AL-BABTAIN POWER AND TELECOMMUNICATIONS Co.

INDUSTRIALS | INITIATION OF COVERAGE

30 April 2026

Core steel tower operations provide a solid anchor for the company; however, future growth is contingent on timely capacity expansion

- The SEC's grid expansion roadmap serves as a reliable proxy for the Tower segment's growth trajectory; even following recent downward revisions, the plan ensures a stable demand floor. However, Al Babtain's current capacity constraints represent a near-term bottleneck to capturing this high-visibility pipeline
- We see strong demand for the Poles business driven by urbanization, certain mega projects and recreational builds
- Declining Solar segment topline likely to be a function of increased competition in the solar tracking systems space and selective bidding for margin accretive projects. However, we remain positive on this segment overall, given the strong traction in the renewables sector as the Kingdom progresses toward its Vision 2030 targets.
- Recent deleveraging strengthens the balance sheet and lowers the interest burden considerably. D/E (incl. lease) down to 0.7x from 1.9x in 2022

Capacity expansion likely to be the primary catalyst: We initiate coverage on Al Babtain with a Buy rating and a SAR 98.5 target price, offering 49% upside. Al Babtain's Tower business which is its core segment (c.50% of revenue) has grown at a healthy pace (26% CAGR) over the last 5 years. Both the KSA and Egypt plants with nameplate capacity of 300k TPA and 50K TPA respectively are operating at 100% utilization currently. Our analysis suggest that capacity expansion is imperative if the company were to maintain or expand its current market share (our estimate c.60%) in this segment. There are strong structural tailwinds for the transmission and distribution infrastructure buildout in KSA primarily underpinned by the kingdom's goals in datacenter and renewables space and also the shift from mega projects to near term ROI generating projects. For datacenter the goal is to reach 1.5 GW of load capacity by 2030, while in renewables the capacity integration has picked up meaningfully (12.3 GW integrated with grid as of 2025 up from 6.6 GW in 2024) and we expect this growth to continue as the country progress towards its goal of 50% electricity generation from renewables by 2030. The latest SEC grid expansion targets, despite the downward revision in 2025, imply an annualized growth of c.7% and c.6% in the transmission and distribution network respectively through 2030. Our model indicates that in the absence of capacity expansion that utilization, from the SEC grid expansion alone and despite assumption of some market share loss, could reach 120% by 2028. As such there is a strong case for the company to expand its capacity to not only prevent itself from a potential market share loss in the near term but also to benefit from the multiyear tailwind. Moreover, the expansion in capacity can be swift as the company's KSA plant added around 200k TPA capacity in just last 3 years. While the 2026 revenue could be flat or show a low single digit growth on account of the capacity constraints, once the additional capacity (if planned) kicks in we could see meaningful topline growth in this segment. In terms of gross margin there could be some impact as the overall supply improves in this sector however, we still expect a favorable demand/supply dynamic and have assumed gross margin to remain stable in the high-20s range through 2030.

Poles & Lighting shows strategic pivot to high-margin value: This segment has demonstrated remarkable structural resilience, successfully decoupling profitability from top-line fluctuations. While revenue has softened from historical peaks, reflecting a transitional gap between major project cycles, gross profit has remained remarkably firm. This performance is a direct result of a disciplined, selective bidding strategy that prioritizes margin-accretive contracts over raw market share. By focusing on "value over volume," the segment has achieved significant margin expansion, effectively offsetting revenue contractions to maintain stable earnings. We view this shift toward high-margin realizations as a key fundamental strength. Looking ahead, the outlook for a top-line re-acceleration is highly favorable. A robust national infrastructure pipeline anchored by projects such as Expo 2030, King Salman International Airport, and FIFA 2034 provides a fertile backdrop for Al Babtain to capture renewed growth while defending its strengthened margin profile.

Solar segment likely to underperform: This segment is largely driven PV solar tracker components and given the hostile competition in this space we expect the revenue and profit ability to continue to be under pressure in the near term.

Significant deleveraging strengthens balance sheet: Al Babtain has significantly de-leveraged over the last three years, aggressively reducing its Debt-to-Equity ratio (incl. leases) from 1.9x in 2022 to 0.7x. This prudent capital management has bolstered the company's interest coverage ratio to 7.5x (up from 2.6x in 2022), providing a substantial safety buffer. While we anticipate the upcoming capacity expansion to be largely self-funded through internal cash generation, the strengthened balance sheet provides ample headroom for debt-financing should the need arise.

Key financial metrics *In SARmn, unless otherwise stated*	2024a	2025a	2026e	2027e	2028e
Revenue	2,812	2,857	2,936	3,254	3,543
Revenue growth	12.9%	1.6%	2.7%	10.9%	8.9%
Operating Profit	365	578	578	683	784
Operating margin	13.0%	20.2%	19.7%	21.0%	22.1%
Net profit	266	453	451	541	632
Net profit margin	9.4%	15.9%	15.4%	16.6%	17.9%
EPS (SAR)	4.16	7.08	7.06	8.46	9.89
DPS (SAR)	1.50	3.00	2.82	3.38	3.96
P/E	15.9x	9.3x	9.4x	7.8x	6.7x

Source: Company data, Derayah Financial

Rating		**BUY**
Target price	SAR	98.50
Last price*	SAR	66.20
Upside potential		49%

**As on 29th Apr 2026*

Stock info

Saudi Exchange / Bloomberg sym.	2320/ALBABTAI AB
MCap (SARmn / USDmn)	4,223 / 1,129
Daily traded value 3M avg. (SARmn / USDmn)	23.9 / 6.4
Free float %	93.7%
Foreign ownership* / limit	34.0% / 49.0%

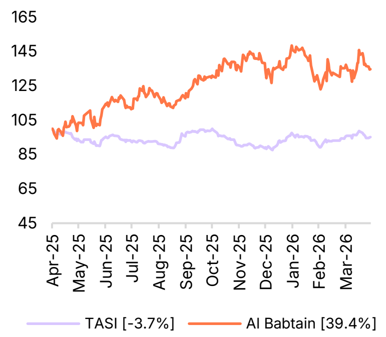
** As on 26th Apr 2026*

Key shareholders

Al Babtain Sultan Hamad Abdullah	1.9%
Robeco Schweiz AG	1.9%
Al Babtain Abdulkareem Hamad Abdullah	1.6%

Source: Bloomberg

Share performance (1-yr return)



Source: Bloomberg

ANALYST CONTACTS

Aditya Takkar
Senior Research Analyst
+966 11 271 6740
aditya.takkar@derayah.com

Investment thesis

Towers and Metals business: Ample topline visibility, capacity expansion can be a major catalyst

Segment Profile: Al Babtain's Towers and Structures segment serves as a foundational pillar for the Kingdom's power and telecommunications expansion. The business specializes in the engineering and manufacturing of heavy-duty lattice towers for high-voltage transmission lines (up to 750kV), telecommunication towers, and specialized substation structures. With a massive combined annual capacity of 350,000 tons (comprising 300,000 tons from its Riyadh facilities and 50,000 tons from its Egyptian hub) the company is able to take lion's share of the grid expansion plans of SEC, which intends to grow its transmission and distribution lines by c.7% and c.6% CAGR respectively through 2030. The annual galvanizing capacity for the towers segment currently stands at 200,000 tons in KSA and 50,000 tons in Egypt.

Order backlog: Al-Babtain provides strong revenue visibility for its Towers and Metals structure business and we are not basing this just on the end market potential but also the publicly available order data. The company currently has publicly disclosed order book amounting to SAR 1.8bn for its towers segment to be executed over 12-24 months which is c.70% of its overall TTM revenue.

