

Saudi Telecom Co

Sector: Telecom

HOLD

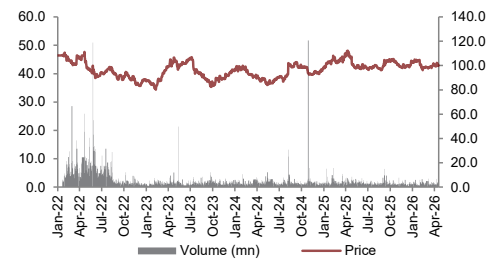
07 May 2026

- **STC's revenue for 1Q26 grew 3.8% YoY, in line with our forecast, supported by strong subsidiary performance and steady core telecom operations.**
- **Net income for 1Q26 increased by a modest 1.3% YoY due to tax reversals in 1Q25, which created a high base. However, performance exceeded our forecast by 10.5%, driven by better-than-expected margins from subsidiaries.**
- **Despite the earnings beat, we do not believe current margin levels are sustainable. We therefore maintain our target price of SAR 44 per share and retain our HOLD rating.**

Target price (SAR) **44.00**

Current price (SAR) **42.86**

Return **+2.7%**



Exchange Saudi Arabia
Index weight (%) 4%

(mn)	SAR	USD
Market Cap	214,300	57,127
Enterprise value	219,873	58,613

Major shareholders

Public Investment Fund	62.0%
Vanguard Group Inc	1.7%
Blackrock Inc	1.4%
Others	35.1%

Valuation Summary (TTM)

PER TTM (x)	14.3
P/Book (x)	2.5
EV/EBITDA (x)	8.8
Dividend Yield (%)	5.1
Free Float (%)	35%
Shares O/S (mn)	5,000
YTD Return (%)	0%
Beta	1.0

Key ratios	2023	2024	2025
EPS (SAR)	2.67	4.94	2.97
BVPS (SAR)	15.80	17.88	16.68
DPS (SAR)	2.60	3.75	2.20
Payout ratio (%)	98%	76%	74%

Price performance (%)	1M	3M	12M
Saudi Telecom Co	1%	-3%	-3%
Tadawul All Share Index	-3%	-2%	-4%

52 week	High	Low	CTL*
Price (SAR)	45.38	40.20	6.6

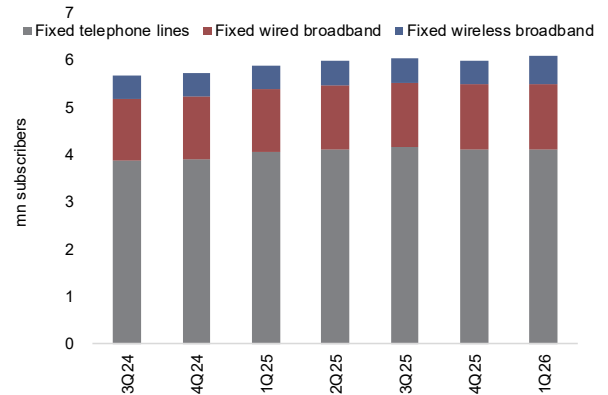
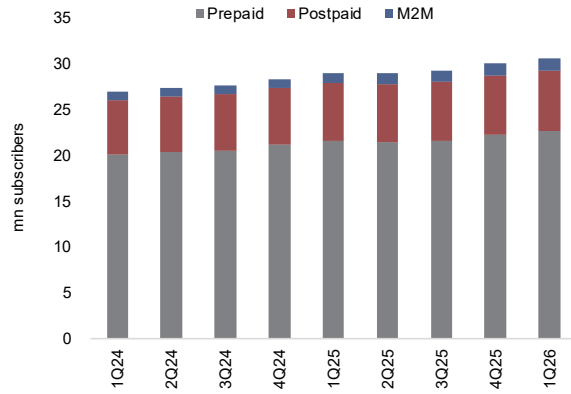
* CTL is % change in CMP to 52wk low

Saudi Telecom Company (STC) reported revenue of SAR 19.9bn in 1Q26, up 3.8% YoY and in line with our forecast. Among its key subsidiaries, Solutions recorded a 6.3% YoY increase in revenue, while Channels declined 13% YoY and STC Kuwait reported an over 2% drop. Specialized grew more than sixfold, while Sirar expanded 80.6% YoY. Both Internet of Things Information Technology Company (IOT) and General Cloud Computing Company for Information Technology (SCCC) posted growth of over 56% YoY. STC Bank and Centre 3 also delivered strong growth of 24% and 12% YoY, respectively. However, STC Bahrain reported topline contractions of over 2%. STC's core telecom operations grew 2.8% YoY, supported by a 3% increase in fixed subscribers and c.5% growth in mobile subscribers.

