

Q2 26

Data centres and digital infrastructure to drive growth

We remain Overweight on STC with a revised PT of SAR52.3. STC's outlook remains positive with data centre expansion and increasing contribution from its digital ecosystem, particularly Center3 and STC Bank, as well as the large government project driving long-term growth. We expect revenues to grow by 5.7% yoy in 2026f to SAR82.2bn and to record a 2025-2030f CAGR of 5.3%. Accordingly, we forecast adjusted earnings to grow to SAR16.4bn, reflecting a 2025-2028f CAGR of 6.5%. The stock trades at 2026f P/E and EV/EBITDA of 15.5x and 8.1x, higher than the peer group average of 14.9x and 7.2x, which we believe is justified driven by the growth potential across multiple verticals.

- **Data centres and STC Bank to support medium-term growth**

We expect STC's medium-term growth to be supported by its data centre expansion, rising contribution from its digital ecosystem and the large government project, as the company continues to diversify beyond core telecom operations. At segment level, Center3 expected to record a 2025-28f revenue CAGR of 11.6%, to reach cSAR2.73bn, supported by strong demand for data centres and planned capacity addition. STC Bank continues to scale with customer base surpassing 8mn and revenues are expected to grow at 2025-28f CAGR of 13.0%, supporting diversification. On the other hand, we expect Solutions revenue growth to moderate to a 2025-28f CAGR of c6.9%, reflecting changes in project allocation from STC and a more competitive environment in outsourcing and digital services. Channels is expected to record a slight decline in 2026f before recovering from 2027f onwards, with revenues expected to grow at a 2025-28f CAGR of c1.0%. In general, we expect STC topline to grow by 5.7% yoy to SAR82.2bn and to record a 2025-28f CAGR of 5.3%, with the large government project expected to start contributing to the topline from Q4 26f. This is broadly in line with the company's guidance of topline growth of c5.0%.

- **EBITDA and earnings growth to remain strong**

We expect EBITDA growth to remain strong, recording a 2025-28f CAGR of 7.1% to SAR30.1bn, with EBITDA margin growing steadily from c31.4% in 2025 to c33.0% by 2028f, supported by rising share of higher margin STC Bank and data centre business, and ongoing implementation of efficiency measures. However, higher depreciation on the back of elevated capex is expected to weigh on EBIT in 2026f, with margin declining from 18.6% in 2025 to 18.4% in 2026f, before recovering to 19.7% by 2028f. Overall, we expect EBIT to record a 2025-28f CAGR of 7.5% to SAR18.0bn. At the net income level, we expect adjusted earnings to record a 2025-28f CAGR of 6.5% to SAR16.4bn, supported by strong revenue growth and contribution from digital subsidiaries.

- **Near term cash flows to reflect higher capex and working capital investments**

Despite strong growth in profitability, STC's near term free cashflow generation may come under pressure due to elevated capex (guidance of 15%-17.5% for 2026-27f) and rising working capital requirements. We expect total capex spending of cSAR29.2bn over 2026-27f (vs total capex of cSAR23bn in 2024-25), driven by continued investments in data centers and key projects, while working capital investment is also likely to rise due to additional administrative requirements associated with large public sector contracts. Accordingly, free cash flow conversion is projected at c30% in 2026f before improving to c40% by 2028f as capex spending normalizes. We note that STC reiterated its commitment for quarterly pay-out, implying annual DPS of SAR2.2, while remaining open to new M&A opportunities.

- **Remain Overweight with a revised PT of SAR52.3**

We maintain our Overweight rating on STC with a revised PT of SAR52.3, supported by improving earnings visibility from data centre expansion and contribution from large-scale projects. The stock trades at 2026f P/E and EV/EBITDA of 15.5x and 8.1x, vs the peer group average of 14.9x and 7.2x, respectively which we believe is justified due to its strong profitability outlook.

