

Solutions by stc

Net profit grows 3% YoY amid gross margin compression

Rating: Neutral | 12M Target Price: SAR 254

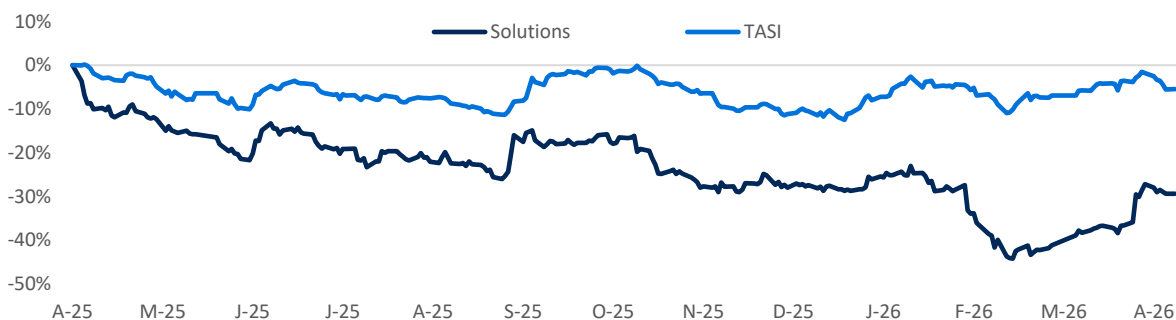
May 4, 2026

Market Data		Valuations				
		2025A	2026E	2027E	2028E	
Last Price (SAR)*	223	Net Income (SAR mn)	1512.4	1529.1	1831.2	2100.5
Target Price (SAR)	254	EPS (SAR)	12.6	12.7	15.2	17.4
Upside / Downside	14%	PER (x)	17.7	17.6	14.7	12.8
Market Cap (bn) (SAR/USD)	26/7	P/BV (x)	6.2	5.5	4.8	4.2
52 week High / Low (SAR)	300/170	DPS (SAR)	7.9	8.0	9.5	11.0
12-month ADTV (mn) (SAR/USD)	29.9/8.0	Div. Yield (%)	3.6	3.6	4.3	4.9
YTD Return (%)	(1)	RoAE (%)	36.2	33.2	34.9	35.1
Bloomberg Code	SOLUTION AB	RoAA (%)	12.2	11.4	12.8	14.2

*last price as of 26th April 2026

Financials (SAR mn)	1Q26A	1Q26E	Var (%)	1Q25A	YoY (%)	4Q25A	QoQ (%)
Revenue	3,002	3,106	(3)	2,824	6	3,907	(23)
COGS	2,416	2,392	1	2,207	9	3,208	(25)
Gross profit	586	714	(18)	616	(5)	699	(16)
Gross margin (%)	20	23		22		18	
Operating expense	187	256	(27)	245	(24)	337	(44)
Operating profit	399	458	(13)	371	8	362	10
Operating margin (%)	13	15		13		9	
Net income	370	418	(11)	361	3	276	34
Net margin (%)	12	13		13		7	
EPS	3.1	3.4		3.0		2.3	
DPS	-	-	-	-	-	8	-

Price Performance



Source: Tadawul, Bloomberg and anbc research

Arabian Internet and Communications Services Company (Solutions) reported a net profit of SAR 370 mn in 1Q26, up 3% YoY and 34% QoQ. The YoY growth was primarily supported by a decline in operating expenses, driven by lower selling & distribution and general & administrative costs, partially offset by reduced other income and higher zakat and tax charges. On the margin side, gross margin compressed to 20% in 1Q26 from 22% in 1Q25, reflecting higher cost of revenues amid shift in project mix. We revise our rating on the stock to Neutral, with a new target price of SAR 254.

- Solutions reported 6% YoY revenue growth in 1Q26, broadly in line with our estimates, and down 23% QoQ. The performance was mainly driven by an increase in Core ICT Services (+10.1%), IT Managed and Operational Services (+3.6%), and Digital Services (+1.0%). The SAR 905 mn QoQ decline in revenue reflects seasonal normalization following the typically strong 4Q project delivery activity, consistent with historical seasonal patterns.
- Gross margin declined to 19.5% in 1Q26 from 21.8% in 1Q25, reflecting a decrease in gross profit of SAR 30 mn, driven by a SAR 209 mn rise in cost of revenues despite a SAR 178.1 mn increase in revenues. On a QoQ basis, margins improved from 17.9% to 19.5%. Operating margin increased to 13.3% in 1Q26 from 13.1% in 1Q25, due to a decrease in operating expenses of SAR 58.6 mn, mainly driven by decrease in selling and distribution expenses by SAR 48.3 mn and general and administrative expenses by SAR 10.3 mn.
- Zakat and tax charges increased by SAR 5 mn YoY to SAR 37 mn, while total other income declined by SAR 10 mn, mainly due to a decrease in finance income of SAR 18 mn.
- Net profit increased 3% YoY to SAR 370 mn falling short of our net profit estimate of SAR 417.8 mn, down 11.4%, mainly due to lower gross profit of SAR 586 mn with a margin of 19.5%, compared to our estimate of SAR 714.4 mn with a gross margin of 23.0%. On QoQ basis net profit increased 34%.
- Solutions has fallen 26.9% YoY, significantly underperforming the TASI index's 6.8% decline, and now trades at 2026e P/E and P/BV multiples of 17.6x and 5.5x. We revise our stance on the stock to Neutral, reflecting updated guidance and a more moderated outlook, and set a target price of SAR 254.

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