

Saudi Telecom Co

Sector: Telecom

HOLD

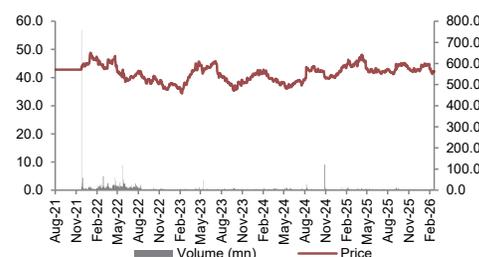
11 March 2026

- **Topline for 2025 comes in-line growing 2.5% YoY.**
- **Gross margin pressure more than made up by control over opex, lower finance cost, and taxes, as net income (continuing operation) grows 38.9% YoY.**
- **We maintain both our target price, of SAR 44 per share, and rating at Hold.**

Target price (SAR) 44.00

Current price (SAR) 42.16

Return +4.4%



Exchange Saudi Arabia
Index weight (%) 3%

(mn)	SAR	USD
Market Cap	210,800	56,162
Enterprise value	216,137	57,584

Major shareholders	
Public Investment Fu	62.0%
Vanguard Group Inc/T	1.7%
Blackrock Inc	1.2%
Others	35.1%

Valuation Summary (TTM)	
PER TTM (x)	14.2
P/Book (x)	2.5
EV/EBITDA (x)	8.8
Dividend Yield (%)	5.2
Free Float (%)	35%
Shares O/S (mn)	5,000
YTD Return (%)	13%
Beta	1.0

Key ratios	2023	2024	2025
EPS (SAR)	2.67	4.94	2.97
BVPS (SAR)	15.85	17.93	16.72
DPS (SAR)	2.60	3.75	2.20
Payout ratio (%)	98%	76%	74%

Price performance (%)	1M	3M	12M
Saudi Telecom Co	-5%	-1%	0%
Tadawul All Share Index	-3%	2%	-7%

52 week	High	Low	CTL*
Price (SAR)	46.20	40.20	4.9

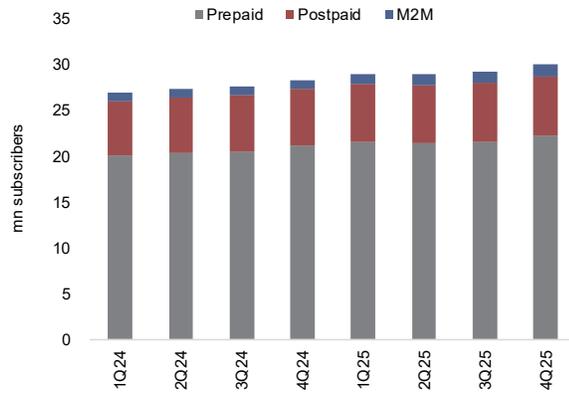
* CTL is % change in CMP to 52wk low

Saudi Telecom Company (STC) reported revenue of SAR 77.8bn in 2025, representing a 2.5% YoY increase and in line with our forecast. Among its key subsidiaries, Solutions recorded a 5.5% YoY increase in revenue, while STC Bank and Sirar delivered stronger growth of 11.0% YoY and 12.8% YoY, respectively. STC Bahrain posted a 2.1% YoY increase, Centre3 grew 2.6% YoY, and STC Kuwait reported 1.8% YoY growth. In contrast, Channels recorded a 6.8% YoY decline in revenue. STC's core telecom operations expanded by 3.0% YoY, supported by a 5% YoY increase in fixed subscribers and 6% YoY growth in mobile subscribers. Gross profit increased 1.0% YoY, although gross margin declined to 48.4% in 2025 from 49.2% in 2024. Notably, the 2024 margin benefited from a one-off tax reversal related to interconnection charges totaling SAR 1.5bn. Excluding this one-off item, gross margin would have improved by approximately 120bps YoY. At the subsidiary level, several entities reported margin improvements, including, Channels (24.3% in 2025 vs. 22.3% in 2024), STC Kuwait (51.2% vs. 49.2%), STC Bahrain (51.3% vs. 49.3%), and STC Bank (51.7% vs. 27.3%). However, Solutions experienced margin compression, with margins declining to 23.0% in 2025 from 24.7% in 2024. Operating expenses remained well controlled, declining 1.1% YoY, primarily due to lower SG&A expenses. Finance costs decreased 8.8% YoY, reflecting a lower cost of funds. STC reported net income of SAR 14.8bn, representing a 39.9% YoY decline. However, excluding profits from discontinued operations, net income would have increased by 38.9% YoY, supported by lower operating costs, reduced finance expenses, and a lower tax provision. Additionally, in 2024 the company recorded SAR 2.6bn in provisions related to the early retirement program, which declined to SAR 824mn in 2025. Despite the underlying improvement, reported net income came in c.4% below our forecast, primarily due to higher-than-expected depreciation and lower than expected net other income.