Summary Financials

SAR mn	2025	2026f	2027f	2028f	CAGR
Revenues	77,819	82,230	86,577	90,969	5.3%
Gross income	37,700	40,218	42,579	44,992	6.1%
Gross margin (%)	48.4%	48.9%	49.2%	49.5%	
EBITDA	24,469	26,327	28,169	30,061	7.1%
EBITDA Margin (%)	31.4%	32.0%	32.5%	33.0%	
Adjusted Net income	13,557*	13,692	15,000	16,392	6.5%
Adj. Net margin (%)	17.4%	16.7%	17.3%	18.0%	
Adj. EPS (SAR)	2.71	2.74	3.00	3.28	6.5%

Source: The company, SNB Capital Research * adjusted for losses from discontinued operations and tax reversals

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OVERWEIGHT

Price target (SAR)	52.3
Current price (SAR)	42.5
Upside/Downside (%)	23.1%

VALUATION MULTIPLES

	25	26f	27f
P/E (x)	14.3	15.5	14.2
P/B (x)	2.5	2.5	2.4
EV/EBITDA (x)	8.8	8.1	7.6
Div Yield (%)	5.2	5.2	5.2

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

Investor	% Ownership
PIF	62.0%
Foreign Investment	9.9%

Source: Saudi Exchange, SNB Capital. As of 06 April 2026

STOCK DETAILS

M52-week range H/L (SAR)	48.3/40.2
Market cap (USD mn)	56,667
Shares outstanding (mn)	5,000
Listed on exchanges	Saudi Exchange

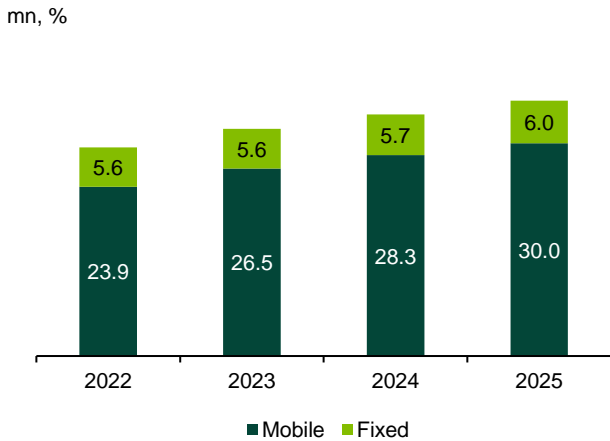
Price perform (%)	1M	3M	12M
Absolute	1.2	0.6	(3.3)
Rel. to market	(3.3)	(8.9)	(5.0)

Avg daily turnover (mn)	SAR	USD
3m	125.1	33.4
12m	145.2	38.7

Reuters code	7010.SE
Bloomberg code	STC.AB
	www.stc.com.sa

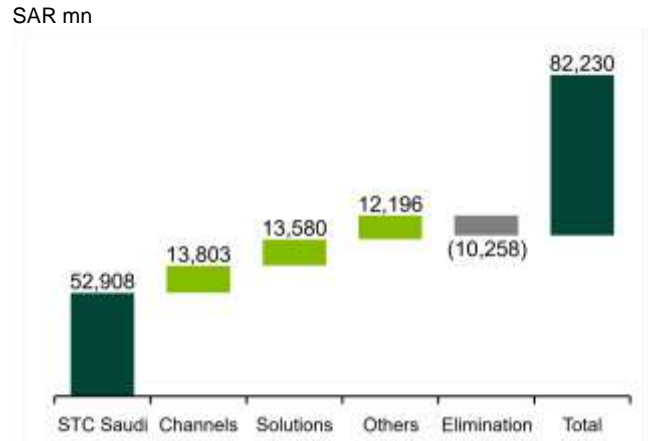
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Exhibit 1: STC KSA - Solid subscriber base



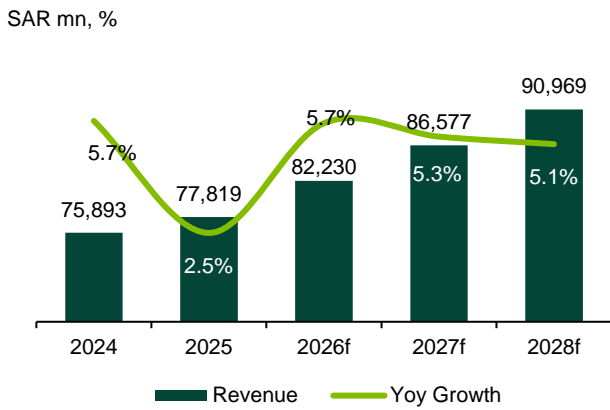
Source: STC, SNB Capital Research

Exhibit 2: Revenue breakdown by segments (2026f)



