

Regional escalation weighs on FY26E profitability; revenue diversification supports long-term sustainability; upgrade to "Overweight" rating

Catrion is well positioned to capture regional momentum growth, although recent geopolitical tensions have pressured profitability, with inflight catering (IFC) revenue declining 9.7% Y/Y to SAR 352.6mn in Q2-26 amid a 24.2% Y/Y decline in regional airlines capacity. We expect FY26E bottom line to decline 6.5% Y/Y to SAR 293mn, pressured by lower IFC revenue of SAR 1,521mn (down 4.4% Y/Y) and higher finance costs. However, we expect earnings to recover FY27 onwards compounding at 8.0% CAGR over FY25-FY30E to SAR 462mn, supported by the recovery in IFC as local fleets expand and passenger traffic improves alongside continued growth in the non-airline segment, which we expect to reach a topline of SAR 887.5mn by FY30E at a 12.4% CAGR. Revenue diversification is further endorsed via Al Khalejah acquisition which is expected to contribute average of 8% to topline in forecasted period, driving total revenue to SAR 3,463mn by FY30E, a 7.2% CAGR. However, Catrion is likely to see near term working capital pressures, peaking in FY26E, as high receivable concentration (60-65% government exposure) stretches the cash conversion cycle to 153 days, while capex intensity normalizes to 8.4% in FY26E. Elevated working capital needs and expanding lease liabilities will push leverage to 1.33x (from 0.92x in FY25) and compress interest coverage to 3.6x in FY26E. Thereafter, improving collections and cash flow will drive leverage down to 0.60x and interest coverage up to 5.9x by FY30E. Despite stock trading at 15.3x FY27E PE and declining 22.3% YTD, Catrion remains positioned to benefit from regional recovery while maintaining top-line resilience through diversification. We revised our target price to **SAR 84.0/share** (previously SAR 104.0/share).

Revenue beat consensus, but profitability remained under pressure in Q2-26: The company reported net income of SAR 44.8mn, down 28.4% Y/Y (below AJBC estimates by 25%), despite topline coming in ahead of market expectations at SAR 668.1mn, up 20.4% Y/Y and 3.6% Q/Q (above AJBC estimates by 9.8%). The stronger-than-expected revenue performance was primarily driven by the non-airline segment, which grew 101.5% Y/Y, reflecting the recognition of the Red Sea contract and AKCC contribution to business lounges segment. Business lounges increased 76.3% Y/Y, supported by the contribution from AKCC. However, estimated like-for-like segment revenue fell 15% Y/Y to SAR 54.2mn. Furthermore, the core IFC segment remained weak, with revenue declining 9.7% Y/Y to SAR 352.6mn. Catrion served 58.8k flights in Q2-26 (down 10.9% Y/Y), as Middle East airlines were heavily impacted by geopolitical disruptions in Q2-26, regional capacity declining 24.2% Y/Y. Domestic flights served declined 6.0% Y/Y to 34.0k, making up 58% of total flights, while international flights took the bigger hit, down 42.2% Y/Y to 24.8k, despite the Hajj season, as many international networks were closed or saw reduced traffic due to both air traffic control/safety constraints and elevated jet fuel costs. The lower operating volumes, coupled with cost pressures, drove IFC net profit margin down 525bps Y/Y and 414bps Q/Q to 22.5%. At the group level, GPM declined 350bps Y/Y to 24.4%, mainly due to higher personnel costs. The bottom line was further pressured by higher lease-related finance costs, which increased by SAR 12.8mn Y/Y, alongside recording SAR 6.5mn in ECL provisions.