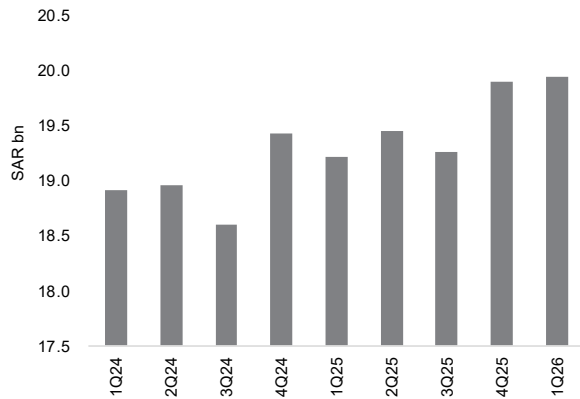
Gross profit rose 7.4% YoY, driven by higher revenue and an improvement in gross margin to 49.0% in 1Q26 from 47.4% in 1Q25, largely reflecting stronger subsidiary margins. However, core STC operations experienced slight pressure, with gross margins declining to 58.4% from 58.9% a year earlier. Operating expenses increased 5.1% YoY, primarily due to higher selling and marketing expenses, driven by increased impairment charges on contract assets and receivables. Finance costs rose 12.9% YoY, reflecting higher debt levels. STC reported net income of SAR 3.7bn, up 1.3% YoY. However, 1Q25 earnings were positively impacted by a Zakat reversal of SAR 311mn, compared to a provision of SAR 152mn in 1Q26. Net income before tax increased by 15.1% YoY, supported by strong revenue growth and improved gross margins. Overall net income exceeded our expectations by 10.5%, driven by higher-than-expected gross margins.

Valuation: STC has started 2026 with a strong performance, driven by its subsidiaries, which have supported steady topline growth while providing a meaningful boost to the bottom line. Overall performance exceeded expectations due to stronger-than-expected margins from subsidiaries, even as revenue growth came in line with forecasts. Looking ahead, we do not expect current margin levels to be sustained and anticipate moderation over the coming quarters. Accordingly, we maintain our medium-term estimates. At 15x its 2027e EPS, we believe STC is fairly valued at current levels, with limited upside. We therefore maintain our target price of SAR 44 per share and retain our HOLD rating.

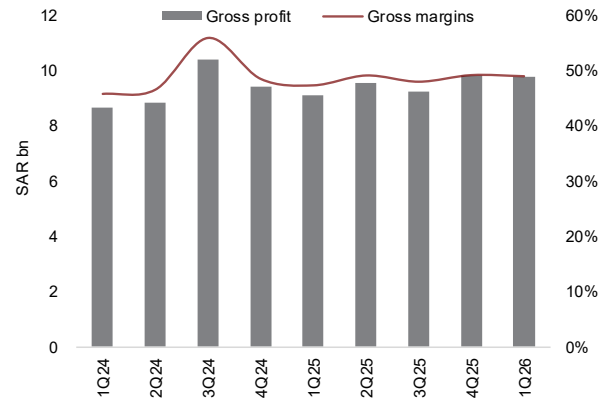
Both mobile and fixed subscribers report steady improvement



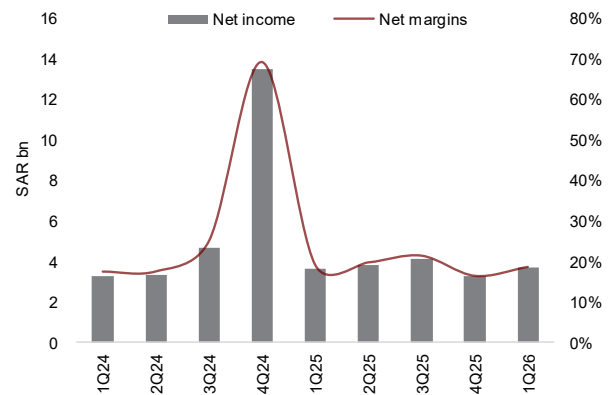
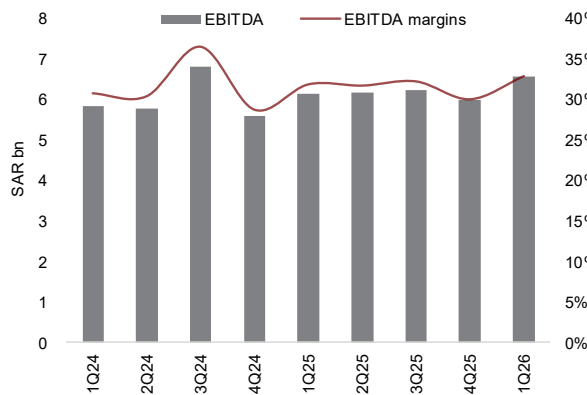
Revenue growth driven by strong subsidiary performance



