

Target Price: SAR34.0/share
Current Price: SAR27.80/share
Upside: 22%
Rating: Overweight

Saudi Azm for Communication and Information Technology Company (Azm)

Monetizing PPP from FY27 to structurally upgrade outlook

- Expect AZM to shift focus to PPP projects starting FY27 onwards; expect a revenue CAGR of 26.7% (~26% earlier) over FY26-30e aided by recurring revenue models.
- Bottom-line is set to outpace topline amid scalability; expect earnings CAGR of 44% over FY26-30e, compared to 32% earlier.
- Post revising our estimates and valuation assumptions, we revise our TP to SAR34/sh. based on blended valuation using DCF and P/E methods with an "OW" rating.

FY27 marks a pivotal year in Azm's transformation... Azm is likely to begin monetizing its Public-Private Partnership (PPP) projects from FY27e, which we view as the inflection point in its transition into a leading digital services platform in KSA. Three projects are already on testing phase (Infath, Tarikat and Sekaya) and should scale meaningfully over the coming years, while two await implementation. Further, management is currently evaluating more than 18 opportunities and targets adding at least three new PPP projects annually in sizeable and underpenetrated markets. Consequently, we expect digital services to become the primary revenue driver for Azm over the long term, aided by the recurring nature and scalability of the PPP business model. Meanwhile, the legacy business continues to provide solid revenue visibility, aided by a SAR310mn backlog (June 2026) and SAR150mn of awarded contracts. In addition, Azm's subsidiary, Wasl, has obtained a SAMA license for its digital brokerage activities, enabling it to begin operations and adding further growth avenues ([refer to our latest report on AZM for PPP & Wasl details](#)). Accordingly, we raise our FY27-28e top-line estimates by ~5% each to SAR383mn (~25% y/y, in line with guidance) and SAR481mn (~26% y/y), respectively and expect robust double-digit growth rates thereafter, lifting our FY26-30e top-line CAGR to 26.7%.

... improved earnings outlook on a stronger profitability profile: We expect Azm's profitability to improve structurally, supported by stronger operating leverage and the scalable nature of its platform-based business model. Accordingly, we significantly raise our FY27-30e average GPM forecast to ~37% from 32.4% previously (vs. 32.5% in FY26), gradually reaching the 40% level by FY30-31e as PPP contribution increases and scalability manifests.

Figure 1: Key financial metrics*

SARmn	FY25a	FY26a	FY27e	FY28e	FY29e
Revenue	253.2	307.4	382.9	480.7	609.3
Revenue growth	16%	21%	25%	26%	27%
Gross Profit	73.4	99.9	130.2	175.4	237.6
Gross Profit margin	29%	32%	34%	37%	39%
EBITDA	36.5	52.9	69.2	103.1	152.0
Op. income	32.3	48.0	66.5	99.8	148.0
Net profit**	37.4	51.0	73.0	105.7	152.7
Net profit growth	34.0%	36.2%	43.2%	44.8%	44.4%
Net profit margin	15%	16%	19%	22%	25%
EPS (SAR)	0.64	0.87	1.25	1.80	2.60
P/E	43.5x	31.9x	22.3x	15.4x	10.7x
EV/EBITDA	40.8x	28.1x	21.5x	14.4x	9.8x

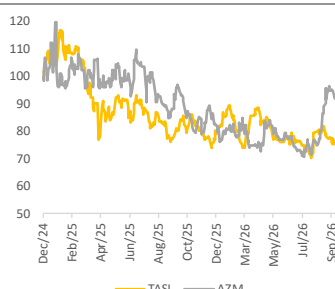
Source: Company data, GIB Capital. *For the financial year ending in June. **Attributed to shareholders

Stock data

TASI ticker	7211
Mcap (SARmn)	1,668
Trd. Val (3m) (SARmn)	3.7
Free float	53.2%
QFI holding	3.5%
TASI FF weight	0.04%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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While growth investments are expected to lift OPEX by ~23% y/y in FY27e, we believe efficiency gains should preserve margin expansion. As a result, we significantly revised our earlier estimates for the bottom line for FY27e by ~14% to SAR73mn (+43% y/y, broadly in line with the guidance) and for FY28 by 25% to ~SAR106mn (~45% y/y), reflecting full annual impact from PPP shift. Beyond FY28e, we anticipate robust earnings growth to continue, as platform scale and operating leverage increase, resulting in FY26-30e earnings CAGR of ~44% (~32% earlier).