Inflight Catering (IFC) is expected to remain under pressure in FY26E, though long-term growth is supported by the aviation ramp-up: IFC segment has been contributing on an average of 68.2% of total revenue for the past 52 quarters, as the company's core business model was to provide its services to airline companies. However, in response to the increasing uncertainty, claims, and regional disruptions affecting its core revenue-generating business, the company has shifted toward a more diversified strategy. We expect the segment contribution to remain within the range of 50-55% during the forecast period, supported by the total order book for local carriers of 627 aircraft, along with the expected growth story of Riyadh Air and new license for international carriers. We expect flight numbers to remain under pressure in FY26E on continued high jet fuel prices, with flights served reaching 255.7k (down 2.8% Y/Y) in FY26E, dragged mainly by international flights at 114k (down 6.7% Y/Y). We expect the segment's revenue to reach SAR 1,520mn (down 4.4% Y/Y) in FY26E. However, as local carriers' fleets expand and passenger traffic recovers, we expect flights to reach 312.9k FY30E growing at 3.9% CAGR with an average of 52/48 domestic/international mix, driving IFC revenue to SAR 1,930mn by FY30E, a 4.3% CAGR over FY24-29E, down from our initial estimates of 11.1% due to i) Riyadh Air's contribution is expected to be slower than initially anticipated, as its launch, originally planned for 2025, was delayed due to aircraft delivery delays from Boeing, which has faced a series of manufacturing and safety issues. ii) The growing presence of international carriers might benefit Catrion initially however it might attract regional competition iii) potential switch to in-house catering for full-service carriers for more brand control and differentiation.

Recommendation **Overweight**

Target Price (SAR) **84.0**

Upside / (Downside)* **34.6%**

Source: Tadawul *prices as of 5th october 2026

Key Financials

SARmn (unless specified)	FY24	FY25	FY26E	FY27E
Revenues	2,299	2,441	2,824	3,099
Growth %	8%	6%	16%	10%
Gross Profit	642	692	729	862
Operating Income	361	365	375	460
Net Income	353	314	293	360
Growth %	25%	-11%	-7%	23%
EPS	4.3	3.8	3.6	4.4
DPS	2.3	2.3	2.0	2.3

Source: Company reports, Aljazeera Capital Research

Key Ratios

	FY24	FY25	FY26E	FY27E
Gross Margin	27.9%	28.3%	25.8%	27.8%
EBIT Margin	15.7%	14.9%	13.3%	14.8%
Net Margin	15.3%	12.8%	10.4%	11.6%
ROE	25.8%	20.7%	17.9%	20.1%
ROA	14.4%	10.2%	7.7%	8.3%
P/E (x)	28.4	20.3	18.7	15.3
P/B (x)	6.9	4.0	3.2	2.9
EV/EBITDA (x)	20.8	13.6	10.5	9.2
Dividend Yield	1.9%	3.0%	3.0%	3.4%

Source: Company reports, Aljazeera Capital Research

Key Market Data

Market Cap(bn)	5.5
YTD%	(22.3%)
52 week (High)/(Low)	102.2/61.9
Share Outstanding (mn)	82.0

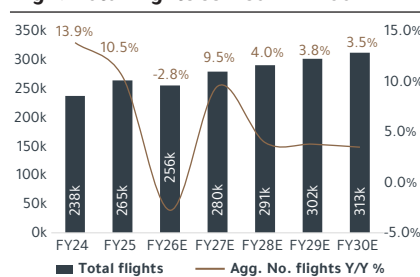
Source: Company reports, Aljazeera Capital Research

Price Performance (Indexed)



Source: Bloomberg, Aljazeera Capital Research

Fig 1: Total flights served FY24-30E



Source: Company reports, Aljazeera capital Research

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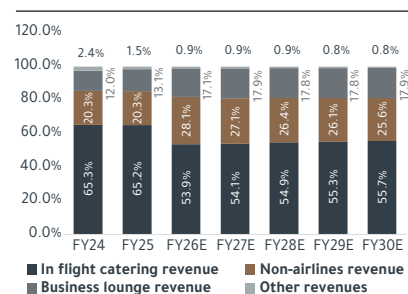
Strategic acquisitions, alongside non-airline backlog, support long-term topline growth 9% CAGR over