Gross profit increases on higher revenue and margins



Net income growth moderates on account of tax reversals in 1Q25; operating performance remains strong



Income Statement (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e	2030e
Revenue	71,777	75,893	77,819	80,394	82,886	85,302	87,673	90,038
Cost of sales	(37,037)	(38,567)	(40,119)	(41,447)	(42,863)	(44,265)	(45,652)	(47,031)
Gross profit	34,740	37,326	37,700	38,947	40,023	41,037	42,021	43,007
Operating expenses	(21,579)	(22,900)	(23,261)	(23,847)	(24,420)	(24,982)	(25,537)	(26,091)
Operating profit	13,161	14,426	14,438	15,100	15,603	16,056	16,483	16,916
Other income	412	(2,775)	133	169	205	240	276	312
Finance expenses - Net	414	484	151	(11)	86	233	425	662
Earnings before tax	13,987	12,134	14,723	15,258	15,893	16,529	17,184	17,891
Tax	(1,327)	(1,192)	466	(1,498)	(1,561)	(1,623)	(1,687)	(1,757)
Earnings before MI	12,660	10,943	15,189	13,760	14,333	14,905	15,497	16,134
Income from discontinued operations	759	13,973	(54)	0	0	0	0	0
Minority interest	(124)	(228)	(307)	(267)	(278)	(289)	(301)	(313)
Net income	13,295	24,689	14,828	13,493	14,055	14,616	15,196	15,821

Balance Sheet (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e	2030e
Property and equipment	48,701	41,514	43,286	45,039	46,846	48,705	50,617	52,580
Intangibles	17,001	15,163	17,325	17,803	18,305	18,825	19,357	19,899
Right to use assets	3,894	1,352	1,741	2,066	2,340	2,575	2,779	2,958
Other non-current assets	19,273	29,864	37,109	37,652	38,203	38,763	39,331	39,909
Total non-current assets	88,869	87,893	99,461	102,559	105,694	108,868	112,083	115,345
Contract assets	7,034	7,840	8,428	8,707	8,977	9,238	9,495	9,751
Receivables	21,401	22,223	26,727	26,808	26,810	26,738	26,605	26,422
Inventories	1,905	1,889	1,923	1,987	2,055	2,122	2,188	2,255
Cash & Cash Equivalents	13,371	15,543	13,376	14,714	16,744	19,389	22,648	26,545
Short term murabaha	14,767	15,212	1,704	1,704	1,704	1,704	1,704	1,704
Other current assets	12,297	10,037	5,857	5,913	5,970	6,027	6,084	6,143
Total current assets	70,776	72,745	58,016	59,833	62,259	65,219	68,725	72,820
Total assets	159,646	160,638	157,477	162,392	167,953	174,086	180,808	188,165
Share Capital	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total reserves	28,985	39,417	33,414	35,906	38,961	42,578	46,774	51,595
Minority interest	2,530	3,069	2,973	3,240	3,518	3,807	4,107	4,420
Total equity	81,515	92,485	86,386	89,146	92,479	96,384	100,881	106,015
Short term borrowings	8,316	392	787	0	0	109	0	0
Short term lease liabilities	948	593	539	545	554	566	579	592
Trade payables	21,823	22,627	22,259	23,203	24,211	25,224	26,243	27,270
Contract liabilities	4,134	4,067	4,088	4,224	4,368	4,511	4,652	4,793
Other current liabilities	12,403	11,277	12,499	12,645	12,795	12,945	13,096	13,249
Total current liabilities	47,623	38,956	40,173	40,617	41,928	43,354	44,570	45,904
Long term debt	13,642	14,740	14,404	15,191	15,191	15,082	15,191	15,191
Long term lease liabilities	3,328	1,571	1,715	1,734	1,764	1,800	1,841	1,886
Other non-current liabilities	13,538	12,886	14,799	15,703	16,591	17,465	18,324	19,169
Total non-current liabilities	30,508	29,197	30,918	32,628	33,547	34,348	35,357	36,246
Total Liabilities	78,131	68,153	71,090	73,246	75,474	77,702	79,927	82,150
Equity and liabilities	159,646	160,638	157,477	162,392	167,953	174,086	180,808	188,165