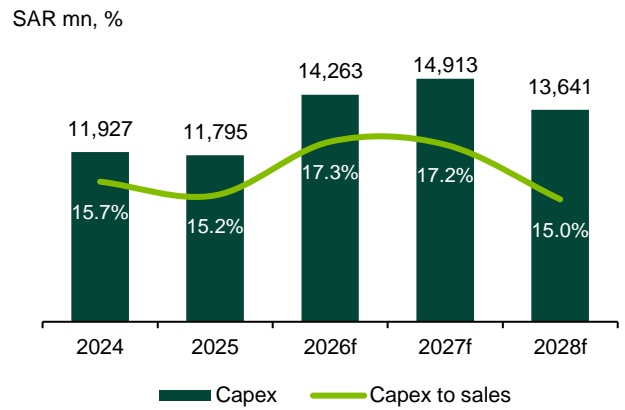
Source: STC, SNB Capital Research

Exhibit 3: Revenue growth to remain strong



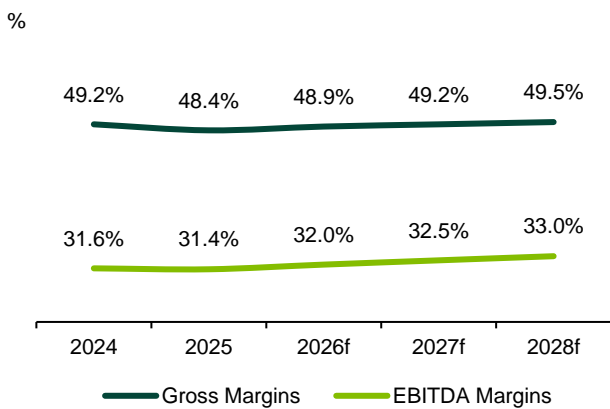
Source: STC, SNB Capital Research

Exhibit 4: Capex spending is expected to remain elevated



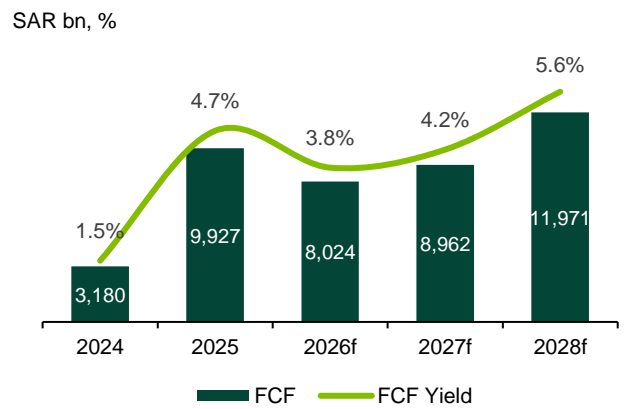
Source: STC, SNB Capital Research

Exhibit 5: Margin trends



Source: STC, SNB Capital Research

Exhibit 6: Strong cashflow generation despite heavy capex



Source: STC, SNB Capital Research

Key risks

- Any weakness in high margin business units such as 5G, STC Bank and Data center businesses will have a negative impact on our earnings estimates and valuation.
- Any delay in data center capacity expansion and underutilization of its capacity will impact STC's revenue growth.
- Upside Potential:** The previously signed government project has the potential to further increase revenues and earnings.

Valuation

We maintain our Overweight rating with a PT of SAR52.3. To determine our PT, we have assigned a 70% weight to DCF valuation, 15% weight to P/E and 15% to the EV/EBITDA. Below are our key inputs.

