance sheet provide sufficient financial flexibility to pursue further inorganic expansion in higher-value digital services including cloud, AI infrastructure, cybersecurity, and digital consulting. Accordingly, we expect Solutions to deliver a FY25-30E net income CAGR of c.10.9% and maintain our positive rating with a blended TP of SAR 254/share, as we believe current valuations do not fully reflect the company's medium-term growth potential from Saudi Arabia's accelerating digital infrastructure and enterprise digitalization spending cycle. The expected dividend yield of 4.1% further enhances the total expected return profile to 16.6%.

Strong backlog conversion supports Q1-26 growth, while project mix and pricing pressure weigh on gross margins: Solutions reported a healthy Q1-26 performance, with revenues growing 6.3% Y/Y to SAR 3.0bn, aided by strong execution momentum in ICT segment (+10.1% Y/Y) primarily driven by the conversion of projects secured in H2-25. Growth was also aided by steady expansion in Managed Services (+3.6% Y/Y), reflecting the rising share of recurring long-term engagements, while Digital Services remained broadly flattish with just 1.0% Y/Y growth. Revenue diversification continued gradually during the quarter, with share of Private sector in revenues inching up to 27% as compared to 26% last year and 21% in the last quarter, partially offsetting the softness in STC-related revenues due to project timing. In terms of Y/Y growth, despite a decent topline growth, profitability remained mixed as gross margins contracted 232bps Y/Y to 19.5%, impacted by heightened pricing pressure amid intensifying competition alongside the advance recording of costs tied to one of the key company clients. However, EBITDA grew c.10% Y/Y with margins expanding to 16.4% in Q1-26, largely supported by the lower OPEX following the revision in royalty terms with STC which led to reversal of a SAR 63mn of previously accrued expenses. All in all, this led to company posting SAR 373mn profitability, up by 4.4% Y/Y. The company delivered a sharp improvement in FCF free cash flow to SAR 344mn versus negative SAR 488mn in Q1-25, driven by stronger operating cashflows and normalization in working capital. With backlog standing at healthy SAR 14.0bn alongside recent decent size project wins from National Water Company and STC, management reiterated its FY26 guidance of 6-8% revenue growth and 14-16% EBITDA margins, while highlighting that quarterly performance is likely to remain lumpy due to milestone-based project execution dynamics.

Recommendation	Overweight
Target Price (SAR)	254.0
Upside / (Downside)*	12.5%

Source: Tadawul *prices as of 18th of May 2026

Key Financials

SARmn (unless specified)	FY24	FY25	FY26E	FY27E
Revenues	12,064	12,730	13,618	15,202
Growth %	9.3%	5.5%	7.0%	11.6%
Gross Profit	2,783	2,678	2,725	3,164
Net Income	1,603	1,512	1,662	2,015
Growth %	34.1%	-5.6%	9.9%	21.2%
EPS	13.3	12.5	13.8	16.7
DPS	10.0	8.0	9.0	11.8

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY24	FY25	FY26E	FY27E
Gross Margin	23.1%	21.0%	20.0%	20.8%
Net Margin	13.2%	11.8%	12.2%	13.2%
ROE	39.6%	34.7%	33.6%	36.4%
ROA	13.3%	11.6%	12.0%	13.3%
P/E (x)	20.3	18.0	16.1	13.2
P/B (x)	8.0	6.2	5.4	4.8
EV/EBITDA (x)	17.0	14.0	13.1	11.3
Dividend Yield	3.7%	3.6%	4.1%	5.3%

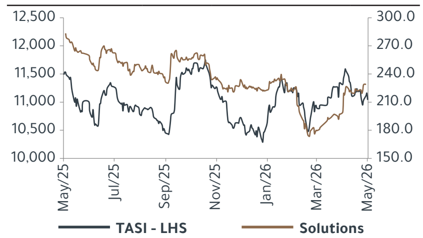
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	26.6
YTD%	-1.5%
52 week (High)/(Low)	280.20/170.1
Share Outstanding (mn)	120.0

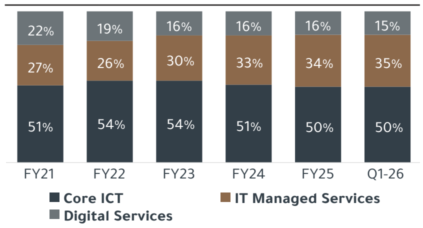
Source: Company reports, Aljazira Capital Research