2024-29E: The company acquired a 55% stake in Al Khalejah Catering Co. (AKCC) for SAR 315.2mn upfront, with up to SAR 125.7mn in performance-based earn-outs payments linked to FY25, FY26 and FY27 targets, and holds a call option for an additional 15% within three years. AKCC operates in 31 airport and railway lounges across Saudi Arabia, alongside bakery, event F&B and concierge services, with 85+ hospitality outlets in total. The company generated SAR 216mn in revenue in 2024, up from SAR 160mn in 2023 and SAR 61mn in 2022. Along with Catrion's 16 lounges, we expect the lounge segment to reach SAR 483.7mn in FY26E, up 51.7% Y/Y, with AKCC contributing approx. SAR 230.4mn and expected to contribute on an average of 8% to the total topline in the forecasted period. We expect the segment to grow at a CAGR of 14.2% over FY25 to FY30E, reaching SAR 618.9mn. On the other hand, the company's focus on revenue diversification, particularly through healthcare sector and giga projects, is expected to support topline sustainability. The King Faisal Specialist Hospital & Research Center contract is expected to contribute approximately SAR 52.4mn annually over the next five years. In addition, the SAR 9.0bn Red Sea contract is expected to contribute SAR 400 to 450mn annually. Alongside other contracts, the company is increasingly focusing on the healthcare sector, where we expect further contract wins. We expect this segment to be a key growth engine for Catrion, with revenue reaching SAR 793mn in FY26E, up 60% Y/Y, and to grow at a CAGR of 12.4% over FY25 to FY30E to SAR 887.5mn. Revenue diversification, coupled with the expansion of local carriers' fleets, is expected to support overall revenue growth from SAR 2,824mn in FY26E to SAR 3,463mn FY30E. Our revenue projections are revised downwards to grow at a 8.3% CAGR over 2024-29E, versus previous estimate of 11.8%, reflecting downward pressure from IFC as well as a broader macroeconomic slowdown.

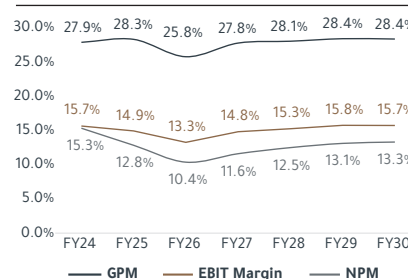
Exposure to governmental and semi-governmental entities remain a key risk: Catrion reported in 1H-26 that 53% of its receivables were attributable to government and semi-government clients, down from 71% in FY25. However, the concentration of receivables with Saudia, which accounts for 34% of total AR, remains a key risk. This concentration, coupled with a 48% Y/Y increase in accounts receivable in FY25E, has weighed on working capital, with the cash conversion cycle (CCC) increasing from 14 days in FY24 to 25days in FY25. We expect government and semi-government clients to account for an average of 60-65% of receivables over the forecast period, key contracts with Saudia and Riyadh Air support this assumption. As a result, we expect the CCC to temporarily increase to 153 days FY26E, driven by accounts receivable days rising to 304 (annualized 1H-26: 347 days) vs 174 (annualized 1H-25: 260) amid the recent economic cycle and slower government payment cycles. Thereafter, we expect the CCC to reach 153 in FY26E therefore to gradually recover over the forecast period as collections improve and working capital conditions stabilize reaching 88 days FY30E vs FY14-25 historical average of 78.

Capex is set to normalize, while leverage is expected to rise before a gradual deleveraging trajectory:

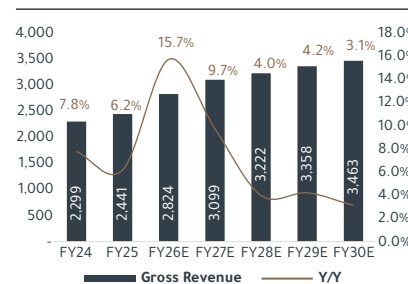
The company's expansion into non-airline segments drove net capex intensity to 21.6% in FY25, well above the 10yrs average 5.3%, mainly reflecting investments ahead of the Red Sea catering and laundry operations. We expect capex intensity to normalize to 8.4% in FY26E, gradually reverting to historical levels as the investment cycle shifts toward ongoing projects and maintenance capex. However, we acknowledge that as the company's asset base increases, absolute maintenance capex is also expected to rise to SAR 185-190mn. On the other hand, the ramp-up of contracts with Jeddah and Riyadh airports increased lease liabilities by 110% Y/Y to SAR 457mn in FY25. Together with the addition of AKCC, this should drive higher lease-finance costs over FY26E-27E, peaking at SAR 66mn before moderating as lease obligations are progressively paid down. leverage is forecast to rise to 1.33x in FY26E from 0.92x in FY25, reflecting higher working-capital needs and higher maintenance capex funding, before gradually declining to 0.60x by FY30E. Consequently, Interest coverage ratio expected to decline to 3.6x in FY26 from 7.5x in FY25 before reaching 5.9x in FY30E. We view the near-term increase in leverage as manageable, with normalization in capex and improving cash generation supporting a gradual balance-sheet recovery thereafter. We expect the company to record a bottom line of SAR 293mn in FY26E (down 6.5% Y/Y) due to the pressure from IFC revenue along with the raising finance cost. However, recovery is set at a CAGR 8.0% FY25-30E to SAR 461mn.

