# Saudi Software & Services Sector

**20 May 2025**

## Optimistic outlook as digital transformation accelerates

INITIATION OF COVERAGE

We initiate coverage on Saudi Arabia's Software and Services sector with a positive outlook. The sector is a primary beneficiary of the Kingdom's economic diversification efforts, supported by high mobile phone services (212%) and internet penetration (99%), along with one of the most favorable energy tariffs ($0.048/kWh or SAR 0.18/kWh for cloud computing and households) in the world. The Information, Communication and Technology (ICT) market in the Kingdom has grown at a CAGR of 8.1% from 2019 to 2024, driven by e-government initiatives, the data center establishments, and giga projects, increasing O&M demand. We believe that the current price levels provide an attractive entry point enabling exposure to the evolving economic landscape of the Kingdom. We have an 'Overweight' rating on Perfect Presentation for Commercial Services Co. (2P AB), Arabian Internet and Communications Services Co. (SOLUTION AB), Al Moammar Information Systems Co. (MIS AB) and 'Neutral' rating on Elm Co. (ELM AB).

**The technological blueprint is at the forefront of transforming the economic landscape.** The digital economy is targeted to account for 19% of the Kingdom's GDP by year-end 2025e (15% in 2024) under the 'National Transformation Program. Government digitization efforts are expected to continue driving growth, as the country jumped 25 spots in 2024 to rank 4th globally on the UN's e-government index. Elm has acquired numerous public contracts, and is projected to continually reap the benefits with access to the national database. 2P and Solutions remain at the forefront of gaining O&M projects pertaining to IT Infrastructure development. The Kingdom's attractive power tariffs would provide impetus to the data center industry, enabling MIS to expand its footprint.

**The market dynamics remain positive, with emerging technologies driving the next wave of growth.** The Saudi Arabia's ICT market recorded a CAGR of 8% from 2019 to 2024, reaching SAR 180 bn by the end of the period. We expect this momentum to continue, albeit with a shifting revenue mix. Traditional services like call centers and internet connectivity are reaching maturity, leading to relatively slower growth in Solution's and 2P's topline. Meanwhile, disruptive technologies, including AI, big data, and blockchain, are shaping the Kingdom's tech landscape, driving expansion in complementary sectors such as data centers and cloud. As technology adoption becomes more complex, demand for outsourced managed services is also expected to rise.

**Current valuations provide an attractive entry point amid optimistic outlook.** Software & Services recorded a price return of 18.9% in 2024, far exceeding that of TASI's, which remained flattish with a 0.3% uptick. Our coverage universe (Elm, Solutions, 2P and MIS) is trading at an average TTM P/E of 30.0x, a premium of 71.7% over market (TASI P/E 17.5x), against the historical average premium of 152.8%. The index has retraced by 6.7% YTD, which we believe provides an attractive entry point and we recommend an 'Overweight' rating on 1) 2P (TP SAR 14, upside of 24.2%), 2) Solutions (TP SAR 334, upside of 21.9%), 3) MIS (TP SAR 157, upside of 15.5%) and a 'Neutral' rating on 4) Elm (TP SAR 1,085, upside of 3.3%). Elm's acquisition of Thiqah seems promising in terms of value creation; however, due to the lack of consolidated financials, we have not factored the financial impact in our estimates for Elm. A recommendation update may be warranted once detailed financials become available.

**SECTOR COVERAGE**

| | Bloomberg Code | Last Price (SAR) | Rating | Target Price (SAR) |
|---|---|---|---|---|
| Elm Co. | ELM AB | 1,050 | Neutral | 1,085 |
| Solutions | SOLUTION AB | 274 | Overweight | 334 |
| MIS | MIS AB | 136 | Overweight | 157 |
| 2P | 2P AB | 11 | Overweight | 14 |

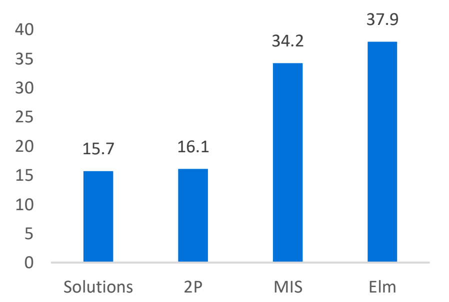
*Last Price as of 19th May, 2025*

**VALUATIONS - 2025e**

| | P/E (x) | P/S (x) | RoAE (%) | Div. Yld (%) |
|---|---|---|---|---|
| Elm Co. | 41.8 | 9.8 | 34% | 1% |
| Solutions | 19.8 | 2.5 | 40% | 3% |
| MIS | 47.1 | 3.0 | 22% | 1% |
| 2P | 18.9 | 2.9 | 30% | 2% |

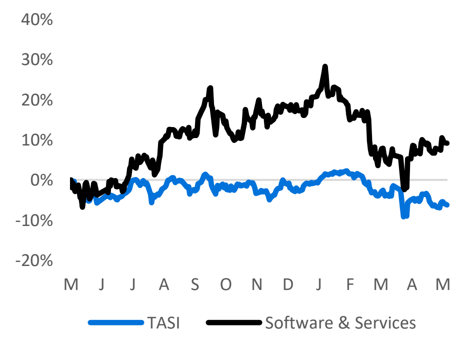
*Source: Companies Data, anbc Research*

**EV/EBITDA – 2025e**




*Source: Companies Data, anbc Research*

**RELATIVE PERFORMANCE**




*Source: Bloomberg*

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## Executive Summary

- **Transformation in digital landscape to drive sector growth**: Underpinned by Vision 2030's focus on digitalization; the Saudi Software & Services sector is rapidly evolving. The digital economy is contributing 15% of GDP in 2024 which is expected to increase to 19% of GDP by 2025e. The focus on digital is translating into Saudi Arabia's fast rise on the e-government index by 25 spots to rank 4th globally over the past one year. Looking ahead, we highlight that increasing government contracts, access to national database, ramp-up in data center capacity and high backlog will support revenue growth of companies under our coverage by a 2024-30f CAGR of 11.7%.
- **Investments in data infrastructure:** The Kingdom is aggressively expanding its data center capacity to more than 4x from existing capacity (300MW) to 1,300MW by 2030f. In line with this, a $12.8 bn (SAR 48 bn) 1GW data center project is being built in Oxagon, NEOM. Key drivers for digital ambitions include 5G rollout, high mobile data usage and IoT integration in smart cities which is expected to lead to greater demand for digital data storage.
- **Fast digital adoption expected with low electricity tariffs.** The Kingdom, charges a commercial tariff of $0.069/kWh or SAR 0.26/kWh (2023), the third-lowest regionally, following Kuwait and Qatar and favorable energy tariffs of $0.048/kWh or SAR 0.18/kWh for cloud computing and households. Lower energy cost will enable the country to offer accommodation at globally competitive low prices, positioning it to fast adopt the digital infrastructure and in realizing its potential.
- **Market dynamics remain favorable, revenue mix is evolving**: The Saudi Arabia's ICT market grew at an 8% CAGR from 2019 to 2024 as per Communications, Space and Technology Commission (CST), reaching SAR 180 bn. High-growth areas such as AI and Cloud continue to expand, despite rising competition in conventional IT services. We forecast the aggregate revenue to grow at a CAGR of 11.7% (2024-2030f) for our coverage universe, driven by service evolution and digital infrastructure build-out, with latter involving futuristic projects such as Qiddiya city having estimated investment of $11.1 bn or SAR 41.6 bn.
- **The Saudi advantage for cloud and AI solutions**: We highlight that the incentivization of companies to establish their headquarters in Saudi and robust GDP growth outlook to support the demand for advanced IT solutions like AI, Big Data, and Blockchain. These technologies are now necessary for decision-making across sectors. Regulatory support, advanced local infrastructure, and cost-efficiency advantages through low electricity tariffs will position local providers to offer tailored solutions amidst global competition. AI-driven automation and analytics are enabling predictive maintenance, customer personalization, and real-time decision-making, as evident by Solution's establishing itself as AI-first organization. These will unlock new revenue avenues, particularly in sectors with large consumer base or high operational complexity. Recently, HUMAIN, the new PIF owned AI firm announced planned investments of at least SAR 56bn ($15bn) with Amazon Web Services (AWS) and AMD. Nvidia and AMD will also be providing semiconductors to HUMAIN to build data centers. Also, Saudi Arabian venture capital firm STV announced a SAR 375mn AI fund with Google focusing on early-stage startups in the MENA region.
- **Regulatory support to supplement digital initiatives**: Building impenetrable IT systems would be important in the upcoming IT eco-sphere in Saudi. In relation to this the Personal Data Protection Law (PDPL) is expected to drive investment in local cloud and security infrastructure. In addition, the Communications and Information Technology Commission (CITC) has developed a Cloud Computing Regulatory Framework (CCRF) to guide cloud service providers and customers, ensuring compliance with data localization requirements and other regulations. The Saudi government also has a "Cloud First Policy" encouraging governmental entities to prioritize cloud solutions for IT investments.
- **Market outlook remains strong**: The Saudi ICT market is expected to grow from $48.0 bn (SAR 180 bn) in 2024 to $76.2 bn (SAR 286 bn) by 2030f (8% CAGR). The data center market is forecasted to reach $2.3 bn (SAR 8.6 bn) by 2029f (from $1.4 bn or SAR 5.3 bn in 2023) as per Twimbit, with cloud computing emerging as the core enabler and driven by expansions by local players and entry of regional and global players such as Khazna.

National digitization, cloud infrastructure development, and growing demand for smart solutions are poised to keep sector growth robust.

- **While the sector's outlook remains promising, several challenges could hinder future growth:** Talent shortages in rapidly evolving fields like AI, cybersecurity, and cloud computing may constrain industry-wide progress, despite efforts to bridge the skills gap through training and academic partnerships. Additionally, the growing presence of global tech giants is intensifying competition, which may pressure margins and threaten in the short term.
- **Elm Co. (Neutral, Price target: SAR 1,085, 3% upside from 19th May '25 market close)**: Elm has access to Saudi Arabia's national database and public-sector digital contracts, deriving 38.5% of 2024 revenue from government entities. With 70% of its revenue recurring and a projected revenue CAGR of 15.8% between 2024-2030f, Elm is well-positioned to benefit from Vision 2030 initiatives and mega projects. Digital Business, contributing 74% of revenue with 47.1% gross margins, is expected to reach 78% of the topline by 2030f, driving Elm's overall gross margin to 41.5%. While Elm's TTM P/E of 46.0x reflects a 163.5% premium to TASI's (P/E: 17.5x) and 86.7% premium to the sector's average (P/E: ex-Elm 24.6x), we believe this is justified by its dominant digital footprint and strategic government ties. However, the current price appears to fairly capture near-term growth, limiting further upside. Elm's acquisition of Thiqah seems promising in terms of value creation; however, due to the lack of consolidated financials, we have not factored the financial impact in our estimates for Elm. A recommendation update may be warranted once detailed financials become available.
- **Arabian Internet and Communications Services Co. "Solutions" (Overweight, Price target: SAR 334, 22% upside from 19th May '25 market close)**: Solutions delivered a 9.3% YoY revenue growth in 2024, supported by the SAR 13 bn backlog and key project milestones like high-performance computing for Aramco. Despite revenue growth moderating from 25.4% YoY in 2023 to 9.3% YoY in 2024, we project a 9.2% revenue CAGR over 2024–30f as seasonality impact fades and government demand picks up. Solution's market share has risen from 13% in 2018 to 22.7% in 2024, and we expect the market share to hold at the current levels, backed by brand strength and stc's support. Company's increasing M&A activity, aided by strong net cash position (SAR 335 mn in 2024), and focused approach towards PPP projects stamp its long-term growth prospects.
- **Al Moammar Information Systems Co. "MIS" (Overweight, Price target: SAR 157, 16% upside from 19th May '25 market close)**: MIS is accelerating data center deployment, with 32MW already live out of the planned 120MW, positioning it for strong growth. We estimate an 18.4% CAGR in data center revenue from 2024–2030f, surpassing SAR 1 bn by 2028f, supported by the rising colocation demand and faster revenue recognition. We forecast overall revenue to expand with a CAGR of 10.8% between 2024-2030f, aided by the growing backlog of SAR 3.7 bn across all segments. Margins are expected to recover as scale kicks in, ECL effects normalize, and subsidiaries expand, increasing gross and EBIT margins to 23.0% and 11.4% by 2030f.
- **Perfect Presentation for Commercial Services Co. "2P" (Overweight, Price target: SAR 14, 24% upside from 19th May '25 market close)**: 2P's growing backlog—reaching SAR 2.4 bn in 2024 (2.2x of 2024 revenue)—offers strong topline visibility, supported by SAR 1.9 bn in new contracts. We forecast a 7.4% revenue CAGR from 2024 to 2030f driven by portfolio optimization. The Call Center segment now contributes 27.8%, down from previous levels, while the higher-margin Software Development segment has increased to 27.5%. This shift has boosted gross margins to 23.4% in 2024, with a projected rise to 26.5% by 2030f. The O&M and cybersecurity segments are well-aligned with Vision 2030 and national priorities, driving our projected segment revenue CAGRs of 6.6% and 13.1% between 2024-30f, respectively.

## Valuation Table

| | Rating | Last Price (SR) | Target Price (SR) | PBV (x) | | | PER (x) | | | Dividend yield (%) | | | RoAE (%) | | | Growth (2024-31F) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2024 | 2025E | 2026F | 2024 | 2025E | 2026F | 2024 | 2025E | 2026F | 2024 | 2025E | 2026F | Revenue | Earnings | Equity |
| Elm | Neutral | 1,050.00 | 1084.5 | 15.9 | 12.9 | 10.6 | 46.0 | 41.8 | 34.9 | 0.7% | 1.0% | 1.1% | 39.3% | 34.1% | 33.4% | 15.8% | 16.2% | 20.7% |
| Solutions | Overweight | 274.2 | 334.2 | 8.2 | 7.7 | 6.6 | 20.6 | 19.8 | 17.6 | 3.6% | 3.0% | 3.4% | 43.4% | 40.2% | 40.3% | 9.1% | 8.2% | 13.5% |
| MIS | Overweight | 136 | 157.1 | 9.6 | 11.2 | 9.9 | 32.7 | 47.1 | 33.7 | 2.4% | 1.3% | 1.8% | 35.0% | 22.0% | 31.1% | 10.4% | 13.1% | 10.7% |
| 2P | Overweight | 11.2 | 13.9 | 6.2 | 5.2 | 4.3 | 20.5 | 18.9 | 15.6 | 0.0% | 2.1% | 2.6% | 35.2% | 29.6% | 30.1% | 7.3% | 11.5% | 17.8% |

*Source: Company Financials, anbc Research*

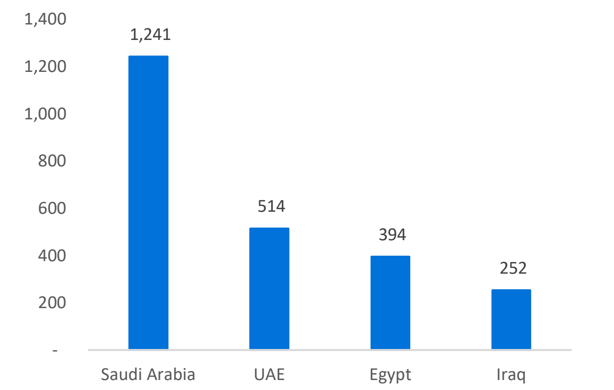
# Macroeconomic Overview: Strong macro dynamics

## a) Reshaping economy - Increasing reliance on non-oil GDP

Saudi Arabia has the largest GDP ($1.2 tn or SAR 4.7 tn) in the Middle East, primarily due to its position as the world's second-largest oil producer. The Kingdom is transitioning towards a greater share of non-oil GDP, reducing its reliance on oil. With rising share of non-oil activities and increasing presence of Kingdom as a tourist destination, the IMF forecasts the economy to expand by 3.0% in 2025e.

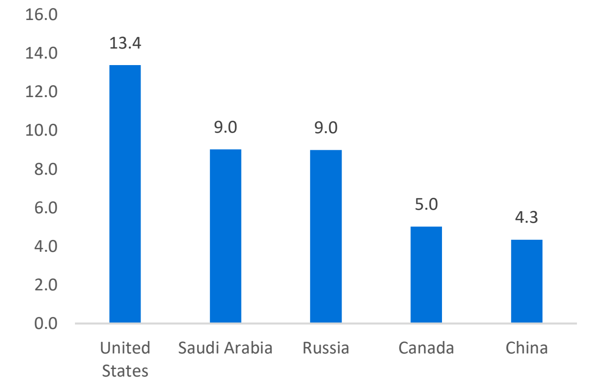
Since 2010, real non-oil activities have grown by 2.2x cumulatively, while real oil GDP lagged behind with a 16.7% uptick. Much of this is attributed to significant growth in construction and real estate projects, driven by the giga projects. To highlight, the contribution to GDP of the Construction and real estate has increased by 354 bps during the period to 12.8% during 2010-24.

**Chart 1: KSA GDP ($ bn) is the highest in the region – (2024)**



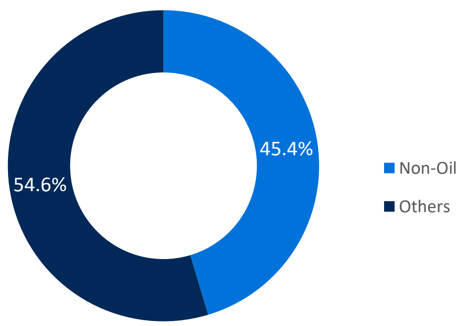

*Source: GASTAT, IMF, anbc Research*

**Chart 2: KSA is the 2nd largest oil producer (mb/d) – (2024)**



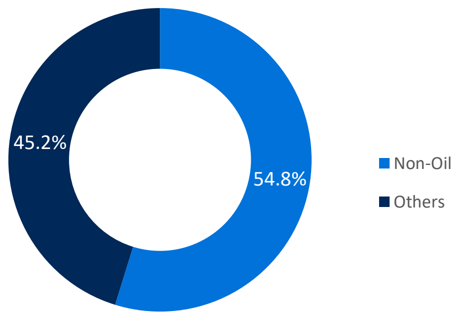

*Source: Bloomberg, anbc Research*

**Chart 3: Non-Oil accounted for 45.4% of GDP (2015)**




*Source: GASTAT, anbc Research*

**Chart 4: The contribution has risen to 54.8% (2024)**




*Source: GASTAT, IMF, anbc Research*

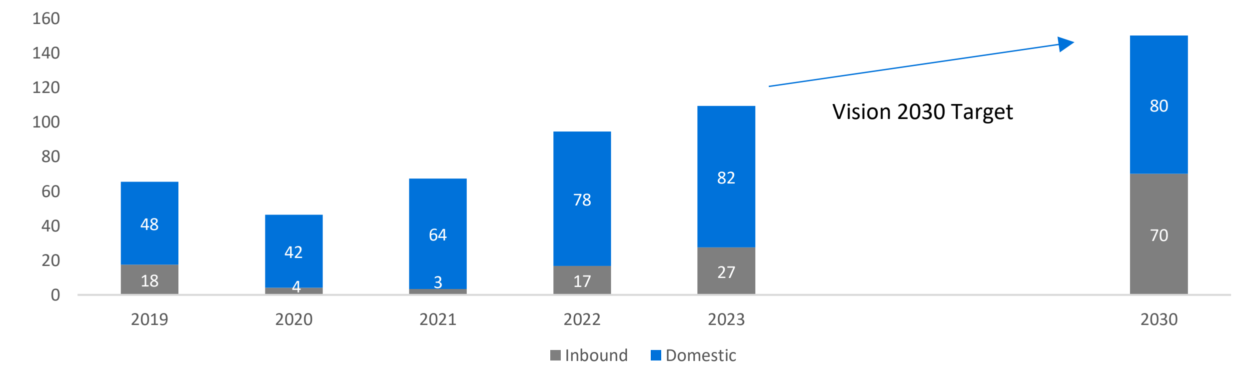
## b) Vision 2030 and beyond; A regional hub for tourism, trade and finance

As per International Energy Agency (IEA) oil demand will peak in 2030f. In view of this, 'Thriving Economy', one of the key themes of the Vision 2030, will broadly focus on the privatization of state-owned enterprises, expansion of businesses through tax-free zones, and promotion of tourism via aviation strategy and giga projects such as NEOM.

Important global events are set to take place in KSA over the next few years which require infrastructure-based spending. These will include, 11 new stadiums under FIFA along with around 230,000 hotel rooms. The mega events are expected to create 1.5 mn employment opportunities in hospitality, media, transport, and technology. Such events will also showcase the Kingdom's vibrant landscapes and archaeological sites to the world, further strengthening its position as a leading tourism destination in the years to come.

Upcoming giga projects - NEOM, Qiddiya and Red Sea, stand to become the epicenter of tourism. The Kingdom seeks to host 150 mn overnight visitors by 2030f, and the National Tourism Strategy has been tasked with creating 1.6 mn jobs by the same year.

**Chart 5: Number of overnight visitors to reach 150 mn by 2030f**




*Source: Ministry of Tourism, anbc Research*


*Source: anbc Research*

## Sector Overview: The Keystone of KSA's Digital Revolution

Saudi Arabia's Software & Services sector is emerging as the keystone of the Kingdom's digital revolution. Underpinned by the bold ambitions of Vision 2030, the sector is transitioning from traditional IT services into a dynamic ecosystem of cloud computing, artificial intelligence (AI), cybersecurity, and data analytics. This transformation is being fueled by substantial digital government initiatives, robust private-sector investments, and a growing appetite among enterprises to modernize their operations.

**ICT market comprises of various functions, from conventional IT consultancy to evolving fields such as Robotics**

**IT Services**

- Consulting Services
- IT services management
- IT staffing
- Cybersecurity services
- Support & maintenance
- Systems integration

**Software**

- End-user application
- Middleware & Firmware
- Business software
- System hardware

**Emerging Technologies**

- AR/VR
- Robotics
- AI
- IOT
- Big Data
- 3D printing

**Hardware**

- Hardware devices
- Data center hardware
- Physical access hardware
- Networking hardware

**Data center and cloud services**

- Data center services
- SAAS
- XAAS
- Content delivery network

*Source: anbc Research*

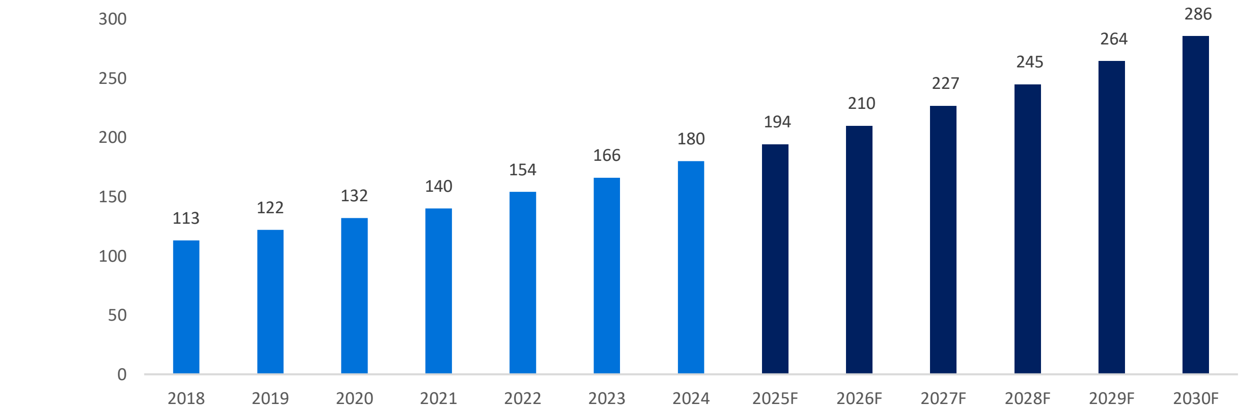
Key listed companies in the Software and Services sector are redefining their business models to capture multiple revenue streams—from long-term government digital service contracts to agile cloud and managed IT offerings. As these companies capitalize on both domestic demand and global technological trends, we project that the ICT market is projected to grow from SAR 180 bn in 2024 to nearly SAR 286 bn by 2030f, with a CAGR of 8%.