Exhibit 7: Valuation summary

				PT	Weights
Risk free	US 10-year	4.16%	DCF	54.4	70%
Adj. Beta	5-year weekly	0.75	P/E	48.8	15%
WACC		8.49%	EV/EBITDA	46.3	15%
Terminal Growth rate		2.50%	Price Target (SAR)	52.3	

Source: SNB Capital Research estimates

Sensitivity analysis

Given the sensitivity of valuations to both terminal growth and WACC, a sensitivity analysis is carried out on changes to these variables

Exhibit 8: DCF valuation – sensitivity analysis (SAR)

		WACC				
		6.5%	7.5%	8.5%	9.5%	10.5%
Terminal growth	1.5%	61.3	54.0	48.8	44.9	41.9
	2.0%	66.4	57.5	51.4	46.9	43.4
	2.5%	72.8	61.7	54.4	49.1	45.2
	3.0%	81.0	66.9	57.9	51.7	47.2
	3.5%	91.9	73.3	62.2	54.7	49.4

Source: SNB Capital Research

Change in estimates

We have reduced our 2026f-27f revenue and profitability estimates due to weakness in Channels revenue and moderating growth in Solutions' business while we have maintained the net income estimates broadly unchanged considering the growing contribution from data centre business and STC bank.

Exhibit 9: Changes to estimates

In SAR mn, unless otherwise stated

	Old 2026f	New 2026f	% Chg	Old 2027f	New 2027f	% Chg
Revenue	83,993	82,230	(2.1)%	89,712	86,577	(3.5)%
EBIT	15,358	15,107	(1.6)%	44,393	42,579	(4.1)%
Net income	13,573	13,692	0.9%	15,129	15,000	(0.9)%
Price Target	SAR			53.0	52.3	(1.3)%

Source: SNB Capital Research estimates

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Financials

Exhibit 10: Income Statement

In SAR mn, unless otherwise stated

	2025	2026f	2027f	2028f
Revenue	77,819	82,230	86,577	90,969
Growth (%)	2.5	5.7	5.3	5.1
Cost of services	40,119	42,012	43,998	45,978
Gross income	37,700	40,218	42,579	44,992
Growth (%)	1.0	6.7	5.9	5.7
Gross margin (%)	48.4	48.9	49.2	49.5
Operating expenses	13,230	13,891	14,411	14,931
Opex as % of revenue	17.0	16.9	16.6	16.4
EBITDA	24,469	26,327	28,169	30,061
Growth (%)	2.2	7.6	7.0	6.7
EBITDA margin (%)	31.4	32.0	32.5	33.0
Dep. & Amortization	10,031	11,220	11,671	12,105
EBIT	14,438	15,107	16,497	17,955
Growth (%)	0.1	4.6	9.2	8.8
EBIT margin (%)	18.6	18.4	19.1	19.7
Interest income	1,276	1,236	1,253	1,292
Interest Expense	1,125	1,124	1,103	1,082
Other income/(expenses)	133	222	269	321
PBT	14,723	15,441	16,916	18,486
Tax (Zakat)	(466)	1,467	1,607	1,756
Income from disc. ops	(54)	0	0	0
Minority interests	(307)	(282)	(309)	(338)
Net income	14,828	13,692	15,000	16,392
Adjusted net income	13,557	13,692	15,000	16,392
Growth (%)	26.5	1.0	9.6	9.3
Adjusted net margin (%)	17.4	16.7	17.3	18.0
Adjusted EPS (SAR)	2.71	2.74	3.00	3.28
DPS (SAR)	2.20	2.20	2.20	2.20