Figure 1: Publicly available contract data indicates strong order backlog

Date announced	Awarding customer	Contract Scope	Contract size	Execution duration
25 Nov 2024	Hyundai Engineering & Construction	Provide transmission line steel towers for 500kV HVDC OHTL	SAR 777mn	24 months
17 Feb 2025	Larsen & Toubro Saudi Arabia LLC (L&T)	Supply & construction for 500kV OHTL (COA–SOA Interconnection Link, Portion II)	SAR 390mn	24 months
24 Feb 2025	Saudi Services for Electromechanical Works (SSEM)	Supply steel transmission towers for 500kV HVDC OHTL (COA–SOA Interconnection Link, Portion III)	SAR 622mn	NA

Source: Company data, Derayah Financial

Structural Demand for Towers Amid SEC Network Expansion: Saudi Electricity Company (SEC) plans to grow its power transmission network from 105k c.km to 146k c.km by 2030 and its distribution network to 1.1mn c.km from current 0.86mn c.km to support the rising demand, especially from the government AI/DC initiatives and renewables integration. This expansion entails

1. Structural demand for towers and steel structures directly aligning with Al-Babtain's core business segments i.e Towers & Metal Structures

2. Multi-year execution cycles resulting in recurring contract opportunities, stable revenue growth

3. Integration of renewable generation into the grid, increasing the complexity and scale of transmission works required.

Current production capacity is expected to face constraints without timely expansion: Our model indicates that Al-Babtain could benefit from a potential expansion in Towers and Metal Structures capacity. The company's current KSA capacity of ~300k tons per annum appears well utilized under SEC-driven transmission and distribution expansion alone and the likelihood of it reaching stretched level (c.120%) by 2027/28 is quite high (as outlined in illustration, refer fig.2). As such there is a meaningful earnings upside potential if capacity is increased. The key factors that underpin the case for capacity expansion are outlined below

1. Potential loss of market share in the SEC grid expansion related projects

2. Incremental demand from communication towers is not captured in our grid-driven model presenting upside risk to demand

3. Additional steel structure demand outside SEC targets, including large industrial and economic zones, certain mega-projects, the GCC interconnection projects and independent power producer projects. This is more likely to result in distribution

networks demand and not transmission but nevertheless it is an upside risk for demand in the tower segment, thereby supporting the case for capacity expansion.

Outlook: While near-term growth may be moderated by capacity constraints, it is important to note that capacity expansion lead times are relatively short. Consequently, we project a flat topline for 2026, followed by a steady ramp-up of new capacity starting in 2027. In the near term our model accounts for both the commissioning of new capacity and the overutilization of existing lines, supporting a 11% revenue CAGR for the Tower segment from 2027 to 2030.

Figure 2: Illustration showcasing revenue driven by SEC grid expansion and its impact on utilization, taking utilization over 100% even with lower market share assumptions

Transmission Lines	**2023a**	**2024a**	**2025a**	**2026e**	**2027e**	**2028e**	**2029e**	**2030e**
Transmission line added in the year C.km	2,603	4,231	4,840	7,217	7,715	8,248	8,817	9,425
Y/Y %	2.8%	4.4%	4.8%	6.9%	6.9%	6.9%	6.9%	6.9%
Total transmission line as at yr end	95,563	99,794	104,600	111,817	119,533	127,781	136,597	146,023
Al Babtain share%	65%	65%	65%	60%	60%	55%	55%	55%
Al Babtain share in lines C.km	1,692	2,750	3,134	4,330	4,629	4,536	4,849	5,184
No. of towers (at 400m distance)	4,230	6,875	7,835	10,826	11,573	11,341	12,123	12,960
Implied tonnage (at 25 tons per tower)	105,742	171,884	195,869	270,653	289,328	283,517	303,080	323,992
Capacity	200,000	250,000	300,000	300,000	300,000	300,000	300,000	300,000
Utilization at 300k t.p.a. KSA Plant Capacity	53%	69%	65%	90%	96%	95%	101%	108%
Revenue (SARmn)	476	739	979	1,353	1,476	1,474	1,606	1,750
% of total tower revenue	66%	74%	71%	81%	81%	81%	85%	86%
Assumed Realization (SAR/t)	4,500	4,300	5,000	5,000	5,100	5,200	5,300	5,400
Distribution Lines	**2023a**	**2024a**	**2025a**	**2026e**	**2027e**	**2028e**	**2029e**	**2030e**
Transmission line added in the year C.km	36,459	40,195	53,165	51,540	54,632	53,084	51,931	53,509
Y/Y %	5.0%	5.2%	6.6%	6.0%	6.0%	5.5%	5.1%	5.0%
Total transmission line as at yr end	765,640	805,835	859,000	910,540	965,172	1,018,257	1,070,188	1,123,697
Al Babtain share%	30%	30%	30%	25%	25%	25%	20%	20%
Al Babtain share in lines C.km	10,938	12,059	15,950	12,885	13,658	13,271	10,386	10,702
No. of towers (at 200m distance)	54,689	60,293	79,748	64,425	68,291	66,356	51,931	53,509
Implied tonnage (at 1 ton per tower)	54,689	60,293	79,748	64,425	68,291	66,356	51,931	53,509
	200,000	250,000	300,000	300,000	300,000	300,000	300,000	300,000
Utilization at 300k t.p.a. KSA Plant Capacity	27%	24%	27%	21%	23%	22%	17%	18%
Revenue (SARmn)	246	259	399	322	348	345	275	289
% of total tower revenue		26%	29%	19%	19%	19%	15%	14%
Assumed Realization (SAR/t)	4,500	4,300	5,000	5,000	5,100	5,200	5,300	5,400
Overall Utilization% from SEC projects only	**80%**	**93%**	**92%**	**112%**	**119%**	**117%**	**118%**	**126%**
Revenue from SEC driven Model (SARmn)	722	998	1,378	1,675	1,824	1,819	1,882	2,039
Y/Y %		38.3%	38.0%	21.6%	8.9%	-0.2%	3.4%	8.3%
Revenue Towers & Metal from Model (SARmn)	953	1,132	1,547	1,578	1,815	1,996	2,196	2,416
Annual Capacity (TPA)	200,000	250,000	300,000					
Utilization	100%	100%	100%					
Blended Revenue Per Ton at 100% utilization	4,765	4,528	5,158					
Revenue Variance (SEC model vs Actual/Estimate)	-24.2%	-11.8%	-10.9%	6.2%	0.5%	-8.9%	-14.3%	-15.6%

SEC is the central planner and operator of Saudi Arabia's transmission and distribution networks; therefore, SEC targets provide the most comprehensive and representative view of grid expansion. While certain industrial zones and mega-projects may procure limited distribution infrastructure independently, SEC remains the central authority for grid planning and standards, and its targets are representative of national transmission and distribution expansion.

Source: Company data, Derayah Financial. Blue = Actual; Green = Assumptions, Black = Calculations

Egypt Business

While Saudi Arabia remains the primary growth engine for the Tower segment, the Egyptian operations also have major tailwinds such as 1. Renewable's integration with grid (target 42% renewable in its electricity mix by 2030 and 60% by 2040) 2. The USD 2bn investment program to evacuate 2.1 GW of renewable energy from the Gulf of Suez and Red Sea region 3. Leveraging its geography to link the power grids of three continents. 4. The country also has preference for local manufacturing given the headwinds for its currency which make imports expensive. Egypt represents 8% of the total revenue of the company and currently the Egyptian plant is also operating at 100% utilization rate. In a nutshell there is strong demand for the Towers business in Egypt as well however capacity seems to be a bottleneck just like in KSA.