### a) The ongoing digital shift – Transforming the Saudi lifestyle

The Saudi Software & Services sector is at the heart of the Kingdom's digital transformation. Once confined to traditional roles—hardware reselling, system integration, and on-premise IT support—the market has now expanded into a vibrant ecosystem where cloud computing, cybersecurity, AI, and IoT are driving growth.

In addition, e-government platforms like Absher and Tawakkalna have accelerated digital adoption. Private enterprises are rapidly migrating from legacy infrastructures to agile, cloud-based solutions that offer scalability, flexibility, and enhanced data security. This evolution is not only changing how services are delivered but is also setting the stage for innovative business models that blend technology with everyday operations.

**Chart 6: KSA's ICT market is expected to reach SAR 286 bn by 2030F**

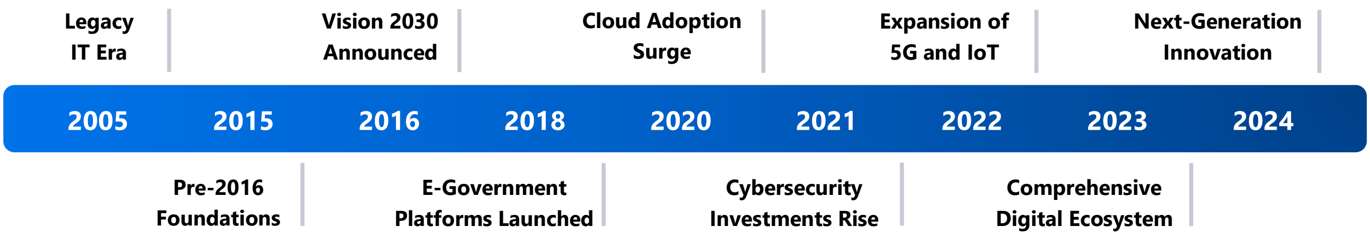



*Source: Twimbit and anbc Research*

## b) The digital transformation timeline

Since the 2016 announcement of Vision 2030, there has been a major shift in IT strategy:

- **E-Government and Public Services:** The introduction of digital platforms such as Absher and Tawakkalna have revolutionized public administration, requiring state-of-the-art IT solutions that deliver both efficiency and security, enabling the Kingdom to achieve 4th rank on global e-government index.
- **Cloud Adoption:** Enterprises are abandoning traditional, capital-intensive systems in favor of cloud-based solutions that offer agility and cost efficiency. This shift is supported by strategic investments in local data centers and partnerships with global cloud providers.




*Source: SDAIA*

Over the next few years, the digital ecosystem in Saudi Arabia is expected to become more integrated through:

- **Convergence of Technologies:** Cloud, AI, and cybersecurity are converging to create platforms that not only manage data but also extract actionable insights in real time.
- **Expansion of Digital Services:** Beyond government services, sectors such as healthcare, education, and finance are witnessing disruptive digital solutions, spurring further demand for sophisticated software and IT services.
- **Innovation in Service Delivery:** Companies are evolving their offerings to include subscription-based models, real-time analytics, and IoT-driven operational platforms. This evolution will be crucial in driving sustained market growth.
- **AI, Data Analytics, and IoT:** These technologies are transforming decision-making processes and operational workflows. Companies are leveraging advanced analytics to drive customer insights, optimize operations, and predict future trends.

## c) IT adoption to rely on an advanced data infrastructure

Saudi Arabia is undergoing an expansion in data center capacity and digital infrastructure as part of its Vision 2030 digital transformation strategy. The country is investing heavily in cloud computing, hyperscale data centers, AI, cybersecurity, and IoT to position itself as a regional hub for digital services, driven by one of the lowest energy tariffs in the world.

One of the most notable projects is a $12.8 bn (~SAR 48 bn), 1GW data center planned for Oxagon in NEOM. This investment underscores the critical need for scalable data infrastructure as Saudi Arabia rapidly digitizes government services, businesses, and consumer applications.

The Kingdom's current live capacity of data centers stands at 300MW, with a vision of upscaling it to 1,300MW, led by initiatives such as 'Cloud First Policy'. The driving forces behind this surge include 5G expansion, IoT adoption, AI-driven applications, cloud computing growth, and the increasing importance of data sovereignty.

## d) Key data center investments in KSA

Several major companies, both local and international, have announced sizable investments in the country's digital infrastructure. These projects reflect Saudi Arabia's strategic push to become a regional digital hub.

| Company | Investment | Project Details |
|---|---|---|
| NEOM Oxagon | $12.8 bn (~SAR 48.0 bn) | 1GW hyperscale data center |
| Pure DC Group & DV JV | $11 bn (~SAR 41.3 bn) | Targeting 1GW capacity |
| AWS (Amazon Web Services) | $5.3 bn (~SAR 19.9 bn) | Expanding cloud services in Saudi Arabia |
| DataVolt | $5 bn (~SAR 18.8 bn) | Strategic collaboration with Center3 |
| MIS | $2.6 bn (~SAR 9.8 bn) | Developing 6 data centers across Saudi Arabia |
| Oracle | $1.5 bn (~SAR 5.6 bn) | Expanding cloud regions in Riyadh |
| ServiceNow | $500 mn (~SAR 1,875 mn) | Establishing a regional HQ and 2 data centers |
| Zoho Corp | $133 mn (~SAR 498.8 mn) | Launching 2 data centers in Riyadh & Jeddah |
| IBM | $250 mn (~SAR 937.5 mn) | Establishing a software lab in Riyadh |

*Source: CST, anbc Research*

HUMAIN, the new PIF owned AI firm, announced investments of at least SAR 56 bn (~$15 bn) with Amazon Web Services (AWS) and Advanced Micro Devices (AMD). Nvidia and AMD will also be providing semiconductors to HUMAIN to build data centers. Multimodal Arabic large language models (LLMs), along with next-generation data centers, advanced AI infrastructure and robust cloud capabilities are some of HUMAIN's offerings.

Saudi Technology Ventures (STV), a leading Saudi venture capital firm, has announced a SAR 375 million AI-focused fund in partnership with Google. The fund will target early-stage startups across the MENA region, with a focus on application-layer AI solutions and supporting the development of underlying infrastructure.

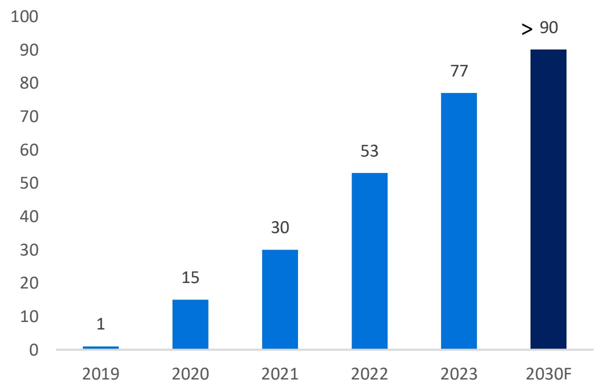
## e) Major demand drivers; getting ahead of the curve

Saudi Arabia is undergoing a digital infrastructure transformation, and several powerful megatrends are accelerating the demand for data centers:

### 5G Expansion & Internet-of-Things (IoT) Growth

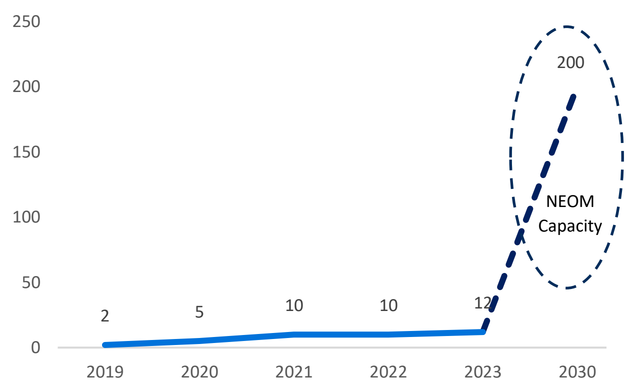
- **Widespread 5G rollout:** As of 2024, 5G coverage reached more than 77% of the Kingdom's population, with ongoing investments aiming for nationwide coverage. This rollout underpins the deployment of next-generation digital services.
- **IoT and edge computing:** Smart city projects (such as NEOM), connected transportation systems, and industrial IoT in logistics, oil and gas are creating substantial volumes of data requiring edge processing and decentralized storage closer to the source.

**Chart 7: 5G population coverage - KSA (%)**




*Source: CST, anbc Research*

**Chart 8: IoT subscription growth – KSA (SAR mn)**




*Source: CST, anbc Research*

## Data Traffic Boom

- **Robust mobile data growth:** Mobile data usage per smartphone is expected to grow from 5GB in 2023 to nearly 19GB by 2029 as projected by Ericsson Mobility, driven by higher video resolution, always-on applications, and immersive content.
- **Cloud dependency:** With cloud-based enterprise tools, SaaS adoption, and AI-enhanced analytics becoming the norm, businesses increasingly need reliable, high-bandwidth, low-latency infrastructure—putting pressure on local data centers to deliver uptime and performance.

## Esports & Gaming Growth

- **Strategic national investment:** Saudi Arabia is allocating over $38 bn (~SAR 142.5 bn) through its Savvy Games Group to make the Kingdom a global gaming hub, with a $500 mn (~SAR 1,875 mn) esports city under development.
- **Cloud and interactive gaming:** The rise of platforms such as NVIDIA GeForce NOW and Xbox Cloud Gaming necessitates powerful GPU-enabled infrastructure, much of which must be localized due to latency requirements and content regulations.
- Metaverse and virtual experience platforms also rely heavily on real-time rendering and data hosting, further escalating computing and storage demands.

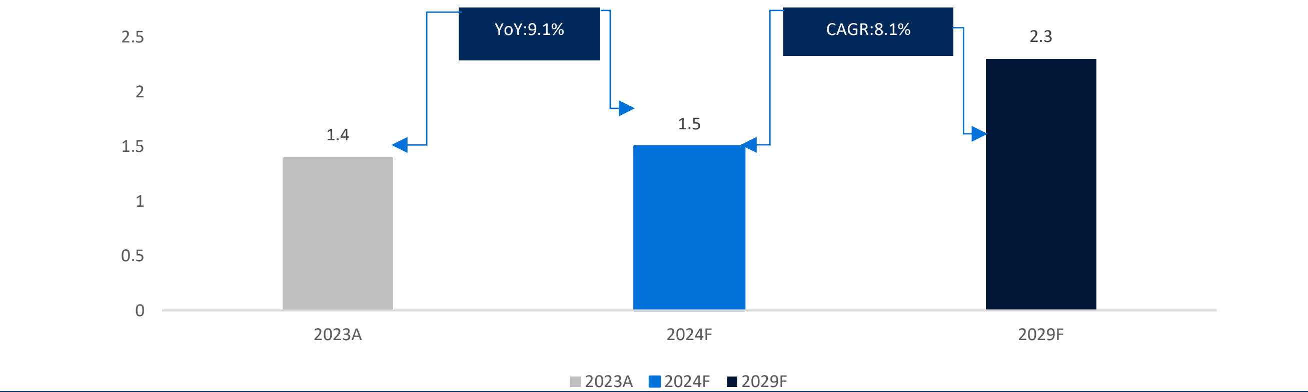
## Cybersecurity & Data Sovereignty Regulations

- **Regulatory pressure:** The Personal Data Protection Law (PDPL) and National Cybersecurity Authority regulations are reshaping how data is handled, mandating that sensitive information (especially government and financial data) be stored locally.
- Sector-specific mandates (e.g., in healthcare, banking, and telecom) are further pushing the need for tier-3 and tier-4 level facilities.

## f) KSA's digital future - the roadmap

Saudi Arabia's data center and digital economy is on a fast track to becoming a multi-billion-dollar industry. With government-backed initiatives, private-sector investments, and growing demand for cloud computing, the country is poised to become a leader in digital infrastructure in the Middle East.

**Chart 9: Data Center market to reach $2.3 bn by 2029**




*Source: Twimbit and anbc Research*

Khazna, the leading data center provider in the MENA region, is set to enter Saudi Arabia's rapidly growing digital market. Already holding 71% of the UAE's data center capacity, the company aims to capture 25% of the Saudi market and compete directly with both local and global players. Khazna seeks to position itself as a hyperscale provider, offering large-scale infrastructure with low-latency, high-speed connectivity, in what it sees as a niche segment within an increasingly competitive landscape.

## g) Challenges and risks - Navigating the digital frontier

- **Talent Shortages:** The rapid evolution of technology has led to a scarcity of skilled professionals in areas such as AI, Cybersecurity, and Cloud Computing. Companies are investing in training programs and partnerships with academic institutions to bridge this gap.
- **Intense Competition:** Global technology giants are increasingly entering the Saudi market, intensifying competition and putting pressure on local players, compressing margins.
- **Regulatory Pressures:** New data localization laws and Cybersecurity regulations require continuous investment in compliance, potentially diverting resources from innovation.

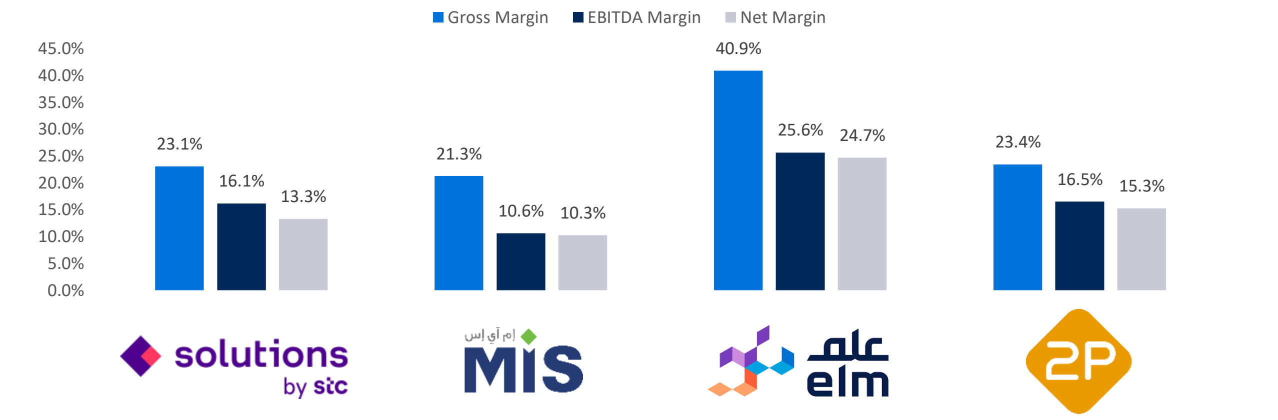
## Valuation Table:

| | | Elm | Solutions | MIS | 2P |
|---|---|---|---|---|---|
| Last price (SAR) | | 1050.0 | 274.2 | 136.0 | 11.2 |
| **Rating** | | **Neutral** | **Overweight** | **Overweight** | **Overweight** |
| **Target Price (SAR)** | | **1084.5** | **334.2** | **157.1** | **13.9** |
| Upside/Downside (%) | | 3.3% | 21.9% | 15.5% | 24.2% |
| Dividend Yield (%) | | 0.7% | 3.6% | 2.4% | 0.0% |
| Total Return (%) | | 4.0% | 25.5% | 17.9% | 24.2% |
| Growth (2024-31f) | Revenue | 15.8% | 9.1% | 10.4% | 7.3% |
| | Earnings | 16.2% | 8.2% | 13.1% | 11.5% |
| | Equity | 20.7% | 13.5% | 10.7% | 17.8% |
| ROAEs (%) | 2023 | 38.5% | 38.7% | 4.2% | 40.7% |
| | 2024 | 39.3% | 43.4% | 35.0% | 35.2% |
| | 2025e | 34.1% | 40.2% | 22.0% | 29.6% |
| | 2026f | 33.4% | 40.3% | 31.1% | 30.1% |
| ROAAs (%) | 2023 | 19.2% | 11.0% | 0.8% | 13.0% |
| | 2024 | 20.7% | 13.6% | 5.6% | 12.5% |
| | 2025e | 19.5% | 13.8% | 3.4% | 12.4% |
| | 2026f | 19.9% | 14.8% | 4.6% | 14.4% |
| P/B | 2023 | 21.0 | 9.8 | 14.2 | 8.8 |
| | 2024 | 15.9 | 8.2 | 9.6 | 6.2 |
| | 2025e | 12.9 | 7.7 | 11.2 | 5.2 |
| | 2026f | 10.6 | 6.6 | 9.9 | 4.3 |
| P/E | 2023 | 61.9 | 27.6 | 291.6 | 25.9 |
| | 2024 | 46.0 | 20.6 | 32.7 | 20.5 |
| | 2025e | 41.8 | 19.8 | 47.1 | 18.9 |
| | 2026f | 34.9 | 17.6 | 33.7 | 15.6 |
| Dividend yield (%) | 2023 | 0.6% | 2.2% | 2.0% | 0.3% |
| | 2024 | 0.7% | 3.6% | 2.4% | 0.0% |
| | 2025e | 1.0% | 3.0% | 1.3% | 2.1% |
| | 2026f | 1.1% | 3.4% | 1.8% | 2.6% |

*Source: Companies Data, anbc Research*

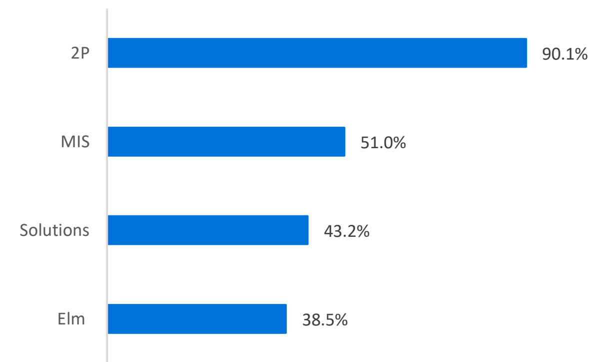
## Peer Comparison

**Chart 10: Elm leads the profitability profile, due to greater presence in high-margin digital segment (2024)**



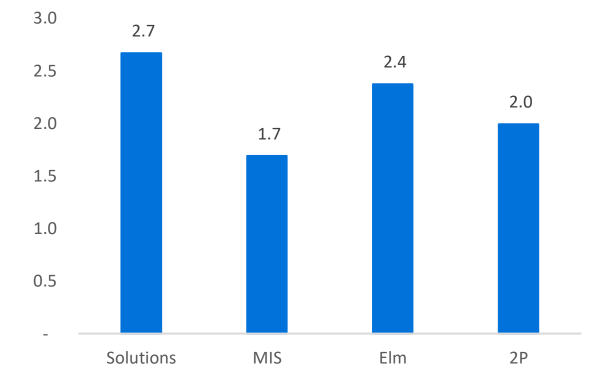

*Source: Companies Data, anbc Research*

**Chart 11: Revenue from government – 2024 (%)**



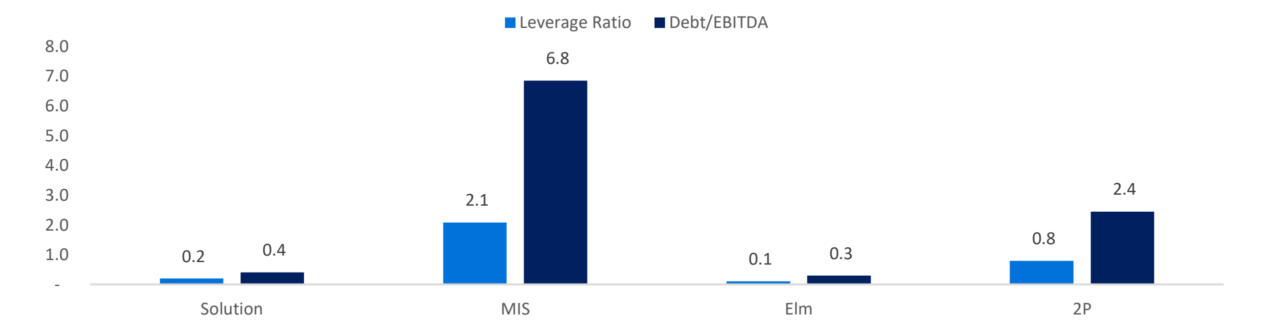

*Source: Companies Data, anbc Research*

**Chart 12: Accounts receivables turnover - 2024 (x)**




*Source: Companies Data, anbc Research*

**Chart 13: MIS is an outlier with highest leverage ratio in the sector**




*Source: Companies Data, anbc Research*

# Elm Co.

We initiate coverage on Elm Co. (Elm) with a 'Neutral' rating and a price target of SAR 1,085 per share. As the largest beneficiary of Saudi Arabia's digitization push, Elm leverages strong government partnerships, with 38.5% (2024) revenue derived from the public sector and 70% of total revenue recurring. Elm's scalable digital platforms are well-positioned to benefit from population growth, rising tourism, and digital transformation. We project a 15.8% CAGR (2024–2030f), driven by its expanding digital business and steady contributions from BPO. Additionally, its strategic acquisitions are tilting the revenue mix further toward digital, supporting a gradual margin expansion, peaking at 41.3% by 2030f. The stock has rallied 3.3x between 2023 and 2024 and currently trades at a TTM P/E of 46.0x, higher than its historical average of 42.0x. We believe current valuations adequately reflects its growth prospects, limiting further upside to single digits. Elm's acquisition of Thiqah appears value-accretive, but due to unavailable consolidated financials, its impact is not included in current estimates. A recommendation update may follow once details are disclosed.

**Elm enjoys the exclusivity to numerous government contracts.** With 38.5% of its 2024 revenue derived from government entities, Elm is poised for strong growth, driven by its critical offerings aligned with Vision 2030 given its unique role in mega and giga projects. In addition, strong population growth and rising tourism influx will further supplement revenue growth. We project a 15.8% revenue CAGR (2024–2030f), supported by Elm's access to the national database, making it the priority choice for most public-sector digital contracts. Elm derives 70% of its revenue from recurring and relatively inelastic sources, driven by its essential role in government services, ensuring strong revenue visibility.

**Margin profile to improve, enhancing profitability.** Digital Business accounted for 74% of Elm's topline in 2024. To highlight, the segment recorded the highest sectoral gross margins at 47.1%. Elm's inorganic expansions, such as Thiqah's acquisitions, further strengthen its position in the digital space. In 2023, Thiqah's revenue equaled 26.7% of Elm's. We expect the contribution from Digital Business to rise to 79%, driven by the inherently scalable nature of digital products and platforms, which benefit from economies of scale. The shift in revenue mix, coupled with an easily expandable business model at minimal cost, is expected to further enhance gross margins to 41.3% by 2030f.

**Premium valuations signal caution at current levels.** Elm is currently trading at a TTM P/E of 46.0x, higher than its historical average of 42.0x. This represents a 163.5% premium over TASI's P/E of 17.5x, compared to its historical premium of 113.7%. The stock price increased 3.3x during 2023-24. Elm is trading at an 86.7% premium to the sector's (ex-Elm) P/E of 24.6x largely due to its strong positioning in the high-margin Digital Business segment. We believe the valuation fairly prices in its growth potential, whereby limiting further upside potential at this stage.

**Valuation:** Our Dec-25 TP of SAR 1,085/share is based on a blended valuation with equal weight assigned to DCF (TP SAR 1,099/share) and relative valuation (TP SAR 1,071/share), resulting in an upside of 3.3%.

