Alkhorayef Water and Power Technologies Co.

Investment Update

aljazira capital الجزيرة كابيتال

Downward revision of estimates amid slower backlog recognition, maintain "Overweight" backed by long-term prospects and valuation attractiveness

Alkhorayef Water & Power Technologies (AWPT) remains well-positioned to benefit from strong project inflows in Saudi Arabia's water and wastewater sector, supported by significant government investments, a solid execution track record, a healthy win rate (~40%), and a robust tender pipeline. AWPT's backlog grew significantly to SAR 10.1bn as of Q1-26. However, revenue declined 19.8% Y/Y in H1-26 due to project handovers and slower initial revenue recognition, making it likely that FY26 backlog recognition will miss the earlier SAR 2.5bn target and prompting a 12% downward revision to top-line estimates. Because ~40% of the SAR 10.1bn backlog is expected to generate revenue beyond FY30E, revenue recognition over the FY25-30E period will be distributed more evenly over an extended horizon rather than concentrated in the near term. We forecast revenue CAGR of 6.9% during FY25-30E. On profitability, although, H1-26 recorded sharp uptick in gross margins to 22.7%, H2-26 gross margins are likely to normalize as material and employee expenses ramp up with new project starts. Overall, we estimate AWPT to exceed the upper end of its 9-11% FY26E net margin guidance. Long-term profitability is expected to recover steadily, with gross margins reaching 20.4% and net margins expanding to 12.6% by FY30E (after dipping to 19.2% and 11.0% respectively in FY27E), maintaining a strong double-digit net income CAGR (11.1%) over the forecast period. Following our revision to estimates we reduce TP on AWPT to SAR 141.4/share (from SAR 161.5).

Q2-26 earnings declined Q/Q due to elevated OPEX and non-OPEX, despite GP margin expansion; revenue flat: AWPT's net profit fell 1.3% Q/Q to SAR 64mn in Q2-26, in line with AJBC's estimate of SAR 62mn. GP margin expansion despite flat revenue was offset by higher OPEX and net non-operating expenses. Revenue inched up 0.5% Q/Q to SAR 516mn, below our estimate of SAR 555mn, indicating lack of start of new contracts as the company transitions to new contracts after the completion and handover of projects in the previous quarter. The topline declined 20.2% Y/Y. Gross profit increased 10.8% Q/Q to SAR 123mn (AJBC's estimate: SAR 111mn) supported by ~220bps Q/Q to 23.8%, above our expectation of 20.1%. Operating profit rose 5.7% Q/Q to SAR 79mn (AJBC estimate: SAR 75mn) with pressure from 21.4% Q/Q increase in OPEX. Operating margin increased to 15.3% vs. 14.6% in Q1-26 and above our estimation of 13.5%. However, OPEX-to-sales ratio of 8.5% was higher than our expectation.

Slower-than-expected pace of backlog recognition prompts downward revision to estimates: AWPT's revenue declined 19.8% Y/Y in H1-26 owing to completion and handover of projects. The revenue recognition has been weaker than expected, potentially implying delay in start of new projects. Thus, we believe backlog recognition may miss earlier guided level of SAR 2.5bn in FY26. We revised our topline estimate downward by 12.0%. Additionally, we expect gross margins to be at more normalized level in H2, as material and employee costs are likely to increase once new projects start. We expect AWPT to exceed upper end of guided net margin range of 9-11% for FY26 due to strong H1 margins. Thus, our revised FY26E net income stands at SAR 267mn (-23.1% vs. previous estimate) Delayed revenue recognition is expected to spill over next year but with ~40% of existing backlog (SAR 10.1bn as of Q1-26) expected to generate revenue beyond FY30E, we expect a more even distribution of recognition over the next few years.

AWPT maintains an unrivaled leadership position as Saudi Arabia's premier integrated water infrastructure company: AWPT is uniquely positioned to capture outsized market share from Saudi Arabia's aggressive sector expansion. This backdrop is supported by National Water Company's (NWC) USD 74.61bn 5-year capital plan spanning 3,054 projects, NWC's SAR 12.5bn LTOM Phase 2 privatization program, SWPC's >USD 20.0bn pipeline across 32 BOT projects, and WTTCO's USD 51.0bn combined capital and privatization program.