Not just the top line but the profitability has increased as well, and we see further scope for growth contingent upon capacity expansion

Al Babtain has seen a marked increase in the gross margins for the Towers and Metal segment and we believe the key reasons are:

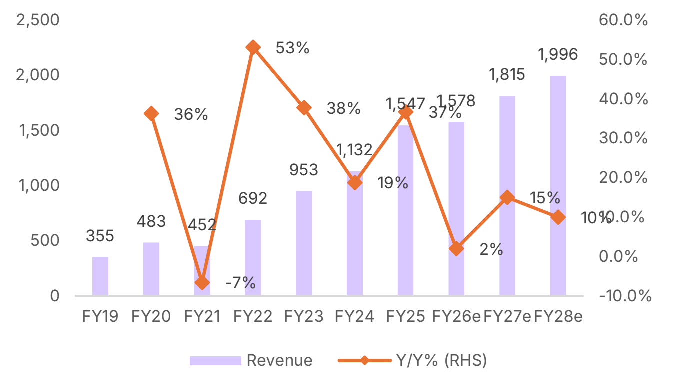
1. **Positive operating leverage as utilization improved:** Strong demand for towers has improved the plant utilization (operating at full capacity currently) and thus the operating leverage. In case of capacity expansion, in our estimate, the ramp up should be quick given the strong end market demand which could further improve the operating leverage and thus the margins.

2. **Margin resilience amid elevated input costs:** Steel and zinc constitute approximately 80% of COGS. While the physical structure is roughly 95% steel and 5% zinc, the cost contribution shifts to a 75%/25% split, as zinc typically trades at four times the price of steel. We attribute the 2022 margin compression (refer fig. 4) to a roughly six-month pricing lag, where the 2021 commodity spike finally flowed through the income statement. Since 2023, however, robust local demand has allowed contract realizations to outpace raw material inflation. Moving forward, our model assumes range-bound but elevated raw material prices (on ytd basis Steel +12%; Zinc +10%), supported by persistent infrastructure demand and structural supply constraints given the adverse geopolitical landscape. However, we expect Al Babtain's Tower and Metal's margin to continue being resilient amid a consistent demand from the grid expansion plans.

3. **Transition to commanding pricing power:** Al-Babtain has effectively moved away from being a 'price-taker', vulnerable to regional competition. As the primary provider for Saudi Arabia's critical energy infrastructure, the company now acts as a price-maker, leveraging limited specialized competition to ensure favorable contract realizations.

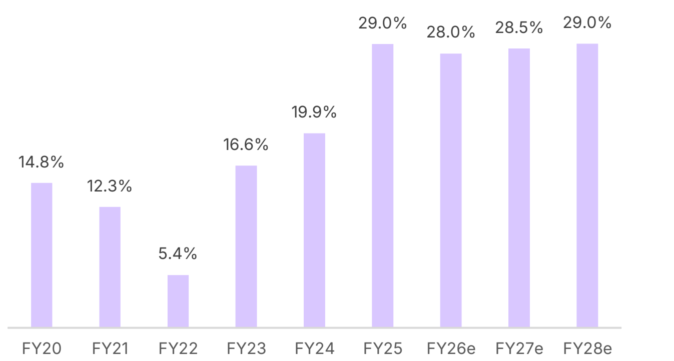
In a nutshell given the leadership position and the strong end market demand the contract prices are likely to stay elevated for the Towers and Metal structures and the potential capacity expansion will only help pass through more volumes at higher prices. Raw material prices, however, are unlikely to see a commensurate increase. Moreover, we believe the current industry dynamics and the company's leadership position enable it to pass through these moderate cost inflations to its customers. As such, we see further potential for absolute profit growth as well as margin expansion while maintaining the dominant market share.

Figure 3: Towers segment has shown a robust growth and we expect this to continue



Source: Company data, Derayah Financial

Figure 4: And so, have the gross margins. We expect them to moderate a bit but nevertheless stay at healthy levels



Source: Company data, Derayah Financial

Poles and lighting sector: Margin resilience amidst revenue normalization

Segment Profile: The segment's primary focus includes the manufacturing of poles, masts, and lanterns for lighting streets, stadiums, and public squares, alongside the production of decorative poles and energy-efficient LED lighting solutions. By integrating manufacturing with advanced lighting technologies, the sector provides end-to-end solutions that combine functional reliability with modern urban aesthetics, maintaining a dominant market position in the supply of essential public works equipment. In Saudi Arabia, annual capacity for poles and high masts is 100,000 tons, supported by a standalone galvanizing capacity of 80,000 tons. In contrast, the Egyptian facility produces 20,000 poles annually and shares the 50,000-ton galvanizing line with the Egyptian towers segment. Additionally, the Saudi operations include specialized capacity for 1mn LED units and 150,000 lighting units.

Value over volume growth: Poles & Lighting segment's top-line has softened from its 2022 peak of SAR 896mn to SAR 555mn for 2025 however gross profitability has grown remarkably increasing from 15.3% to 25.6% over the same period. This revenue contraction could largely be a function of a transitional gap between major project cycles and Al-Babtain's selective bidding strategy focused on margin-accretive contracts. We expect this "value over volume" trend to continue and view the disciplined prioritization of high-margin realizations as a key structural positive. Looking ahead a robust infrastructure pipeline (refer fig. 5) including Expo 2030, King Salman International Airport, and FIFA 2034 provides a favorable backdrop for Al-Babtain to re-accelerate Poles and lighting sector's top-line growth while defending the strong margin.

Harvesting the Infrastructure Lag with a "Saudi Made" Competitive Moat: We estimate that Al-Babtain's Poles and Lighting segment is poised for a significant growth phase, following the historical "sequential" pattern where lighting infrastructure trails the initial power grid expansion. While the recent surge in the Tower segment reflects the early-stage energy backbone requirements of Saudi Arabia's Giga-projects, we expect the Columns and Lighting revenue to accelerate as projects like FIFA 2034 stadiums, King Salman Intl Airport, and Expo 2030 move into the final stage of their construction lifecycles. Furthermore, we estimate that the Kingdom's strict Local Content (ICV) requirements will serve as a structural tailwind, allowing Al-Babtain to leverage its dominant domestic manufacturing footprint to capture high-margin market share during the "finishing" phase of the Vision 2030 build-out.

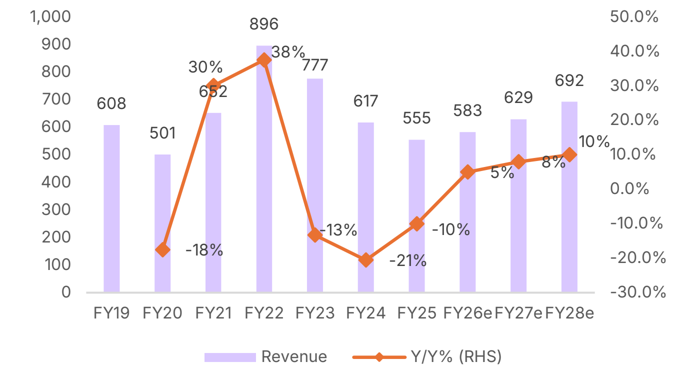
Outlook: We project a 11% CAGR for Al Babtain's Poles and Lighting revenue through 2030. Gross margins are expected to remain elevated during 2026 and 2027, bolstered by robust demand for lighting solutions. Beyond 2027, we anticipate a further gradual expansion in margins through 2030, as various large-scale projects reach the completion phase, creating a surge in high-value demand.