Fig 2: Revenue Contribution Mix


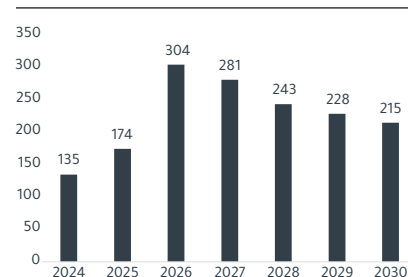
Source: Company reports, Aljazeera Capital Research

Fig 3: Profitability Trends


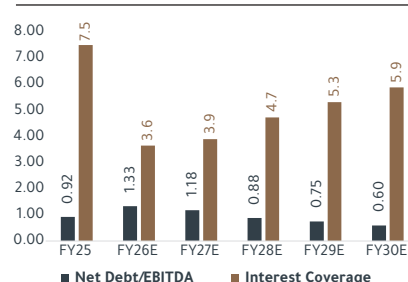
Source: Company reports, Aljazeera Capital Research

Fig 4: Revenue (SAR mn), Growth Y/Y


Source: Company reports, Aljazeera Capital Research

Fig 5: Days Sales Outstanding (DSO)


Source: Company reports, Aljazeera Capital Research

Fig 6: Leverage Level vs Interest Coverage


Source: Company reports, Aljazeera Capital Research

Downward revision in FY26 and FY27 estimates:

Metric (SAR mn)	Previous Estimate (FY26E)	Revised Estimate (FY26E)	Change (%)	Previous Estimate (FY27E)	Revised Estimate (FY27E)	Change (%)
Revenue	3,041	2,824	-7.13%	3,438	3,099	-9.85%
Gross Profit	866	729	-15.87%	990	862	-12.97%
EBIT Profit	446	375	-15.91%	518	460	-11.27%
Net Profit	387	293	-24.27%	456	360	-21.04%

Source: Aljazeera Capital Research

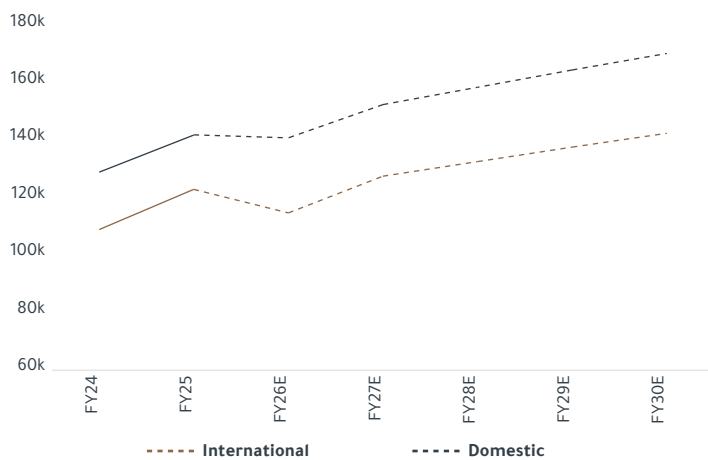
Investment thesis and valuation: Catrion is well positioned to capture the Kingdom’s upcoming international events and large-scale projects. However, recent regional tensions have shaken the company’s core segment, IFC, and we expect the aftermath of the situation to continue throughout the remainder of the year. As a result, we expect IFC revenue to decline by 4.4% Y/Y, pressured by a 2.8% Y/Y decline in flights served. However, long-term growth remains supported by the strong order book of local carriers, which stands at 627 aircraft. Accordingly, we expect the segment’s revenue to grow at a 3.9% Y/Y CAGR over FY25-30E. On the other hand, revenue diversification is expected to support long-term stability, with the non-airline segment set to become a key growth engine for Catrion. We expect non-airline revenue to reach SAR 793mn in FY26E, up 60% Y/Y, supported by Red Sea and expansions in the healthcare sector, and to grow at a CAGR of 12.4% over FY25-30E, reaching SAR 887.5mn. Revenue diversification, coupled with the expansion of local carriers’ fleets, is expected to support overall revenue growth from SAR 2,824mn in FY26E to SAR 3,463mn by FY30E. The company’s working capital remains constrained by a high concentration of accounts receivable, which remains a key risk. We expect capex intensity to normalize to 8.4% in FY26E, gradually reverting to historical levels as the investment cycle shifts toward ongoing projects and maintenance capex. Leverage is forecast to rise to 1.33x in FY26E from 0.92x in FY25, reflecting higher working-capital needs and increased funding requirements for maintenance capex, before gradually declining to 0.60x by FY30E. We apply a blended valuation approach for Catrion. Our 50% weightage to DCF (WACC = 9.8% and terminal growth = 2.5%), 50% weightage to P/E multiple of 19.0x for FY27E EPS (discounted on the cost of equity 10.5%), help us arrive at a revised blended TP of **SAR 84.0 per share**, which implies an upside of 34.6%. Hence, we retain our rating at “**Overweight**”.