Recommendation	**Overweight**
Target Price (SAR)	**141.4**
Upside / (Downside)*	**40.4%**

Source: Tadawul *prices as of 3rd of August 2026

Key Financials

SAR mn (unless specified)	FY23	FY24	FY25	FY26E
Revenues	1,680	1,952	2,474	2,209
Growth %	104.3%	16.2%	26.7%	-10.7%
Gross Profit	264	384	461	471
Net Income	140	230	256	267
Growth %	30.3%	64.3%	11.2%	4.3%
EPS	4.00	6.57	7.31	7.62
DPS	0.00	1.50	1.75	2.25

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25	FY26E
Gross Margin	15.7%	19.7%	18.6%	21.3%
Operating Margin	12.0%	15.3%	12.1%	14.2%
Net Margin	8.3%	11.8%	10.3%	12.1%
ROE	29.9%	35.0%	30.2%	26.4%
ROA	9.7%	11.3%	9.4%	8.2%
P/E (x)	34.6	22.8	18.4	13.2
P/B (x)	9.0	6.8	5.1	3.2
EV/EBITDA (x)	21.2	15.9	14.9	11.2
Dividend Yield	0.0%	1.0%	1.3%	2.2%

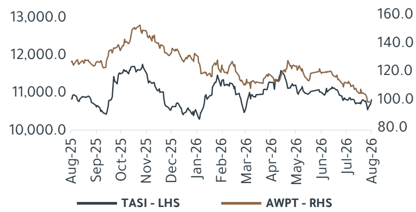
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	3.5
YTD%	-25.1%
52 week (High)/(Low)	157.20/98.40
Share Outstanding (mn)	35.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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August 2026

Alkhorayef Water and Power Technologies Co.

Investment Update

Revision in FY26 and FY27 estimates:

Metric (SAR mn)	Previous Estimate (FY26E)	Revised Estimate (FY26E)	Change (%)	Previous Estimate (FY27E)	Revised Estimate (FY27E)	Change (%)
Revenue	2,509	2,209	-12.0%	3,435	2,817	-18.0%
Net Profit	347	267	-23.1%	409	310	-24.3%

Source: Company reports, Aljazira Capital

Highlighting its competitive strength, AWPT has secured over SAR 16bn in new privatization contracts since 2023, driving its consolidated revenue backlog to a record SAR 10.12bn as of Q1-26 (plus SAR 3.0bn in associate companies). AWPT's backlog visibility is anchored by major project wins, including LTOM Packages 5, 6, and 7 (valued at >SAR 5.0bn combined), the landmark SAR 8.4bn Rayis-Rabigh IWTP2 project, and recent selections as Preferred Bidder for the Jazan SSTP cluster and Ma'aden's Ar Rjum Water Pipeline Package B. Strong project pipeline combined with proven execution capabilities assures growth through 2030 and beyond

Margins to improve gradually post normalization in FY27E, driving double-digit bottom-line expansion: AWPT's profitability trajectory is expected to exhibit a gradual improvement over the longe term. H1-26 delivered a sharp gross margin rebound to 22.7%. However, gross margins are expected to normalize from H2-26 onward as employees and material expenditure ramp up with the start of new contracts. Nonetheless, we believe strong H1 positions the company to comfortably beat the upper end of its 9-11% FY26E net margin guidance. Looking further ahead, following a brief inflection in FY27E where gross and net margins are projected to dip to 19.2% and 11.0% respectively, profitability is set for a steady multi-year recovery. Supported by a growing mix of long-duration O&M/PPP concessions, operational scale, and stabilizing cost profiles, gross margins are forecasted to rebuild to 20.4% while net margins expand to 12.6% by FY30E, ultimately driving a strong 11.1% net income CAGR over the forecast period.

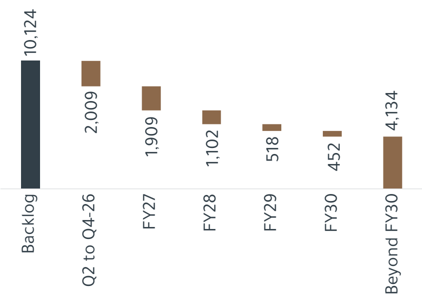
AJBC view and valuation: AWPT's Q2-26 earnings were broadly in line with our expectations but revenue recognition was weaker probably due to a delay in start of new projects. Nevertheless, despite downward revision to near term estimate we remain positive on AWPT, given its backlog of SAR 10.1bn as of Q1-26 and its unmatched position in the Saudi market. Moreover, the company remains key beneficiary the robust momentum in Saudi Arabia's water and wastewater infrastructure development. Our updated valuation assigning 50% weightage to 17x P/E multiple to FY27E EPS and 50% weightage to DCF (2.5% terminal growth and 7.8% WACC) yields a TP of **SAR 141.4/share** (earlier SAR 161.5). With recent sharp decline in the stock price (-25.1% YTD), AWPT currently trades at an attractive P/E multiple of 11.4x and a dividend yield of 3.0% based on our FY27E estimates. Thus, given the healthy long-term prospects and strong upside potential, we maintain our "**Overweight**" recommendation.