Figure 5: Major Infrastructure Projects Driving Long Term Lighting Demand

Project	Poles Scope	Timeline	Status
Expo 2030 Riyadh	Road/pathway lighting, district lighting, pavilion poles	Peak procurement 2027–2029	25% site leveled, key buildings from Q3 2026
King Salman Intl Airport	High mast (runways/aprons), road lighting, terminal poles	2025–2030	Construction started Sep 2025
FIFA 2034 Stadiums	Stadium surrounds, access roads, fan zones, training sites	Peak 2028–2032	3 of 15 stadiums under construction
Sports Boulevard	Decorative street poles, pathway lighting, sports masts	Ongoing	40% complete, 60% remaining
Diriyah Gate	Street/boulevard and decorative poles	Ongoing	Phase 2 underway
Qiddiya City	Stadium masts, road poles	Ongoing	Six Flags opened Dec 2025
SEC Grid Expansion	T&D utility poles (ongoing base demand)	Continuous	Steady annual procurement

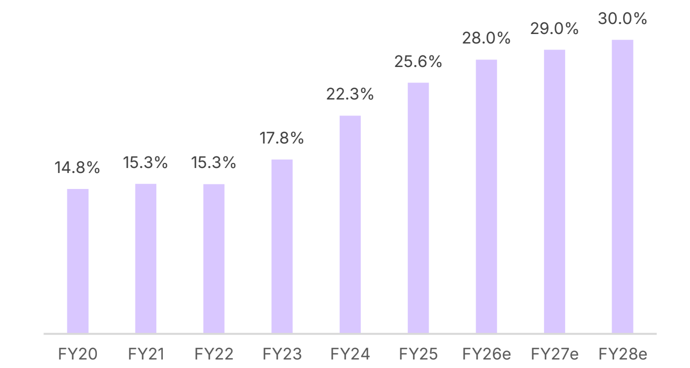
Source: Derayah Financial

Figure 6: Poles and Lighting sector revenue growth trajectory, we think our estimates are very modest here



Source: Company data, Derayah Financial

Figure 7: Poles and Lighting Sector gross margins expected to stay elevated amid strong demand



Source: Company data, Derayah Financial

Solar energy sector: Higher competition in the solar tracking systems likely to weigh on revenue and margins

Segment Profile: In the Solar Energy sector, Al-Babtain has established a robust manufacturing footprint, focusing on the high-growth renewable infrastructure. They specialize in the production of specialized metal components (capacity 3.5 GW) for both single and biaxial mobile solar PV tracking systems, as well as the fabrication of fixed structural components for solar photovoltaic installations. They also manufacture Concentrated solar power (CSP) steel structures (capacity 300 MW) which are the heavy-duty frameworks designed to hold and move the mirrors or lenses that focus sunlight to generate heat.

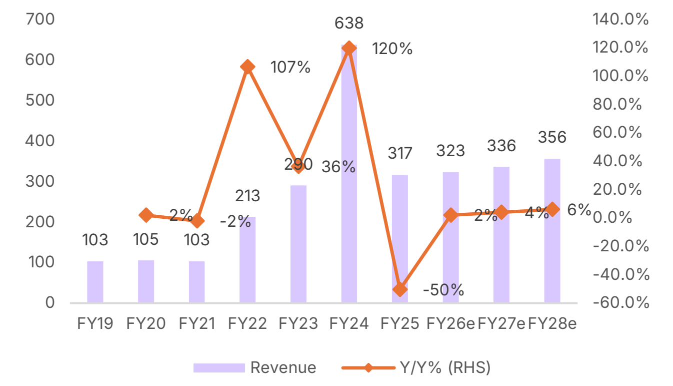
Volatile margins and topline consolidation: Al Babtain's solar segment showed strong growth momentum since 2022 and while the revenue growth was strong the margins didn't follow suit (refer fig 9). For 2025 the first half showed good margin recovery (7.7% GPM for 1H25) however it couldn't be sustained given the hostile competition in the tracking system market. As such the full year margin came in at 5.7% as the margin declined in the second half (2.9% in 3Q and 1.7% in 4Q).

Nevertheless, the structural tailwinds in renewables space should result in a turnaround: The strong momentum in the renewable space as reflected in the pace of licensing and tendering (64GW tendered as on 2025) activities and the swiftness in integrating the new renewable capacity into the grid (12.3 GW integrated by 2025 end vs. 6.6GW in 2024) alludes to continued progress towards the goal of integrating 40GW of Solar PV capacity with the grid by 2030.

Strategic Commitment & Market Confidence: In a decisive move to consolidate its position in the renewable energy sector, Al-Babtain in October last year signed an agreement to acquire the remaining 40% in Al-Babtain Metalogalva Ltd, its Saudi-based solar structure joint venture with Portuguese company Metalogalva-Irmãos Silva. By moving to full 100% ownership of the 1.2GW capacity, the company is expanding its exposure to the Saudi solar market reflecting a bullish outlook on the massive national energy transition. This subsidiary is a significant turnaround story as it posted a net profit of SAR 15.7mn in 2024, compared to a net loss in 2022.

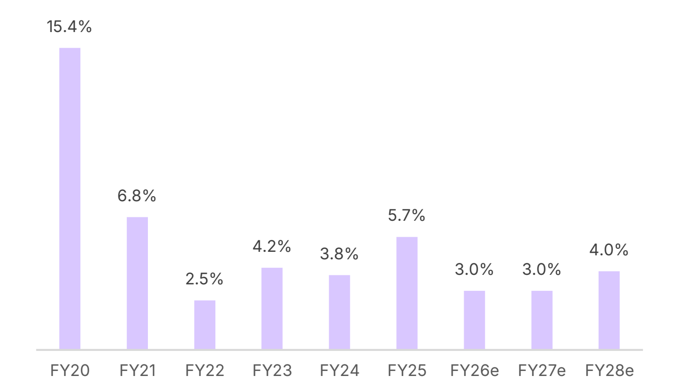
Outlook: We project mid-to-high single-digit topline growth for the Al-Babtain Solar segment, supported by the Kingdom's robust renewable energy tailwinds. While gross margins may remain volatile in the near term due to increased competition, the long-term trajectory appears positive as the company leverages its recently consolidated 100% ownership to capture increasing demand.

Figure 8: Solar energy sector revenue likely to stay subdued in near term given hostile competition



Source: Company data, Derayah Financial

Figure 9: Same is the case with margin in Solar segment, any turnaround here will be an upside risk to our TP



Source: Company data, Derayah Financial

Design, supply and installation sector

Segment Profile: The Design, Supply, and Installation business segment offer complete solutions for the power and telecommunications sector. The segment's operations begin with specialized engineering and design of complex network structures, which is followed by the procurement and supply of the necessary equipment. Beyond hardware, the Group manages the field installation and commissioning of both wired and wireless communication systems. This comprehensive model is supported by long-term lifecycle services, including the ongoing maintenance and repair work required to ensure the continued reliability of these infrastructure projects.

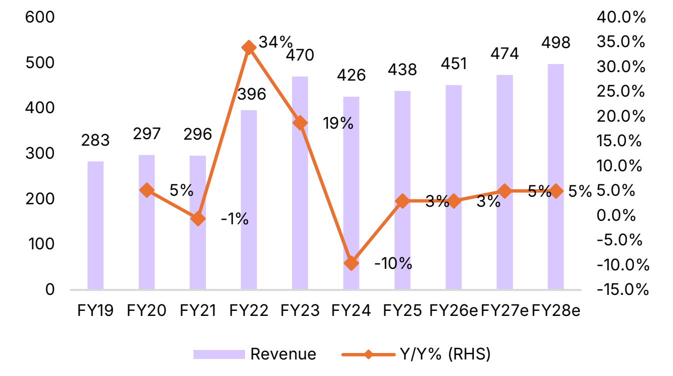
Strategic Alignment with Telco Capex Initiatives: Major Saudi telecommunications operators have initiated multi-year infrastructure programs that provide a multi-year growth floor for Al-Babtain's specialized services. A cornerstone of this trend is STC Group's five-year Master Frame Agreement with Ericsson (signed in December 2025), which shifts the focus toward AI-driven managed services, cloud-native solutions, and Massive MIMO deployment. Similarly, Zain KSA's USD 430mn expansion targeting over 7,000 sites and achieving full 5G Standalone coverage in major cities by Q4 2025 represents a massive physical and digital upgrade cycle for the Kingdom's network.