Blended Valuation

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF	85.1	50%	42.5
P/E (19.0x FY27E - discounted)	83.0	50%	41.5
Weighted average price target			84.0
Up/Downside (%)			34.6%

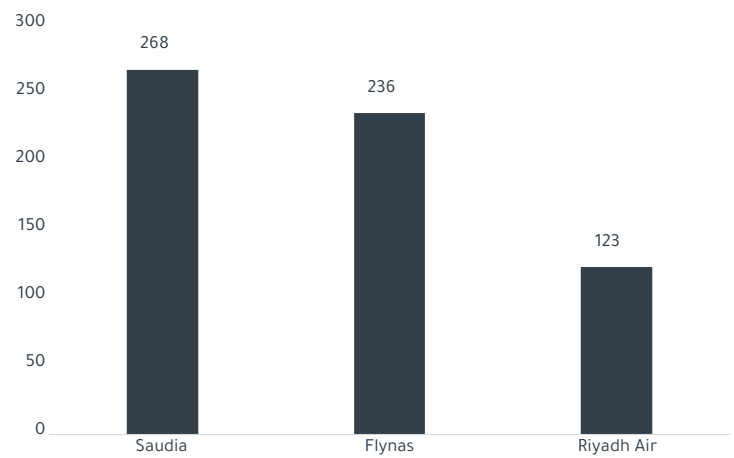
Source: Tadawul *prices as of 5th October 2026

Fig 7: International vs Domestic flights



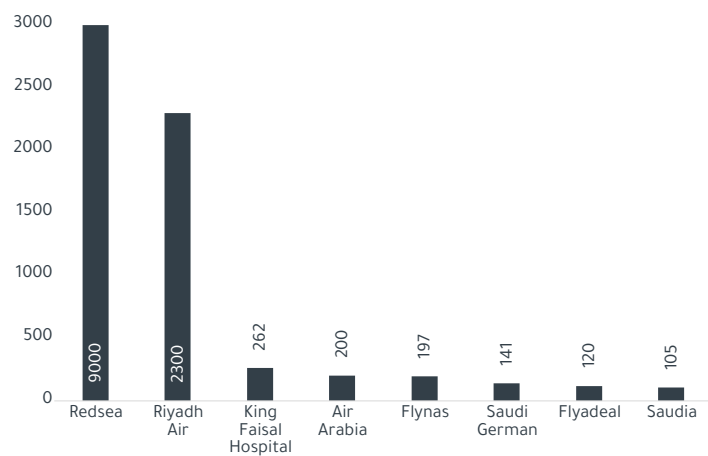
Source: Company reports, Aljazira capital Research