**Risks**: Increasing access to national database can increase unaccounted competition in the public space. Low-margin acquisitions can dilute the aggregate profitability.

INITIATION OF COVERAGE

### RATING SUMMARY — Neutral

| | |
|---|---|
| Target Price (SAR) | 1,085 |
| Upside/Downside | 3% |
| Div. Yield (%) | 1% |
| Total Exp. Return | 4% |

*Last Price as of 19th May, 2025*
*Source: Company Data, anbc Research*

### ISSUER INFORMATION

| | |
|---|---|
| Bloomberg Code | ELM AB |
| Last Price (SAR) | 1,050.0 |
| No of Shares (mn) | 80 |
| Market Cap bn (SAR/USD) | 84.0/22.4 |
| 52-week High / Low (SAR) | 1,289.0/796.8 |
| 12-month ADTV (mn) (SAR/USD) | 74.7/19.9 |
| Free Float (%) | 33.0 |
| Foreign Holdings (%) | 10.7 |

*Last Price as of 19th May, 2025*

### VALUATIONS

| | 2024 | 2025e | 2026f | 2027f |
|---|---|---|---|---|
| EPS (SAR) | 22.8 | 25.1 | 30.1 | 35.0 |
| PER (x) | 46.0 | 41.8 | 34.9 | 30.0 |
| PBV (x) | 15.9 | 12.9 | 10.6 | 8.7 |
| DPS (SR) | 7.3 | 10.1 | 12.1 | 14.0 |
| Div. Yield (%) | 0.7 | 1.0 | 1.1 | 1.3 |
| RoAE (%) | 39.3 | 34.1 | 33.4 | 31.9 |
| RoAA (%) | 20.7 | 19.5 | 19.9 | 19.4 |

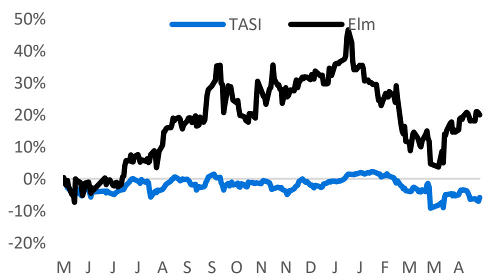
*Source: Company Data, anbc Research*

### FINANCIALS (SAR bn)

| | 2024 | 2025e | 2026f | 2027f |
|---|---|---|---|---|
| Revenue | 7.4 | 8.6 | 10.0 | 11.5 |
| Gross Profit | 3.0 | 3.5 | 4.1 | 4.7 |
| Operating Income | 1.7 | 2.0 | 2.4 | 2.7 |
| EBITDA | 1.9 | 2.1 | 2.5 | 2.9 |
| Net Income | 1.8 | 2.0 | 2.4 | 2.8 |
| Gross Margin (%) | 40.9 | 40.5 | 40.7 | 40.9 |
| EBIT Margin (%) | 23.0 | 23.1 | 23.8 | 23.8 |
| EBITDA Margin (%) | 25.6 | 25.0 | 25.5 | 25.4 |
| Net Margin (%) | 24.7 | 23.4 | 24.2 | 24.3 |

*Source: Company Data, anbc Research*

### RELATIVE PRICE PERFORMANCE




*Source: Bloomberg, anbc Research*

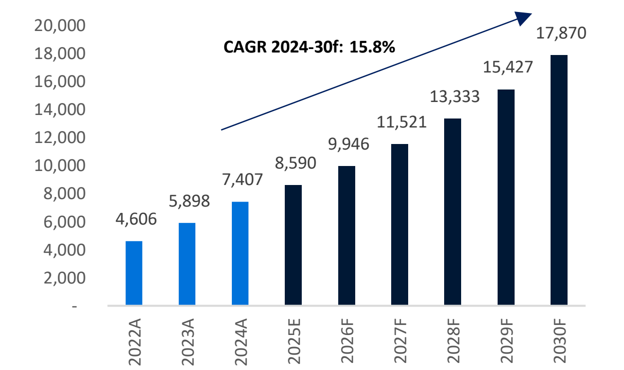
## Investment Thesis

### Elm enjoys the exclusivity to numerous government contracts

Elm derives 38.5% of its revenue exclusively from government clients, positioning it as a key digital partner in Saudi Arabia's Vision 2030 transformation. Its digital portfolio is well-aligned with high-growth sectors like Healthcare and Transportation, which are central to the Kingdom's strategy. The company's top six products, Nusuk, Absher, Muqeem, Yaqeen, Fasah, and Tamm, account for 66.0% of total revenue, benefiting directly from population growth, rising tourism, and increasing pilgrim activity.

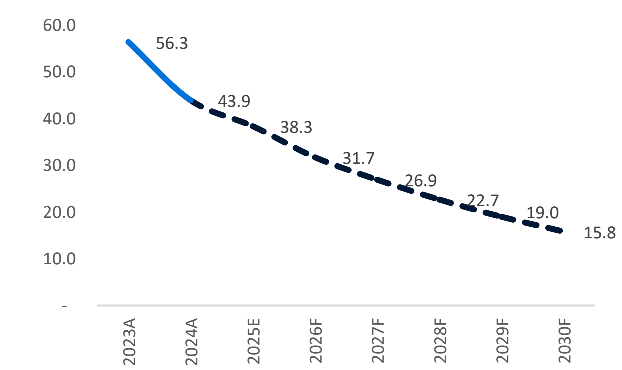
Elm maintains a robust backlog of SAR 3.8 bn, with 70% of its revenue being recurring, supported by longstanding government partnerships. We project revenue to expand at a 6-year CAGR of 15.8%, driven by its Digital Business segment, which we expect to grow at an 17.0% CAGR over the same period. Saudi Arabia's industrial shift from traditional system integration and hardware technologies to emerging tech, artificial intelligence, and a 'data-first' approach will further strengthen Elm's growth prospects. Additionally, the government's aim of increasing the digital economy's GDP contribution to 19% by 2030f (up from 15% in 2024) serves as a key catalyst, positioning Elm as a leading contender for future contracts.

**Chart 14: Revenues (SAR mn) to double in 5 years**




*Source: Company Data, anbc Research*

**Chart 15: EV/EBITDA 2023a-2030f**




*Source: Company Data, anbc Research*

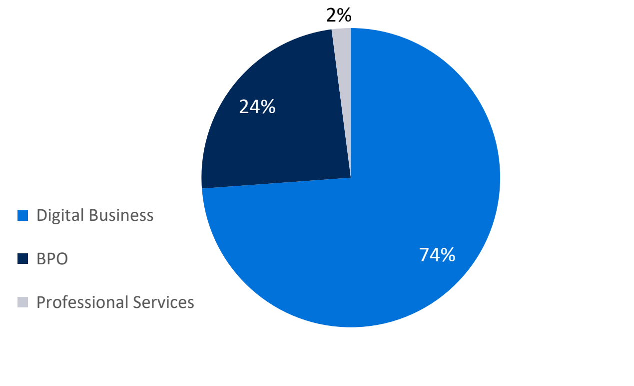
Elm's products, such as pilgrimage planning via 'Nusuk', e-visa and job permit applications via 'Absher', and work permit issuance via 'Muqeem', hold monopolistic positioning, benefiting from the company's access to the national database. This gives Elm a significant competitive edge, allowing it to generate relatively inelastic revenues, resilient to economic slowdowns and disruptive unit economics. Saudi Arabia's targets—30 mn pilgrims (vs. 18.5 mn in 2024), 150 mn tourists (vs. 109 mn in 2023), and 10 mn residents in Riyadh (vs. 7.8 mn in 2024)—will serve as key growth catalysts, driving increased traction on Elm's platforms.

We expect strong momentum to continue in the BPO segment, driven by digitized services such as AI-powered crowd management at the two holy mosques and NEOM's smart gate project. We forecast a 6-year CAGR of 12.0% from 2024 to 2030f. The company is well-positioned for expansion in this segment, with its BPO services uniquely structured compared to its competitors. Offerings such as government license issuance and inspection services provide a strong competitive edge, enabling the company to achieve a robust 24.0% gross margin (2024) in BPO—a segment typically characterized by lower margins.

### Margin profile to improve, enhancing profitability

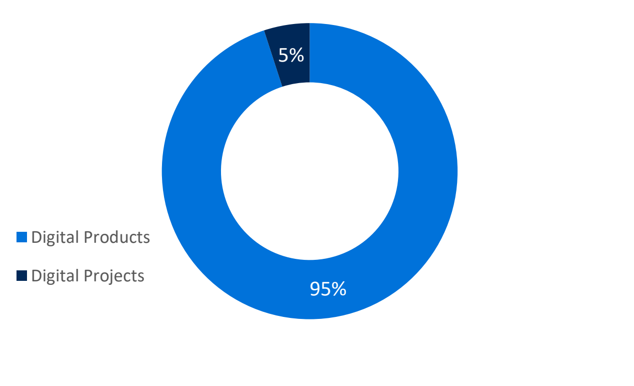
Elm has significantly enhanced its margin profile, driven by robust growth in its digital business and a favorable revenue mix shift. Gross margins reached a peak of 40.9% in 2024, expanding by 700 bps from 33.9% in 2020. The digital business segment's contribution to revenue surged from 54.9% in 2021 to 73.8% in 2024, fueling profitability expansion.

**Chart 16: Digital Business leads the topline**




*Source: Company Data, anbc Research*

**Chart 17: Digital Products account for 95% of revenue**

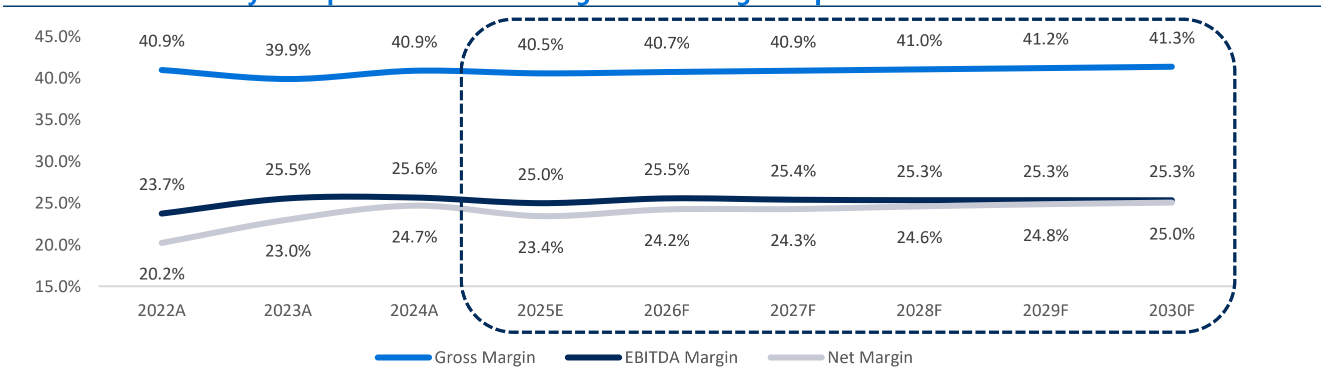



*Source: Company Data, anbc Research*

Elm's Digital Business segment is divided into two subcategories: Digital Products (95.0% of the segment) and Digital Projects (5.0%). We believe that a significant portion of the costs associated with product and platform development has already been incurred, reinforcing our expectation of continued profitability expansion. We forecast gross margins to peak at 41.3% by 2030f, driven by the scalability of the company's offerings. Notably, tech platforms tend to grow exponentially through 'network effects,' where user adoption accelerates as more participants join. Elm's platforms, such as 'Fasah,' leverage this dynamic by compelling counterparties to engage with the platform to access its extensive network, further enhancing traction and reach.

Elm's strong capital structure, characterized by low leverage (10% debt) and stable OPEX, supports our expectation of greater revenue flowing to the bottom line. Marketing and administrative expenses as a percentage of revenue have declined from 7.5% and 9.8% in 2017 to 4.5% and 7.4% in 2024, respectively. We anticipate a continued downtrend in both, alongside a stable debt profile, driving further expansion in profitability. As a result, we project net margins to peak at 25.0% in 2030f from 24.7% in 2024, respectively, while EBITDA margins to average at 25.3%, amid higher R&D expenses.

**Chart 18: Profitability to improve with all the margins continuing to expand**




*Source: Company Data, anbc Research*

Elm's growth strategy—both organic and inorganic—remains strategically centered on the Digital Business segment. The 100% acquisition of Thiqah reinforces the company's consolidation in this high-margin space. We forecast digital revenue contribution to rise from 73.8% in 2024 to 78.3% by 2030f.

Additionally, Elm's portfolio is well-balanced, with even its smallest segment, Professional Services, playing a strategic role. While contributing just 2.1% to the topline in 2024, this segment aligns with the company's positioning in consulting and advisory for next-generation technologies such as Data and AI. We believe this synergy will further strengthen Elm's presence across other segments, serving as both an implementation tool and a marketing enabler.

Elm's BPO segment is internally diversified, moving beyond the conventional focus on customer experience. This diversification helps mitigate profitability pressures, which are typically more pronounced in tech companies operating in this space due to intense competition. Elm's Strategy 4.0 seeks to broaden its reach into untapped government domains while actively pivoting toward private-sector opportunities, emphasizing enterprise-focused digital innovations. In its Digital Products arm, the company is sharpening its focus on scalable, high-impact solutions. For Business Process Outsourcing (BPO), the direction is toward stable, recurring mandates that promote consistency in earnings. In Professional Services, the approach is to ascend toward more complex, high-value offerings that enhance its strategic positioning.

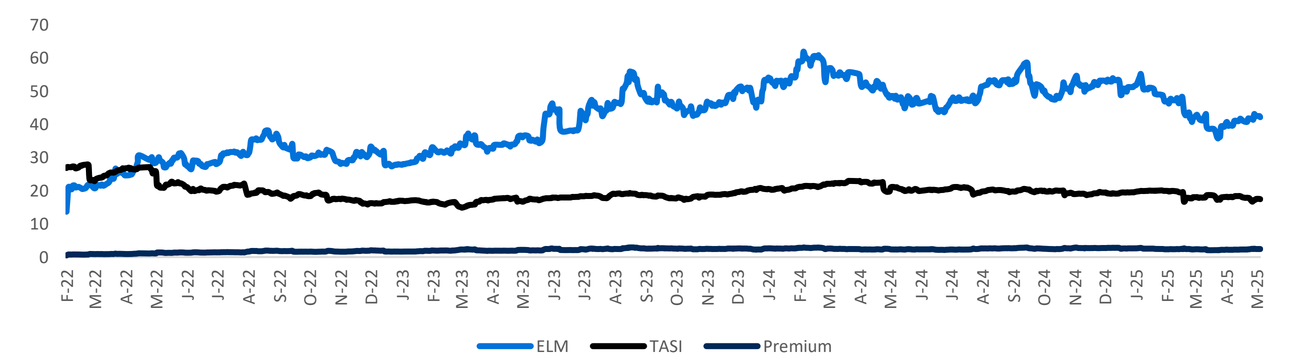
## Premium valuations signal caution at current levels

Elm's revenue has consistently outperformed the sector, recording a CAGR of 31.6% (2020-2024) versus 15.5% for our coverage universe (ex-Elm) during the same period. We expect this momentum to persist, projecting Elm's revenue to grow at a CAGR of 15.8% (2024-2030f), outpacing our universe's (ex-Elm) 9.2% growth. Despite this robust expansion, we believe the growth potential is largely priced in, reflecting in the stock's strong rally since listing.

The company is currently trading at a TTM P/E of 46.0x, reaching new highs, fueled by continued innovation and an indispensable product portfolio that aligns well with Vision 2030. Historically, its average multiple has stood at 42.0x, with the stock briefly peaking at SAR 1,289/share (P/E 56.4x) before a slight retracement. We view this pullback as a healthy correction towards intrinsic value.

Elm has consistently traded at a notable premium over TASI's P/E, averaging 113.7%. Currently, it commands a 163.5% premium (TASI P/E: 17.5x). We expect this valuation gap to remain within a defined range, with inorganic expansion such as Thiqah acting as a key upside risk. With its 2023 revenue equivalent to 26.7% of Elm's during the same period, we view the Thiqah deal as strategically meaningful. However, due to limited publicly available details, the full impact of the transaction has not yet been factored into our valuation.

**Chart 19: Elm is trading at a premium over TASI since its listing**




*Source: Company Data, anbc Research*

Elm trades at an 86.7% premium over our coverage universe (ex-Elm) P/E of 24.6x. We view this premium is mainly due to company's superior profitability and strong growth prospects within the sector. However, a gradual convergence is likely, driven by an expansion in sector multiples as more companies adopt next-generation technology, alongside a moderation in Elm's valuation toward our projections.

## Valuation

We have adopted a blended valuation approach for Elm, assigning equal weight to DCF and multiple-based valuation. This resulted in target prices of SAR 1,099/share and SAR 1,071/share, respectively, leading to a final target price of SAR 1,085/share, implying a 3.3% upside. We maintain a 'Neutral' rating on the stock, as we believe that while Elm's strong growth trajectory and robust product launches remain key positives, much of this upside is already priced in. At a 2025e P/E of 41.8x, the stock appears fairly valued, limiting further upside potential.

| | anbc Estimate | Consensus | anbc Estimate | Consensus | anbc Estimate | Consensus |
|---|---|---|---|---|---|---|
| SAR mn | 2025E | 2025E | 2026F | 2026F | 2027F | 2027F |
| Revenue | 8,592 | 9,682 | 9,951 | 11,709 | 11,530 | 13,097 |
| Gross Margin | 40.54% | 39.70% | 40.70% | 40.14% | 40.86% | 40.70% |
| EBITDA | 2,145 | 2,451 | 2,542 | 3,067 | 2,927 | 3,539 |
| Net Income | 2,012 | 2,153 | 2,410 | 2,671 | 2,798 | 3,132 |
| Net Margin | 23.41% | 22.24% | 24.22% | 22.81% | 24.27% | 23.91% |
| EPS | 25.1 | 26.6 | 30.1 | 33.4 | 35.0 | 39.1 |

*Source: anbc Research, Bloomberg*

### DCF Valuation

We used an FCFF-based model, applying a beta of 1.0, a risk-free rate of 5.0%, and a market risk premium of 5.2%, resulting in a cost of equity of 9.9%. Incorporating a cost of debt of 7.2%, we derived a weighted average cost of capital (WACC) of 9.6%.

| SAR mn | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|
| FCFF | 2,662 | 2,962 | 3,482 | 3,867 | 4,474 | 5,188 |
| Terminal Value | | | | | | 119,819 |
| FCFF + Terminal | 2,662 | 2,962 | 3,482 | 3,867 | 4,474 | 125,007 |
| **Discounted FCFF** | 2,429 | 2,465 | 2,643 | 2,678 | 2,827 | **72,042** |

| | |
|---|---|
| Enterprise Value | 85,084 |
| Cash | 3,322 |
| Debt | (524) |
| Equity Value | 87,881 |
| **Target Price** | **1,099** |

*Source: anbc Research*

## Sensitivity Analysis on DCF Valuation

| | Growth rate | | | | | |
|---|---|---|---|---|---|---|
| WACC | | 3.5% | 4.0% | 4.5% | 5.0% | 5.5% |
| | 7.6% | 1,462 | 1,621 | 1,831 | 2,121 | 2,548 |
| | 8.6% | 1,166 | 1,259 | 1,375 | 1,524 | 1,720 |
| | 9.6% | 967 | 1,027 | 1,099 | 1,186 | 1,294 |
| | 10.6% | 824 | 865 | 913 | 969 | 1,036 |
| | 11.6% | 717 | 746 | 780 | 818 | 862 |

## Relative Valuation

For our EV/EBITDA multiple (38.6x), we have taken the average multiple of Elm's local and peers operating primarily in the digital business segment. Using forward EBITDA (2025e) of SAR 2,144 mn we arrived at our target price of SAR 1,070/share.

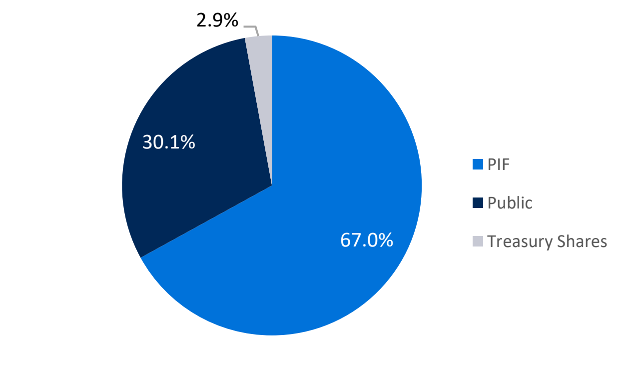
| Peer | EV/EBITDA |
|---|---|
| 2P | 24.2 |
| Tyler Technologies | 53.1 |
| **Target Multiple** | **38.6** |
| EBITDA (SAR mn) | 2,145 |
| EV (SAR mn) | 82,845 |
| Cash (SAR mn) | 3,322 |
| Debt (SAR mn) | 524 |
| ***Target Price*** | ***1,071*** |

*Source: anbc Research*

## Company Overview

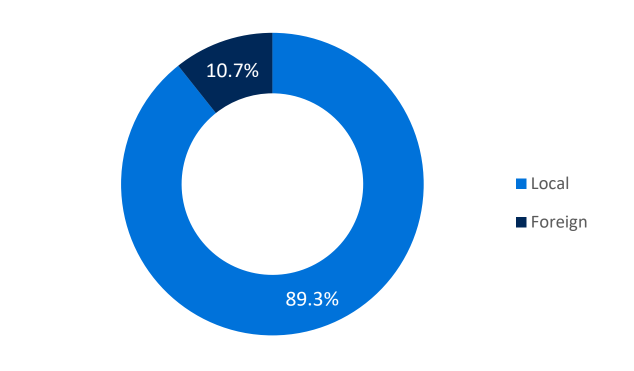
Elm was founded in 1988 by PIF as a technological research, development and localization company. The company went public in 2022 and is owned 67% by PIF since then. Elm has grown via organic and inorganic expansions, including that of Tabadul and Thiqah.