The "Signal vs. Noise" Relationship: While Al-Babtain is deeply integrated into these projects, the direct correlation between top-line telco Capex and DSI revenue can often appear "lost in the noise." This is due to the high software and hardware content (typically 80-90% of a project's value) provided by vendors like Ericsson or Huawei. However, as the Tower segment serves as the primary beneficiary of the physical "steel" rollout, the DSI segment acts as the high-value specialized partner that is supplying, installing and maintaining the communication systems.

Synergistic Benefits for DSI: The DSI segment capture value where the complexity of 5G Advanced and Massive MIMO exceeds standard installation capabilities. As operators move toward Smart City integration and 5G Standalone networks, the demand for turnkey design and highly technical installation increases. While the Tower segment provides the volume, DSI provides the specialized engineering and implementation required to integrate 5G hardware into urban environments, including the deployment of "Smart Poles" that house the very cloud-native and AI solutions announced in recent telco agreements. Consequently, DSI benefits from every new tower or spectrum expansion (such as Zain's 600 MHz rollout) which creates a subsequent demand for Al-Babtain's specialized installation and technical services.

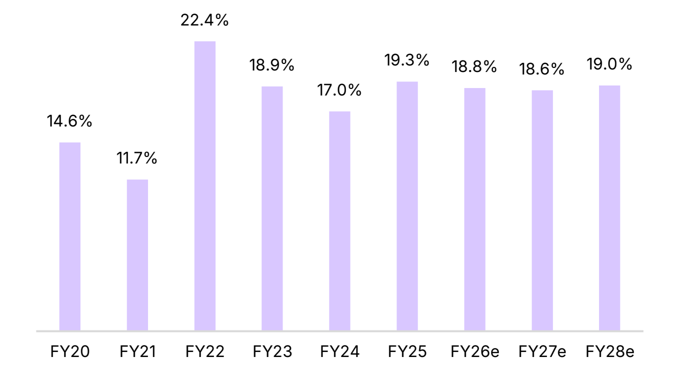
Outlook: We estimate the revenue to grow at a modest mid-single digit through 2028 while gross margin is expected to stay in the high teens range

Figure 10: DSI sector revenue is expect to grow in the low to mid-single digit range



Source: Company data, Derayah Financial

Figure 11: While the gross margin should continue to stay elevated in the high teen range



Source: Company data, Derayah Financial

Peer Comparison – Al Yamamah Steel Industries

Al Yamamah Steel Industries is the only listed domestic peer with a broadly comparable steel fabrication offering. It trades at a significant premium (c.15x vs c.8x TTM EV/EBITDA) to Al Babtain despite operating at lower margins and returns metrics (see fig. 14). While Al Yamamah's business mix is weighted toward construction-related steel pipes and rebars, which are exposed to residential and commercial developments infrastructure as well as oil & gas cycles, its latest quarter earnings acceleration (Net Income up +720% y/y, net margin +660bps y/y) was primarily driven by growth in electricity and renewables infrastructure, a segment that overlaps with Al Babtain's core revenue base. This is notable because Al Babtain, in comparison to Al Yamamah, generates roughly 2 times the revenue from the electricity and renewables (solar) segments. In terms of gross margin as well Al Babtain fares slightly better (ref fig.15) and so, if the market is assigning a premium multiple to Al Yamamah based on expectations of electricity infrastructure and renewables growth, then Al Babtain's stronger positioning within these segments may warrant a reassessment of the valuation gap. We acknowledge here that the recent quarter for Al Yamamah was good especially in terms of gross margins in the overlapping segments, the electricity segment margin was higher but the spread is still narrow (31% vs 29%) while the renewables segment was much stronger (10% vs 2%). However, in our opinion the fundamentals still dictate a rerating for Al Babtain especially given the favorable revenue mix. While Al Yamamah may benefit from cyclical upside in steel pipes and rebars in case of an upcycle in the construction sector, Al Babtain's higher exposure to SEC-driven grid expansion provides a greater structural visibility through 2030. We do not have the same confidence in the construction sector given the headwinds such as rental freeze, cost inflation and white land tax etc. For Al Babtain on the other hand, we see strong revenue growth potential and find the margins even though elevated, compared to historical trend, as sustainable given our expectation around expansion-driven earnings growth. As such the valuation gap with Al Yamamah seems unreasonable to us.

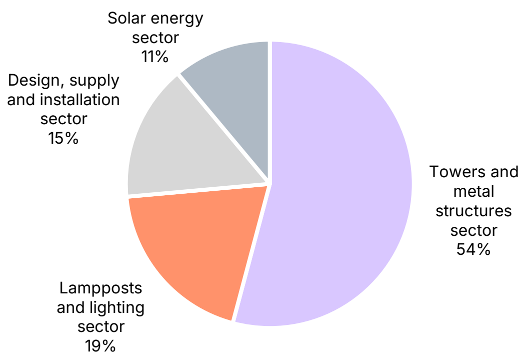
Below are factors in favor of Al Yamamah but still not enough to justify the significant premium

1. Management says they have 60% share in KSA renewables market. The new wind energy plant likely to be the growth driver in addition to the usual renewable tailwinds
2. As per latest quarterly result (Dec 2025) the renewables GPM is 10.3% vs. Al Babtain's 1.7%. Al Babatain renewables margin has declined; dropped from 7.7% in 1H25 to 2.4% in 2H25
3. They have a cleaner balance sheet. No FX impact like Al Babatain where exposure to Egypt is an FX risk impacting the equity balance via OCI.

However, considering factors such as better revenue mix (no construction exposure), better Interest Coverage Ratio (7.5x vs Al Yamamah's 2x), recent deleveraging (0.7x vs 1.6x DE), better working capital position, better return metrics (refer fig.14), overall leadership position in key segments and a potential upswing driven by capacity expansion, we believe Al Babtain deserves a higher multiple.

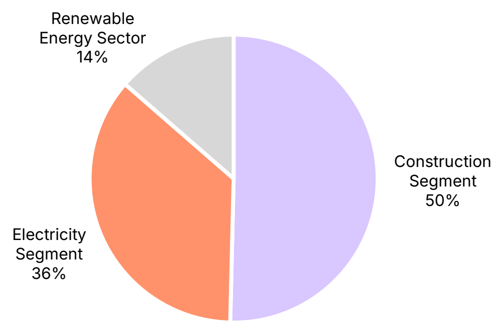
Comparison with key competitor in charts

