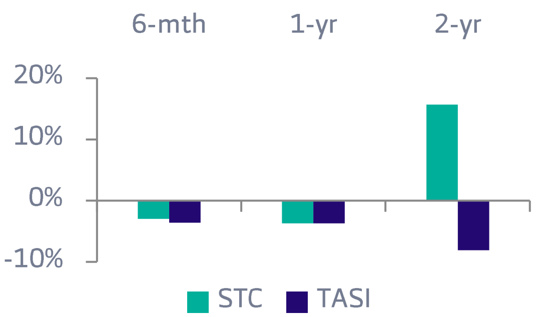
Margin Expansion Drives Normalized Profit Growth

April 30, 2026

Upside to Target Price	14.1%	Rating	Buy
Expected Dividend Yield	5.0%	Last Price	SAR 43.84
Expected Total Return	19.1%	12-mth target	SAR 50.00

Market Data	
52-week high/low	SAR 47.60/40.20
Market Cap	SAR 219,200 mln
Shares Outstanding	5,000 mln
Free-float	37.98%
12-month ADTV	3,192,610
Bloomberg Code	STC AB



STC	1Q2026	1Q2025	Y/Y	4Q2025	Q/Q	RC Estimate
Sales	19,939	19,210	4%	19,894	0%	19,397
Gross Profit	9,772	9,098	7%	9,791	(0%)	9,155
Gross Margins	49%	47%		49%		47%
Operating Profit	3,978	3,584	11%	3,605	10%	3,596
Net Profit	3,696	3,649	1%	3,249	14%	3,128

(All figures are in SAR mln)

- STC group's 1Q2026 topline grew to SAR 19.9 bln (+4% Y/Y, flat Q/Q), in line with our SAR 19.4 bln estimate. This was driven by growth in the Commercial Unit of +5.2% and the Carriers & Wholesale Unit of +6.2%. STC KSA revenue rose +2.8% Y/Y (SAR +0.35 bln), while subsidiary revenues also increased +2.8% Y/Y (SAR +0.27 bln), mainly driven by Specialized (up +527% Y/Y, or SAR +363 mln) and offset by Channels (down -13% Y/Y, or SAR -528 mln). STC KSA's mobile subscribers reached 30.6 mln (+5.3% Y/Y), led by prepaid customers, while fixed subscribers rose to 6.1 mln (+3.1% Y/Y). Regional subscribers increased +3.7% Y/Y to 3.26 mln.
- Gross margin expanded to 49.2%, compared with 47.4% last year and 49.2% last quarter, and came in above our 47.2% estimate. The expansion was mainly driven by a sharp increase in Specialized's margin to 84% in 1Q2026 (from 51% last year), after three consecutive quarters of margin deterioration. OPEX was slightly above our estimate at SAR 5.8 bln, up +5% Y/Y. Nonetheless, operating margin expanded +129 bps Y/Y to 20.0%, compared with 18.7% last year and 18.5% last quarter.
- Net profit for the quarter stood at SAR 3.70 bln (+1% Y/Y, +14% Q/Q), above market consensus of SAR 3.38 bln and our SAR 3.13 bln estimate. The beat versus our earnings estimate was driven by higher gross margin and lower net other expenses, despite higher OPEX. After adjusting for one-off items recorded in 1Q2025, 1) Zakat reversal related to prior years, 2) revaluation gains of SAR 72 mln in STV LP fund units, and 3) a SAR (219) mln loss due to the increased stake ownership in Telefonica to 9.97%, normalized 1Q2026 profit growth would be +12% Y/Y. STC announced a SAR 0.55 DPS for the quarter. We maintain our target price at SAR 50.00 per share with a Buy rating.

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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