**Chart 20: Shareholding by Investor**




*Source: Company Data, anbc Research*

**Chart 21: Shareholding by Investor type**




*Source: Company Data, anbc Research*

Elm is involved in various industries, either directly or through its subsidiaries and associates, ranging from HR solutions (Emdad Al Khebrat), fintech (Tabadul) to expanding its presence in government services (Thiqah).

| Company | Ownership | Country | Relationship |
|---|---|---|---|
| Saudi Company for Exchanging Digital Information (Tabadul) | 100% | KSA | Subsidiary |
| Emdad Al Khebrat | 100% | KSA | Subsidiary |
| Elm Technology Investment Company | 100% | KSA | Subsidiary |
| Umrah Premium Services Company | 100% | KSA | Subsidiary |
| Thiqah | 100% | KSA | Subsidiary |
| Sahel Al Madar Trading Company | 30% | KSA | Associate |
| Smart National Solution Company | 24% | KSA | Associate |
| Omran Tech Business Solutions Company | 60% | KSA | Joint Venture |

*Source: Company Data, anbc Research*

| Main Products | Description |
|---|---|
| | Provide Ministry of Interior services (Passports, Traffic, Civil Affairs, etc.) digitally in an integrated platform to citizens, residents and visitors. |
| فسح FASAH | Facilitate international trade services by automating the import and export procedures. |
| مقيم Muqeem | Allows organizations to review its resident workers data and complete their transactions online. |
| يقين Yakeen | Verification of the beneficiary's data (such as customers, visitors, employees, and applicants) |
| تم Tamm | Provide services that help vehicles' owners in Saudi Arabia get all the updated information about their respective vehicles. |
| نسك nusuk | Organize pilgrims entire visit from applying e-Visa to booking hotels and flights. |

*Source: Company Data, anbc Research*

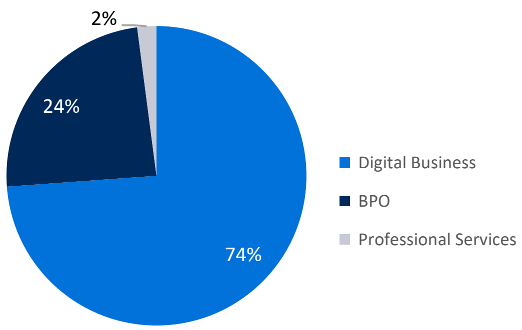
## Financial Overview

Elm operates through three key verticals: Digital Business, Business Process Outsourcing, and Professional Services. Digital Business is the primary revenue driver, leading the company's operations. Government and related entities represent Elm's largest customer segment, contributing 38.5% of its revenue in 2024.

| Segment | Description |
|---|---|
| Digital Business | Includes Digital Products Suite, which provides ready-to-use digital solutions, and Digital Projects Suite, offering integrated platforms and entitlement engines for end-to-end services. |
| Business Process Outsourcing | Enhances operational management by providing large-scale HR services and qualifying national talent through professional recruitment for government and private entities. |
| Professional Services | Includes consulting services in data analytics and AI, where Elm analyzes challenges and develops action plans to enhance performance and customer satisfaction. |

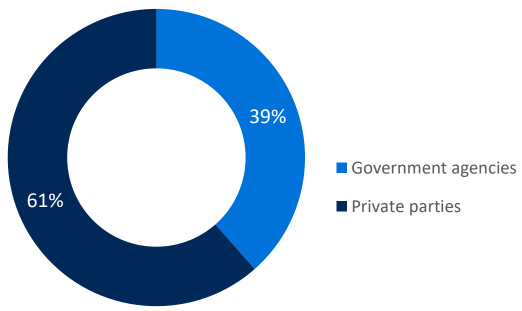
*Source: Company Data, anbc Research*

**Chart 22: Revenue by segment**




*Source: Company Data, anbc Research*

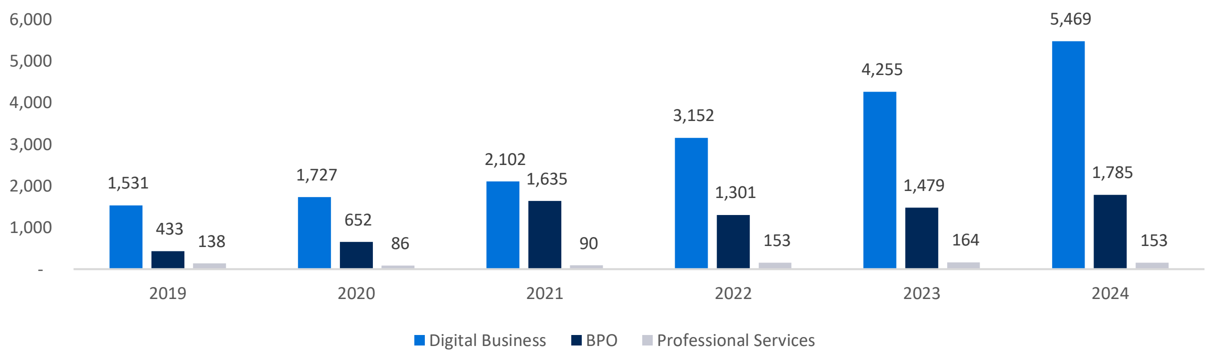
**Chart 23: Revenue by segment**




*Source: Company Data, anbc Research*

Elm's revenue grew at a 28.6% CAGR from 2019 to 2024, driven by strong growth in BPO (32.8%) and Digital Business (29.0%), supported by increased public sector projects and new product launches like Nusuk (2022). The high-margin Digital Business segment's contribution rose from 68.9% in 2017 to 73.8% in 2024, fueled by growing demand and inorganic expansions, including Tabadul and Thiqah.

**Chart 24: Key Financials (SAR Mn) over the years**




*Source: Company Data, anbc Research*

## Financial Summary

**SAR mn**

| **Income statement** | **2023A** | **2024A** | **2025E** | **2026F** | **2027F** | **2028F** | **2029F** | **2030F** | **2031F** | **CAGR 2024-2031F** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 5,898 | 7,407 | 8,592 | 9,951 | 11,530 | 13,346 | 15,445 | 17,895 | 20,715 | 15.8% |
| Cost of Revenue | (3,547) | (4,381) | (5,109) | (5,901) | (6,819) | (7,872) | (9,086) | (10,499) | (12,120) | 15.6% |
| **Gross Profit** | **2,351** | **3,026** | **3,483** | **4,050** | **4,711** | **5,474** | **6,359** | **7,396** | **8,594** | **16.1%** |
| Operating Expenses | (1,000) | (1,325) | (1,501) | (1,683) | (1,972) | (2,293) | (2,656) | (3,089) | (3,595) | 15.3% |
| **EBIT** | **1,351** | **1,700** | **1,982** | **2,367** | **2,739** | **3,181** | **3,703** | **4,307** | **4,999** | **16.7%** |
| Dep & Amort | 156 | 199 | 163 | 175 | 188 | 200 | 211 | 224 | 241 | 2.8% |
| **EBIDTA** | **1,506** | **1,899** | **2,145** | **2,542** | **2,927** | **3,381** | **3,914** | **4,532** | **5,240** | **15.6%** |
| Finance Cost | (6) | (28) | (34) | (27) | (23) | (20) | (18) | (17) | (16) | -8.2% |
| **Profit Before Tax** | **1,473** | **1,954** | **2,159** | **2,600** | **3,038** | **3,581** | **4,205** | **4,924** | **5,749** | **16.7%** |
| Zakat Tax | (117) | (127) | (147) | (189) | (240) | (299) | (366) | (442) | (529) | 22.6% |
| **PAT** | **1,356** | **1,827** | **2,012** | **2,410** | **2,798** | **3,282** | **3,838** | **4,482** | **5,219** | **16.2%** |
| Number of Share | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | |
| **EPS** | **17.0** | **22.8** | **25.1** | **30.1** | **35.0** | **41.0** | **48.0** | **56.0** | **65.2** | |
| **Balance Sheet** | | | | | | | | | | |
| Fixed Assets | 900 | 1,198 | 1,236 | 1,261 | 1,304 | 1,299 | 1,275 | 1,267 | 1,277 | 0.9% |
| Other Non-Current Assets | 230 | 330 | 318 | 307 | 296 | 285 | 272 | 276 | 279 | -2.4% |
| **Non-current assets** | **1,130** | **1,528** | **1,555** | **1,568** | **1,599** | **1,584** | **1,547** | **1,542** | **1,556** | **0.3%** |
| Trade receivables | 2,322 | 2,895 | 2,918 | 3,229 | 3,718 | 4,276 | 4,917 | 5,661 | 6,510 | 12.3% |
| Cash and Cash equivalents | 384 | 2,251 | 3,322 | 4,929 | 6,697 | 8,805 | 11,087 | 13,728 | 16,797 | 33.3% |
| Other Current Assets | 4,260 | 2,880 | 3,282 | 3,430 | 3,600 | 3,861 | 4,165 | 4,521 | 4,933 | 8.0% |
| **Current Asset** | **6,967** | **8,027** | **9,522** | **11,588** | **14,015** | **16,942** | **20,169** | **23,910** | **28,241** | **19.7%** |
| **Total Assets** | **8,097** | **9,554** | **11,077** | **13,156** | **15,614** | **18,526** | **21,716** | **25,452** | **29,796** | **17.6%** |
| **Total Equity** | **3,995** | **5,293** | **6,499** | **7,945** | **9,623** | **11,593** | **13,896** | **16,585** | **19,717** | **20.7%** |
| Lease liabilities | 212 | 481 | 445 | 391 | 347 | 312 | 285 | 265 | 251 | -8.8% |
| Other Non-Current Liabilities | 361 | 387 | 387 | 387 | 387 | 387 | 387 | 387 | 387 | 0.0% |
| **Non-current liabilities** | **573** | **868** | **833** | **778** | **734** | **699** | **672** | **652** | **639** | **-4.3%** |
| Trade payables | 2,805 | 2,480 | 2,799 | 3,395 | 4,110 | 4,961 | 5,725 | 6,616 | 7,638 | 17.4% |
| Lease liabilities | 12 | 85 | 79 | 69 | 61 | 55 | 50 | 47 | 44 | -8.8% |
| Other current Liabilities | 713 | 828 | 867 | 968 | 1,085 | 1,219 | 1,373 | 1,552 | 1,758 | 11.4% |
| **Current Liabilities** | **3,530** | **3,393** | **3,746** | **4,433** | **5,256** | **6,234** | **7,149** | **8,215** | **9,440** | **15.7%** |
| **Total liabilities and equity** | **8,097** | **9,554** | **11,077** | **13,156** | **15,614** | **18,526** | **21,716** | **25,452** | **29,796** | **17.6%** |

*Source: Company Data, anbc Research*

## Key Ratios

**SAR mn**

| **Valuation Ratios** | **2023A** | **2024A** | **2025E** | **2026F** | **2027F** | **2028F** | **2029F** | **2030F** | **2031F** |
|---|---|---|---|---|---|---|---|---|---|
| EPS | 17.0 | 22.8 | 25.1 | 30.1 | 35.0 | 41.0 | 48.0 | 56.0 | 65.2 |
| DPS | 5.8 | 7.3 | 10.1 | 12.1 | 14.0 | 16.4 | 19.2 | 22.4 | 26.1 |
| BVPS | 49.9 | 66.2 | 81.2 | 99.3 | 120.3 | 144.9 | 173.7 | 207.3 | 246.5 |
| PE | 61.9 | 46.0 | 41.8 | 34.9 | 30.0 | 25.6 | 21.9 | 18.7 | 16.1 |
| Div Yield | 0.6% | 0.7% | 1.0% | 1.1% | 1.3% | 1.6% | 1.8% | 2.1% | 2.5% |
| PBV | 21.0 | 15.9 | 12.9 | 10.6 | 8.7 | 7.2 | 6.0 | 5.1 | 4.3 |
| EV/Sales | 14.2 | 11.1 | 9.5 | 8.0 | 6.7 | 5.7 | 4.7 | 3.9 | 3.3 |
| Price / Sales | 14.2 | 11.3 | 9.8 | 8.4 | 7.3 | 6.3 | 5.4 | 4.7 | 4.1 |
| EV/EBITDA | 55.7 | 43.3 | 37.9 | 31.3 | 26.6 | 22.4 | 18.7 | 15.6 | 12.9 |

| **Margins** | **2023A** | **2024A** | **2025E** | **2026F** | **2027F** | **2028F** | **2029F** | **2030F** | **2031F** |
|---|---|---|---|---|---|---|---|---|---|
| Gross Margin | 39.9% | 40.9% | 40.5% | 40.7% | 40.9% | 41.0% | 41.2% | 41.3% | 41.5% |
| EBITDA Margin | 25.5% | 25.6% | 25.0% | 25.5% | 25.4% | 25.3% | 25.3% | 25.3% | 25.3% |
| Operating Margin | 22.9% | 23.0% | 23.1% | 23.8% | 23.8% | 23.8% | 24.0% | 24.1% | 24.1% |
| Net Margin | 23.0% | 24.7% | 23.4% | 24.2% | 24.3% | 24.6% | 24.9% | 25.0% | 25.2% |

| **Returns** | **2023A** | **2024A** | **2025E** | **2026F** | **2027F** | **2028F** | **2029F** | **2030F** | **2031F** |
|---|---|---|---|---|---|---|---|---|---|
| ROA | 19.2% | 20.7% | 19.5% | 19.9% | 19.4% | 19.2% | 19.1% | 19.0% | 18.9% |
| ROE | 38.5% | 39.3% | 34.1% | 33.4% | 31.9% | 30.9% | 30.1% | 29.4% | 28.8% |

| **Health** | **2023A** | **2024A** | **2025E** | **2026F** | **2027F** | **2028F** | **2029F** | **2030F** | **2031F** |
|---|---|---|---|---|---|---|---|---|---|
| Debt to Asset | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt to Equity | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt to Capital | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/ Interest | 230.4 | 59.8 | 58.1 | 86.4 | 121.3 | 159.7 | 205.3 | 259.3 | 320.4 |

*Source: Company Data, anbc Research*

INITIATION OF COVERAGE

# Arabian Internet and Communications Services Co.

We initiate coverage on Arabian Internet and Communications Services Co. (Solutions by stc) with an 'Overweight' rating and a price target of SAR 334 per share. The company holds the largest market share (22.7% as reported by the company) in Saudi Arabia's fragmented ICT sector and has worked to maintain its leadership, albeit with some margin compression. Solutions is well-positioned to secure key contracts through its parent company, stc (79% ownership), particularly in the digital integration of giga projects. Additionally, its inorganic expansions and PPP project-focus positions Solution to gain directly from Vision 2030 government initiatives. The stock is currently trading at a TTM P/E of 20.6x, compared to its historical average of 29.1x, which we believe indicates an attractive entry point.

**Healthy backlog (SAR 14 bn) to keep topline growth elevated.** Solutions' revenue grew by 9.3% YoY in 2024, compared to 25.4% growth in 2023. A substantial part of this growth (30.1%) came during 4Q24 as the company achieved key milestones in projects like the high-performance computers for Aramco and the Riyadh Municipality parking contract. Looking ahead, we project a 9.2% CAGR in revenue from 2024 to 2030f, driven by higher realization of backlog into revenue following the delivery of key milestones combined with increased activity in the government sector, as the impact of seasonality diminishes.

**Market share to withstand despite strong headwinds.** The company has increased its market share from 13.0% in 2018 to 22.7% in 2024. While increased competition from both local and global players poses a challenge to its leadership, we believe Solutions will sustain its position, supported by its strong brand identity and stc's backing. However preferring volume over pricing will weaken the margin profile of the company, gradually moderating the gross margins to 22.5% by 2030f.

**Sustainable growth trajectory intact.** Recent acquisitions, Giza, CCC (Upsource), and Devoteam, expand Solutions' footprint into high-potential verticals like AI and digital transformation. A strong net cash position (SAR 335 mn in 2024) supports continued execution of its LEAP strategy, enabling further expansions. Entry into PPP projects provide stable, recurring revenue streams and enhances positioning for Vision 2030 opportunities, reinforced by its recent DGA Category A qualification.

**Valuation:** Our Dec-25 TP of SAR 334/share is based on a blended valuation with equal weightage assigned to DCF (TP SAR 350/share) and relative valuation (TP SAR 319/share). This results in 2025e forward P/E of 24.1x, which we believe presents an upside of 21.9%.

**Risks**: The primary downside risk is a delay in contract initiation, resulting in further extension in revenue recognition. A slowdown in Solutions' core sub-sectors such as Core ICT Services could limit the company's ability to maintain a market leadership position.

| RATING SUMMARY | Overweight |
|---|---|
| Target Price (SAR) | 334 |
| Upside/Downside | 22% |
| Div. Yield (%) | 4% |
| Total Exp. Return | 24% |

*Last Price as of 19th May, 2025*
*Source: Company Data, anbc Research*

| ISSUER INFORMATION | |
|---|---|
| Bloomberg Code | SOLUTION AB |
| Last Price (SAR) | 274.2 |
| No of Shares (mn) | 120 |
| Market Cap bn (SAR/USD) | 32.9/8.8 |
| 52-week High / Low (SAR) | 340/250 |
| 12-month ADTV (mn) (SR/USD) | 55.0/14.7 |
| Free Float (%) | 20.0 |
| Foreign Holdings (%) | 5.6 |

*Last Price as of 19th May, 2025*

**VALUATIONS**

| | 2024 | 2025e | 2026f | 2027f |
|---|---|---|---|---|
| EPS (SAR) | 13.3 | 13.9 | 15.6 | 16.7 |
| PER (x) | 20.6 | 19.8 | 17.6 | 16.4 |
| PBV (x) | 8.2 | 7.7 | 6.6 | 5.7 |
| DPS (SR) | 9.9 | 8.3 | 9.3 | 10.0 |
| Div. Yield | 3.6 | 3.0 | 3.4 | 3.7 |
| RoAE | 43.4 | 40.2 | 40.3 | 37.1 |
| RoAA | 13.6 | 13.8 | 14.8 | 15.1 |

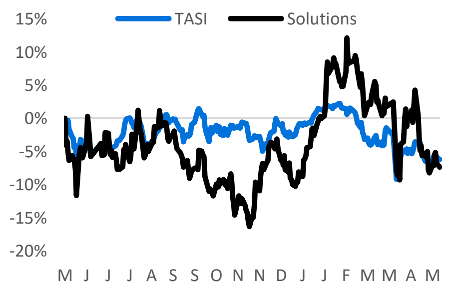
*Source: Company Data, anbc Research*

**FINANCIALS (SAR bn)**

| | 2024 | 2025e | 2026f | 2027f |
|---|---|---|---|---|
| Revenue | 12.1 | 13.2 | 14.4 | 15.7 |
| Gross Profit | 2.8 | 3.1 | 3.4 | 3.6 |
| Operating Income | 1.7 | 1.8 | 2.0 | 2.2 |
| EBITDA | 1.9 | 2.1 | 2.3 | 2.5 |
| Net Income | 1.6 | 1.7 | 1.9 | 2.0 |
| GP Margin (%) | 23.1 | 23.4 | 23.4 | 23.0 |
| EBIT Margin (%) | 13.8 | 13.6 | 14.0 | 13.8 |
| EBITDA Margin (%) | 16.1 | 15.8 | 16.1 | 15.8 |
| Net Margin (%) | 13.3 | 12.6 | 13.0 | 12.8 |

*Source: Company Data, anbc Research*

**RELATIVE PRICE PERFORMANCE**



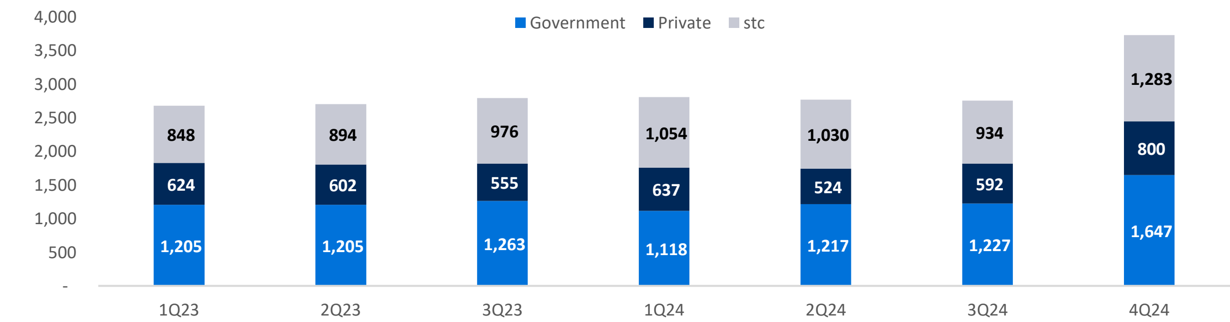

*Source: Bloomberg, anbc Research*

## Investment Thesis

### Healthy backlog (SAR 13 bn) to keep topline growth elevated

Solutions by stc dominates Saudi Arabia's technology sector with a 22.7% market share, while no other player holds a double-digit share. Contrary to the past few quarters, topline grew by 30.1% YoY, taking full year growth to 9.3% YoY. Earlier, the company faced a challenging 9M24, with revenue growing at a slower 2.0% YoY, compared to 18.4% YoY in 9M23 with lower revenue from government clients (-3.0% YoY) representing 42.7% of total revenue. This was largely due to delays in public project initiations and the cyclical nature of government spending.

**Chart 25: Client-wise revenue proportion has remained stagnant**




*Source: Company Data, anbc Research*

Solutions hold a backlog of SAR 13 bn (1.1x of 2024 revenue) as of 2024. The backlog is typically recognized over three years, supporting the topline growth. We anticipate a steady backlog recognition as the company progresses on key milestones in major projects, including the delivery of high-performance computers to Saudi Aramco (5-year contract) and the digital management of parking spaces in Riyadh (10-year contract). Private sector revenue has already started to rise, increasing by 9% YoY in 2024, due to revenue recognition from the services already performed. Solutions also benefits from its parent company, stc, which contributed 35.7% of 2024 revenue and continues to secure contracts. stc's recent digitization contract for giga projects is expected to further expand Solutions' backlog, with anticipated operations management service agreements for the parent company. It is important to note that stc is also the market leader in its respective industry (Telecommunications), holding 73% of the industry in terms of revenue.

| Major Contract – Party | Signing Date | Value (SAR mn) | Duration – Period |
|---|---|---|---|
| Saudi Telecom Company | 21-Apr-25 | 142.4 | 36 months – 3Q25 |
| Sports Boulevard Foundation | 13-Feb-25 | 552.0 | 5 years – 1Q26 |
| Saudi Telecom Company | 10-Dec-25 | 151.2 | 3 years – 1Q25 |
| Saudi Telecom Company | 15-Oct-25 | 309.7 | 24 months – 1Q25 |

*Source: anbc Research*

We believe that government spending will remain a key catalyst, further boosted by Solutions' acquisition of digital government qualification. The accreditation will position the company to gain a strong footprint in public-private partnerships. Furthermore, it enables Solutions to gain contracts on an income-sharing model, which plays a significant role in government digitization. The digital government projects are more frequently awarded and have better margins due to inherent scalability. We expect this to fuel Solutions' backlog and topline to grow between 2024 to 2030f at a 6-Year CAGR of 9.2%, reaching SAR 20.4 bn by 2030f.

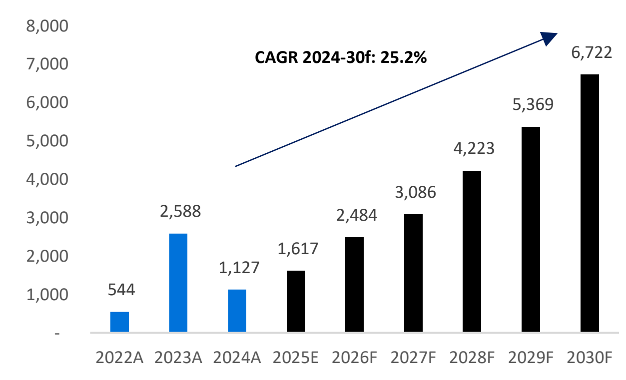
## Market share to withstand despite strong headwinds

The Kingdom is driving investment through its Regional Headquarters Program, incentivizing companies to establish their headquarters locally. In our view, new entrants, backed by global recognition and strong balance sheets, generally offer aggressive discounts to capture market share. Additionally, the fragmented local industry intensifies competition from smaller players. Despite these challenges, Solutions has expanded its market share from 13.0% in 2018 to 22.7% in 2024, driven by diversification into new sectors and inorganic growth through acquisitions.

We expect Solutions to maintain its market leadership, supported by its strong brand identity and backing from stc. The company also holds robust cash reserves (SAR 1.1 bn in 2024), which we anticipate will continue to grow, driven by improved working capital management—evidenced by a decline in Days Sales Outstanding to 123 days in 2024 (down from 144 in 2023) and an increase in Days Payables Outstanding to 142 days in 2024 (up from 128 days in 2023)—alongside rising profitability. This financial strength enables Solutions to seize new opportunities and further consolidate its market share, as demonstrated by its 40% acquisition of Devoteam Middle East in 1Q25.

