

Saudi Telecom Company (BUY, TP: SAR 49.00, 7010.SE) 4Q25 Results Review

Margin-led resilience in a mature telecom market, with growth pivoting toward data centers, ICT and STC Bank, supporting stronger earnings visibility from 2026 onward and reinforcing premium positioning. Maintain Buy.

Saudi Telecom Company (STC) reported net profit of SAR 14.8bn (EPS SAR 2.97) in FY25, down 40% Y/Y, primarily due to a high base effect, as FY24 earnings included a non-recurring gain of SAR 13.97bn from discontinued operations following the sale of stakes in TAWAL and Digital Infrastructure Company. The board declared a quarterly dividend of SAR 0.55 per share, in line with its annual guidance of SAR 2.20 per share.

- Revenue increased 3% Y/Y to SAR 77.8bn in FY25, driven by growth in the Commercial (+3% Y/Y) and Wholesale (+11% Y/Y) segments. In 4Q25, revenue rose 2% Y/Y and 3% Q/Q to SAR 19.9bn. STC KSA's mobile subscriber base grew 5.9% Y/Y to 30.0mn, while fixed subscribers increased 5.0% Y/Y to 6.0mn by end-4Q25.
- Gross profit rose 4% Y/Y and 6% Q/Q despite a 1% increase in cost of revenue on both Y/Y and Q/Q basis, with gross margin expanding 69bps Y/Y and 120bps Q/Q to 49.2%. Operating profit increased 21% Y/Y, driven by a 4% decline in operating expenses, with operating margin expanding 283bps to 18.1%. Sequentially, operating profit declined 1% as operating expenses rose 10%, leading to a 71bps contraction in margins.
- EBITDA grew 7% Y/Y but declined 4% Q/Q, with EBITDA margin at 30.0% (+129bps Y/Y; -221bps Q/Q). Net profit declined 76% Y/Y and 21% Q/Q, with net margin at 16.3% (-545bps Y/Y; -499bps Q/Q). The Y/Y decline reflects a high base due to a non-recurring gain in the prior year, while the sequential movement includes SAR 474mn of unrealized gains from the revaluation of investment fund units.
- stc Bank reported revenue of SAR 368.4mn, up 9% Y/Y, driven by expansion of its service base and product offering. Gross profit margin expanded to 77.5% in 4Q25 from 38.7% in 4Q24, while the direct costs-to-income ratio improved to 22.5% from 61.3%, reflecting a sharp improvement in operating efficiency. Total assets increased 41% Y/Y to SAR 9.34bn in 4Q25, driven by growth in income-generating assets, indicating continued balance sheet expansion.
- STC reported FY25 revenue growth of 2.5% Y/Y, with adjusted net profit rising 12.5% Y/Y, driven by margin expansion and cost optimization. The operating environment remains constrained by a structurally mature mobile segment with limited pricing upside. Enterprise demand continues to track government spending cycles, with management guiding to broadly flattish enterprise revenues in 2026 excluding mega projects. Visibility on giga-project monetization remains limited, although steady private-sector demand and wholesale infrastructure leasing provide a partial offset. Within this backdrop, STC continues to leverage its integrated structure, with stc KSA contributing 65.7% of revenues, while subsidiaries across ICT, digital infrastructure, and financial services expand the addressable market. Growth remains supported by prepaid and fiber penetration, with underlying fiber demand healthy despite muted reported growth due to copper network dismantling, alongside fixed wireless access as an incremental driver. Digital verticals are scaling, with STC Bank emerging as a key growth driver following the increase in ownership to 92.3%, enabling balance sheet expansion and improving cost efficiency. B2B demand remains stable across government, corporates, and SMEs, with growth increasingly shifting toward ICT and digital solutions. Revenue conversion remains timing-driven, with delays rather than cancellations, supporting visibility for a recovery to double-digit growth from 2026. The pipeline remains anchored by large-scale engagements, including the SAR 32.6bn government project, strategic partnerships with Oracle (SAR 2bn), and Red Sea (SAR 1.2bn). Data centers represent the key medium-term growth vertical, with up to USD 10bn planned investment through Center3 targeting 500-700MW capacity. The HUMAIN JV adds an AI-led layer to this strategy, positioning the company to capture incremental demand from next-generation workloads, with deployment phased against visible demand to preserve returns. Adjusted EBITDA margin expanded to 31.4% from 30.4%, reflecting cost discipline and a deliberate shift away from low-margin B2B contracts. Channels is undergoing a profitability-led reset, with near-term revenue pressure but a structurally higher earnings base from 2026 following cost optimization, with growth expected to recover gradually thereafter. Capex intensity remains elevated at 15-17.5% in the near term, with normalization expected as data center investments mature, while the balance sheet remains strong with no near-term funding constraints. The stock trades at a 14% premium to peers at 14.2x P/E, which we view as justified given superior earnings visibility, sustained margin expansion, and increasing exposure to higher-growth ICT and data infrastructure verticals. Maintain Buy.

Rating and Risks

We are BUY rated on STC, and our 12-month price target is SAR 49. Upside risks include stronger than expected high margin 5G subs growth, better than expected asset monetization and another extraordinary dividend. Downside risks include execution and utilization risk in large-scale data center investments, higher than expected capex, higher impairment of receivables, and capital than anticipated, and margin pressure from competitive pricing in mobile.

SAR mln	4Q25	3Q25	4Q24	Q/Q %	Y/Y %
Revenues	19,894	19,264	19,429	3%	2%
Cost of Goods	10,103	10,013	10,001	1%	1%
Gross Profit	9,791	9,251	9,428	6%	4%
Operating Expenses	6,187	5,624	6,458	10%	-4%
Operating Profit	3,605	3,627	2,970	-1%	21%
EBITDA	5,972	6,209	5,581	-4%	7%
Net Income	3,249	4,107	13,772	-21%	-76%
EPS	0.65	0.82	2.75	-21%	-76%

Margins (%)

Gross Margin	49.2	48.0	48.5	120 bps	69 bps
Operating Margin	18.1	18.8	15.3	-71 bps	283 bps
EBITDA Margin	30.0	32.2	28.7	-221 bps	129 bps
Net Margin	16.3	21.3	70.9	-499 bps	-5,455 bps

Rating Summary and Forecasts

Rating Summary

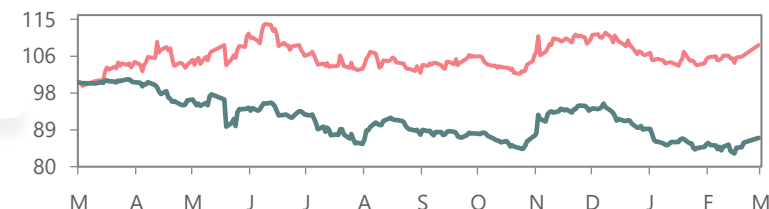
Rating	Buy
Market Price	42.2
12-month Target Price	49
Upside / Downside	21.3%
Mkt Cap (SAR mn)	211,100.0
52 week High/Low	48.30/40.20

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	14,828	14,988	15,623	16,196
PER (x)	14.2	14.1	13.5	13.0
PBV (x)	2.5	2.4	2.3	2.2
EPS (SAR)	3.0	3.0	3.1	3.2
DPS (SAR)	2.2	2.2	2.2	2.2
RoE (%)	17.8%	17.1%	16.9%	16.5%
Dividend Yield (%)	5.2%	5.2%	5.2%	5.2%

Price Chart

● STC ● TASI



Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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