Share Price Performance



Source: Bloomberg, Aljazira Capital Research

Service wise revenue mix



Source: Company reports, Aljazira Capital Research

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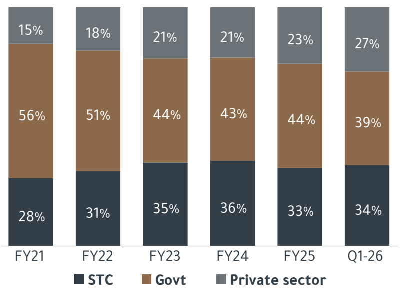
Large contract wins and subsidiaries performance support medium-term revenues visibility, helping deliver FY25-30E topline CAGR of c.6.3%: Despite the challenging operating backdrop, Q1-26 reflected several encouraging developments. Government revenues rebounded 15% Y/Y, supported by the conversion of projects secured during H2-25, while government-related revenues still account for 44% of total sales. More importantly, the SAR1.4bn Upstream Supercomputers contract awarded by Saudi Aramco in March 2026 – the company's largest project win in recent years – significantly strengthens FY27 revenue visibility, with financial recognition expected to commence from Q1-27. The project involves deployment of two integrated high-performance computing clusters for Aramco's subsurface imaging and reservoir analysis operations, alongside software licensing and lifecycle managed services. In addition, Solutions secured a SAR520mn five-year ICT managed services contract from National Water Company and a SAR132mn cloud infrastructure upgrade project from STC, collectively enhancing visibility across FY26-30.

From a group structure perspective, subsidiaries are increasingly becoming an important support pillar for overall growth as standalone revenues have remained on a declining trend since FY23. Giza Systems emerged as the fastest-growing entity within the group during FY25, with revenues rising 21% Y/Y to SAR1.67bn after intercompany eliminations. Meanwhile, the acquisition of LABS – a leading SAP Gold Partner in the Middle East – materially strengthened the company's positioning in SAP transformation, cloud, analytics, and enterprise digital solutions across KSA and regional markets. The acquisition also enhanced Giza Arabia's ability to deliver integrated SAP and cloud offerings, particularly within the government sector. Operationally, Giza's quarterly revenues increased from SAR368mn in Q1-25 to SAR573mn in Q4-25, while margins recovered materially as integration costs normalized. In parallel, Giza's appointment as a delivery partner for Diriyah's smart city program further reinforces its positioning within Saudi Arabia's large-scale digital infrastructure projects. Support from CCC also remained healthy, with revenues growing 17% Y/Y in FY25 on the back of new project wins. Collectively, these developments underpin our expectation for Solutions to deliver a FY25-30E revenue CAGR of c.6.3%.

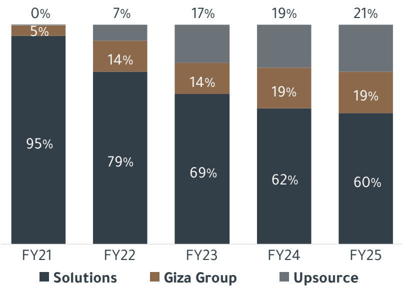
Gradual margin recovery and contained operating expenses along with topline growth to derive FY25-30e earnings CAGR of 10.9%: A key structural challenge for Solutions by STC remains the full rollout of the Etimad platform, which has materially intensified pricing competition in public sector tenders, eroding pricing power and pressuring margins across the sector. This is clearly reflected in Solutions' gross margin trajectory, which declined from 23.5% in FY23 to 21.0% in FY25 and further to 19.5% in Q1-26. Given the structurally more competitive tendering environment, we do not expect margins to revert to pre-Etimad levels over our FY26-30E horizon and therefore build in only a gradual recovery in our estimates which will take Solutions' GPMs to 22.0% by FY30e. Notably, the company has partially offset margin pressures through disciplined cost optimization initiatives. Since FY23, Solutions' general & administrative expenses have remained broadly flat, supported by an early retirement program and other costs optimization measures. Consequently, workforce headcount declined to 3,126 employees in FY25 from 3,584 employees in FY24, reflecting a c.12.7% Y/Y reduction. As a result, we expect G&A expenses to decline by c.5.0% in FY26 before gradually normalizing from FY27 onward. These contained operating expenses remain one of the key reasons behind our expectation for Solutions' FY25-30E net income CAGR of c.10.9%, outpacing the topline CAGR of c.6.3%.