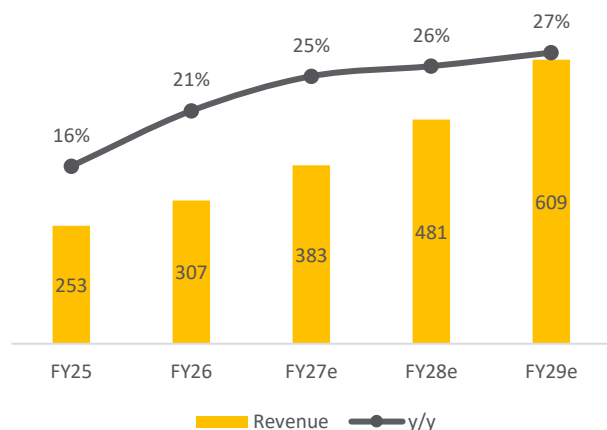
Expect CAPEX intensity to moderate following FY26 peak: Azm increased CAPEX sharply in FY26 to ~SAR31mn (~10% of revenue) as it invested in its PPP platforms. While project mobilization needed higher spending, CAPEX was also inflated by the exceptional size of Infath and Tarikat, which we view as likely non-recurring. Accordingly, we expect CAPEX intensity to moderate from FY26 levels, but remain above historical averages, with CAPEX-to-sales averaging ~5% over the medium term as the company targets adding 3 PPP projects annually. Despite the higher investment profile, we remain constructive on Azm's financial position, supported by a sustained net cash position and robust operating cash flow generation, which should allow the company to fund growth internally, restore positive FCF, and potentially initiate shareholder distributions over the medium term.

FY26 (June-ended) results recap: AZM posted a strong topline growth of 21.4% y/y in FY26, reaching above the SAR300mn level, driven by enterprise services (+23% y/y) and platform development (+72% y/y). Gross profits outpaced the topline, rising 36% y/y to SAR100mn on a 3.5ppts y/y margin expansion. Further, operating profits grew ~49% y/y to SAR48mn, aided by provision reversals, despite higher expenses. Meanwhile, weak performance from associates slightly weighed on the bottom line, which rose ~36% y/y to SAR51mn with a 16% net margin. Overall, the annual performance exceeded our initial estimates across the board, apart from net margin (~1pps miss) due to the negative impact of associates' performance.

Valuation and Risks: Post raising our estimates upwards, we revised our blended 1Y Fwd TP to **SAR34.0/share**, based on an equal mix of DCF (with a revised WACC of 10.9% due to the recent market volatility) and P/E-based (24x on FY27e EPS) valuation methods, and reiterate our “**Overweight**” with a ~22% upside potential. The stock surged by ~29% since our latest recommendation, and trades currently at a P/E of ~22x based on FY27e estimated EPS. Being a technology-driven company, the major risk is failure to keep up with technological changes in the sector. Lack of diversity in clientele, ability to maintain talent, execution risks leading to inability to bid for future projects, increase in competition, and unfavorable changes in regulations are some of the risks.

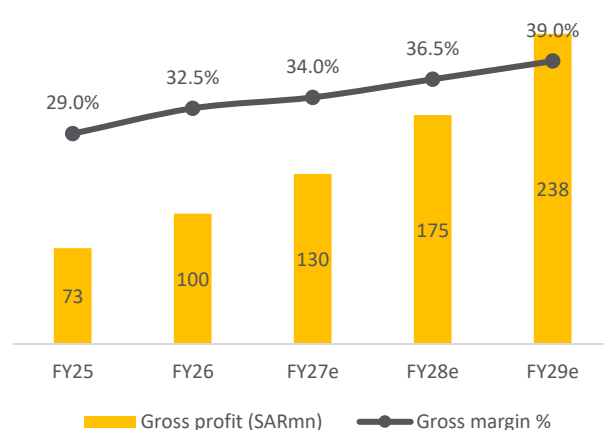
Financial analysis in charts

Figure 2: Revenue trend (SARmn)