Figure 12: Al Babtain Revenue Mix



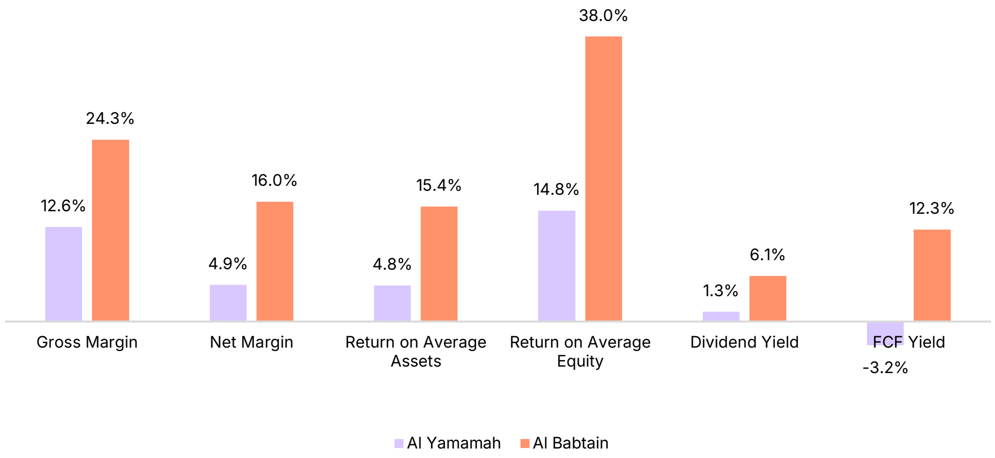
Source: Company data, Derayah Financial

Figure 13: Al Yamamah Revenue Mix



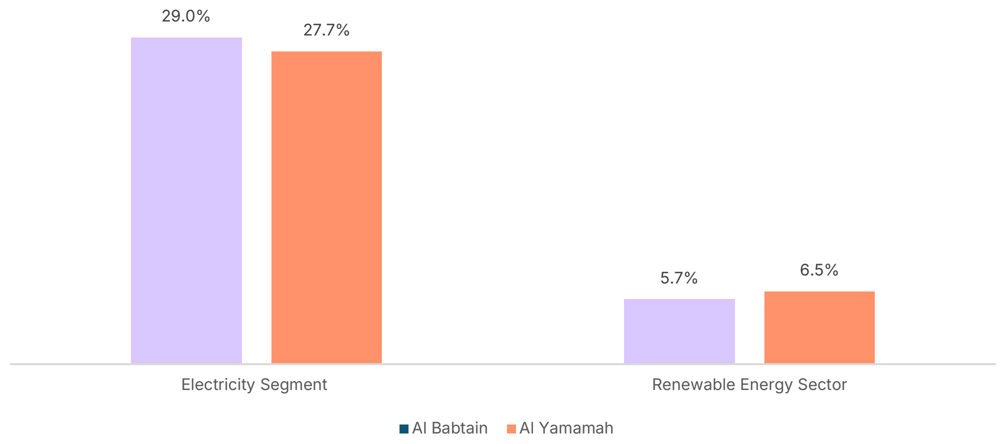
Source: Company data, Derayah Financial

Figure 14: Al Babtain has a significantly better return profile compared to peer Al Yamamah yet trades at a considerable discount (all ratios on TTM basis)



Source: Company data, Derayah Financial

Figure 15: Gross Margin comparison (TTM) for common segments

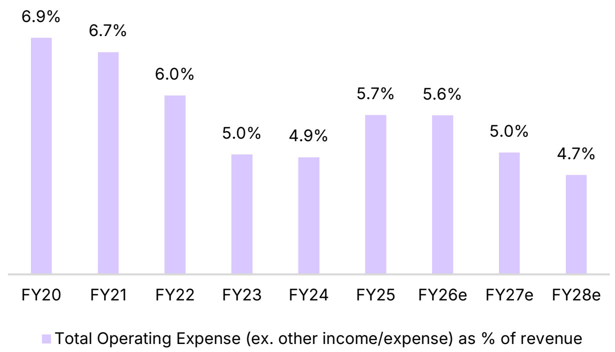


Source: Company data, Derayah Financial

Operating Costs

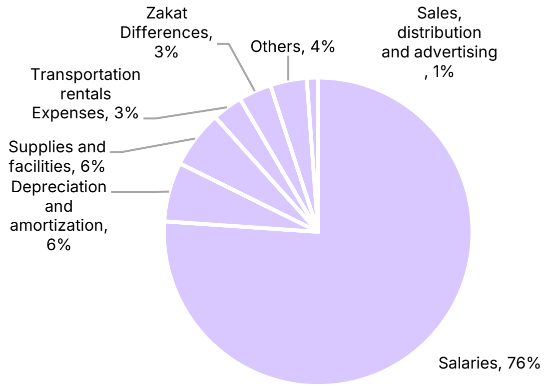
Revenue growth is expected to drive some operating leverage, as core costs particularly personnel remain largely fixed. Following the anticipated capacity expansion, we project that adjusted operating expenses (excluding other income/expense items) will moderate to ~4.5% of revenue, down from the current 6%. This forecast assumes a stable credit environment with no significant volatility in expected credit loss (ECL) provisions.

Figure 16: Operating leverage likely to improve



Source: Company data

Figure 17: Operating expense mix

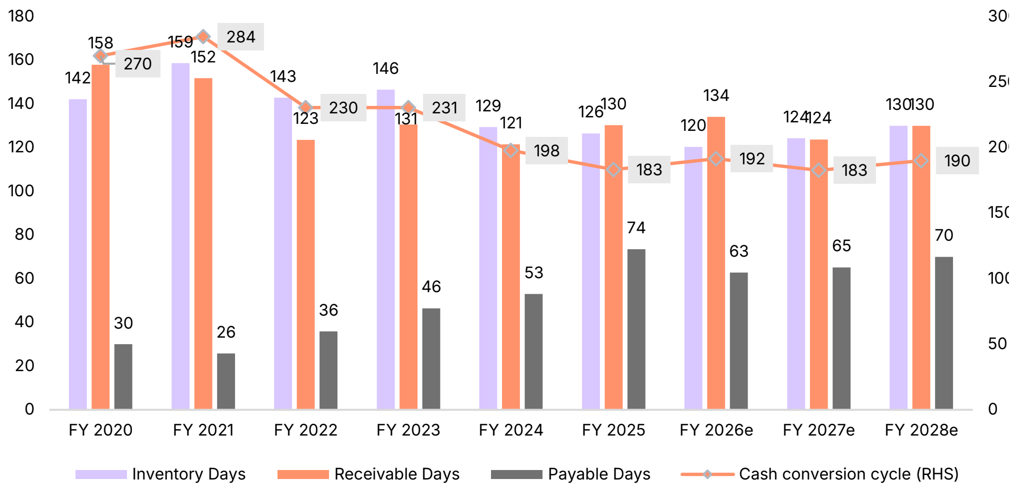


Source: Company data

Operating Leverage Meets Capital Discipline

Al-Babtain has demonstrated a notable strengthening of its working capital position, marked by improved receivables and inventory turnover. This operational efficiency, coupled with an intentional extension of payable days (including notes payable), has successfully compressed the cash conversion cycle to 183 days in 2025, a significant recovery from the 270–280 day peak observed during 2020–21. We estimate that management will sustain these streamlined processes to maintain long-term liquidity health

Figure 18: Breaking the cycle of elevated working capital

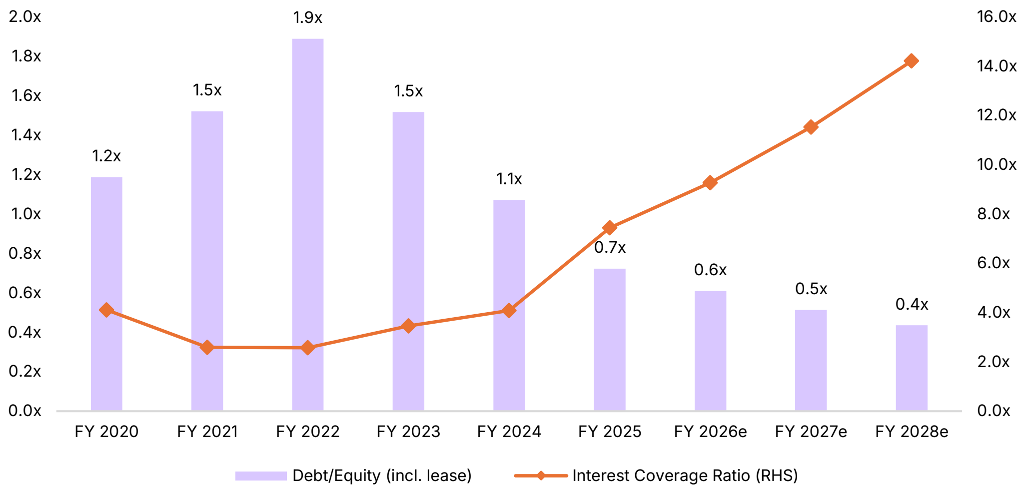


Source: Company data, Derayah Financial

Leverage likely to ebb further, consequently increasing the coverage ratio

In light of the capital-intensive nature of Al-Babtain's operations, a leverage ratio (inclusive of leases) of 0.7x reflects a healthy and conservative capital structure. Given our robust free cash flow projections, we do not anticipate a need for external financing to fund the group's expansion plans. Consequently, we project the leverage ratio to drift further downward in the absence of incremental debt.