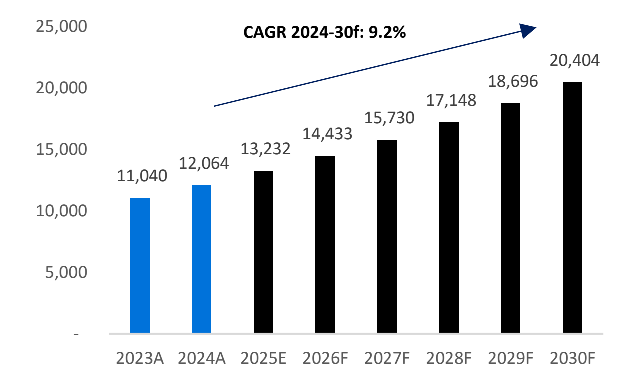
We expect new entrants, both global and local, to expand the overall addressable market while intensifying competition and challenging the market share of established players. Solutions' ability to maintain its share will hinge on competitive pricing, which will, in turn, pressure its margins. We anticipate the company will prioritize market share over short- to medium-term profitability, adopting a strategic approach for long-term stability. As a result, we forecast gross margins to decline by 200bps to 22.5% by 2030f, driven by lower contract pricing and rising salary expenses as the company attracts and retains top talent, increasing the cost of sales. Persistent 'Selling & Marketing' expenses, essential for competing effectively, and 'General & Administrative' costs, driven by maintaining a bench for anticipated contracts, will continue to pressure EBIT and net margins.

**Chart 26: Sufficient cash for inorganic expansions**



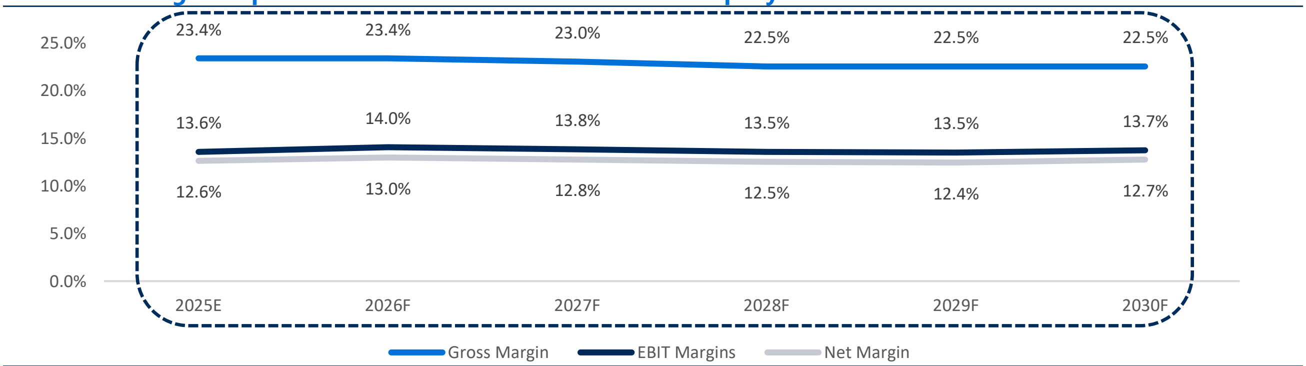

*Source: Company Data, anbc Research*

**Chart 27: Topline to reach SAR 20 bn by 2030f**




*Source: Company Data, anbc Research*

**Chart 28: Margins expected to remain consulate while the company retains its market share**

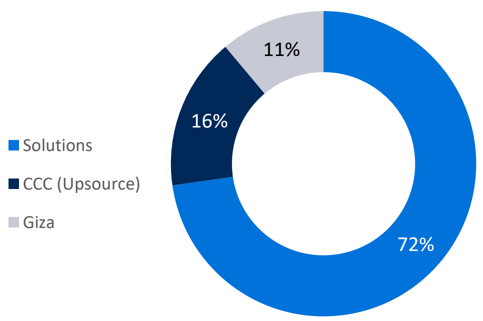



*Source: Company Data, anbc Research*

## Sustainable growth trajectory intact

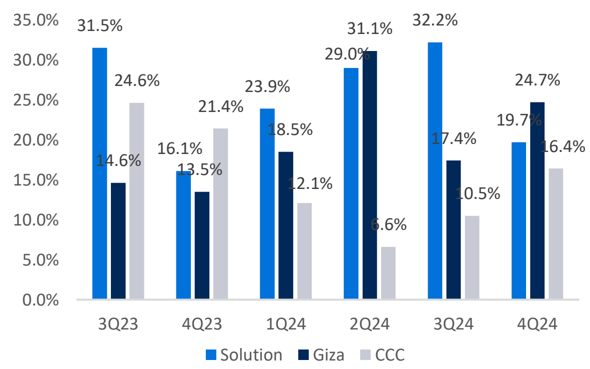
Solutions acquired Giza Systems and CCC (now Upsource) in 2022 and 2023, respectively, aligning with its LEAP strategy to expand and diversify through both organic and inorganic growth. These subsidiaries have become integral to Solutions' operations, contributing 27.0% to total revenue in 2024, up from 20.0% in 2023. Giza operates as a systems integrator and digital transformation provider, while CCC specializes in business process outsourcing (BPO). We believe diversification efforts by entering into new products and new markets through acquisitions such as 'Devoteam's' and further expansions into current verticals through Giza and CCC (Upsource), underscores Solutions' strong balance sheet position (net cash of SAR 335 mn in 2024), enabling it to expand its footprint in the industry. We see Devoteam deal favorably particularly due to its alignment with company's strategy of positioning itself as an AI-first organization.

**Chart 29: Revenue composition by subsidiary (2024)**




*Source: Company Data, anbc Research*

**Chart 30: Solutions (standalone) leads GPM profile**




*Source: Company Data, anbc Research*

Solutions' LEAP strategy will play out as a key value driver creating a sustainable path for growth. We see company's recent focus on PPP (Public-Private partnership) projects in this light. PPP projects create recurring revenue streams thus offering greater revenue visibility. Solutions' is currently working on 3 ongoing projects, namely Remat Al-Riyadh, JedCo and Sports Boulevard Foundation, with 20 more opportunities in leads. We believe Solutions' recent 'DGA Category A' qualification will serve as an impetus to position the company for more opportunities in the public domain. Solutions' focus on melting pot industries, such as Healthcare (transformational IT opportunities due to implementation of DRG) and Sports (upcoming mega events such as FIFA 2034), is rightly aligned with Kingdom's medium to long term growth story.

**Solution's LEAP 2.0 strategy focuses on strengthening the core business**

| L | E | A | P |
|---|---|---|---|
| Lead through service excellence | Empower business growth and diversification | Achieve excellence in customer engagements | Promote efficiencies and sustainability |

*Source: anbc Research*

Solutions also operate in the digital segment, which remains relatively small, contributing 16.0% of total revenue in 2024. However, we see this as a key driver of optimized growth, given the higher-margin nature of digital services due to their scalability. With cloud services in a hyper-growth phase in the Kingdom, expanding in this space could provide Solutions with an early-mover advantage.

## Valuation

We have used a blended approach to value Solutions, assigning equal weight to DCF and multiple-based valuation. The yielded target prices of SAR 350/share and SAR 319/share, respectively, lead to a final target price of SAR 334/share, implying a capital upside of 21.9%. We have an 'Overweight' rating on the scrip as we believe company's AI-first strategy, coupled with strong balance sheet to support inorganic expansions, positions it well for growth. We believe that current 2025e P/E of 19.8x reflects an attractive entry point.

| SAR mn | anbc Estimate 2025E | Consensus 2025F | anbc Estimate 2026F | Consensus 2026F | anbc Estimate 2027F | Consensus 2027F |
|---|---|---|---|---|---|---|
| Revenue | 13,232 | 13,149 | 14,433 | 14,355 | 15,730 | 15,509 |
| Gross Margin | 23.35% | 23.38% | 23.35% | 23.57% | 23.00% | 23.64% |
| EBITDA | 2,087 | 2,086 | 2,331 | 2,312 | 2,491 | 2,532 |
| Net Income | 1,675 | 1,656 | 1,884 | 1,838 | 2,028 | 1,997 |
| Net Margin | 12.60% | 12.59% | 12.96% | 12.80% | 12.78% | 12.88% |
| EPS | 13.9 | 13.8 | 15.6 | 15.2 | 16.7 | 16.6 |

*Source: anbc Research, Bloomberg*

### DCF Valuation

We used an FCFF-based model, applying a beta of 0.9, a risk-free rate of 5.0%, and a market risk premium of 5.2%, resulting in a cost of equity of 9.7%. Incorporating a cost of debt of 8.9%, we derived a weighted average cost of capital (WACC) of 9.6%

| SAR mn | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|
| FCFF | 1,766 | 2,038 | 2,122 | 2,209 | 2,536 | 3,002 |
| Terminal Value | | | | | | 55,703 |
| FCFF + Terminal | 1,766 | 2,038 | 2,122 | 2,209 | 2,536 | 58,706 |
| **Discounted FCFF** | **1,611** | **1,697** | **1,611** | **1,531** | **1,603** | **33,860** |

| | |
|---|---|
| Enterprise Value | 41,913 |
| Cash | 886 |
| Debt | (814) |
| Equity Value | 41,985 |
| **Target Price** | **350** |

*Source: anbc Research*

## Sensitivity Analysis on DCF Valuation

| | | Growth rate | | | | |
|---|---|---|---|---|---|---|
| WACC | | 3.0% | 3.5% | 4.0% | 4.5% | 5.0% |
| | 7.6% | 448 | 494 | 553 | 630 | 737 |
| | 8.6% | 365 | 394 | 429 | 473 | 529 |
| | 9.6% | 307 | 327 | 350 | 378 | 411 |
| | 10.6% | 265 | 279 | 295 | 313 | 336 |
| | 11.6% | 232 | 242 | 254 | 268 | 283 |

*Source: anbc Research*

## Relative Valuation

For our EV/EBITDA multiple (18.2x), we have taken an average multiple of Solutions, including local and global peers from other emerging markets that operate in similar lines of business, i.e., connectivity and integration. Using forward EBITDA (2025e) of SAR 2,087 mn, we arrived at our target price of SAR 319/share.

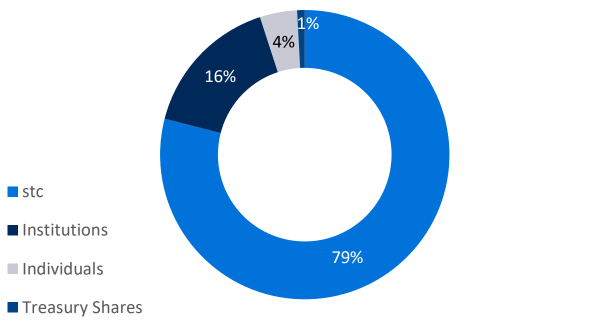
| Peer | EV/EBITDA |
|---|---|
| 2P | 24.2 |
| Elm | 44.2 |
| Samsung SDS | 3.4 |
| Net One Systems | 14.0 |
| Omantel ICT | 5.4 |
| **Target Multiple** | **18.2** |
| EBITDA (SAR mn) | 2,087 |
| EV (SAR mn) | 38,077 |
| Debt (SAR mn) | 735 |
| Cash (SAR mn) | 886 |
| **Target Price** | **319** |

*Source: anbc Research*

## Company Overview

Solutions by stc is the leading ICT services provider in Saudi Arabia, holding a dominant 22.7% market share in an otherwise fragmented industry. Established in 2003 in Riyadh and listed on Tadawul in 2021, the company offers a broad range of services, including connectivity, system integration, business outsourcing, managed services, cloud solutions, IoT, digital services, and cybersecurity integration. Solutions serve a diverse client base across industries such as healthcare, real estate, banking, and telecom. stc owns a 79.0% stake in the company and contributed 35.7% of its revenue in 2024. The company operates sales and service delivery offices in 5 cities in the Kingdom and in Cairo (Egypt) through its subsidiary 'Giza Systems'.

**Chart 31: Shareholding by Type**




*Source: Company Data, anbc Research*

**Chart 32: Footprint in KSA and beyond**

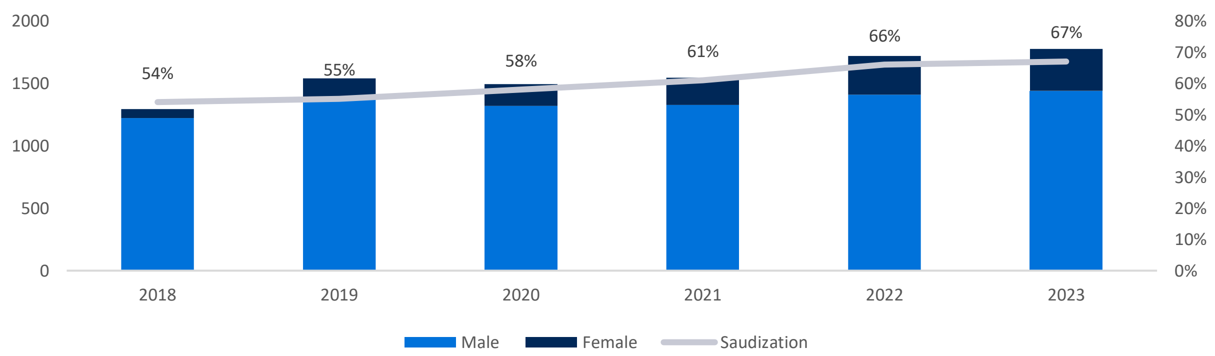

*Source: Company Data, anbc Research*

Solutions has accelerated its growth through strategic acquisitions, aiming to diversify its offerings and strengthen its market position. The company now holds a controlling stake in four entities, classifying them as subsidiaries. These acquisitions have expanded Solutions' presence in the system Integration segment while also enabling entry into new domains such as digital consultancy and artificial intelligence.

| Subsidiary | Percentage Ownership | Main Business | Country of Operation |
|---|---|---|---|
| STCS for IT | 100% | IT | Egypt |
| Giza Systems Company | 88.19% | IT & System Integrator | Egypt |
| Contact Center Company (CCC) | 100% | Contact Services | KSA |
| Devoteam Middle East | 40% | Digital Transformation | UAE |

*Source: Company Data, anbc Research*

**Chart 33: Number of employees have grown consistently with rising Saudization**




*Source: Company Data, anbc Research*

## Financial Overview

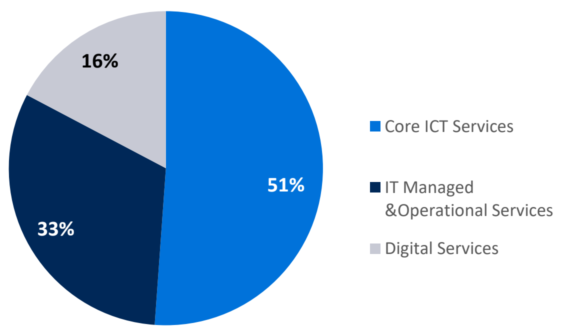
The company operates through 3 key segments: Core ICT Services', 'IT Managed and Operational Services' and 'Digital Services'.

| Segment | Description |
|---|---|
| Core ICT Services | System integration services, including network, infrastructure, and application solutions, alongside secure business connectivity via dedicated internet and satellite services. |
| IT Managed Services | Managed services for end-to-end IT infrastructure management and BPO solutions in HR, customer care, and shared services by leveraging automation. |
| Digital Services | Cloud, digital, and cybersecurity services, covering data centers, IaaS, PaaS, SaaS, IoT, digital transformation, and end-to-end security solutions. |

*Source: Company Data, anbc Research*

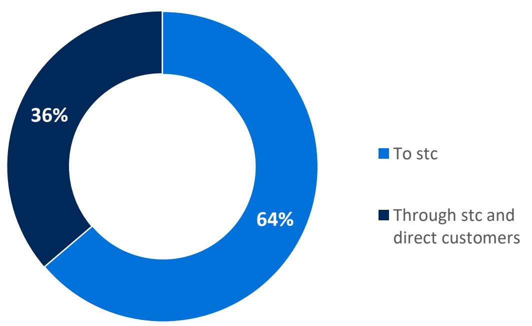
The total revenue has grown by a 5-Year CAGR of 18.1% between 2019-2024 to reach SAR 12 bn. 'Core ICT Services' accounted for 51.3% (2024) of the topline, and its revenue has grown with a 5-Year CAGR of 15.9% between 2019-2024. 'IT Managed & Operational Services' has outpaced other segments, recording a CAGR of 27.9% between the same period and contributed 32.7% (2024) to the overall revenue. Solutions has successfully diversified its revenue base beyond stc while benefiting from its backing. As a result, revenue from stc, as a percentage of total revenue, fell from 39.2% in 2019 to 35.7% in 2024, after bottoming out at 28.4% in 2021. Revenue from direct clients or other clients through stc grew by a 5-Year CAGR of 19.4% between 2019 and 2024, surpassing stc-related growth of 15.8% during this period.

**Chart 34: Revenue distribution - Segment**




*Source: Company Data, anbc Research*

**Chart 35: Revenue distribution – Customer type**




*Source: Company Data, anbc Research*

## Financial Summary

SAR mn

| Income statement | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F | CAGR 2024-2031F |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 11,040 | 12,064 | 13,232 | 14,433 | 15,730 | 17,148 | 18,696 | 20,404 | 22,244 | 9.1% |
| Cost of Revenue | (8,443) | (9,281) | (10,143) | (11,063) | (12,112) | (13,289) | (14,490) | (15,813) | (17,350) | 9.3% |
| **Gross Profit** | **2,598** | **2,783** | **3,090** | **3,370** | **3,618** | **3,858** | **4,207** | **4,591** | **4,894** | **8.4%** |
| Operating Expenses | (1,211) | (1,122) | (1,295) | (1,344) | (1,446) | (1,537) | (1,687) | (1,796) | (1,903) | 7.8% |
| **EBIT** | **1,387** | **1,661** | **1,795** | **2,026** | **2,172** | **2,321** | **2,520** | **2,795** | **2,991** | **8.8%** |
| Dep & Amort | 282 | 287 | 292 | 304 | 320 | 336 | 357 | 381 | 409 | 5.2% |
| **EBIDTA** | **1,669** | **1,948** | **2,087** | **2,331** | **2,491** | **2,657** | **2,877** | **3,177** | **3,400** | **8.3%** |
| Finance Cost | (76) | (74) | (67) | (61) | (39) | (19) | (19) | (19) | (19) | -17.6% |
| **Profit Before Tax** | **1,405** | **1,642** | **1,850** | **2,068** | **2,227** | **2,392** | **2,604** | **2,914** | **3,134** | **9.7%** |
| Zakat Tax | (210) | (39) | (182) | (197) | (216) | (238) | (269) | (306) | (346) | 36.6% |
| **PAT** | **1,195** | **1,603** | **1,668** | **1,871** | **2,011** | **2,154** | **2,335** | **2,608** | **2,788** | **8.2%** |
| Number of Share | 120 | 120 | 120 | 120 | 120 | 120 | 120 | 120 | 120 | |
| EPS | **9.9** | **13.3** | **13.9** | **15.6** | **16.7** | **17.9** | **19.4** | **21.7** | | |

| Balance Sheet | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fixed Assets | 1,066 | 1,072 | 941 | 812 | 692 | 568 | 450 | 334 | 220 | -20.3% |
| Other Non-Current Assets | 154 | 609 | 604 | 610 | 617 | 624 | 632 | 640 | 649 | 0.9% |
| **Non-current assets** | **1,220** | **1,681** | **1,545** | **1,422** | **1,309** | **1,193** | **1,082** | **974** | **868** | **-9.0%** |
| Trade receivables | 4,364 | 3,759 | 4,194 | 4,417 | 4,653 | 4,755 | 5,185 | 5,487 | 5,640 | 6.0% |
| Cash and Cash equivalents | 2,588 | 1,127 | 886 | 1,468 | 1,766 | 2,579 | 3,375 | 4,336 | 5,658 | 25.9% |
| Other Current Assets | 3,344 | 5,473 | 5,511 | 5,777 | 5,868 | 6,167 | 6,290 | 6,531 | 6,696 | 2.9% |
| **Current Asset** | **10,296** | **10,359** | **10,590** | **11,662** | **12,287** | **13,502** | **14,850** | **16,354** | **17,995** | **8.2%** |
| **Total Assets** | **11,516** | **12,040** | **12,135** | **13,084** | **13,596** | **14,695** | **15,932** | **17,328** | **18,863** | **6.6%** |
| **Total Equity** | **3,353** | **4,030** | **4,263** | **5,014** | **5,821** | **6,686** | **7,623** | **8,670** | **9,790** | **13.5%** |
| Loan and borrowings | 499 | 642 | 642 | 143 | 143 | 143 | 143 | 143 | 143 | -19.3% |
| Lease liabilities | 19 | 57 | 47 | 39 | 35 | 30 | 27 | 25 | 25 | -11.0% |
| Other Non-Current Liabilities | 450 | 628 | 628 | 628 | 628 | 628 | 628 | 628 | 628 | 0.0% |
| **Non-current liabilities** | **968** | **1,328** | **1,317** | **810** | **806** | **801** | **798** | **796** | **796** | **-7.0%** |
| Trade payables | 3,315 | 3,887 | 3,710 | 3,863 | 4,011 | 4,182 | 4,401 | 4,657 | 4,960 | 3.5% |
| Short-term Borrowings | 211 | 93 | 93 | 592 | 93 | 93 | 93 | 93 | 93 | 0.0% |
| Other current Liabilities | 3,669 | 2,703 | 2,752 | 2,804 | 2,865 | 2,933 | 3,017 | 3,112 | 3,224 | 2.5% |
| **Current Liabilities** | **7,195** | **6,683** | **6,555** | **7,260** | **6,969** | **7,208** | **7,511** | **7,862** | **8,277** | **3.1%** |
| **Total liabilities and equity** | **11,516** | **12,040** | **12,135** | **13,084** | **13,596** | **14,695** | **15,932** | **17,328** | **18,863** | **6.6%** |

*Source: Company Data, anbc Research*

## Key Ratios

| Valuation Ratios | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| EPS | 9.9 | 13.3 | 13.9 | 15.6 | 16.7 | 17.9 | 19.4 | 21.7 | 23.2 |
| DPS | 6.0 | 9.9 | 8.3 | 9.3 | 10.0 | 10.7 | 11.6 | 13.0 | 13.9 |
| BVPS | 27.9 | 33.6 | 35.5 | 41.8 | 48.5 | 55.7 | 63.5 | 72.3 | 81.6 |
| PE | 27.6 | 20.6 | 19.8 | 17.6 | 16.4 | 15.3 | 14.1 | 12.6 | 11.8 |
| Div Yield | 2.2% | 3.6% | 3.0% | 3.4% | 3.7% | 3.9% | 4.2% | 4.7% | 5.1% |
| PBV | 9.8 | 8.2 | 7.7 | 6.6 | 5.7 | 4.9 | 4.3 | 3.8 | 3.4 |
| EV/Sales | 2.8 | 2.7 | 2.5 | 2.2 | 2.0 | 1.8 | 1.6 | 1.4 | 1.2 |
| Price / Sales | 3.0 | 2.7 | 2.5 | 2.3 | 2.1 | 1.9 | 1.8 | 1.6 | 1.5 |
| EV/EBITDA | 18.6 | 16.7 | 15.7 | 13.8 | 12.6 | 11.5 | 10.4 | 9.1 | 8.1 |

| Margins | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Gross Margin | 23.5% | 23.1% | 23.4% | 23.4% | 23.0% | 22.5% | 22.5% | 22.5% | 22.0% |
| EBITDA Margin | 15.1% | 16.1% | 15.8% | 16.1% | 15.8% | 15.5% | 15.4% | 15.6% | 15.3% |
| Operating Margin | 12.6% | 13.8% | 13.6% | 14.0% | 13.8% | 13.5% | 13.5% | 13.7% | 13.4% |
| Net Margin | 10.8% | 13.3% | 12.6% | 13.0% | 12.8% | 12.6% | 12.5% | 12.8% | 12.5% |

| Returns | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| ROA | 11.0% | 13.6% | 13.8% | 14.8% | 15.1% | 15.2% | 15.2% | 15.7% | 15.4% |
| ROE | 38.7% | 43.4% | 40.2% | 40.3% | 37.1% | 34.4% | 32.6% | 32.0% | 30.2% |

| Health | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Debt to Asset | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt to Equity | 0.2 | 0.2 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt to Capital | 0.2 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/ Interest | 18.2 | 22.6 | 26.6 | 33.2 | 56.3 | 121.1 | 132.7 | 147.8 | 158.4 |

*Source: Company Data, anbc Research*

INITIATION OF COVERAGE

# Al Moammar Information Systems Co.

We initiate coverage on Al Moammar Information Systems Co. (MIS) with an 'Overweight' rating and a price target of SAR 157 per share. As a leading player in emerging technologies in the Kingdom, MIS has strong exposure to data centers, AI, IoT, and Extended Reality (ER). The company has already deployed 32MW of its planned 120MW data center capacity, with colocation demand remaining strong. We anticipate full deployment by 2030f, though an earlier completion remains a possibility. Revenue growth is expected to accelerate, with a projected 10.8% CAGR between 2024-2030f. Meanwhile, we see stable growth across MIS's other segments, forecasting a revenue CAGR of 5.0% (ex-data center) over the same period. We believe the company's venture into HPC GPU will serve as a key catalyst, alongside the evolving landscape for its subsidiaries, particularly MIS Pay's BNPL segment, which stands to benefit from a normalization in interest rates.

