Saudi Telecom Company 1Q26 Earnings Summary

Revenue increased 3.8% Y/Y to SAR 19,939mn in 1Q26. The mobile subscriber base expanded ~5.3% Y/Y, with growth across prepaid, postpaid, and M2M segments, supporting a broader recurring revenue base. Fixed subscriber metrics also increased across fixed-wireless broadband, fixed broadband, and fixed lines. Network usage remained strong during the quarter, particularly during Ramadan, where data traffic rose by more than 21% in Makkah and over 40% in Madinah. 5G accounted for more than 48% of total traffic, indicating increasing contribution from high-speed data usage. The group also handled elevated demand during large-scale events such as Riyadh Season, supporting more than 12mn visitors.

Profitability improved in 1Q26, with net profit (attributable), up 12% Y/Y excluding non-recurring items. This was further supported by a decline in other expenses, driven by net other gains of SAR 166mn compared to a loss of SAR 143mn in 1Q25, primarily due to the absence of a SAR 219mn non-recurring loss recorded in the base period, which was related to financial instrument revaluation following the increase in stc's stake in Telefonica from 4.97% to 9.97%. This was partially offset by lower finance income and higher finance costs. Below the line, zakat and income tax recorded an expense of SAR 152mn versus a positive SAR 311mn in 1Q25, impacting reported net profit. Separately, capex stood at SAR 1,700mn (+2.4% Y/Y), reflecting continued investment in digital infrastructure. Overall, revenue growth was supported by subscriber expansion and higher network utilization during peak periods.

Rating and Target Price:

We are BUY rated on SAB with a target price of SAR 49.0 (19.6% upside).

Results vs. Consensus:

- Revenue came in line with estimates.
- Net income beat estimates by 10.6%.

FY26 guidance

- N/A

Key highlights

- stc reported 1Q26 revenue of SAR 19.9bn, up 4% Y/Y, mainly attributed to the increase in commercial unit revenues by 5.2%, carriers and wholesale unit revenues by 6.2%. stc's subsidiaries revenue also increased by 5.8%. Sequentially, revenues remained flat.
- STC KSA's mobile subscribers rose 5.3% Y/Y to 30.6mn, while fixed subscribers increased 3.1% Y/Y to 6.1mn. Bahrain mobile subscribers fell 0.3% Y/Y to 916.5k.
- Cost of revenue increased marginally by 1% Y/Y and Q/Q, supporting operating leverage. Gross profit advanced by 7% Y/Y but remained flat Q/Q in 1Q26. The gross margin in the quarter advanced by 165bps Y/Y but contracted 21bps Q/Q to 49.0%.
- Operating profits jumped 11% Y/Y, despite 5% rise in operating expenses (opex). Sequentially, operating profits rose 10% driven by lower opex (-6%). Operating margin expanded by 130bps Y/Y and 183bps Q/Q to 20.0% in 1Q26.
- EBITDA increased by 7% Y/Y and 10% Q/Q in 1Q26. The EBITDA margin stood at 32.9%, up 103bps Y/Y and 287bps Q/Q.
- The company's BoD announced a cash dividend of SAR 0.55 per share for 1Q26, implying a dividend yield of 9.9% and a dividend payout ratio of 140.9%.

- Net debt to EBITDA for the company was at 1.1x compared to -2.0x for 1Q25. The company's FCF rose almost 5times to SAR 3.9bn while its net cash from operating activities stood at SAR 5.6bn, up ~1.5times.

Developments & Contract Signings in this Quarter

- stc secured a SAR 3bn contract from the Syrian Sovereign Fund to execute the "Silklink" project, involving ~4,500 km fiber-optic network rollout, data centers, and submarine cable stations, positioning stc as a regional infrastructure player while introducing execution and geopolitical risk.
- STC Bank launched a Business Portal targeting corporates, SMEs, and self-employed segments, offering an integrated, Shariah-compliant digital platform with end-to-end banking capabilities; this strengthens ecosystem stickiness but near-term financial impact is likely limited.
- solutions (79% owned by stc) signed a SAR 132.4mn, 3-year contract with stc to upgrade data center infrastructure for cloud services; revenue contribution is back-ended with impact starting 4Q26, reflecting continued intra-group capex to support cloud scale-up.
- stc supported Riyadh Season as a Premium Official Partner for the fifth consecutive year, handling >2.8mn calls and ~15,000TB data traffic for >12mn visitors; reinforces network scale and brand visibility, with limited direct monetization impact.

1Q26 Snapshot:

SAR mln	1Q26	4Q25	1Q25	1Q23	*Q/Q %*	*Y/Y %*	*3-yr CAGR/bps*	FY25	FY24	*Y/Y %*
Revenues	5,040	5,186	4,777	4,051	-3%	6%	8%	19,642	18,206	8%
Cost of Goods	2,216	2,312	2,223	1,616	-4%	0%	11%	8,901	8,312	7%
Gross Profit	**2,824**	**2,874**	**2,554**	**2,435**	**-2%**	**11%**	5%	**10,741**	**9,894**	9%
Operating Expenses	1,836	1,806	1,704	1,766	2%	8%	1%	6,894	6,364	8%
Operating Profit	**988**	**1,068**	**850**	**669**	**-7%**	**16%**	14%	**3,847**	**3,530**	9%
EBITDA	1,971	2,060	1,775	1,599	-4%	11%	7%	7,627	7,195	6%
Net Income	**880**	**953**	**767**	**497**	**-8%**	**15%**	21%	**3,466**	**3,107**	**12%**
EPS	**1.14**	**1.24**	**1.00**	**0.65**	**-8%**	**15%**	**21%**	**4.50**	**4.04**	**12%**
Margins (%)										
Gross Margin	56	55	53	60	62 bps	257 bps	-409 bps	55	54	34 bps
Operating Margin	20	21	18	17	-98 bps	181 bps	308 bps	20	19	20 bps
EBITDA Margin	39	40	37	39	-61 bps	195 bps	-37 bps	39	40	-69 bps
Net Margin	17	18	16	12	-92 bps	140 bps	518 bps	18	17	58 bps
Opex to sales (%)	36	35	36	44	160 bps	76 bps	-716 bps	35	35	14 bps

Source: Company Announcement

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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