Cash Flows (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e	2030e
Cash from operations	22,418	19,885	18,283	25,297	26,378	27,374	28,364	29,381
Cash from investments	(28,383)	(7,179)	2,546	(12,068)	(12,442)	(12,804)	(13,160)	(13,515)
Cash from financing	1,591	(10,495)	(23,001)	(11,891)	(11,906)	(11,925)	(11,946)	(11,968)
Net changes in cash	(4,375)	2,211	(2,171)	1,338	2,030	2,645	3,259	3,897
Closing balance (C/b)	13,371	15,543	13,376	14,714	16,744	19,389	22,648	26,545

Ratios	2023	2024	2025	2026e	2027e	2028e	2029e	2030e
Per Share (SAR)								
EPS	2.7	4.9	3.0	2.7	2.8	2.9	3.0	3.2
BVPS	15.8	17.9	16.7	17.2	17.8	18.5	19.4	20.3
DPS	2.6	3.8	2.2	2.2	2.2	2.2	2.2	2.2
FCF/share	(1.2)	2.5	4.2	2.6	2.8	2.9	3.0	3.2
Valuations								
M.Cap (SAR mn)	199,150	203,875	214,300	214,300	214,300	214,300	214,300	214,300
EV (SAR mn)	199,774	193,483	219,637	218,592	216,879	214,571	211,667	208,140
EBITDA (SAR mn)	22,445	23,951	24,469	25,521	26,397	27,209	27,987	28,764
P/E	15.0	8.3	14.5	15.9	15.2	14.7	14.1	13.5
EV/EBITDA	8.9	8.1	9.0	8.6	8.2	7.9	7.6	7.2
EV/Sales	2.8	2.5	2.8	2.7	2.6	2.5	2.4	2.3
P/BV	2.5	2.3	2.6	2.5	2.4	2.3	2.2	2.1
P/S	2.8	2.7	2.8	2.7	2.6	2.5	2.4	2.4
Div. yield	6.5%	9.2%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Liquidity								
Cash Ratio	0.3	0.4	0.3	0.4	0.4	0.4	0.5	0.6
Current ratio	1.5	1.9	1.4	1.5	1.5	1.5	1.5	1.6
Quick ratio	1.4	1.8	1.4	1.4	1.4	1.5	1.5	1.5
Return ratio								
ROA	7.9%	6.8%	9.6%	8.5%	8.5%	8.6%	8.6%	8.6%
ROE	16.8%	27.6%	17.8%	15.7%	15.8%	15.8%	15.7%	15.6%
ROCE	12.2%	13.1%	13.9%	14.2%	14.2%	14.1%	13.9%	13.7%
Cash cycle								
Payables turnover	1.7	1.7	1.8	1.8	1.8	1.8	1.7	1.7
Receivables turnover	3.4	3.4	2.9	3.0	3.1	3.2	3.3	3.4
Inventory turnover	19.4	20.4	20.9	20.9	20.9	20.9	20.9	20.9
Payable days	215	214	203	204	206	208	210	212
Receivables days	109	107	125	122	118	114	111	107
Inventory days	19	18	17	17	17	17	17	17
Cash Cycle	(92)	(90)	(57)	(63)	(68)	(74)	(79)	(85)
Profitability ratio								
EBITDA margins	31.3%	31.6%	31.4%	31.7%	31.8%	31.9%	31.9%	31.9%
Operating margins	18.3%	19.0%	18.6%	18.8%	18.8%	18.8%	18.8%	18.8%
Net margins	18.5%	32.5%	19.1%	16.8%	17.0%	17.1%	17.3%	17.6%
Leverage								
Total debt (SAR mn)	26,233	17,296	17,445	17,471	17,510	17,557	17,611	17,669
Net debt (SAR mn)	12,861	1,752	4,069	2,756	765	(1,832)	(5,036)	(8,876)
Debt/Capital	24.3%	15.8%	16.8%	16.4%	15.9%	15.4%	14.9%	14.3%
Debt/Total assets	16.4%	10.8%	11.1%	10.8%	10.4%	10.1%	9.7%	9.4%
Debt/Equity	32%	19%	20%	20%	19%	18%	17%	17%



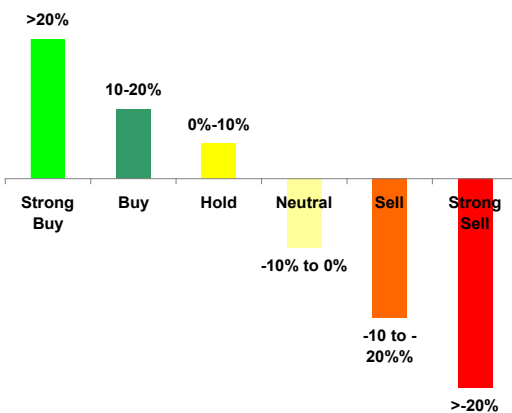
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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