Fig 8: Local Carriers order book



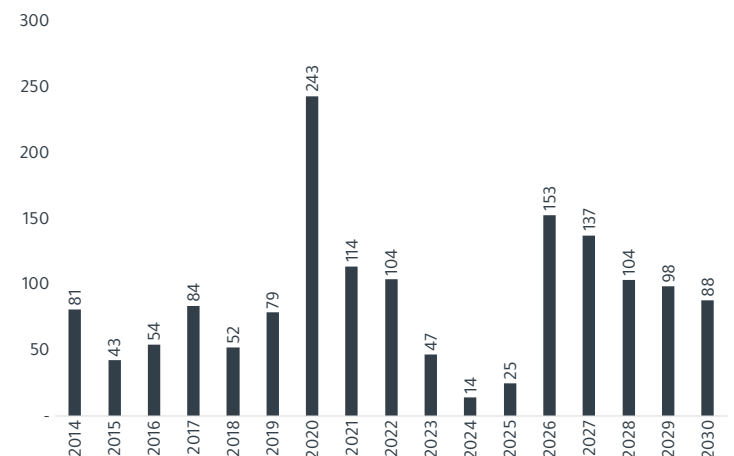
Source: Company reports, Aljazira Capital Research

Fig 9: Key Contracts (SAR mn)



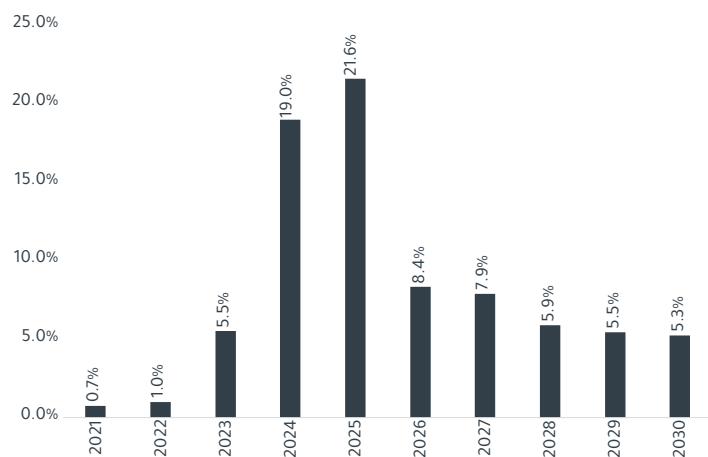
Source: Company reports, Aljazira Capital Research

Fig 10: Cash Conversion Cycle (FY24-30E)



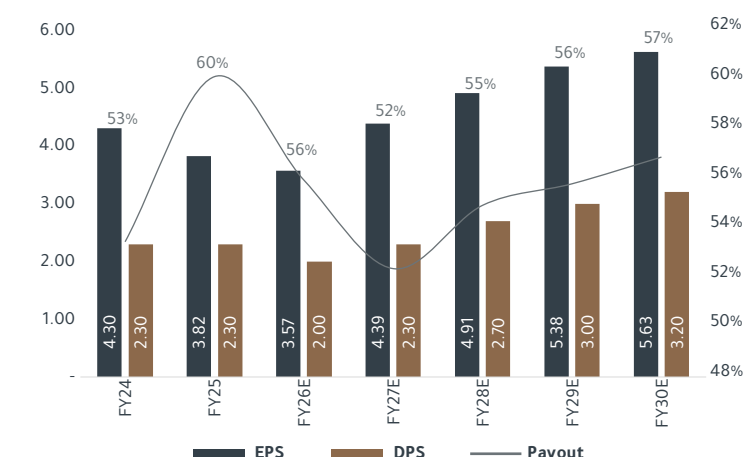
Source: Company reports, Aljazira Capital Research