Customer wise revenue mix



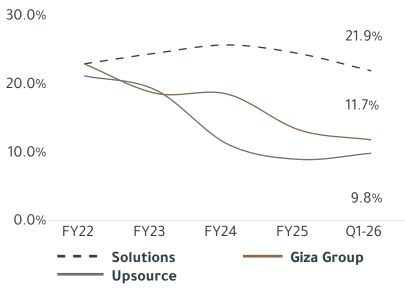
Source: Company reports, Aljazira Capital Research

Entiry wise revenue mix



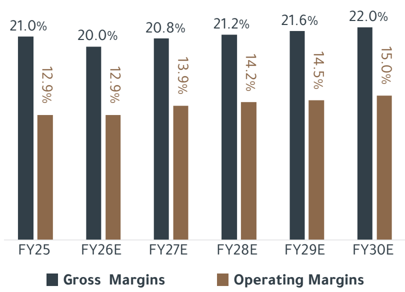
Source: Company reports, Aljazira Capital Research

Entity wise gross margin profile



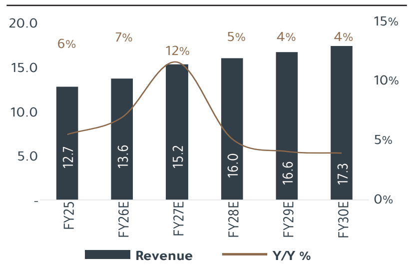
Source: Company reports, Aljazira Capital Research

Gross & Operating Margins trajectory



Source: Company reports, Aljazira Capital Research

Revenue trajectory (SAR bn)

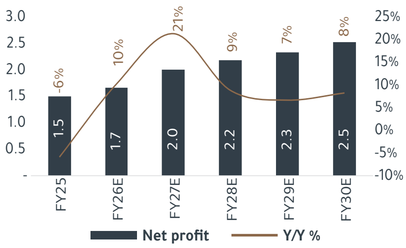


Source: Company reports, Aljazira Capital Research

Strong cash generation and balance sheet flexibility support inorganic expansion, and shareholder returns, with c.4.1% DY in 2026: The company remains well positioned to pursue further inorganic growth opportunities in higher-value digital services including cloud, AI infrastructure, cybersecurity, and digital consulting – segments that carry structurally higher margins relative to traditional ICT services. Supported by a net cash position of SAR1.69bn, improving free cash flow generation, and a proven integration track record, the company retains ample financial flexibility for future expansion. This financial flexibility is further reinforced by improving working capital efficiency and resilient operating cash flow generation. Free cash flow improved sharply to SAR344mn in Q1-26 versus negative SAR488mn in Q1-25, while the cash conversion cycle improved to negative 30 days from 25 days last year. We expect Solutions to maintain an average working capital cycle of negative 18 days over FY26-30E period, supporting stronger cash conversion ahead. In addition, management reiterated FY26 organic capex guidance of 2-3% of revenues, while the company's structurally lower capex intensity should continue to support superior free cash flow generation. Supported by a healthy SAR14bn backlog, balanced revenue mix, and revised royalty structure, Solutions remains well positioned to sustain healthy shareholder returns, with dividend yield expected at 4.1% in FY26 alongside an average payout ratio of c.70% over FY26-30E.

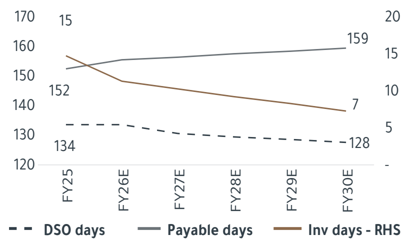
AJC view and valuation: We maintain our positive view on Solutions, supported by improving backlog conversion, strengthening subsidiary performance, resilient cash generation, and a healthy balance sheet that provides flexibility for further inorganic expansion in higher-margin digital services. While margin pressures from competitive pricing and Etimad-led tender dynamics are likely to persist in the near term, we believe the company remains well-positioned to benefit from Saudi Arabia's long-term digital transformation spending cycle alongside improving execution visibility from recent large-scale project wins. Accordingly, we maintain our "**Overweight**" rating on the stock with a blended TP of **SAR 254/share** (50% PE at 18x of FY26e earnings, 50% DCF with 10.2% WACC and 3.0% terminal growth), implying a capital upside of 12.5%, while the expected dividend yield of 4.1% brings the total expected return to 16.6%. The stock is currently trading at a trailing P/E of 17.5x against the broader market multiple of 21.6 (Ex Aramco), implying a c.18% discount. Given the company's net income CAGR of 10.9% from FY26-30e, we think this discount should be converged to broader market multiple in the near term.