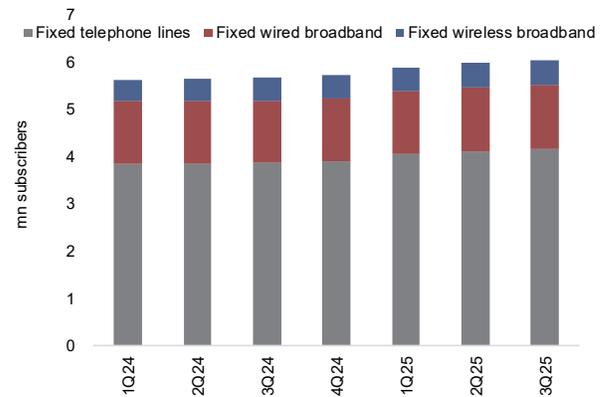
Valuation: STC remains the largest telecom operator in Saudi Arabia, maintaining a dominant market position. However, the sector continues to face challenging industry dynamics within the country. We expect this trend to persist over the medium term, while core telecom operations are likely to deliver only low-single-digit growth. Margins are also expected to remain under pressure due to a shifting sales mix, although this pressure should be partially offset by STC's ongoing efforts to control operating costs. The company has declared a dividend of SAR 2.2 per share, representing a payout ratio of c. 75% and implying a dividend yield of around 5%. Overall, following the 2025 results, we maintain our target price of SAR 44 per share. At 15.6x our 2026e EPS estimate, we believe the stock is fairly valued and therefore reiterate our Hold rating.



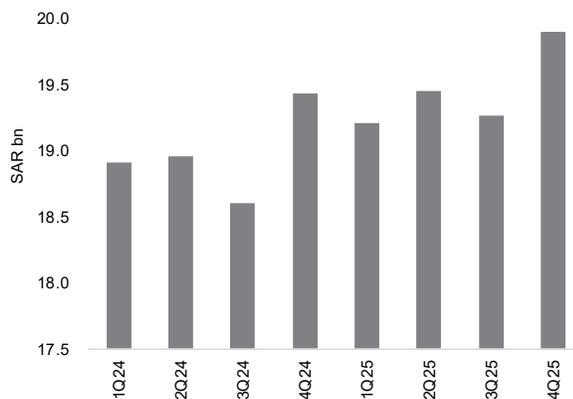
Growth across segments aids mobile customer base



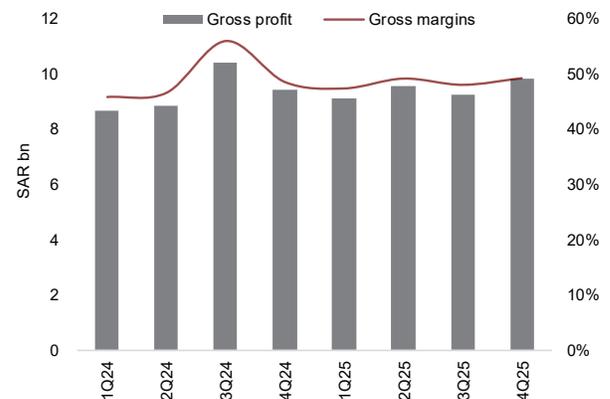
Fixed subscribers continue to grow



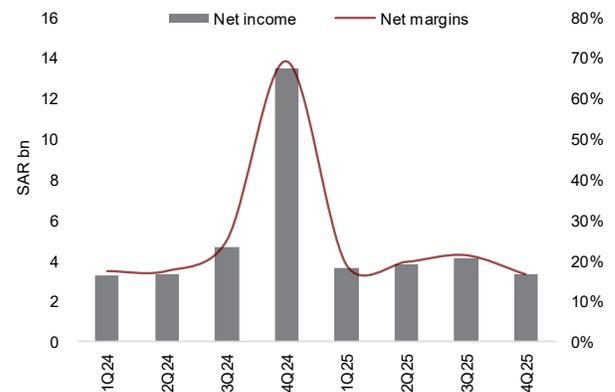
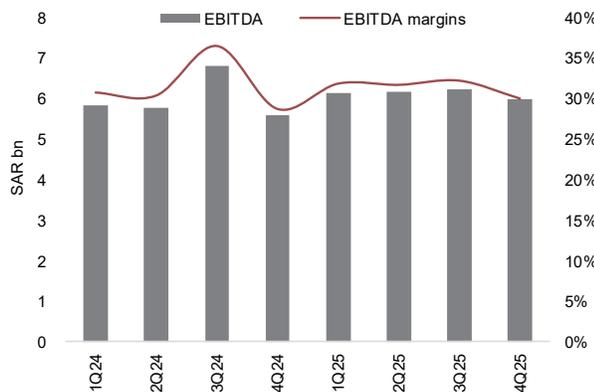
Revenue growth remains steady



Gross margins remains stable, adjusting for one-off



Net income from continuing operation grows on control over operating expenses, finance cost, and lower provisions



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	210,800	210,800	210,800	210,800	210,800	210,800
EV (SAR mn)	199,774	193,483	216,137	215,092	213,379	211,071	208,167	204,640
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	14.2	15.6	15.0	14.4	13.9	13.3
EV/EBITDA	8.9	8.1	8.8	8.4	8.1	7.8	7.4	7.1
EV/Sales	2.8	2.5	2.8	2.7	2.6	2.5	2.4	2.3
P/BV	2.5	2.3	2.5	2.5	2.4	2.3	2.2	2.1
P/S	2.8	2.7	2.7	2.6	2.5	2.5	2.4	2.3
Div. yield	6.5%	9.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
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%

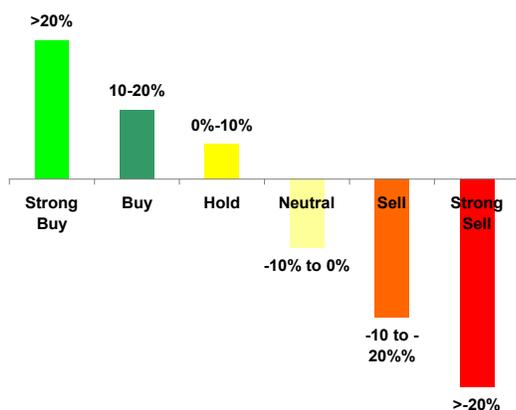
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Rating Criteria and Definitions

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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