**Ramp-up in data center capacity to catalyze revenue.** MIS has deployed 32MW out of its planned 120MW capacity, ahead of schedule; we conservatively estimate full deployment by 2030f. Despite a 28.0% YoY revenue decline in 2024, we project a 6-year CAGR of 18.4% (2024-2030f) for data center revenue, surpassing SAR 1 bn by 2028. Strong colocation demand, driven by globally low power tariffs in Saudi Arabia, and faster revenue recognition from existing contracts as MIS delivers contracted units, will be key growth catalysts.

**Stable growth across other segments to continue.** Revenue (excluding data centers) grew at a 3-year CAGR of 4.9% from 2021 to 2024. By April '25, MIS' backlog reached SAR 3.7 bn (3.1x of 2024 revenue), with newly awarded projects totaling SAR 2.9 bn. The backlog continues to expand with new projects across all segments. We forecast revenue (ex-data center) to grow at a 6-year CAGR of 4.7% between 2024 and 2030f, driven by the company's strategic alignment with emerging technologies and the accelerating growth of its subsidiaries, supported by a more favorable environment for fintech and health-tech ventures.

**Profitability to improve with scale and ECL moderation.** MIS' margins bottomed out in 2023 due to the expansions in data centers and subsidiaries, which put pressure on gross margins, alongside a change in the ECL model that depressed the operating margin, resulting in both being recorded at 16.8% and 4.2%, respectively. We expect improving utilization of data centers and increasing users on subsidiaries' digital platforms to drive economies of scale. This will translate to cost savings, which along with, the absence of abnormal ECL impacts should boost gross and EBIT margins to an average of 22.1% and 10.8%, respectively, between 2024 and 2030f.

**Valuation:** Our Dec-25 TP of SAR 157/share is based on a blended valuation, with equal weight assigned to DCF (TP SAR 159/share) and relative valuation (TP SAR 155/share).

**Risks**: Increased competition from local telecom players in the data center market could delay the deployment of MIS's planned capacity. The company may also face challenges in passing on costs as projected, resulting in lower margins than expected.

### RATING SUMMARY — Overweight

| | |
|---|---|
| Target Price (SR) | 157 |
| Upside/Downside | 16% |
| Div. Yield (%) | 2% |
| Total Exp. Return | 18% |

*Last Price as of 19th May, 2025*
*Source: Company Data, anbc Research*

### ISSUER INFORMATION

| | |
|---|---|
| Bloomberg Code | MIS AB |
| Last Price (SAR) | 136.0 |
| No of Shares (mn) | 30 |
| Market Cap bn (SR/USD) | 4.1/1.1 |
| 52-week High / Low (SR) | 207/118 |
| 12-month ADTV (mn) (SR/USD) | 14.3/3.8 |
| Free Float (%) | 50.9 |
| Foreign Holdings (%) | 5.2 |

*Last Price as of 19th May, 2025*

### VALUATIONS

| | 2024 | 2025e | 2026f | 2027f |
|---|---|---|---|---|
| EPS (SAR) | 4.2 | 2.9 | 4.0 | 5.1 |
| PER (x) | 32.7 | 47.1 | 33.7 | 26.7 |
| PBV (x) | 9.6 | 11.2 | 9.9 | 8.6 |
| DPS (SR) | 3.2 | 1.7 | 2.4 | 3.1 |
| Div. Yield (%) | 2.4 | 1.3 | 1.8 | 2.2 |
| RoAE (%) | 35.0 | 22.0 | 31.1 | 34.5 |
| RoAA (%) | 5.6 | 3.4 | 4.6 | 5.6 |

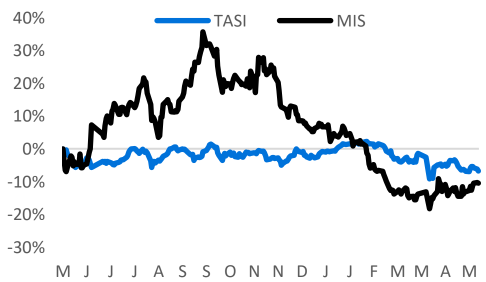
*Source: Company Data, anbc Research*

### FINANCIALS (SAR bn)

| | 2024 | 2025e | 2026f | 2027f |
|---|---|---|---|---|
| Revenue | 1.2 | 1.4 | 1.5 | 1.7 |
| Gross Profit | 0.3 | 0.3 | 0.3 | 0.4 |
| Operating Income | 0.1 | 0.1 | 0.2 | 0.2 |
| EBITDA | 0.1 | 0.1 | 0.2 | 0.2 |
| Net Income | 0.1 | 0.1 | 0.1 | 0.2 |
| GP Margin (%) | 21.3 | 21.5 | 22.0 | 22.0 |
| EBIT Margin (%) | 10.0 | 9.8 | 10.8 | 10.9 |
| EBITDA Margin (%) | 10.6 | 10.4 | 11.4 | 11.5 |
| Net Margin (%) | 10.3 | 6.4 | 8.0 | 9.0 |

*Source: Company Data, anbc Research*

### RELATIVE PRICE PERFORMANCE



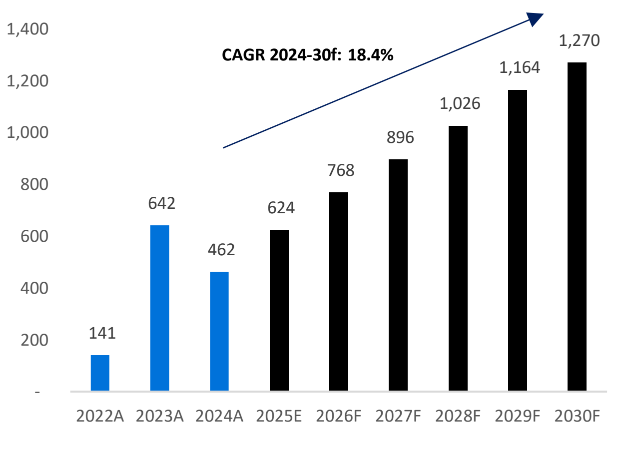

*Source: Bloomberg, anbc Research*

## Investment Thesis

### Ramp-up in data center capacity to catalyze revenue

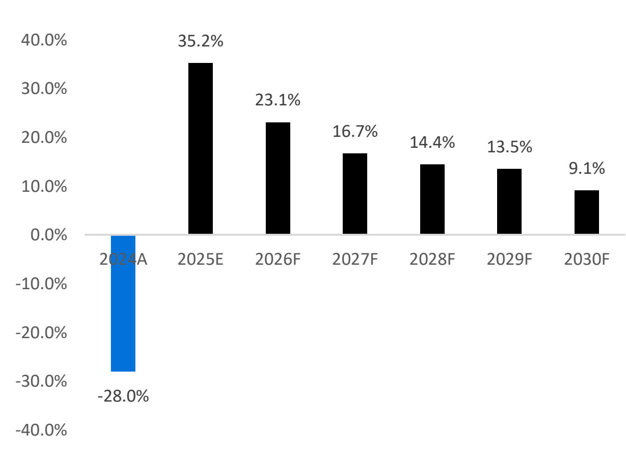
MIS initially planned to develop 24MW of capacity across six Tier III data centers, scalable up to 120MW by 2030f under Saudi Data Center Fund. The SAR 1.5 billion, 15-year contract requires MIS to provide ongoing O&M services for the facilities throughout the agreement period, with the possibility of extension. Notably, the original target has already been significantly surpassed, with 32MW brought online by 2024. We expect full deployment by 2030f, though an earlier completion remains a key upside risk. MIS holds a 10% stake alongside Saudi Fransi Capital and is responsible for developing, designing, and managing the facilities. Data center (DC) revenue declined by 28.0% YoY in 2024, primarily due to capacity upgrades that delayed the accommodation of units. However, we expect data center revenue to grow at a 6-year CAGR of 18.4% from 2024 to 2030f, driven by strong colocation demand.

**Chart 36: DC revenue to cross SAR 1.2 bn by 2030f**




*Source: Company Data, anbc Research; DC: Data center*

**Chart 37: Growth in DC revenue to resume**

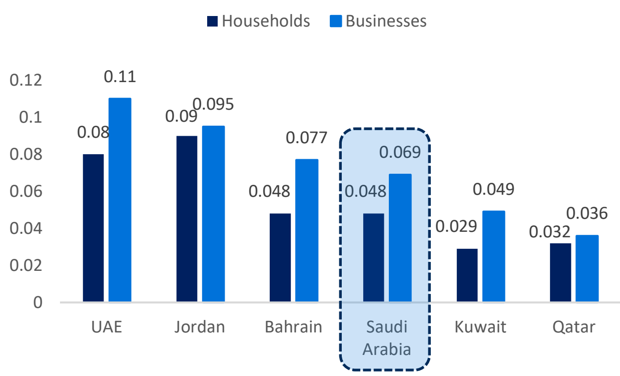



*Source: Company Data, anbc Research; DC: Data center*

MIS and Saudi Fransi Capital established the 'Saudi Data Center Fund' in 2023, valued at SAR 1.5 bn, with SAR 1.3 bn already allocated for facility development. The demand is peaking in the Kingdom, with an increasing focus on cloud servers for data protection, along with the rising influx of international cloud computing companies such as Microsoft and AWS. Over 540 global companies have opened regional headquarters in the country, far exceeding the target of 500 corporates by 2030, further underlining the upcoming opportunities in cloud hosting.

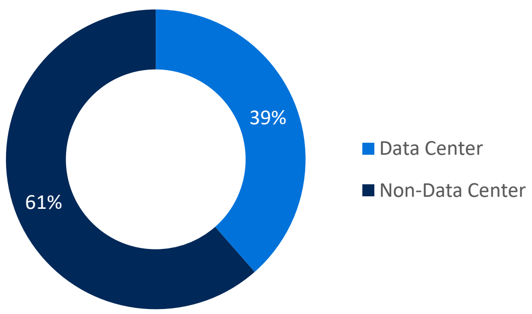
We believe MIS will be a key beneficiary of the country's competitive energy tariffs. The Kingdom, with its abundant oil reserves, charges a commercial tariff of $0.069/kWh or SAR 0.26/kWh (2023), the third-lowest regionally, following Kuwait and Qatar and also one of the most favorable energy tariffs ($0.048/kWh or SAR 0.18/kWh for cloud computing and households) in the world. Lower energy cost will enable the country to offer accommodation at globally competitive low prices, thus positioning it to gain significant market share in the growing industry.

**Chart 38: 3rd lowest power tariff ($/kWh) in region**




*Source: Twimbit, anbc Research*

**Chart 39: Revenue division - 2024**



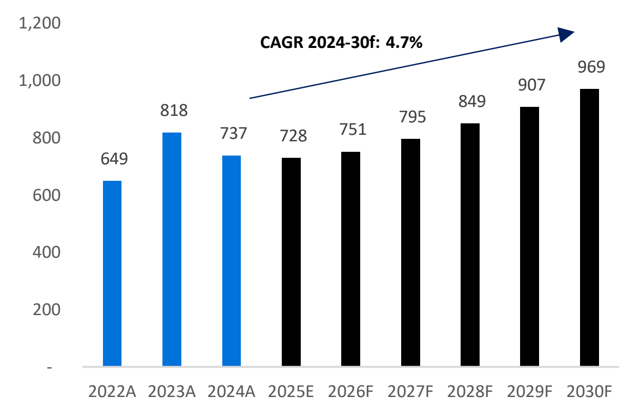

*Source: Company Data, anbc Research*

## Stable growth across other segments to continue

MIS has strategically focused on diversifying its revenue streams while keeping its reliance on data center services in check. Revenue from non-data center segments grew at a CAGR of 4.9% between 2021 and 2024, driven primarily by the Operation and Maintenance segment, which expanded at an impressive CAGR of 21.3% over the same period. MIS's proactive efforts have allowed it to reduce reliance on commoditized segments such as IT Security and IT Solutions, which tend to be highly competitive with limited opportunities for differentiation, thereby constraining profit margins. Additionally, we see strong alignment in MIS's overall service portfolio with cloud and data center solutions, where it benefits from complementary synergies and a stronger value proposition.

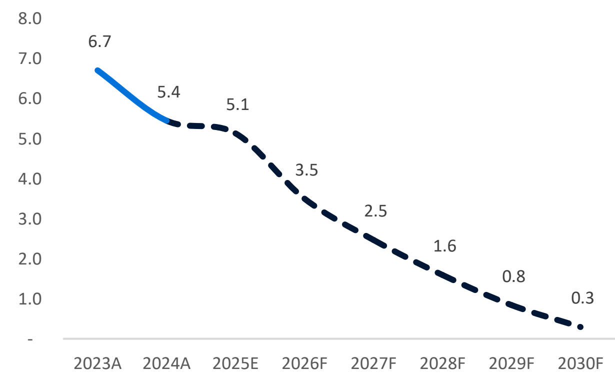
We forecast the other segment revenue to grow at a CAGR of 4.7% between 2024-2030f, led by the highest contribution from 'Operation & Maintenance' (CAGR 7.0% in the same period). We are optimistic about the segment, as we believe there is an increased opportunity in the space under Vision 2030 initiatives. The digitization of public and private processes, and their upgradation and continuity, will be a key catalyst, boosting the segment. MIS has steadily increased the size of its order book, which stood at SAR 3.7 bn by end of 2024.

**Chart 40: Non-DC sales to rise, but slowly (SAR mn)**




*Source: Company Data, anbc Research; DC: Data center*

**Chart 41: Net debt/EBITDA expected to improve**




*Source: Company Data, anbc Research*

MIS's ventures into fintech, such as MIS Pay and MIS Home, are well-positioned to benefit from the expected downward movement in interest rates. We believe that the Buy Now, Pay Later (BNPL) segment will be a major growth driver, especially given the platform's strong early traction, having already onboarded 90,000 clients by 1Q24. Moreover, MIS's strategic investments in Digital Bank (SAR 14.3 mn) and ANTHROBIC (SAR 37.5 mn) has moved the company towards artificial intelligence and other emerging technologies, further enhancing its long-term growth prospects.

MIS is also developing high-performance computing (HPC) infrastructure that will leverage the latest graphics processing units (GPUs). This initiative will enable the company to work on next-generation machine learning applications, providing MIS with a significant first-mover advantage in this space. By structuring the service as a joint venture (JV) with BSF, MIS can focus on its core competencies, with BSF handling the financial backing and development of the growth strategy. We see MIS as uniquely positioned to capitalize on the rapidly evolving technology landscape, with the Kingdom's business-friendly environment acting as a key catalyst for its success.

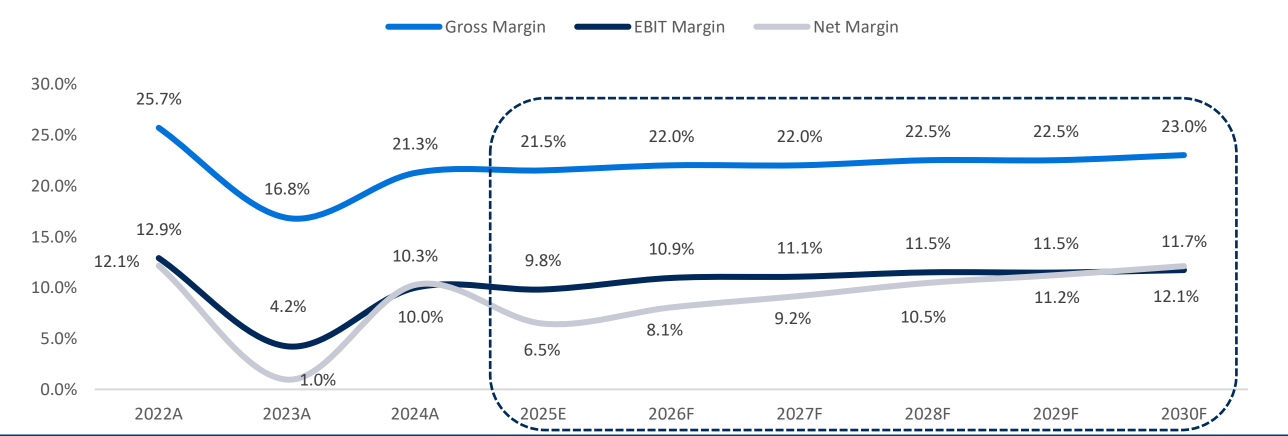
## Profitability to improve with scale and ECL moderation

MIS's gross margins peaked at 26.1% in 2021 before dropping sharply to 16.8% in 2023. This decline was primarily driven by a 146.1% YoY surge in Equipment and Software-related direct costs, which we attribute to Phase 1 of data center expansion. However, we expect the simultaneous increase in revenue to help offset rising costs, which are also projected to stabilize, given that a significant portion of these expenses were likely one-off. We forecast a gradual recovery in gross margins to 23.0% by 2030f, still 282 bps below the 2020-2022 average of 25.82%. It is worth noting that a faster-than-expected margin recovery presents an upside risk to our projections.

MIS recorded a 51.4x surge in Expected Credit Losses (ECL) in 2023, which significantly dragged its operating margin down to 4.23%, well below its historical average of 13.2%. This sharp increase was primarily driven by a change in the accounting model, most likely a one-off. While we anticipate a rise in selling & marketing and general & administrative (G&A) expenses, driven by increased marketing efforts for new services and higher payroll costs due to new hires, we still forecast an expansion in operating margins, peaking at 11.4% in 2030f.

MIS has historically maintained a balanced capital structure, with an almost equal mix of equity and debt, except in 2023, when its debt-to-equity ratio spiked to 2.2x. This increase was primarily driven by short-term facilities secured to finance working capital requirements. We expect the debt-to-equity ratio to normalize to an average of 1.1x between 2025e and 2030f, below its historical average of 1.50x, as rising cash reserves enable the company to self-fund its working capital needs. This deleveraging should help ease financing costs, contributing to a slight increase in net margins to an average of 9.8%.

**Chart 42: Margins are set to recover, providing support to bottom line**




*Source: Company Data, anbc Research*

## Valuation

We have used a blended approach to value MIS, assigning equal weight to DCF and multiple-based valuation. This yielded target prices of SAR 159/share and SAR 155/share, respectively, resulting in a final target price of SAR 157/share, implying a capital upside of 15.5%. We have an 'Overweight' rating on the scrip as we expect the company's core and data centers segment to thrive in the medium to long term.

| | anbc Estimate | | |
|---|---|---|---|
| **SAR mn** | **2025E** | **2026F** | **2027F** |
| Revenue | 1,353 | 1,519 | 1,691 |
| Gross Margin | 21.5% | 22.0% | 22.0% |
| EBITDA | 140 | 174 | 194 |
| Net Income | 87 | 121 | 153 |
| Net Margin | 6.4% | 8.0% | 9.0% |
| EPS | 2.9 | 4.0 | 5.1 |

*Source: anbc Research*

### DCF Valuation

We used an FCFF-based model, applying a beta of 0.9, a risk-free rate of 5.0%, and a market risk premium of 5.2%, resulting in a cost of equity of 9.4%. Incorporating a cost of debt of 8.8%, we derived a weighted average cost of capital (WACC) of 8.9%.

| SAR mn | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|
| FCFF | 247 | 273 | 285 | 320 | 312 | 354 |
| Terminal Value | | | | | | 7,563 |
| FCFF + Terminal | 247 | 273 | 285 | 320 | 312 | 7,918 |
| **Discounted FCFF** | **227** | **230** | **221** | **228** | **204** | **4,384** |

| | |
|---|---|
| Enterprise Value | 5,493 |
| Cash | 37 |
| Debt | (755) |
| Equity Value | 4,775 |
| **Target Price** | **159** |

*Source: anbc Research*

## Sensitivity Analysis on DCF Valuation

| | | Growth rate | | | | |
|---|---|---|---|---|---|---|
| | | 3.0% | 3.5% | 4.0% | 4.5% | 5.0% |
| WACC | 7.0% | 220 | 251 | 292 | 350 | 439 |
| | 8.0% | 168 | 186 | 208 | 237 | 276 |
| | 9.0% | 134 | 146 | 159 | 176 | 197 |
| | 10.0% | 110 | 118 | 127 | 138 | 150 |
| | 11.0% | 92 | 98 | 104 | 112 | 120 |

## Relative Valuation

For our EV/EBITDA multiple (38.3x), we have taken an average multiple of MIS's global data center peers from both developed and emerging markets. Using forward EBITDA (2025e) of SAR 140 mn, we arrived at our target price of SAR 155/share.

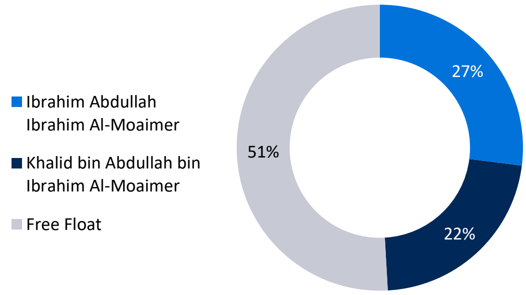
| Peer | EV/EBITDA |
|---|---|
| Elm | 44.2 |
| NextDC | 41.6 |
| Keppel DC | 29.2 |
| **Target Multiple** | **38.3** |
| EBITDA (SAR mn) | 140 |
| EV (SAR mn) | 5,372 |
| Cash (SAR mn) | 37 |
| Debt (SAR mn) | 755 |
| ***Target Price*** | ***155*** |

*Source: anbc Research*

## Company Overview

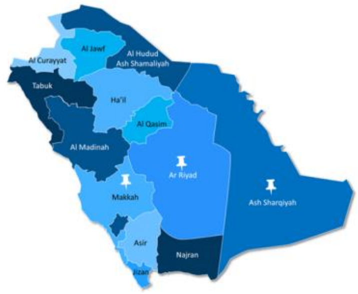
Al Moammar Information Systems Co. (MIS), founded in 1979 and headquartered in Riyadh, is a leading IT service provider specializing in emerging technologies such as data centers, cloud computing, and artificial intelligence. The company is owned by founding shareholders Mr. Ibrahim Abdullah Ibrahim Al-Moammar (27.0%) and Mr. Khalid bin Abdullah bin Ibrahim Al-Moammar (22.1%), while the remaining 50.9% is publicly traded.