Net Profit trajectory (SARbn)



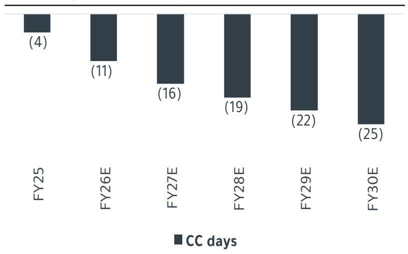
Source: Company reports, Aljazira Capital Research

Working Capital Days breakup



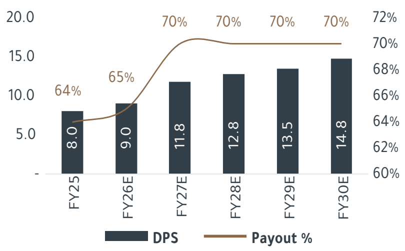
Source: Company reports, Aljazira Capital Research

Working Capital Days



Source: Company reports, Aljazira Capital Research

DPS & Payout



Source: Company reports, Aljazira Capital Research

Valuation Methodology

	TP (SAR)	Weight	
DCF	258.4	50%	129.2
P/E	249.3	50%	124.7
Blended TP			**254.0**
Upside/(Downside) potential			**12.5%**

Source: AlJazira Capital research, prices as of 18th of May, 2026

Upside risks to valuation:	Downside risks to valuation:
• Potential upside from higher Saudi Aramco ICT and AI infrastructure spending.	• Delay in backlog conversion and project execution.
• Quicker recovery in government demand on project segment.	• Weaknesses in standalone business momentum to continue
• Inorganic opportunities in high-margin digital services.	• Prolonged pressure on gross margins.

Source: Company reports, AlJazira capital Research

Arabian Internet and Communications Services Co.