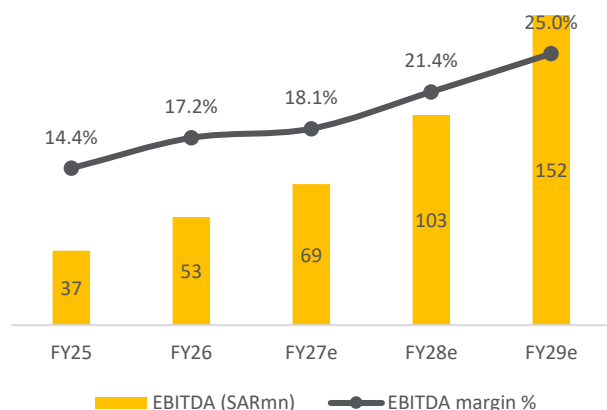
Source: Company data, GIB Capital

Figure 3: Gross profit and gross margin trend



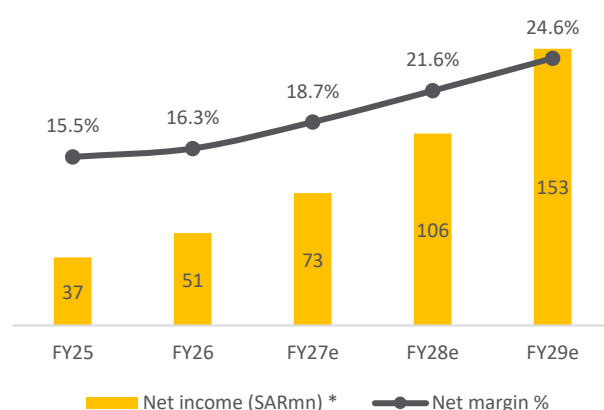
Source: Company data, GIB Capital

Figure 4: EBITDA and EBITDA margin trend



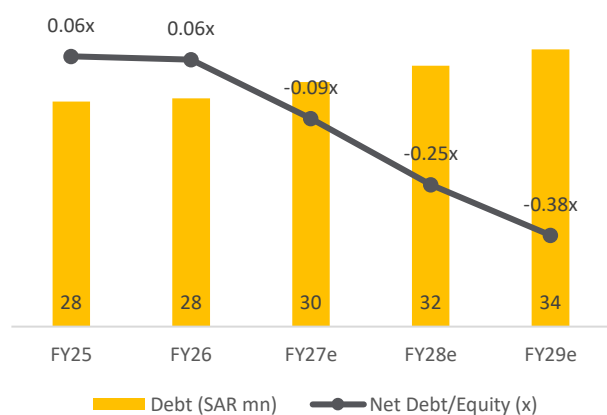
Source: Company data, GIB Capital

Figure 5: Net income trend (SARmn)*



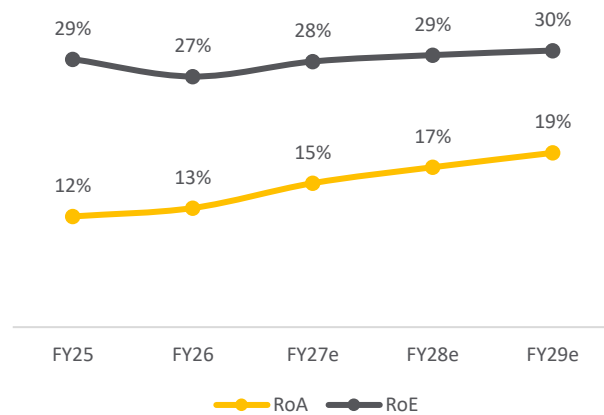
Source: Company data, GIB Capital. *Attributed to shareholders