Fig 11: Net Capex Intensity



Source: Company reports, Aljazira Capital Research

Fig 12: DPS and EPS



Source: Company reports, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
Income statement							
Gross Revenue	2,299	2,441	2,824	3,099	3,222	3,358	3,463
Y/Y	7.8%	6.2%	15.7%	9.7%	4.0%	4.2%	3.1%
Cost of Revenue	(1,658)	(1,749)	(2,096)	(2,238)	(2,318)	(2,403)	(2,480)
Gross Profit	642	692	729	862	904	955	983
Gross margin	27.91%	28.34%	25.80%	27.80%	28.07%	28.44%	28.39%
General & Administrative Expense	(298)	(364)	(350)	(415)	(429)	(443)	(457)
Operating Income	361	365	375	460	492	529	545
Y/Y	18.4%	1.2%	2.8%	22.6%	7.0%	7.7%	3.0%
Operating margin	15.68%	14.95%	13.28%	14.83%	15.26%	15.77%	15.74%
Finance costs, net	(20)	(44)	(84)	(98)	(90)	(88)	(84)
Income before Zakat	376	331	308	382	427	469	491
Zakat	(23)	(17)	(15)	(21)	(23)	(25)	(27)
Net income	353	314	293	360	403	441	461
Y/Y	24.8%	-11.1%	-6.5%	22.9%	11.9%	9.4%	4.6%
Net Margins	15.34%	12.85%	10.38%	11.62%	12.51%	13.13%	13.32%
EPS	4.30	3.82	3.57	4.39	4.91	5.38	5.63
DPS	2.30	2.30	2.00	2.30	2.70	3.00	3.20
Balance sheet							
Assets							
Cash and cash equivalents and Short term Investment	631	398	466	504	675	723	768
Other current assets	962	1,259	1,409	1,409	1,315	1,304	1,288
Total current assets	1,593	1,657	1,875	1,912	1,991	2,027	2,056
Property Plant and equipment	805	1,263	1,431	1,564	1,636	1,698	1,757
Right of use assets	211	441	414	484	539	598	660
Other non-current assets	78	89	473	473	472	472	472
Total assets	2,688	3,452	4,193	4,433	4,638	4,795	4,945
Liabilities							
Total current liabilities	739	925	1,142	1,196	1,231	1,215	1,231
Total non-current liabilities	497	951	1,315	1,329	1,315	1,292	1,224
Total liabilities	1,236	1,877	2,457	2,525	2,546	2,507	2,455
Shareholders' Equity							
Share capital	820	820	820	820	820	820	820
Statutory reserve	246	246	246	246	246	246	246
Retained earnings	386	509	638	809	991	1,186	1,385
Total shareholders' equity	1,452	1,575	1,704	1,875	2,057	2,252	2,451
Total liabilities and shareholders' equity	2,688	3,452	4,193	4,433	4,638	4,795	4,945
Cashflow statement							
Operating activities	462	312	546	609	754	674	744
Investing activities	(442)	(900)	(746)	(430)	(367)	(368)	(372)
Financing activities	(91)	355	267	(142)	(215)	(259)	(327)
Change in cash	(71)	(233)	68	38	172	48	45
Ending cash balance	631	398	466	504	675	723	768
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	2.2	1.8	1.6	1.6	1.6	1.7	1.7
Quick ratio (x)	1.8	1.6	1.4	1.4	1.4	1.5	1.5
Profitability ratios							
GP Margin	27.9%	28.3%	25.8%	27.8%	28.1%	28.4%	28.4%
Operating Margins	15.7%	14.9%	13.3%	14.8%	15.3%	15.8%	15.7%
EBITDA Margin	20.4%	20.6%	21.3%	22.2%	22.7%	23.1%	23.0%
Net Margins	15.3%	12.8%	10.4%	11.6%	12.5%	13.1%	13.3%
ROE	25.8%	20.7%	17.9%	20.1%	20.5%	20.5%	19.6%
ROA	14.4%	10.2%	7.7%	8.3%	8.9%	9.3%	9.5%
Market valuation ratios							
EV	9,752	6,821	6,294	6,303	6,138	6,078	5,969
EV/sales (x)	4.2	2.8	2.2	2.0	1.9	1.8	1.7
EV/EBITDA (x)	20.8	13.6	10.5	9.2	8.4	7.8	7.5
EPS (SAR)	4.30	3.82	3.57	4.39	4.91	5.38	5.63
BVPS (SAR)	17.7	19.2	20.8	22.9	25.1	27.5	29.9
Market price (SAR*)	122.00	77.53	67.00	67.00	67.00	67.00	67.00
Market Cap (SAR mn)	10,004	6,357	5,494	5,494	5,494	5,494	5,494
DPS	2.3	2.3	2.0	2.3	2.7	3.0	3.2
Dividend yield	1.9%	3.0%	3.0%	3.4%	4.0%	4.5%	4.8%
P/E (x)	28.4	20.3	18.7	15.3	13.6	12.5	11.9
P/BV (x)	6.9	4.0	3.2	2.9	2.7	2.4	2.2

Source: Tadawul *prices as of 20th September 2026

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RESEARCH
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Aljazira Capital, the investment arm of Bank Aljazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. Aljazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. Aljazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, Aljazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING
TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer

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