Solutions by stc

Higher costs weigh on margins

Rating: Overweight | 12M Target Price: SAR 334

October 30, 2025

Market Data

Market Data	
Last Price (SAR)*	245
Target Price (SAR)	334
Upside / Downside	34%
Market Cap (bn) (SAR/USD)	30/8
52 week High / Low (SAR)	340/228
12-month ADTV (mn) (SAR/USD)	38/10
YTD Return (%)	(8)
Bloomberg Code	SOLUTION AB

**last price as of 29th Oct 2025*

Valuations	2024A	2025E	2026E	2027E
Net Income (SAR bn)	1.6	1.7	1.9	2.1
EPS (SAR)	13.3	14.3	15.4	17.0
PER (x)	18.8	17.5	16.2	14.6
P/BV (x)	7.4	7.0	6.0	5.1
DPS (SAR)	9.9	8.6	9.3	10.2
Div. Yield (%)	4.0	3.4	3.7	4.1
RoAE (%)	43.4	41.3	39.9	37.7
RoAA (%)	13.6	14.2	14.6	15.3

Financials (SAR mn)	3Q25A	3Q25E*	Var (%)	3Q24A	YoY (%)	2Q25A	QoQ (%)
Revenue	**3,098**	**3,242**	**(4)**	**2,753**	**13**	**2,824**	**10**
COGS	2,391	2,509	(5)	2,024	18	2,208	8
Gross profit	**707**	**733**	**(4)**	**729**	**(3)**	**616**	**15**
Gross margin (%)	23	23		26		22	
Operating expense	245	287	(15)	244	0	245	0
Operating profit	**462**	**446**	**4**	**485**	**(5)**	**371**	**25**
Operating margin (%)	15	14		18		13	
Net income	**417**	**379**	**10**	**463**	**(10)**	**361**	**16**
Net margin (%)	13	12		17	(20)	13	
EPS	***3.5***	***3.2***	10	***3.9***		***3.0***	16
DPS	-	-	-	-	-	-	-

Price Performance

Source: Tadawul, Bloomberg and anbc research

Arabian Internet and Communications Services Company (Solutions) reported a net profit of SAR 417 mn in 3Q25, down 10% YoY and up 16% QoQ. The decline was driven by higher cost of revenue, increased selling and distribution expenses, and a higher zakat charge mainly due to a zakat provision reversal related to prior periods after finalizing assessments by ZATCA in the same quarter of last year. We maintain our Overweight rating on the stock with a target price of SR 334.

- Solutions reported 13% YoY revenue growth in 3Q25, taking 9M25 revenue to SAR 8,823 mn, in line with our estimates. The performance was mainly driven by growth in Core ICT Services (+7.4%) and IT Managed and Operational Services (+35.4%), partly offset by a 12.9% decline in Digital Services.
- Gross margins declined to 23% in 3Q25 from 26% in 3Q24, reflecting a decrease in gross profit by SAR 22 mn, driven by a SAR 367 mn rise in cost of revenues despite a SAR 345 mn increase in revenues. On a QoQ basis, margins increased slightly from 22% to 23%, which management attributed to higher revenues from Core ICT and IT Managed Services, offsetting the decline in Digital Services and the increase in cost of revenue.
- Operating margin declined to 15% in 3Q25 from 18% in 2Q25, due to a SAR 0.5 mn rise in operating expenses, driven by higher selling and distribution expenses by SAR 1.5 mn, partly offset by lower general and administrative expenses by SAR 1 mn.
- Zakat and tax charges increased by SAR 70 mn YoY to SAR 38 mn, primarily due to the absence of a zakat provision reversal recorded in the same quarter last year following the finalization of prior-period assessments by ZATCA, However, this impact was partially offset by a one-off non-operating expense of SAR 52 mn in the same 3Q24, related to the early retirement program.
- Net profit declined 10% YoY to SAR 417 mn; however, excluding the two one-off items, the decline would have been limited to around 3%, assuming a zakat charge based on the three-year (2022-2024) historical average rate.
- *Year to date, Solutions has declined by 8% compared to a 3.7% drop in TASI and is currently trading at 2025e P/E and P/BV multiples of 18x and 7x, respectively. We maintain our Overweight stance with a target price of SAR 334/share.*

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Disclaimer

Ratings Guidelines

anb capital's investment research is based on the analysis of economic, sector and company fundamentals with the objective of providing a long term (12 month) fair value target for a company.

OVERWEIGHT	NEUTRAL	UNDERWEIGHT
Expected return is more than +15%	Expected return is between +15% & -10%	Expected return is lower than -10%

Analyst Certification:

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

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