Blended valuation summary

	Fair Value	Weight	Weighted Average
DCF	139.7	50%	69.8
P/E (17.0x FY27 EPS, discounted at CoE)	143.1	50%	71.5
Weighted average 12-month TP			**141.4**
Current market price (SAR /share)			100.7
Expected Capital Gain			**40.4%**

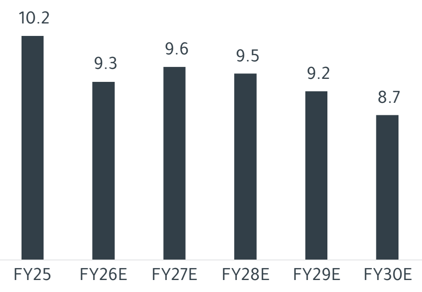
Source: Aljazira Capital Research

Fig.1 Backlog recognition timeline (SAR mn)



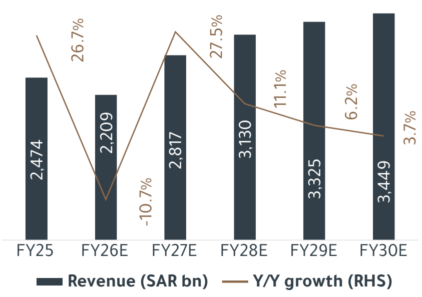
Source: Company reports, Aljazira Capital; as of Q1-26

Fig.2 Backlog projection (SAR bn)



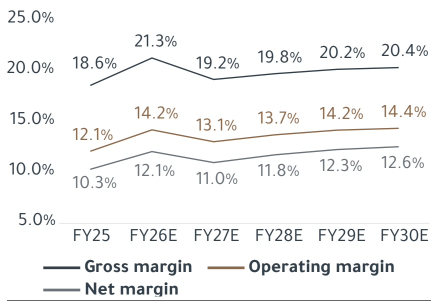
Source: Company reports, Aljazira Capital