Figure 19: Substantial improvement in leverage is expected to continue amid a lack of incremental debt requirements. This ongoing deleveraging should lead to a corresponding rise in the interest coverage ratio, enhancing overall credit metrics

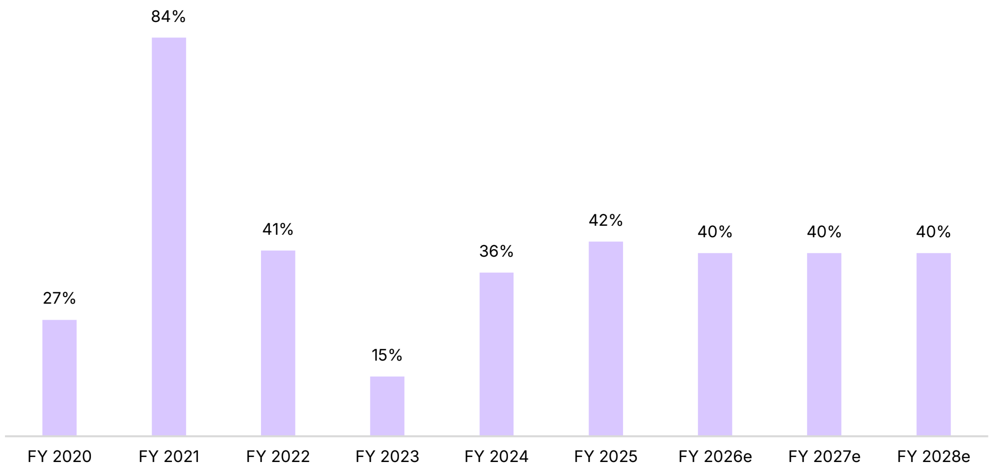


Source: Company data, Derayah Financial

Dividend to stay resilient amid elevated capex

After factoring the higher operating level post expansion, the elevated capex related to expansion and assuming debt remains at current level, Al Babtain in our estimate should be able to maintain a payout ratio of at least 40% through 2030.

Figure 20: We expect dividend payout to be stable considering the strong cashflow projections



Source: Company data, Derayah Financial

Valuation

We value Al Babtain using an equal blend of DCF and relative PE multiple approaches.

DCF: Under the DCF methodology, assuming a WACC of 10.5% and a terminal growth rate of 2.0%, and a target capital mix of 40% debt and 60% equity, we derive a target price of SAR 102.0 per share.

Relative valuation: We apply a 10% premium to the Al Yamamah's FY26e EV/EBITDA multiple, the primary listed peer in KSA, resulting in a target multiple of 10.6x. Applying this target multiple to Al Babtain's FY26e EBITDA, we arrive at a target price of SAR 95.0 per share.

By giving equal weight to both approaches, we arrive at a blended target price of SAR 98.5 per share (c.49% upside from CMP), and accordingly, we initiate coverage on the company with a BUY rating.

Figure 21: Summary of DCF valuation
In SARmn, unless otherwise stated

DCF Model	FY 2023	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Income	141.5	265.7	453.1	451.2	540.7	632.4	720.4	814.0
Add: D&A	35.2	33.8	34.1	44.0	48.8	53.1	58.4	65.0
Add: Interest	91.2	89.6	77.6	62.3	59.3	55.1	53.6	49.6
Less: Capex	-44.6	-14.8	-99.2	-132.1	-162.7	-70.9	-77.9	-86.6
Add/Less: Changes in Working Capital	-76.3	160.0	-4.0	-7.8	-146.5	-120.5	-143.7	-176.0
Free Cash Flow to Firm (FCFF)	**146.9**	**534.3**	**461.5**	**417.6**	**339.6**	**549.3**	**610.8**	**665.9**
PV of FCFF				397.2	292.2	427.5	430.1	424.2

Sum of present values of FCFs	1,971.2	Less:		Add:	
Free cash flow (t+1)	679.3	Debt	-751.1	Cash and cash equivalents	150.7
Terminal value	7,951.3	Lease liabilities	-36.6	Investments	222.1
Present value of terminal value	5,064.6	Employees' defined benefits obligations	-100.4	Equity value	6,520.4
Enterprise Value (EV)	**7,035.9**	NCI	-0.1	**Value per share as per DCF**	**102.0**

Source: Company Data, Derayah Financial

Figure 22: Valuation Inputs

Cost of Equity (ke)	12.2%
After tax cost of debt (kd)	8.0%
Debt To Capital	40.0%
WACC	10.5%

Source: Company Data, Derayah Financial

Figure 23: Relative valuation

	(SARmn)
Peer Multiple (1yr fwd)	9.6x
Premium/(Discount)	10%
Target EV/EBITDA	10.6x
EBITDA 2026E	622.0
Enterprise Value	**6,590.6**
Less:	
Debt	-751.1
Lease liabilities	-36.6
Employees' defined benefits obligations	-100.4
NCI	-0.1
Add:	
Cash and cash equivalents	150.7
Investments	222.1
Equity Value	**6,075.1**
Shares Outstanding	63.9
Target Price (TP)	**95.0**

Source: Company Data, Derayah Financial

Key Risks

Capacity expansion timing risk: The entire Tower segment growth thesis hinges on new capacity coming online. If expansion is delayed, 2026-2027 revenue could remain flat for longer than modeled, and market share loss to competitors accelerates.

SEC grid expansion rescoping: SEC already revised its targets downward once in 2025. A further revision or slowdown in project execution directly compresses the Tower segment's demand floor.

Egypt FX risk: Egyptian pound exposure (c.8% of revenue) flows through OCI and has already eroded equity. Further EGP weakness would compound the balance sheet impact.

Solar margin pressure: Competition in the tracking systems market is intensifying. If margins don't recover from the 2H25 lows (1.7% in Q4), the segment becomes a drag on group profitability rather than a contributor.

Steel and zinc input cost volatility: Around 80% of COGS in the Towers segment. A commodity spike similar to 2021-22 would compress margins before contract repricing catches up.

Key customer concentration: SEC appears to be the dominant customer for the Towers segment. Any change in SEC procurement cadence, vendor diversification, or payment terms has an outsized impact

Summarized financial statements projections and key financial ratios

Income statement
In SARmn, unless otherwise stated

	FY 2023	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Revenue	2,490	2,812	2,857	2,936	3,254	3,543
Revenue growth	13.4%	12.9%	1.6%	2.7%	10.9%	8.9%
COGS	-2,093	-2,354	-2,164	-2,236	-2,456	-2,647
Gross Profit	**397.3**	**458.8**	**693.1**	**699.7**	**798.2**	**895.5**
Gross Profit margin	16.0%	16.3%	24.3%	23.8%	24.5%	25.3%
Total operating expenses	-81	-93	-115	-122	-115	-112
Operating profit	**316.0**	**365.5**	**577.9**	**578.0**	**683.4**	**783.7**
Operating margin	12.7%	13.0%	20.2%	19.7%	21.0%	22.1%
Finance costs	-91	-90	-78	-62	-59	-55
Other Non-Operating Income	-47	29	-5	-16	-26	-31
EBITDA	**351**	**399**	**612**	**622**	**732**	**837**
EBITDA margin	14.1%	14.2%	21.4%	21.2%	22.5%	23.6%
PBT	**177.6**	**304.7**	**495.2**	**499.5**	**598.0**	**697.4**
Deferred tax	-0.5	0.0	-4.0	0.0	0.0	0.0
Zakat/tax	-34.2	-32.7	-33.7	-40.9	-49.1	-55.5
Net income for the period	**143.0**	**272.0**	**457.5**	**458.6**	**548.9**	**641.9**
Net margin	5.7%	9.7%	16.0%	15.6%	16.9%	18.1%
y/y		90.2%	68.2%	0.2%	19.7%	17.0%
EPS	2.2	4.2	7.1	7.1	8.5	9.9
DPS	0.3	1.5	3.0	2.8	3.4	4.0
Payout	15%	36%	42%	40%	40%	40%
Net Debt/(cash) - excl. lease	1,178.6	1,028.9	759.5	598.0	544.7	313.0
Net Debt/(cash) - incl. lease	1,203.8	1,051.1	796.1	634.6	581.3	349.6