**Chart 43: Shareholding structure**




*Source: Company Data, anbc Research*

**Chart 44: MIS locations in KSA**




*Source: Company Data, anbc Research*

MIS operates 6 tier III data centers in 2 locations, Dammam and Riyadh, in conjunction with Saudi Fransi Capital. Tier III data centers are an optimal mix between economical pricing and performance efficiency, which is driving the rising colocation demand for the company.

| | Tier 1 | Tier 2 | Tier 3 | Tier 4 |
|---|---|---|---|---|
| Uptime Guarantee | 99.671% | 99.741% | 99.982% | 99.995% |
| Downtime/Year | <28.8 hrs | <22 hrs | <1.6 hrs | <26.3 mins |
| Component Redundancy | None | Partial Backup | Full Backup | Double System + Backup |

*Source: anbc Research, Uptime Institute*

MIS holds businesses in Saudi Arabia, Lebanon, and the British Virgin Islands through its associates and subsidiaries, providing services in finance, cloud, data, and AI.

| Subsidiaries | Description |
|---|---|
| MIS FORWRD | A technology company that helps clients nurture bold ideas and build innovative technology solutions. |
| EMS | Excellence Medical Systems (EMS), the medical solutions arm of MIS, delivers specialized healthcare systems designed for efficiency, reliability, and industry compliance. |
| edaratgroup TECHNOLOGY CONSULTANTS | Edarat, listed on Tadawul, provides engineering consultancy for technological infrastructure and cloud services. |
| MIS pay | MISPay is a fintech company that offers BNPL solutions, serving users and merchants across sectors via prominent retail partnerships. |

*Source: anbc Research*

## Financial Overview

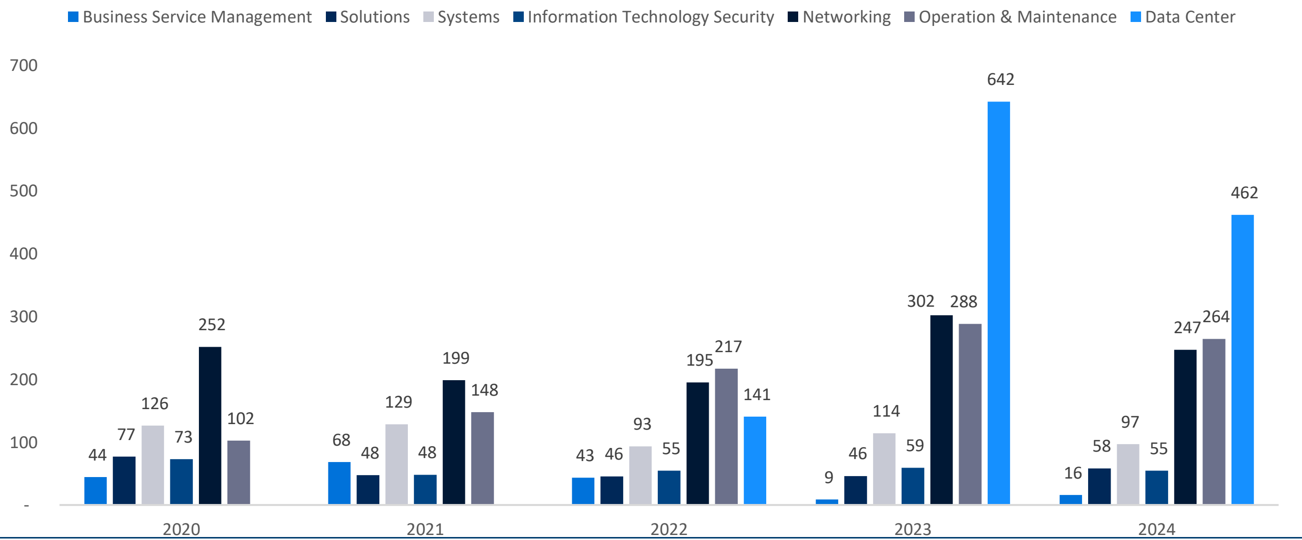
MIS classifies revenue across seven business verticals, with its Data Center unit emerging in 2022 and surpassing the Operation & Maintenance unit as the leading revenue contributor in 2023.

| Segment | Description |
|---|---|
| Business Service Mgmt. | Provides software for business service management, data center optimization, and contact center solutions. |
| Solutions | Builds and equips GIS centers, offering infrastructure, data, training, and applications. |
| Systems | Provides technological and business expertise to turn possibilities into real business solutions. |
| IT Security | Provides comprehensive solutions for developing, deploying, and maintaining information security. |
| Networking | Builds efficient, cost-effective networks and communication solutions using leading ICT technologies. |
| O&M | Provides project management support for effective IT infrastructure implementation. |
| Data Center | Houses servers, networking equipment, and storage systems for data processing and management. |

*Source: Company Data, anbc Research*

MIS achieved a 4-year revenue CAGR of 15.8% (2020-2024), despite a 5.3% YoY decline in 2021 post-COVID and 16.9% YoY decline in 2024 due to IFRS15 adoption. Growth was driven by 84.9% YoY rise in revenue in 2023, fueled by a 356.5% YoY increase in data center revenue. The company has realigned its business, with Business Service Management declining at a CAGR of 22.6% and Operation & Maintenance growing at 26.7% (2020-2024), anticipating greater opportunities in the latter under Vision 2030 initiatives.

**Chart 45: Revenue (SAR bn) by segment between 2020-2024**




*Source: Company Data, anbc Research*

## Financial Summary

**SAR mn**

| **Income statement** | **2023A** | **2024A** | **2025E** | **2026F** | **2027F** | **2028F** | **2029F** | **2030F** | **2031F** | **CAGR 2024-2031F** |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 1,460 | 1,213 | 1,353 | 1,519 | 1,691 | 1,875 | 2,071 | 2,239 | 2,422 | 10.4% |
| Cost of Revenue | (1,214) | (955) | (1,062) | (1,185) | (1,319) | (1,453) | (1,605) | (1,724) | (1,865) | 10.0% |
| **Gross Profit** | **246** | **258** | **291** | **334** | **372** | **422** | **466** | **515** | **557** | **11.6%** |
| Operating Expenses | (184) | (137) | (159) | (170) | (187) | (210) | (233) | (259) | (287) | 11.2% |
| **EBIT** | **62** | **121** | **132** | **165** | **185** | **212** | **233** | **256** | **270** | **12.1%** |
| Dep & Amort | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 9.1% |
| **EBIDTA** | **68** | **128** | **140** | **174** | **194** | **222** | **244** | **269** | **283** | **12.0%** |
| Finance Cost | (53) | (83) | (78) | (63) | (53) | (44) | (35) | (27) | (19) | -18.9% |
| **Profit Before Tax** | **24** | **131** | **91** | **124** | **157** | **198** | **235** | **274** | **306** | **12.8%** |
| Zakat Tax | (10) | (7) | (4) | (4) | (5) | (6) | (8) | (10) | (12) | 7.8% |
| **PAT** | **14** | **124** | **87** | **121** | **153** | **192** | **227** | **265** | **294** | **13.1%** |
| Number of Share | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | |
| **EPS** | **0.5** | **4.2** | **2.9** | **4.0** | **5.1** | **6.4** | **7.6** | **8.8** | **9.8** | |

| **Balance Sheet** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fixed Assets | 41 | 48 | 45 | 42 | 39 | 36 | 32 | 29 | 24 | -9.3% |
| Other Non-Current Assets | 37 | 428 | 459 | 486 | 516 | 550 | 588 | 631 | 672 | 6.7% |
| **Non-current assets** | **79** | **476** | **504** | **528** | **555** | **585** | **621** | **659** | **697** | **5.6%** |
| Trade receivables | 654 | 541 | 581 | 633 | 685 | 739 | 795 | 837 | 878 | 7.2% |
| Cash and Cash equivalents | 163 | 179 | 37 | 54 | 75 | 102 | 144 | 188 | 257 | 5.3% |
| Other Current Assets | 959 | 1,382 | 1,422 | 1,445 | 1,476 | 1,514 | 1,564 | 1,618 | 1,681 | 2.8% |
| **Current Asset** | **1,776** | **2,102** | **2,040** | **2,132** | **2,236** | **2,356** | **2,503** | **2,643** | **2,816** | **4.3%** |
| **Total Assets** | **1,854** | **2,578** | **2,543** | **2,660** | **2,791** | **2,941** | **3,124** | **3,302** | **3,513** | **4.5%** |
| **Total Equity** | **287** | **423** | **364** | **412** | **473** | **550** | **641** | **747** | **865** | **10.7%** |
| Lease liabilities | - | - | - | - | - | - | - | - | - | - |
| Other Non-Current Liabilities | 25 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 0.0% |
| **Non-current liabilities** | **25** | **24** | **24** | **24** | **24** | **24** | **24** | **24** | **24** | **0.0%** |
| Trade payables | 660 | 1,009 | 1,153 | 1,288 | 1,434 | 1,575 | 1,739 | 1,867 | 2,018 | 10.4% |
| Short-term Borrowings | 619 | 878 | 755 | 661 | 555 | 457 | 350 | 267 | 177 | -20.4% |
| Other current Liabilities | 263 | 242 | 247 | 275 | 305 | 335 | 370 | 397 | 429 | 8.5% |
| **Current Liabilities** | **1,543** | **2,130** | **2,155** | **2,223** | **2,293** | **2,367** | **2,458** | **2,531** | **2,624** | **3.0%** |
| **Total liabilities and equity** | **1,854** | **2,578** | **2,543** | **2,660** | **2,791** | **2,941** | **3,124** | **3,302** | **3,513** | **4.5%** |

*Source: Company Data, anbc Research*

## Key Ratios

| Valuation Ratios | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| EPS | 0.5 | 4.2 | 2.9 | 4.0 | 5.1 | 6.4 | 7.6 | 8.8 | 9.8 |
| DPS | 2.7 | 3.2 | 1.7 | 2.4 | 3.1 | 3.9 | 4.6 | 5.3 | 5.9 |
| BVPS | 9.6 | 14.1 | 12.1 | 13.7 | 15.8 | 18.3 | 21.4 | 24.9 | 28.8 |
| PE | 291.6 | 32.7 | 47.1 | 33.7 | 26.7 | 21.2 | 17.9 | 15.4 | 13.9 |
| Div Yield | 2.0% | 2.4% | 1.3% | 1.8% | 2.2% | 2.8% | 3.3% | 3.9% | 4.3% |
| PBV | 14.2 | 9.6 | 11.2 | 9.9 | 8.6 | 7.4 | 6.4 | 5.5 | 4.7 |
| EV/Sales | 3.1 | 3.9 | 3.5 | 3.1 | 2.7 | 2.4 | 2.1 | 1.9 | 1.7 |
| Price / Sales | 2.8 | 3.4 | 3.0 | 2.7 | 2.4 | 2.2 | 2.0 | 1.8 | 1.7 |
| EV/EBITDA | 66.6 | 37.2 | 34.2 | 27.0 | 23.5 | 19.9 | 17.5 | 15.5 | 14.1 |

| Margins | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Gross Margin | 16.8% | 21.3% | 21.5% | 22.0% | 22.0% | 22.5% | 22.5% | 23.0% | 23.0% |
| EBITDA Margin | 4.7% | 10.6% | 10.4% | 11.4% | 11.5% | 11.9% | 11.8% | 12.0% | 11.7% |
| Operating Margin | 4.2% | 10.0% | 9.8% | 10.8% | 10.9% | 11.3% | 11.2% | 11.4% | 11.1% |
| Net Margin | 1.0% | 10.3% | 6.4% | 8.0% | 9.0% | 10.3% | 11.0% | 11.8% | 12.1% |

| Returns | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| ROA | 0.8% | 5.6% | 3.4% | 4.6% | 5.6% | 6.7% | 7.5% | 8.2% | 8.6% |
| ROE | 4.2% | 35.0% | 22.0% | 31.1% | 34.5% | 37.6% | 38.2% | 38.1% | 36.5% |

| Health | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Debt to Asset | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| Debt to Equity | 2.2 | 2.1 | 2.1 | 1.6 | 1.2 | 0.8 | 0.5 | 0.4 | 0.2 |
| Debt to Capital | 0.7 | 0.7 | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 | 0.3 | 0.2 |
| EBIT/ Interest | 1.2 | 1.4 | 1.7 | 2.6 | 3.5 | 4.8 | 6.7 | 9.6 | 14.0 |

*Source: Company Data, anbc Research*

# Perfect Presentation for Commercial Services Co.

INITIATION OF COVERAGE

We initiate coverage on Perfect Presentation for Commercial Services Co. (2P) with an 'Overweight' rating and a price target of SAR 13.9 per share, implying a 24.2% upside from the current price. 2P's order backlog has surged to SAR 2.4 bn (2.2x of 2024 revenue), marking a 3.2x increase since 2020, fueled by consistent project wins. The company has strategically reshaped its business model, reducing its reliance on the legacy Call Center segment (27.8% of revenue) while expanding its presence in the high-margin Software Development segment (27.5% of revenue). We expect this transition to drive gross margin expansion to 26.5% by 2030f. Additionally, its presence in the O&M segment (32.1% of revenue) positions it well to capitalize on Vision 2030 opportunities. The company's expansion into new business lines, particularly cybersecurity, is expected to provide long-term revenue stability and growth.

**Expanding backlog providing revenue visibility.** 2P's backlog has expanded significantly, reaching SAR 2.4 bn as of 2024—a 3.2x increase since 2020. This backlog stands at 2.2x of the 2024 revenue, offering strong visibility into medium-term topline growth. In 2024, the company secured new contracts worth SAR 1.9 bn, further strengthening its order book. We anticipate a steady revenue recognition, translating to a 6-year CAGR of 7.4% from 2024 to 2030f.

**Enhancing profitability amid optimization of portfolio.** The company has significantly reduced its reliance on the Call Center segment, which now contributes 27.8% to the topline in 2024, down from 47.9% in 2020. This segment also carries the lowest gross margin at 20% (2024). The strategic shift has led to greater emphasis on the Software Development segment, whose contribution rose to 27.5% in 2024 from 21.6% in 2021. With the highest gross margin of 32.0%, this segment has lifted 2P's overall gross margin to 23.4% in 2024. We expect continued revenue mix optimization, driving gross margins to a projected peak of 26.5% by 2030f.

**O&M and cybersecurity to give strong support.** 2P's O&M segment is well-positioned to benefit directly from Vision 2030 initiatives. With a strong presence in the public sector and government clients contributing 90.1% to its topline in 2024, the company is strategically placed to secure key government contracts in digitization and system integration. Additionally, 2P's expansion into cybersecurity strengthens its market penetration prospects, aligning with the Kingdom's National Cybersecurity Strategy. We project a CAGR of 6.6% for O&M and 13.1% for cybersecurity between 2024 and 2030f.

**Valuation:** Our Dec-25 TP of SAR 13.9/share is based on a blended valuation with equal weightage assigned to DCF (TP SAR 13.7/share) and relative valuation (TP SAR 14.1/share).

**Risks**: Slower-than-expected change in revenue mix can pull the aggregate margins downward. Reduced IT spending, particularly by the government, due to broader macro factors can hamper 2P's growth prospects.

### RATING SUMMARY — Overweight

| | |
|---|---|
| Target Price (SAR) | 14 |
| Upside/Downside | 24% |
| Div. Yield (%) | 0% |
| Total Exp. Return | 24% |

*Last Price as of 19th May, 2025*
*Source: Company Data, anbc Research*

### ISSUER INFORMATION

| | |
|---|---|
| Bloomberg Code | 2P AB |
| Last Price (SAR) | 11.2 |
| No of Shares (mn) | 300 |
| Market Cap bn (SR/USD) | 3.4/0.9 |
| 52-week High / Low (SAR) | 16.8/11.1 |
| 12-month ADTV (SAR mn) | 15.4/4.1 |
| Free Float (%) | 81.7 |
| Foreign Holdings (%) | 4.2 |

*Last Price as of 19th May, 2025*

### VALUATIONS

| | 2024 | 2025e | 2026f | 2027f |
|---|---|---|---|---|
| EPS (SAR) | 0.5 | 0.6 | 0.7 | 0.8 |
| PER (x) | 20.5 | 18.9 | 15.6 | 13.7 |
| PBV (x) | 6.2 | 5.2 | 4.3 | 3.6 |
| DPS (SR) | 0.0 | 0.2 | 0.3 | 0.3 |
| Div. Yield (%) | 0.0 | 2.1 | 2.6 | 2.9 |
| RoAE (%) | 35.2 | 29.6 | 30.1 | 28.7 |
| RoAA (%) | 12.5 | 12.4 | 14.4 | 14.6 |

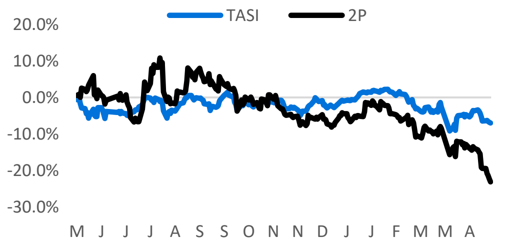
*Source: Company Data, anbc Research*

### FINANCIALS (SAR bn)

| | 2024 | 2025e | 2026f | 2027f |
|---|---|---|---|---|
| Revenue | 1.1 | 1.2 | 1.3 | 1.3 |
| Gross Profit | 0.3 | 0.3 | 0.3 | 0.3 |
| Operating Income | 0.2 | 0.2 | 0.2 | 0.3 |
| EBITDA | 0.2 | 0.2 | 0.2 | 0.3 |
| Net Income | 0.2 | 0.2 | 0.2 | 0.2 |
| Gross Margin (%) | 23.4 | 24.3 | 25.0 | 25.4 |
| EBIT Margin (%) | 15.8 | 18.0 | 19.1 | 20.0 |
| EBITDA Margin (%) | 16.5 | 18.7 | 19.8 | 20.7 |
| Net Margin (%) | 15.3 | 15.2 | 17.2 | 18.2 |

*Source: Company Data, anbc Research*

### RELATIVE PRICE PERFORMANCE




*Source: Bloomberg, anbc Research*

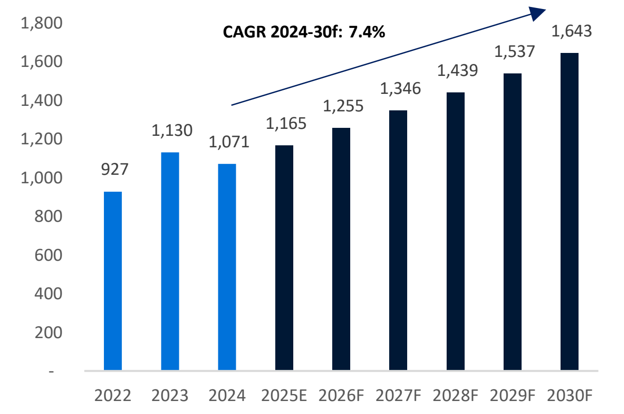
# Investment Thesis

## Expanding backlog providing revenue visibility

2P's backlog has seen substantial growth, reaching SAR 2.4 bn as of 2024—a 3.2x increase since 2020. This equates to 2.2 times the company's total topline in 2024, reinforcing its medium-term growth prospects. The strong expansion highlights 2P's ability to secure long-term contracts and sustain revenue momentum. A well-diversified backlog across multiple service lines enhances 2P's resilience. Operation & Maintenance (39.5% of backlog) and Software Development (20.0%) constitute a significant portion of secured projects, while Managed Services is rapidly emerging as a high-growth area, further strengthening 2P's position as a key technology partner for enterprises and government clients. During 2024, 2P had secured new projects worth SAR 1.9 bn strengthening its order book. We expect continued backlog expansion, driven by government-backed digital initiatives, rising cybersecurity demand, and large-scale cloud adoption projects under Vision 2030. The company's ability to efficiently convert backlog into revenue, coupled with its strong execution capabilities, positions it well for sustained long-term growth.

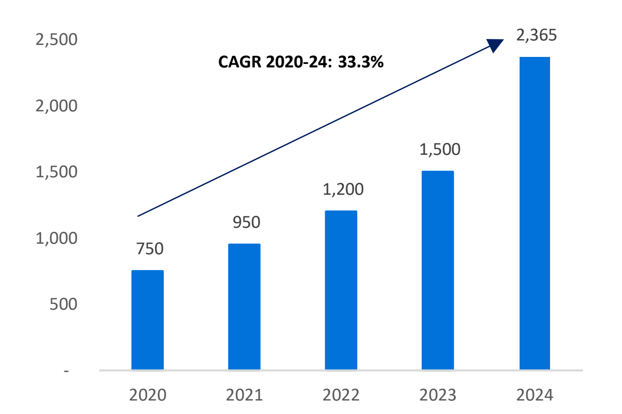
We anticipate stable revenue recognition in the medium term, supported by the company's average project duration of 3–5 years. This translates to a projected 6-year revenue CAGR of 7.4% from 2024 to 2030f.

**Chart 46: Revenue to reach SAR 1.6 bn by 2030f**




*Source: Company Data, anbc Research*

**Chart 47: Robust backlog expansion hits SAR 2.4 bn**




*Source: Company Data, anbc Research*

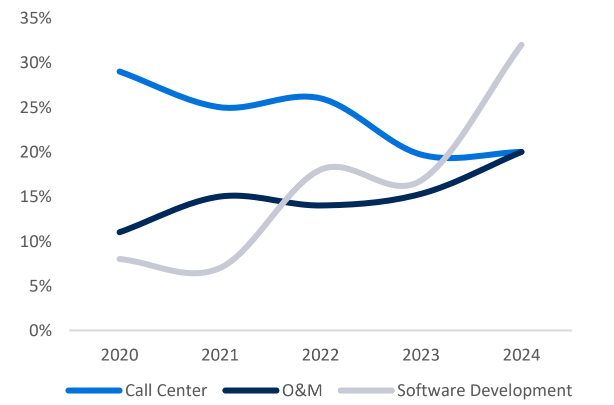
## Enhancing profitability amid optimization of portfolio

Historically, 2P has been perceived as a call center-dominated company, holding 11.5% share of the addressable market in 2022. However, the call center industry faces low barriers to entry, minimal technical expertise requirements, and limited differentiation opportunities, making it highly competitive and resource-intensive. As a result, the call center segment operates with relatively low margins, reflected in 2P's 20.0% gross margin in 2024, well below that of Software Development's (32%).

2P has actively diversified its service portfolio by expanding its presence in the O&M and Software Development segments. We view 2P's strategic shift toward Software Development favorably (Gross Margin 32.0% in 2024), given the segment's scalability and potential for brand building through proprietary products. Software revenue has demonstrated strong growth, with a robust 31.2% CAGR from 2019 to 2024, reaching SAR 294 mn. We expect this momentum to continue, projecting an 8.7% CAGR for the segment from 2024 to 2030f, with its contribution to the total revenue rising to 29.6% by 2030f. This shift will enhance overall profitability, with aggregate gross margins to peak at 26.5% in 2030f.

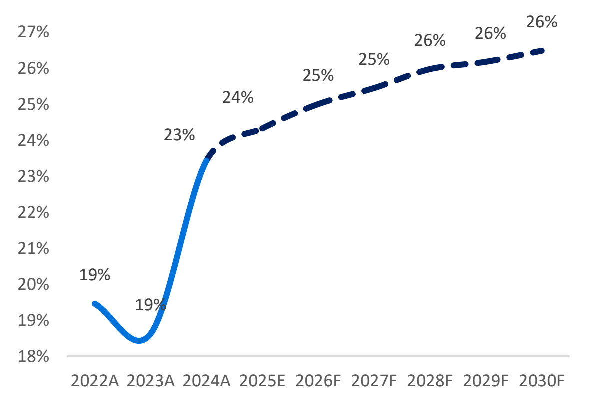
2P's OPEX has historically remained stable, and we project it to average 5.5% of the topline, given the company's asset-light model and low capex requirements. The company's capital structure has also been consistent, with an average D/E ratio of 0.7x, primarily comprising short-term debt to finance working capital (106-day cash cycle in 2024). We project the D/E ratio to decline to an average of 0.3x, supported by a rising cash position. This should enhance bottom-line flow, driving net margin to a peak of 19.5% by 2030f.