Fig.3 Revenue (SAR mn) and Y/Y change



Source: Company reports, Aljazira Capital

Fig.4 AWPT profitability evolution



Source: Company reports, Aljazira Capital

Key Financial Data

Amount in SARmn, unless otherwise specified	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
Income statement								
Revenues	1,680	1,952	2,474	2,209	2,817	3,130	3,325	3,449
Y/Y	**104.3%**	**16.2%**	**26.7%**	**-10.7%**	**27.5%**	**11.1%**	**6.2%**	**3.7%**
Cost	(1,416)	(1,568)	(2,013)	(1,737)	(2,276)	(2,510)	(2,653)	(2,745)
Gross profit	**264**	**384**	**461**	**471**	**541**	**620**	**672**	**704**
Gross margin	**15.7%**	**19.7%**	**18.6%**	**21.3%**	**19.2%**	**19.8%**	**20.2%**	**20.4%**
Selling and distribution expenses	(1)	(6)	(4)	(5)	(6)	(6)	(7)	(7)
General and administrative expenses	(67)	(76)	(169)	(149)	(168)	(184)	(194)	(201)
Other income/expenses	8	16	12	2	7	7	7	7
Operating profit	**202**	**298**	**300**	**314**	**368**	**430**	**472**	**496**
Y/Y	**45.7%**	**48.1%**	**0.5%**	**4.9%**	**17.1%**	**16.8%**	**9.7%**	**5.2%**
Operating margin	**12.0%**	**15.3%**	**12.1%**	**14.2%**	**13.1%**	**13.7%**	**14.2%**	**14.4%**
Financing Expense (net)	(41)	(48)	(65)	(62)	(65)	(60)	(55)	(50)
Income before zakat	**155**	**247**	**267**	**292**	**337**	**401**	**445**	**471**
Zakat	(15)	(17)	(11)	(23)	(27)	(32)	(36)	(38)
Net income	**140**	**230**	**256**	**267**	**310**	**369**	**409**	**434**
Y/Y	**30.3%**	**64.3%**	**11.2%**	**4.3%**	**16.1%**	**19.1%**	**10.9%**	**6.0%**
Net margin	**8.3%**	**11.8%**	**10.3%**	**12.1%**	**11.0%**	**11.8%**	**12.3%**	**12.6%**
EPS	**4.00**	**6.57**	**7.31**	**7.62**	**8.85**	**10.53**	**11.69**	**12.39**
DPS	**0.00**	**1.50**	**1.75**	**2.25**	**3.00**	**3.50**	**4.00**	**4.50**
Balance sheet								
Assets								
Cash and bank balances	69	322	258	535	560	613	740	871
Inventories	129	123	113	114	125	131	138	143
Prepayments and other assets	125	179	201	210	225	250	266	276
Contract assets	611	564	494	636	656	686	710	737
Trade and other receivables	437	462	826	728	889	944	958	975
Property and equiptment	308	341	333	332	335	339	338	337
Total assets	**1,702**	**2,380**	**3,075**	**3,404**	**3,640**	**3,814**	**4,001**	**4,189**
Liabilities & owners' equity	**43%**	**-8%**	**-12%**	**29%**	**3%**	**5%**	**4%**	**4%**
Total current liabilities	961	1,376	1,345	1,287	1,318	1,296	1,264	1,226
Total non-current liabilities	204	228	814	1,014	1,014	964	914	864
Share capital	250	350	350	350	350	350	350	350
Reserves	282	412	554	742	947	1,193	1,462	1,738
Retained earnings	236	366	508	696	900	1,147	1,416	1,692
Total owners' equity	**538**	**776**	**916**	**1,104**	**1,308**	**1,555**	**1,824**	**2,100**
Total equity & liabilities	**1,702**	**2,380**	**3,075**	**3,404**	**3,640**	**3,814**	**4,001**	**4,189**
Cashflow statement								
Operating activities	4	195	(240)	169	195	341	428	447
Investing activities	(56)	(98)	(55)	(60)	(65)	(65)	(61)	(59)
Financing activities	37	155	231	168	(105)	(223)	(240)	(257)
Change in cash	**(15)**	**253**	**(64)**	**277**	**25**	**53**	**127**	**130**
Ending cash balance	**69**	**322**	**258**	**535**	**560**	**613**	**740**	**871**
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.4	1.3	1.4	1.7	1.9	2.0	2.2	2.5
Quick ratio (x)	1.3	1.2	1.3	1.7	1.8	1.9	2.1	2.3
Profitability ratios								
Gross profit margin	15.7%	19.7%	18.6%	21.3%	19.2%	19.8%	20.2%	20.4%
Operating margin	12.0%	15.3%	12.1%	14.2%	13.1%	13.7%	14.2%	14.4%
EBITDA margin	14.9%	18.2%	14.7%	17.0%	15.3%	15.7%	16.0%	16.1%
Net profit margin	8.3%	11.8%	10.3%	12.1%	11.0%	11.8%	12.3%	12.6%
Return on assets	9.7%	11.3%	9.4%	8.2%	8.8%	9.9%	10.5%	10.6%
Return on equity	29.9%	35.0%	30.2%	26.4%	25.7%	25.8%	24.2%	22.1%
Leverage ratio								
Debt / equity (x)	1.0	0.9	1.1	1.1	0.9	0.7	0.6	0.4
Market/valuation ratios								
EV/EBITDA (x)	21.2	15.9	14.9	11.2	9.8	8.2	7.2	6.4
EPS (SAR)	4.00	6.57	7.31	7.62	8.85	10.53	11.69	12.39
BVPS (SAR)	15.36	22.18	26.16	31.54	37.38	44.42	52.10	59.99
DPS (SAR)	0.00	1.50	1.75	2.25	3.00	3.50	4.00	4.50
Market price (SAR)*	138.3	150.0	134.4	100.7	100.7	100.7	100.7	100.7
Market-Cap (SAR mn)	4,840	5,250	4,706	3,525	3,525	3,525	3,525	3,525
P/E ratio (x)	34.6	22.8	18.4	13.2	11.4	9.6	8.6	8.1
P/BV ratio (x)	9.0	6.8	5.1	3.2	2.7	2.3	1.9	1.7
Dividend yield	0.0%	1.0%	1.3%	2.2%	3.0%	3.5%	4.0%	4.5%

Source: Company reports, Aljazira Capital Research; * price as of August 03, 2026

الجزيرة كابيتال
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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