Source: Company data, Derayah Financial

Balance sheet
In SARmn, unless otherwise stated

	FY 2023	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Inventories	846	822	677	796	875	943
Trade receivables and other balances	944	928	1,111	1,046	1,159	1,262
Cash and cash equivalents	193	121	151	333	405	656
Total Current Assets	**2,354**	**2,268**	**2,338**	**2,589**	**2,848**	**3,267**
Property and equipment	406	362	428	517	630	648
Intangible assets	5	3	4	4	4	4
Right of use assets	25	22	36	36	36	36
Total Non-Current Assets	**575**	**619**	**675**	**763**	**877**	**895**
Total Assets	**2,928**	**2,887**	**3,014**	**3,352**	**3,725**	**4,162**
Short-term loans	724	592	589	589	589	589
Long term loans - current portion	203	175	103	103	103	103
Trade payables and other balances	243	433	380	430	475	521
Current Liabilities	**1,528**	**1,489**	**1,471**	**1,532**	**1,572**	**1,620**
Non-current portion of long-term loans	337	162	59	59	59	59
Lease liability - non-current portion	20	18	31	31	31	31
Non-current Liabilities	**480**	**305**	**232**	**232**	**232**	**232**
Equity	920	1,093	1,310	1,588	1,921	2,310
Total Equity and Liabilities	**2,928**	**2,887**	**3,014**	**3,352**	**3,725**	**4,162**
BVPS	14.1x	16.8x	20.5x	24.7x	29.8x	35.7x

Source: Company data, Derayah Financial

Abridged cash flow statement
In SARmn, unless otherwise stated

	FY 2023	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Cashflow from Operations	260	485	612	553	507	626
Cashflow from Investing	-27	-12	-118	-128	-159	-67
Cashflow from Financing	-194	-509	-465	-243	-276	-308
Total Cashflow	**39.3**	**-36.3**	**29.2**	**182.3**	**72.2**	**250.7**

Source: Company data, Derayah Financial

Key financial ratios and indicators

	FY 2023	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Profitability ratios						
RoA	4.9%	9.1%	15.4%	14.2%	15.3%	16.0%
RoE	16.4%	26.9%	38.0%	31.2%	31.0%	30.2%
RoIC	15.0%	17.2%	27.4%	26.1%	27.5%	29.7%
EBITDA margin	14.1%	14.2%	21.4%	21.2%	22.5%	23.6%
Net margin	5.7%	9.7%	16.0%	15.6%	16.9%	18.1%
Liquidity ratios						
Current Assets/ Current Liabilities	1.5x	1.5x	1.6x	1.7x	1.8x	2.0x
Net Debt to Total Equity (incl lease liab.)	1.3x	1.0x	0.6x	0.4x	0.3x	0.2x
Receivable Days	130.6	121.5	130.2	134.0	123.6	130.0
Inventory Days	146.4	129.3	126.5	120.3	124.2	130.0
Payable days	46.4	53.0	73.5	62.8	65.2	70.0
Cash conversion cycle	230.5	197.8	183.1	191.5	182.6	190.0
Debt ratios						
Net Debt/EBITDA (incl. lease liab.)	3.4x	2.6x	1.3x	1.0x	0.8x	0.4x
Net Debt/EBITDA (excl. lease liab.)	3.4x	2.6x	1.2x	1.0x	0.7x	0.4x
Debt/Equity (incl. lease liab.)	1.5x	1.1x	0.7x	0.6x	0.5x	0.4x
Net Debt/Equity (incl lease liab.)	1.3x	1.0x	0.6x	0.4x	0.3x	0.2x
Valuation ratios						
P/E	29.9x	15.9x	9.3x	9.4x	7.8x	6.7x
P/B	4.7x	4.0x	3.2x	2.7x	2.2x	1.9x
P/S	1.7x	1.5x	1.5x	1.4x	1.3x	1.2x
EV/EBITDA	20.0x	17.6x	11.5x	11.3x	9.6x	8.4x
FCF Yield	3.5%	12.6%	10.9%	9.9%	8.0%	13.0%
Dividend Yield	0.0%	0.0%	4.5%	4.3%	5.1%	6.0%

Source: Company data, Derayah Financial

Disclosures and Disclaimers

Analyst Certification

The analyst(s) responsible for this report, as well as members of their households, do not hold any financial interest in the securities of the subject company, including but not limited to options, rights, warrants, futures, or any long or short positions. Neither the analyst(s) nor their household members serve as officers, directors, or advisory board members of the subject company. The compensation of the analyst(s) is not linked to Derayah Financials' investment banking revenue, nor has it been provided by the subject company within the past 12 months.

All employees of Derayah Financial and their associates, including the analyst(s) who prepared this research report, may be eligible for non-product or service-specific bonus compensation. Such bonuses may be determined by various factors, including the overall revenue of Derayah Financial and its affiliates, as well as a share of proceeds from a broad pool of investment vehicles. Directors, analysts, or employees may also engage in transactions and hold long or short positions in the securities (or related options or warrants) mentioned in this report.

Disclaimer

This report has been created by Derayah Financial, based in Riyadh, Saudi Arabia, licensed by the Capital Market Authority 08109-27, for the general information of its clients. It is intended solely for the recipient's use and must not be shared, reproduced, or disclosed—either in part or in full—without prior written permission from Derayah Financial. By accessing this document, you agree not to distribute or reveal its contents, opinions, or conclusions to others before Derayah Financial makes such information public.

The data and information presented here have been gathered from sources considered reliable; however, Derayah Financial does not guarantee their accuracy or completeness. No explicit or implied warranties are made regarding the information, and Derayah Financial does not assure that the content is error-free, comprehensive, or suitable for any specific purpose.

This document is for informational purposes only and does not constitute an offer, solicitation, or recommendation to buy or sell any securities or investment products. It is not intended as personalized investment advice and does not consider the unique financial circumstances or objectives of any individual recipient. Before making any investment decisions, readers should consult with qualified financial, legal, or tax advisors. Please be aware that investment values and income can fluctuate, and there is a risk of losing some or all of the original investment. Changes in currency exchange rates may also impact the value or returns of certain investments.

Derayah Financial, its employees, or affiliates may have interests or positions in the securities or instruments mentioned in this report, including but not limited to holdings, options, or other derivatives. From time to time, Derayah Financial or its affiliates may provide investment banking or other services to companies discussed in this document.

Neither Derayah Financial nor its affiliates or employees accept any liability for any direct or indirect loss arising from the use of this report or its contents. The information and any recommendations herein are subject to change without notice, and Derayah Financial is under no obligation to update this document. No part of this report may be modified, copied, transmitted, or distributed by any means without explicit authorization. This document is not intended for distribution to any person or entity in any jurisdiction where such distribution would be unlawful or would require registration or licensing for Derayah Financial or its affiliates.

Sales contacts

Mina Iskander
Head of Institutional Brokerage
+966 11 299 4334
mina.iskander@derayah.com

Derayah Financial

Third Floor, Prestige Center
Al Takhassousi Street, Al Olaya
P.O.Box 286546
Riyadh 12331
Kingdom of Saudi Arabia

920024433 (KSA)
+966112998000 (outside KSA)
support@derayah.com

FOLLOW US ON X
@derayah

Download
Derayah App