**Chart 48: GPM from Software peaked at 32% in 2024**




*Source: Company Data, anbc Research*

**Chart 49: GPM is expected to reach 26% by 2030f**

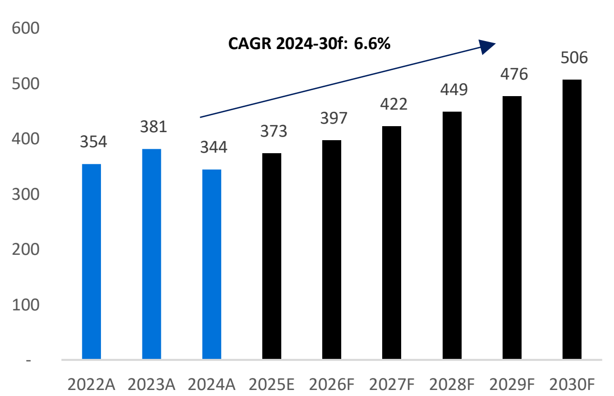



*Source: Company Data, anbc Research*

## O&M and cybersecurity to give strong support

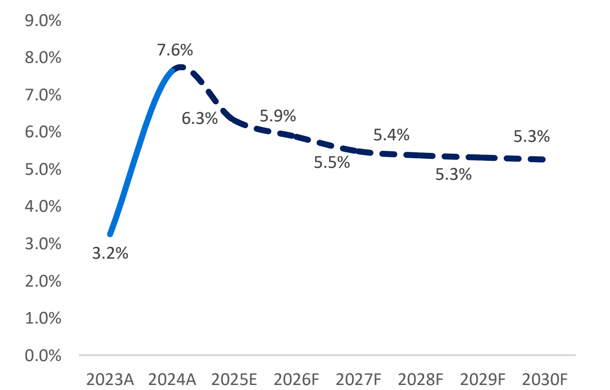
Government and related entities contributed 90.1% of 2P's revenue in 2024, growing at a 5-year CAGR of 33.5% from 2019 to 2024. We attribute much of this growth to the Operations & Maintenance (O&M) segment, which expanded at a CAGR of 24.5% over the same period. We view 2P's strong presence in the public sector as a key advantage, enabling it to capitalize on upcoming digital transformation contracts from various ministries. Given the length of ongoing projects and the continued expansion of its backlog, we forecast O&M revenue to grow at a CAGR of 6.6% from 2024 to 2030f. Notably, the segment offers high potential for recurring revenue, particularly in IT infrastructure management and operational services. Given its alignment with Vision 2030, we expect O&M's contribution to remain stable at an average of 31.3% of total revenue, in line with historical levels.

**Chart 50: O&M revenues to record 6Y CAGR of 6.6%**




*Source: Company Data, anbc Research*

**Chart 51: OPEX as % of revenue expected to decline**

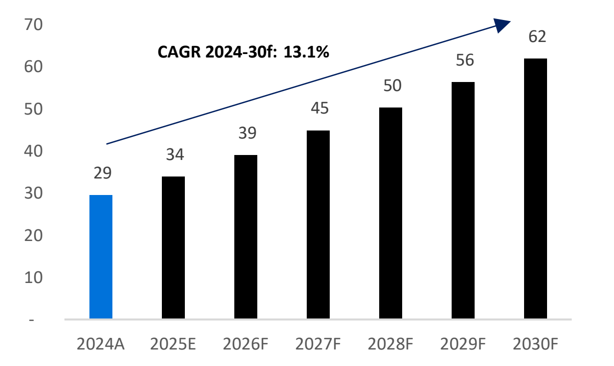



*Source: Company Data, anbc Research*

2P captured 11.8% of its addressable O&M market in 2024, a significant increase from 5.6% in 2020, reflecting strong post-COVID expansion. We expect gradual yet sustained market penetration, with 2P's share reaching 12.3% by 2030f. The company's growing portfolio of long-term O&M contracts has also strengthened the segment's margin profile, with gross margins improving to 20.0% from a low of 11.0% in 2020. Additionally, 2P's expansion into the Smart Homes industry has also consolidated within this segment, presenting further growth opportunities.

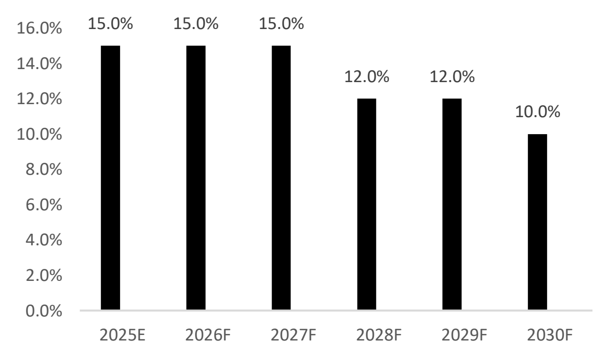
2P's entry into cybersecurity is well-timed, aligning with the Kingdom's rollout of the National Cybersecurity Strategy. The segment benefits from strong synergies with O&M's System Design and Architecture, providing a competitive edge in this new business line. We forecast cybersecurity revenue to grow at a 13.1% CAGR between 2024-2030f.

**Chart 52: Cybersecurity to reach SAR 62 mn by 2030f**




*Source: Company Data, anbc Research*

**Chart 53: 2 phased growth in Cybersecurity revenues**




*Source: Company Data, anbc Research*

## Valuation

We have adopted a blended valuation approach to value 2P, assigning equal weight to DCF and multiples-based valuation. This resulted in target prices of SAR 13.7/share and SAR 14.1/share, respectively, leading to a final target price of SAR 13.9/share, implying a 24.2% capital upside. We have an 'Overweight' rating on the stock, driven by expectations of profitability improvement and accelerated diversification into high-growth, high-margin segments.

| | anbc Estimate | | |
|---|---|---|---|
| **SAR mn** | **2025E** | **2026F** | **2027F** |
| Revenue | 1,165 | 1,255 | 1,346 |
| Gross Margin | 24.32% | 25.00% | 25.44% |
| EBITDA | 218 | 249 | 278 |
| Net Income | 177 | 216 | 245 |
| Net Margin | 15.19% | 17.18% | 18.18% |
| EPS | 0.6 | 0.7 | 0.8 |

*Source: anbc Research*

### DCF Valuation

We used an FCFF-based model, applying a beta of 1.0, a risk-free rate of 5.0%, and a market risk premium of 5.2%, resulting in a cost of equity of 10.4%. Incorporating a cost of debt of 7.2%, we derived a weighted average cost of capital (WACC) of 9.4%.

| **SAR mn** | **2026F** | **2027F** | **2028F** | **2029F** | **2030F** | **2031F** |
|---|---|---|---|---|---|---|
| FCFF | 210 | 240 | 266 | 291 | 316 | 327 |
| Terminal Value | | | | | | 5,257 |
| FCFF + Terminal | 210 | 240 | 266 | 291 | 316 | 5,583 |
| **Discounted FCFF** | 192 | 200 | 203 | 203 | 202 | 3,257 |

| | |
|---|---|
| Enterprise Value | 4,257 |
| Cash | 116 |
| Debt | (267) |
| Equity Value | 4,106 |
| **Target Price** | **13.7** |

*Source: Company Data, anbc Research*

## Sensitivity Analysis on DCF Valuation

| | | Growth rate | | | | |
|---|---|---|---|---|---|---|
| WACC | | 2. 0% | 2.5% | 3. 0% | 3.5% | 4.0% |
| | 7.4% | 17.1 | 18.6 | 20.3 | 22.6 | 25.4 |
| | 8.4% | 14.3 | 15.3 | 16.4 | 17.8 | 19.5 |
| | 9.4% | 12.2 | 12.9 | 13.7 | 14.6 | 15.7 |
| | 10.4% | 10.6 | 11.1 | 11.7 | 12.4 | 13.1 |
| | 11.4% | 9.4 | 9.8 | 10.2 | 10.7 | 11.2 |

## Relative Valuation

For our EV/EBITDA multiple (20.1x), we have taken the average multiple of 2Ps local and global peers primarily operating in similar segments. Using forward EBITDA (2025e) of SAR 218 mn, we arrived at our target price of SAR 14.1/share.

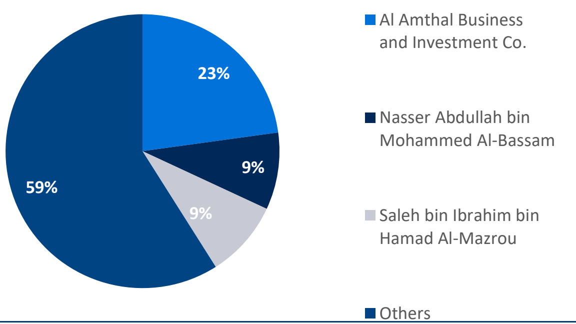
| Peer | EV/EBITDA |
|---|---|
| Solutions | 16.8 |
| Elm | 44.2 |
| EAND | 7.0 |
| Tech Mahindra | 20.3 |
| Wipro | 12.1 |
| **Target Multiple** | **20.1** |
| EBITDA (SAR mn) | 218 |
| EV (SAR mn) | 4,373 |
| Cash (SAR mn) | 116 |
| Debt (SAR mn) | 267 |
| ***Target Price*** | ***14.1*** |

*Source: Company Data, anbc Research*

## Company Overview

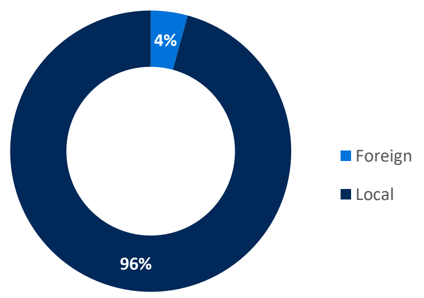
Perfect Presentation for Commercial Services Co. (2P), headquartered in Riyadh, specializes in telecommunications and IT services. Founded in 2004, the company provides a wide range of solutions, including contact center operations, decision support systems, business intelligence, application performance management, internet services, software development, and data center infrastructure, as well as operations and maintenance services. Listed in 2022, the company is 22.8% owned by Al Amthal Business Development Co., while foreign investors hold a 3.5% stake.

**Chart 54: Ownership (%) by investor**




*Source: Company Data, anbc Research*

**Chart 55: Ownership (%) by type of investor**




*Source: Company Data, anbc Research*

2P has a strong presence in both public and private sector, with notable ministerial clients in domains such as NEOM, SDAIA, MODON, Ministry of Health, and Ministry of Defense. The company partners with significant global giants to expand its service portfolio, with alliances including Webex, Oracle, Microsoft, IBM, and Lenovo.

| Product/Solutions | Description |
|---|---|
| Yamamah | Offers bulk SMS services to government and private sectors, providing fast, cost-effective, and reliable solutions for delivering timely notifications and information. |
| Wesal | Integrates phone, fax, conferencing, messaging, and IT applications to enhance business communication and ensure seamless connectivity for employees and customers. |
| Tarasul | Offers institutional clients educational and entertainment content, interactive SMS, and waiting tone services. |
| Perfect Engage | Integrates seamlessly with internal ICT systems with options for off-the-shelf or customizable versions supporting text, audio, and video messaging. |
| Perfect Signage | Cloud platform enabling SMEs to manage digital panel content effortlessly, with features like indoor navigation and wayfinding. |
| Perfect Home | Smart home app leveraging IoT technology to help individuals and property owners manage home appliances efficiently using the latest digital innovations. |
| 2PB1 | User-friendly, cloud-based ERP to manage all company resources from one platform. |

*Source: Company Data, anbc Research*

## Financial Overview

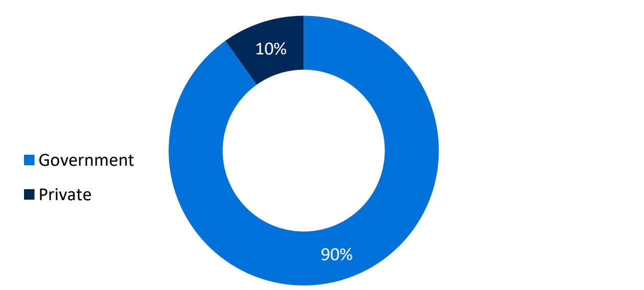
2P operates in 5 business sectors, including cybersecurity, which began generating revenue in 2024. The O&M segment has played a pivotal role in the company's growth, with 2P intensifying its efforts to transform its hallmark, low-margin Call Center segment into high-margin contracts in the O&M and Software Development segments.

| Segment | Description |
|---|---|
| O&M | IT services management, including digital transformations, IT outsourcing, technical support, and IT training. |
| Call Center | Customer experience enhancement via 24/7 availability of chatbots and virtual assistants, acting as omni-channel support. |
| Software Development | Includes mobile and web application development, native cloud development, existing applications modernization, and decision support systems. |
| Managed Services | Solutions of new and unique IT problems, providing latest IT technologies and improving overall IT performance. |
| Cybersecurity | Designing, implementing, and managing comprehensive cybersecurity solutions that meet modern organizations' specific requirements and challenges. |

*Source: Company Data, anbc Research*

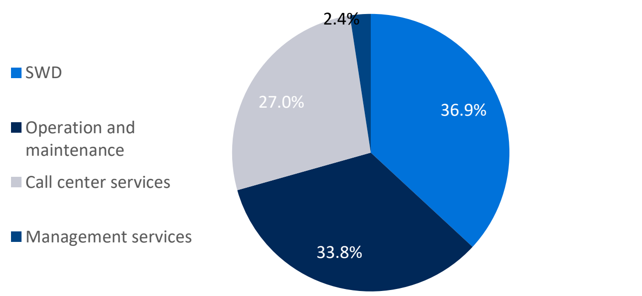
2P boasts a significant presence in the public sector, making it as a preferred choice for ministerial contracts in the O&M and Call Center segments. Government clients contributed 90.1% (2024) of the revenue, an increase from 76.4% in 2019. The Call Center has been 2P's largest segment, accounting for as much as 47.9% of the revenue in 2020. However, the Software segment has emerged as the new focal point of strategy, now accounting for 27.5% of the revenue (2024), after contribution peaking at 36.9% in 2023. The O&M has historically been the most stable segment, with its proportion of revenue averaging at 33.8%.

**Chart 56: Government is the single largest client**



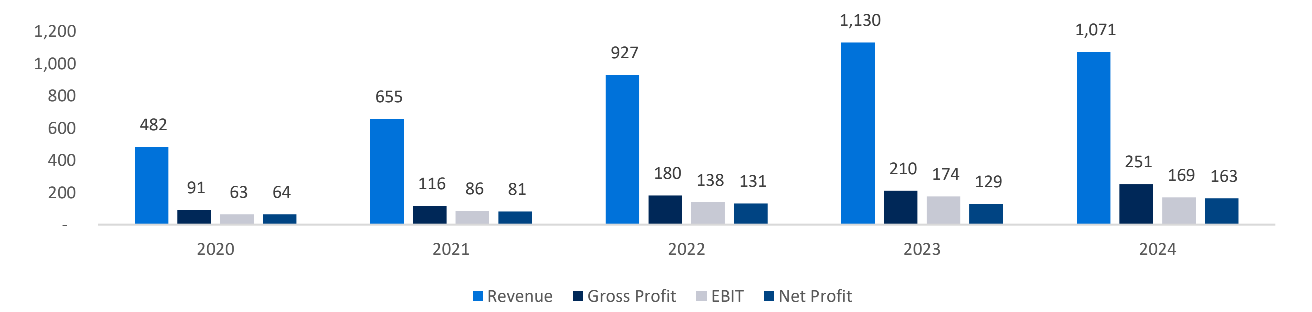

*Source: Company Data, anbc Research*

**Chart 57: Revenue (%) by segment**




*Source: Company Data, anbc Research*

**Chart 58: Key Financials (SAR Mn) over the years**




*Source: Company Data, anbc Research*

## Financial Summary

**SAR mn**

| Income statement | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F | CAGR 2024-2031F |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 1,130 | 1,071 | 1,165 | 1,255 | 1,346 | 1,439 | 1,537 | 1,643 | 1,755 | 7.3% |
| Cost of Revenue | (919) | (820) | (882) | (942) | (1,003) | (1,065) | (1,135) | (1,208) | (1,285) | 6.6% |
| **Gross Profit** | **210** | **251** | **283** | **314** | **342** | **374** | **402** | **435** | **470** | **9.4%** |
| Operating Expenses | (37) | (82) | (73) | (74) | (74) | (77) | (82) | (86) | (91) | 1.5% |
| **EBIT** | **174** | **169** | **210** | **240** | **269** | **296** | **321** | **349** | **379** | **12.2%** |
| Dep & Amort | 5 | 7 | 8 | 9 | 9 | 10 | 11 | 11 | 12 | 7.5% |
| **EBIDTA** | **178** | **176** | **218** | **249** | **278** | **306** | **331** | **360** | **391** | **12.1%** |
| Finance Cost | (38) | (42) | (30) | (20) | (18) | (17) | (18) | (19) | (19) | -10.4% |
| **Profit Before Tax** | **135** | **171** | **185** | **226** | **256** | **285** | **308** | **336** | **366** | **11.5%** |
| Zakat Tax | (6) | (8) | (8) | (10) | (11) | (13) | (14) | (15) | (16) | 11.3% |
| **PAT** | **129** | **163** | **177** | **216** | **245** | **272** | **294** | **321** | **349** | **11.5%** |
| Number of Share | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | |
| EPS | 0.4 | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 | 1.1 | 1.2 | |
| **Balance Sheet** | | | | | | | | | | |
| Fixed Assets | 175 | 165 | 171 | 179 | 186 | 194 | 201 | 209 | 217 | 4.0% |
| Other Non-Current Assets | - | - | - | - | - | - | - | - | - | - |
| **Non-current assets** | **175** | **165** | **171** | **179** | **186** | **194** | **201** | **209** | **217** | **4.0%** |
| Trade receivables | 495 | 581 | 585 | 615 | 644 | 672 | 702 | 733 | 783 | 4.0% |
| Cash and Cash equivalents | 52 | 100 | 116 | 230 | 362 | 511 | 676 | 855 | 1,038 | 42.9% |
| Other Current Assets | 457 | 588 | 539 | 560 | 579 | 598 | 618 | 640 | 663 | 1.4% |
| **Current Asset** | **1,003** | **1,270** | **1,241** | **1,404** | **1,585** | **1,781** | **1,995** | **2,227** | **2,484** | **9.8%** |
| **Total Assets** | **1,178** | **1,435** | **1,412** | **1,583** | **1,771** | **1,975** | **2,197** | **2,436** | **2,701** | **9.2%** |
| **Total Equity** | **382** | **545** | **651** | **781** | **927** | **1,091** | **1,267** | **1,460** | **1,669** | **17.8%** |
| Long-term loans | 3 | - | - | - | - | - | - | - | - | - |
| Other Non-Current Liabilities | 34 | 41 | 41 | 41 | 41 | 41 | 41 | 41 | 41 | 0.0% |
| **Non-current liabilities** | **37** | **41** | **41** | **41** | **41** | **41** | **41** | **41** | **41** | **0.0%** |
| Trade payables | 172 | 185 | 192 | 205 | 219 | 232 | 247 | 263 | 280 | 6.0% |
| Short-term Borrowings | 311 | 431 | 267 | 277 | 286 | 295 | 305 | 315 | 330 | -5.1% |
| Other current Liabilities | 277 | 232 | 261 | 279 | 298 | 316 | 336 | 358 | 380 | 7.5% |
| **Current Liabilities** | **760** | **848** | **720** | **761** | **803** | **843** | **888** | **935** | **991** | **1.6%** |
| **Total liabilities and equity** | **1,178** | **1,435** | **1,412** | **1,583** | **1,771** | **1,975** | **2,197** | **2,436** | **2,701** | **9.2%** |

*Source: Company Data, anbc Research*

## Key Ratios

| Valuation Ratios | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| EPS | 0.4 | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 | 1.1 | 1.2 |
| DPS | 0.0 | - | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.5 |
| BVPS | 1.3 | 1.8 | 2.2 | 2.6 | 3.1 | 3.6 | 4.2 | 4.9 | 5.6 |
| PE | 25.9 | 20.5 | 18.9 | 15.6 | 13.7 | 12.3 | 11.4 | 10.5 | 9.6 |
| Div Yield | 0.3% | 0.0% | 2.1% | 2.6% | 2.9% | 3.2% | 3.5% | 3.8% | 4.2% |
| PBV | 8.8 | 6.2 | 5.2 | 4.3 | 3.6 | 3.1 | 2.6 | 2.3 | 2.0 |
| EV/Sales | 3.2 | 3.4 | 3.0 | 2.7 | 2.4 | 2.2 | 1.9 | 1.7 | 1.5 |
| Price / Sales | 3.0 | 3.1 | 2.9 | 2.7 | 2.5 | 2.3 | 2.2 | 2.0 | 1.9 |
| EV/EBITDA | 20.3 | 20.9 | 16.1 | 13.7 | 11.8 | 10.2 | 9.0 | 7.8 | 6.8 |

| Margins | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Gross Margin | 18.6% | 23.4% | 24.3% | 25.0% | 25.4% | 26.0% | 26.2% | 26.5% | 26.8% |
| EBITDA Margin | 15.8% | 16.5% | 18.7% | 19.8% | 20.7% | 21.3% | 21.6% | 21.9% | 22.3% |
| Operating Margin | 15.4% | 15.8% | 18.0% | 19.1% | 20.0% | 20.6% | 20.9% | 21.2% | 21.6% |
| Net Margin | 11.4% | 15.3% | 15.2% | 17.2% | 18.2% | 18.9% | 19.1% | 19.5% | 19.9% |

| Returns | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| ROA | 13.0% | 12.5% | 12.4% | 14.4% | 14.6% | 14.5% | 14.1% | 13.8% | 13.6% |
| ROE | 40.7% | 35.2% | 29.6% | 30.1% | 28.7% | 27.0% | 25.0% | 23.5% | 22.3% |

| Health | 2023A | 2024A | 2025E | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Debt to Asset | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Debt to Equity | 0.8 | 0.8 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| Debt to Capital | 0.5 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| EBIT/ Interest | 4.5 | 4.0 | 7.0 | 11.9 | 14.5 | 17.0 | 17.8 | 18.7 | 19.6 |

*Source: Company Data, anbc Research*

## Glossary

| Term | Explanation |
|---|---|
| IoT | Internet of Things (IoT) refers to the collective network of connected devices and the technology that facilitates communication between devices and the cloud, as well as between the devices themselves. |
| Big Data | Extremely large data sets that may be analyzed computationally to reveal patterns, trends, and associations, especially relating to human behavior and interactions. |
| AI | The theory and development of computer systems able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition, decision-making, and translation between languages. |
| Data Center | A large group of networked computer servers typically used by organizations for the remote storage, processing, or distribution of large amounts of data. |
| Cloud | Extensive network of remote servers around the world which store and manage data, run applications, and deliver content and services like streaming videos, web mail, and office productivity software over the internet. |
| Blockchain | Blockchain is a shared, immutable digital ledger, enabling the recording of transactions and the tracking of assets within a business network and providing a single source of truth. |

*Source: anbc Research*

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|---|---|---|
| Expected return is more than +15% | Expected return is between +15% & -10% | Expected return is lower than -10% |

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