Investment Update

Key Financial Data

Amount in SARmn, unless otherwise specified	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
Income statement								
Revenues	11,040	12,064	12,730	13,618	15,202	15,988	16,642	17,300
Y/Y	**25.4%**	**9.3%**	**5.5%**	**7.0%**	**11.6%**	**5.2%**	**4.1%**	**4.0%**
Cost of Sales	(8,443)	(9,281)	(10,052)	(10,893)	(12,039)	(12,597)	(13,046)	(13,493)
Gross profit	**2,598**	**2,783**	**2,678**	**2,725**	**3,164**	**3,391**	**3,595**	**3,807**
GPM	**23.5%**	**23.1%**	**21.0%**	**20.0%**	**20.8%**	**21.2%**	**21.6%**	**22.0%**
S&D	(496)	(402)	(306)	(274)	(307)	(321)	(335)	(348)
G&A	(715)	(720)	(731)	(694)	(749)	(797)	(855)	(869)
Operating profit	**1,387**	**1,661**	**1,641**	**1,757**	**2,108**	**2,272**	**2,406**	**2,590**
Y/Y	**19.5%**	**19.7%**	**-1.2%**	**7.1%**	**19.9%**	**7.8%**	**5.9%**	**7.6%**
Operating margin	**12.6%**	**13.8%**	**12.9%**	**12.9%**	**13.9%**	**14.2%**	**14.5%**	**15.0%**
Finance charges	(76)	(74)	(89)	(91)	(89)	(86)	(89)	(96)
Finance income	145	114	106	112	143	165	191	220
Other income	(52)	(65)	(26)	23	12	13	14	15
PBT	**1,405**	**1,642**	**1,645**	**1,811**	**2,190**	**2,383**	**2,541**	**2,749**
Zakat	(210)	(39)	(132)	(149)	(175)	(191)	(203)	(220)
Net income	**1,195**	**1,603**	**1,512**	**1,662**	**2,015**	**2,192**	**2,337**	**2,529**
Y/Y	**13.4%**	**34.1%**	**-5.6%**	**9.9%**	**21.2%**	**8.8%**	**6.6%**	**8.2%**
EPS (SAR)	**9.9**	**13.3**	**12.5**	**13.8**	**16.7**	**18.2**	**19.4**	**21.0**
DPS (SAR)	**6.0**	**10.0**	**8.0**	**9.0**	**11.8**	**12.8**	**13.5**	**14.8**
Balance sheet								
Assets								
Cash & bank balance	2,588	1,127	1,749	3,132	3,708	4,353	5,095	5,914
Accounts receivable	4,364	3,759	4,660	4,743	5,184	5,416	5,594	5,770
Inventories	249	212	406	337	339	320	296	269
Other current assets	3,096	5,261	3,930	3,500	3,864	4,045	4,195	4,346
Property & Equipment	390	425	363	301	266	236	204	180
ROU assets	50	90	372	364	367	372	380	394
Other non-current assets	779	1,166	1,437	1,426	1,409	1,391	1,361	1,316
Total Assets	**11,516**	**12,040**	**12,917**	**13,803**	**15,136**	**16,133**	**17,125**	**18,190**
Liabilities & owners' equity								
Total current liabilities	7,195	6,683	7,020	7,376	8,158	8,507	8,766	9,036
Total non-current liabilities	968	1,328	1,569	1,504	1,457	1,448	1,469	1,510
Paid -up capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Statutory reserves	-	-	-	-	-	-	-	-
Other reserve	(60)	(261)	(300)	(300)	(300)	(300)	(300)	(300)
Retained earnings	(154)	(151)	(145)	(145)	(145)	(145)	(145)	(145)
Total owners' equity	3,353	4,030	4,327	4,923	5,522	6,178	6,889	7,643
Total equity & liabilities	**11,516**	**12,040**	**12,917**	**13,803**	**15,136**	**16,133**	**17,125**	**18,190**
Cashflow statement								
Operating activities	1,715	1,509	(101)	2,576	2,169	2,364	2,520	2,701
Investing activities	1,036	(2,127)	2,018	(193)	(204)	(206)	(191)	(181)
Financing activities	(689)	(807)	(1,298)	(936)	(1,333)	(1,461)	(1,541)	(1,660)
Change in cash	2,062	(1,425)	619	1,446	632	696	788	860
Ending cash balance	**2,588**	**1,127**	**1,749**	**3,132**	**3,708**	**4,353**	**5,095**	**5,914**
D&A	282	287	346	358	341	338	337	334
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.4	1.6	1.5	1.6	1.6	1.7	1.7	1.8
Quick ratio (x)	1.4	1.5	1.5	1.5	1.6	1.6	1.7	1.8
Profitability ratios								
GP Margin	23.5%	23.1%	21.0%	20.0%	20.8%	21.2%	21.6%	22.0%
Operating Margins	12.6%	13.8%	12.9%	12.9%	13.9%	14.2%	14.5%	15.0%
EBITDA Margin	15.1%	16.1%	15.6%	15.5%	16.1%	16.3%	16.5%	16.9%
Net Margins	10.8%	13.2%	11.8%	12.2%	13.2%	13.7%	14.0%	14.6%
Return on assets	10.4%	13.3%	11.6%	12.0%	13.3%	13.5%	13.6%	13.9%
Return on equity	35.6%	39.6%	34.7%	33.6%	36.4%	35.4%	33.8%	33.0%
Market/valuation ratios								
EV/EBITDA (x)	25.6	17.0	14.0	13.1	11.3	10.6	10.1	9.6
Dividend yield	1.7%	3.7%	3.6%	4.1%	5.3%	5.8%	6.1%	6.7%
P/E ratio (x)	35.2	20.3	18.0	16.1	13.2	12.2	11.4	10.5
P/BV ratio (x)	12.5	8.0	6.2	5.4	4.8	4.3	3.9	3.5

Source: Company reports, AlJazira capital Research, as per closing price of 18th May 2026 aljazira capital الجزيرة كابيتال

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RESEARCH DIVISION

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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