Source: The company reports, SNB Capital Research estimates

Exhibit 11: Balance Sheet

In SAR mn, unless otherwise stated

	2025	2026f	2027f	2028f
Cash & cash equivalents	13,376	12,748	13,254	16,171
Short-term investments	1,704	1,504	1,004	1,004
Accounts receivable	26,727	29,077	31,475	33,694
Inventories	1,923	1,956	1,989	2,078
Other current assets	16,208	16,096	15,992	15,965
Total current assets	58,016	59,425	61,726	66,834
PPE	43,286	46,880	50,828	53,303
Intangibles	17,325	17,713	18,036	18,203
ROU	1,741	2,036	2,306	2,564
Investment properties	864	864	864	864
Equity method investments	12,936	13,220	13,511	13,808
Other non-current assets	23,309	21,607	20,041	18,602
Total non-current assets	99,461	102,321	105,586	107,345
Total assets	157,477	161,746	167,312	174,179
Short-term debt	787	771	756	741
Payables	16,074	17,120	18,071	18,908
Lease liabilities	539	606	660	706
Other current liabilities	22,773	23,349	23,998	24,640
Total current liabilities	40,173	41,847	43,486	44,996
Long-term debt	14,404	13,976	13,563	13,165
Lease liabilities	1,715	1,930	2,101	2,248
Others	14,799	15,063	15,331	15,603
Total non-current liabilities	30,918	30,968	30,995	31,016
Total liabilities	71,091	72,815	74,481	76,011
Share capital	50,000	50,000	50,000	50,000
RE & Reserves	33,414	36,105	40,105	45,497
Shareholders' equity	83,414	86,105	90,105	95,497
Minority Interest	2,973	2,825	2,726	2,670
Total equity & liabilities	157,477	161,746	167,312	174,179

Source: The company reports, SNB Capital Research estimates

Exhibit 12: Cash flow Statement

In SAR mn, unless otherwise stated

	2025	2026f	2027f	2028f
Cash flow from op. (a)	18,283	23,948	25,657	27,464
Cash flow from inv. (b)	2,546	(10,628)	(11,137)	(10,487)
NOPLAT	14,202	13,022	14,314	15,692
WC	(2,093)	(1,062)	(1,106)	(1,091)
Capex	(11,355)	(14,263)	(14,913)	(13,641)
Depreciation	10,031	11,220	11,671	12,105
Free cash flow	9,927	8,024	8,962	11,971
Change in debt	(66)	(444)	(428)	(413)
Dividends *	(20,955)*	(11,000)	(11,000)	(11,000)
Cash flow from fin. (c)	(23,001)	(13,948)	(14,014)	(14,061)
Change in cash (a+b+c)	(2,171)	(628)	506	2,917
Cash at start of the year	15,543	13,376	12,748	13,254
Cash at end of the year	13,376	12,748	13,254	16,171

Source: The company reports, SNB Capital Research estimates, * 2025 dividend includes a special DPS of SAR2.0 for 2024, but paid in 2025.

Exhibit 13: Key Ratios

In SAR mn, unless otherwise stated

	2025	2026f	2027f	2028f
Per share ratios (SAR)				
EPS	2.97	2.74	3.00	3.28
FCF per share	1.99	1.60	1.79	2.39
Book value per share	16.68	17.22	18.02	19.10
Div. per share	2.20	2.20	2.20	2.20
Profitability ratios (%)				
Gross margin	48.4	48.9	49.2	49.5
Operating margin	18.6	18.4	19.1	19.7
EBITDA margin	31.4	32.0	32.5	33.0
Net income margin	17.4	16.7	17.3	18.0
Operating ratios (x)				
Receivable days	141	144	147	149
Inventory days	17	17	16	16
Payable days	68	70	72	73
Cash cycle	91	91	91	92
Return ratios (%)				
ROE	15.7	16.2	17.0	17.7
ROA	8.5	8.6	9.1	9.6
ROCE	12.1	12.7	13.5	14.2
Dividend pay-out ratio	74.2	80.3	73.3	67.1
Valuation ratios (x)				
P/E	14.3	15.5	14.2	13.0
P/FCF	21.4	26.5	23.7	17.8
P/BV	2.5	2.5	2.4	2.2
EV/Sales	2.8	2.6	2.5	2.3
EV/EBITDA	8.8	8.1	7.6	7.0
Div yield (%)	5.2	5.2	5.2	5.2
PEG ratio	0.5	15.6	1.5	1.4
Solvency Ratios (%)				
Gross Debt/Equity	0.2	0.2	0.2	0.1
Net Debt/Equity	0.0	0.0	0.0	(0.0)
Net Debt/ EBITDA	0.1	0.1	0.0	(0.1)
Interest Coverage ratio	12.8	13.4	15.0	16.6
Current ratio	1.4	1.4	1.4	1.5
Quick ratio	1.2	1.2	1.2	1.3

Source: The company reports, SNB Capital Research estimates

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