Figure 6: Leverage trend



Source: Company data, GIB Capital

Figure 7: Profitability trend



Source: Company data, GIB Capital

Summarized Financial Statements

Figure 8: Summarized basic financial statements (SARmn)*

Income statement	FY25a	FY26a	FY27e	FY28e	FY29e
Revenue	253.2	307.4	382.9	480.7	609.3
y/y growth	16.3%	21.4%	24.6%	25.5%	26.8%
Cost of Services/Goods	(179.8)	(207.5)	(252.7)	(305.2)	(371.7)
Gross Profit	73.4	99.9	130.2	175.4	237.6
Gross Margin	29.0%	32.5%	34.0%	36.5%	39.0%
Selling and Marketing	(1.0)	(0.7)	(0.9)	(1.6)	(1.9)
General and Administrative	(38.5)	(51.7)	(61.3)	(72.1)	(85.3)
ECL	(1.6)	0.5	(1.5)	(1.9)	(2.4)
Operating Profit	32.3	48.0	66.5	99.8	148.0
Operating margin	12.8%	15.6%	17.4%	20.8%	24.3%
Finance Cost	(2.8)	(2.6)	(2.9)	(3.0)	(3.0)
Share of profit from investment in an associate	2.5	(1.2)	0.5	1.1	1.6
Other revenue	9.0	9.1	12.0	12.3	12.6
Profit Before Tax and Zakat	41.0	53.2	76.1	110.3	159.2
Tax and Zakat	(1.8)	(3.3)	(4.6)	(6.6)	(9.6)
Profit After Tax	39.2	50.0	71.6	103.7	149.6
Non-controlling interest	1.8	(1.0)	1.4	2.1	3.0
Profit available to equity shareholders	41.0	49.0	73.0	105.7	152.7
y/y growth	34.0%	36.2%	43.2%	44.8%	44.4%
Net margin	16.2%	15.9%	19.1%	22.0%	25.1%
EPS	0.64	0.87	1.25	1.80	2.60

Balance Sheet	FY25a	FY26a	FY27e	FY28e	FY29e
Account Receivables	54.8	62.7	77.6	96.8	121.9
Other Current Assets	181.6	205.0	229.0	262.2	304.3
Cash and Equivalents	18.6	17.9	52.9	123.1	227.4
Total Current Assets	273.4	285.6	359.5	482.1	653.6
Total Non-Current Assets	71.8	97.9	113.4	134.6	163.2
Total Assets	345.3	383.5	473.0	616.7	816.8
Current Liabilities	177.5	173.1	184.9	217.9	260.1
Non-current Liabilities	25.1	28.2	31.8	36.3	42.0
Equity	142.6	182.2	256.3	362.5	514.6
Total Equity and Liabilities	345.3	383.5	473.0	616.7	816.8
BVPS	2.4	3.1	4.4	6.2	8.8

Cashflow	FY25a	FY26a	FY27e	FY28e	FY29e
Cash flow from Operations	108.9	41.3	53.2	94.0	135.8
Cash flow from Investing	(88.8)	(11.3)	(22.7)	(28.3)	(36.0)
Cash flow from Financing	(13.5)	(30.6)	4.5	4.5	4.5
Total Cash flows	6.6	(0.6)	35.0	70.2	104.3

Source: Company, GIB Capital. *For the financial year ending in June.

Figure 10: Key ratios

Key ratios	FY25a	FY26a	FY27e	FY28e	FY29e
Profitability ratios					
RoA	11.9%	12.8%	15.4%	17.1%	18.7%
RoE	28.7%	26.9%	28.5%	29.2%	29.7%
Net margin	16.2%	15.9%	19.1%	22.0%	25.1%
Liquidity ratios					
Current ratio	1.5	1.7	1.9	2.2	2.5
Receivable Days	79	74	74	74	73
Payable days	42	27	28	28	27
Cash conversion cycle	37	47	46	46	46
Debt ratios					
Net Debt/EBITDA (w/ IFRS liab.)	0.1x	0.2x	-0.3x	-0.9x	-1.3x
Debt/Assets (w/ IFRS liab.)	0.1x	0.1x	0.1x	0.1x	0.0x
Net Debt/Equity (w/ IFRS liab.)	0.1x	0.1x	-0.1x	-0.3x	-0.4x
Valuation ratios					
P/E	43.5	31.9	22.3	15.4	10.7
P/B	11.4	8.9	6.4	4.5	3.2
EV/EBITDA	40.8	28.1	21.5	14.4	9.8
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, GIB Capital. *For the financial year ending in June.

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