Daily Bulletin

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> *Software & Services: An attractive entry point or downwards rerating?*
> *Bahri announces 2Q25 results, posting EPS of SAR 0.44/share*

Software & Services: An attractive entry point or downwards rerating?

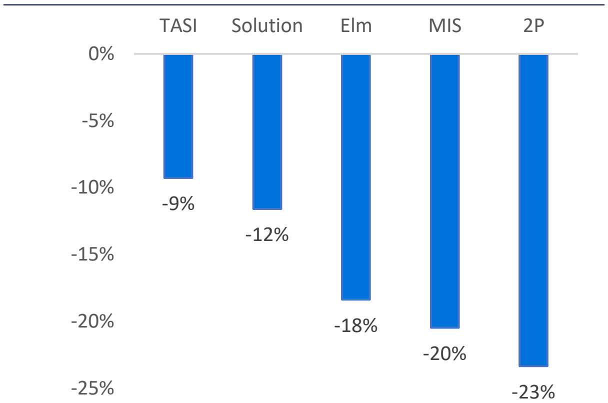
Software & Services sector has recorded a YTD decline of 17.9%, significantly underperforming the broader market as TASI fell by 9.3% during the same period. 2P posted the largest decline retracing by 23.4%, followed by MIS which decreased by 20.5%. All the companies in the index are down YTD.

Our coverage universe is currently trading at an average 2025e P/E of 28.0x, against its 3-year average of 35.1x (ex-MIS). Notably, market is at the 2025e P/E of 14.0x currently, 38.8% down from its 3-year average multiple of 19.4x.

2025e P/E (x)

Source: Bloomberg, Tadawul, anbc research

Relative Price Performance



Source: Tadawul, anbc research

TASI has remained under pressure since the start of 2025, weighed down by multiple headwinds. The market was initially impacted by the tariffs imposed by the U.S. in 1Q25, followed by heightened geopolitical tensions in the Middle East during 2Q25. These factors were compounded by a decline in oil prices, which has raised concerns over a potential slowdown in government spending. Notably, the government is the largest client in the sector, with revenue contributions reaching as high as 90% for players like 2P. In our view, the anticipated reduction in public sector project flow is the key factor behind the sector's underperformance relative to the broader market.

We note a significant transformation in the Kingdom's IT landscape, with artificial intelligence emerging as the new focal point. The country has allocated USD 40 bn for AI-related investments through 2030. As part of this initiative, the Public Investment Fund (PIF) has established a wholly owned company named HUMAIN, which will lead investments across the entire AI value chain. HUMAIN has already signed agreements worth USD 23 bn with global technology leaders, including Nvidia, AMD, and AWS.

We believe that companies with their products and services portfolio aligned with next-generation emerging technologies will fare well. MIS appears to be a key beneficiary with HUMAIN targeting a data center (DC) capacity of 1.9 GW by 2030 and MIS deriving 46.3% (1Q25) of its revenue from DC segment. Other companies are also repositioning their offerings, with solutions initiative of branding itself as an 'AI First' company.

Digitization across key sectors, particularly healthcare, continues to be a major growth catalyst for the technology segment. Notably, 2P has secured contracts worth SAR 332.1 mn YTD, representing ~ 31.0% of its 2024 topline, primarily from the Ministry of Health and other healthcare-related entities. In our view, the public sector will continue to prioritize technology investments in line with the broader economic diversification agenda. Elm remains a preferred partner for government-led digital platforms, such as Nusuk and Absher, thanks to its access to national database. Elm's strategic position has been further reinforced by its acquisition of Thiqah, which also manages several critical ministerial contracts.

We believe that current levels provide a lucrative entry point and hence, reinforce our target prices of 1) Solutions: SAR 334.2/share (upside 40.0%), 2) 2P: SAR 13.9/share (upside 29.5%), 3) MIS: SAR 156.9/share (upside 21.1%) and 4) Elm: SAR 1,084.5/share (upside 19.2%).

Bahri 2Q25 profit drops on weak rates despite fleet growth

Bahri reported a 2Q25 net profit of SAR 407 mn, depicting a 44% YoY contraction (down 24% QoQ). The decline was primarily driven by a combination of softer global shipping rates in the chemical segment, EBITDA margin compression in the chemical and logistics segments, higher finance costs, and the absence of SAR 76 mn in capital gains recorded in 2Q24 from vessel sales.

Revenue declined 9% YoY to SAR 2.5 bn, primarily due to sustained pricing pressure in the chemicals and dry bulk shipping segments. However, the impact was partially offset by a shift toward higher utilization of its owned fleet. Notably, the company's number of owned vessels expanded to 103 by Jun-25 (from 88 a year earlier). As a result, the company's owned fleet achieved Time Charter Equivalent (TCE) rates above industry benchmarks.

In 2Q25, Bahri's oil segment depicted a 4% YoY decline in revenue, primarily due to reduced chartered vessel deployment amid lower contracted cargo volumes. However, the increase in owned vessels to 49, supported EBITDA margin expansion to 51% from 49% in 2Q24. Bahri's dry bulk segment also managed to increase its EBITDA margins to 28% (vs. 23% in 2Q24) owed to increased reliance on owned vessels.

However, Bahri's chemical segment, recorded a 17% YoY decline in revenue in 2Q25, due to lower freight rates on account of normalization in the global chemical and product tanker market. Although cargo volumes increased with the fleet expanding to 33 vessels, EBITDA margin compressed to 44% from 62% a year ago. Similarly, the logistics segment also faced lower EBITDA margins of 14% in 2Q25 (vs. 21% in 2Q24) due to lower revenue from shipping line segment on account of challenging global market conditions amid US tariffs.

During the quarter, the company commenced full commercial operations of its 2nd and 3rd mobile seawater desalination barges. These barges along with the first barge, provide a combined capacity of 150 mn liters of potable water per day.

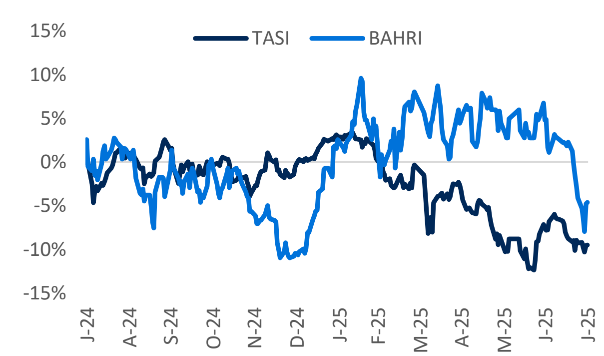
Bahri is currently trading at SAR 22.3/sh, down 4.6% YoY, outperforming TASI, which is down 9.5% over the same period. The stock is currently trading at a TTM P/E of 9.14x, from the close of 31st July, 2025.

Bahri financials (SAR bn)

	2Q25	2Q24	YoY(%)	1Q25	QoQ(%)
Revenue	2.5	2.7	-9	2.2	14
COGS	(1.8)	(1.8)	-2	(1.6)	16
Gross profit	**0.7**	**0.9**	**-24**	**0.6**	**8**
Gross margin (%)	27	32		28	
Operating expense	(0.1)	(0.0)	410	(0.1)	107
Operating profit	**0.5**	**0.8**	**-38**	**0.5**	**-4**
Opt. margin (%)	21	31		25	
Net income	**0.4**	**0.7**	**-44**	**0.5**	**-24**
Net margin (%)	17	27		25	
EPS	***0.44***	***0.79***	***-44***	***0.58***	***-24***

Source: Company financials, anbc research

Relative price chart



Source: Bloomberg, anbc research

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