

## Telecom

Hold: 12M TP @ 44

Upside +5.5%

### Valuation Summary (TTM)

Price (SAR)	41.7
PER TTM (x)	17.4
P/Book (x)	2.5
P/Sales (x)	2.7
EV/Sales (x)	2.8
EV/EBITDA (x)	8.7
Dividend Yield (%)	4.9
Free Float (%)	35%
Shares O/S (mn)	5,000
YTD Return (%)	9%
Beta	1.1

(mn)	SAR	USD
Market Cap	208,600	55,598
Enterprise Value	213,214	56,829

Price performance (%)	1M	3M	12M
Saudi Telecom Co	-2%	-5%	17%
Tadawul All Share Index	-4%	-5%	-8%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	123,918	158,442	179,864
Avg Daily Volume (,000)	3,221	3,700	4,074

52 week	High	Low	CTL*
Price (SAR)	46.20	34.82	19.8

\* CTL is % change in CMP to 52wk low

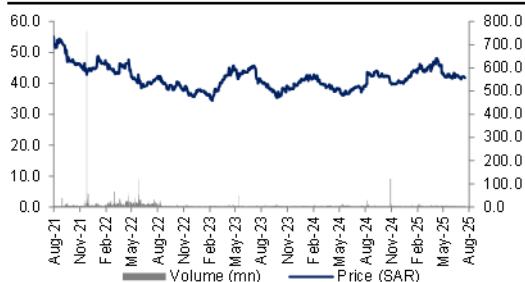
### Major shareholders

Public Investment Fund	62.0%
Vanguard Group Inc	1.6%
Blackrock Inc	1.2%
Others	35.1%

### Other details

Exchange	Saudi Arabia
Sector	Telecommunications
Index weight (%)	3.9%

Key ratios	2022	2023	2024
EPS (SAR)	2.44	2.67	4.94
BVPS (SAR)	14.70	15.80	17.93
DPS (SAR)	1.60	2.60	3.75
Payout ratio (%)	66%	97%	76%



## STC: Slight miss in operating performance

Saudi Telecom Co. (STC) reported 2Q25 revenue of SAR 19.5 bn, marking a 2.6% YoY increase but falling short of our estimate of SAR 20.6 bn by 5.7%. The shortfall was primarily due to weaker-than-expected performance from its subsidiaries. Among key subsidiaries, Solutions reported a 4.7% YoY revenue increase, while STC Kuwait grew by 5.5% YoY. However, Channels saw a 4.2% YoY decline. Centre 3 (Digital Centers for Data and Telecommunications) posted a modest 1.3% YoY growth, whereas Sirar (Advanced Technology and Cybersecurity Company) delivered a strong 36.8% YoY rise. STC's core telecom operations grew steadily by 1.7% YoY, supported by a 5.7% YoY increase in its Saudi subscriber base, driven by growth in both mobile (5.7% YoY) and fixed-line (5.6% YoY) users. Gross profit rose by 8.2% YoY, with gross margins improving to 49.1% in 2Q25 from 46.6% in 2Q24. Margin improvements were seen across most business segments, notably in Channels, STC Kuwait, STC Bahrain, and Centre 3. The core telecom business also experienced a margin uptick, contributing to overall profitability. Operating expenses rose 12.0% YoY to SAR 5.9 billion, mainly due to increased SG&A and depreciation costs. Finance costs declined by 27.6% YoY, attributed to a lower cost of funds. STC's net income came in at SAR 3.8 bn, up 15.7% YoY and exceeding our forecast by 3.6%. This outperformance was largely due to a Zakat reversal of SAR 216 mn. Excluding this reversal, net income before tax was 7.9% below our expectation, impacted by lower revenue, higher than forecasted costs associated with the early retirement program, and net finance expenses.

**Investment thesis and valuations:** STC benefits from its dominant position as the market leader in the Saudi telecom sector. However, this advantage is somewhat offset by a competitive regional landscape that offers limited growth opportunities. We remain optimistic about the growth prospects of its subsidiaries, although this is likely to come at the cost of lower margins compared to historical levels. Looking ahead, we expect STC's financial performance to remain stable, supporting consistent cash flow generation. This, in turn, should enable the company to meet its dividend commitments and offer shareholders a predictable yield. At current levels, the stock trades at 15x its estimated 2025e EPS and offers a 5% dividend yield. Despite the weaker-than-expected results in 2Q25, we maintain our target price of **SAR 44 per share** and reiterate our **Hold** rating on the stock.

Income Statement (SAR mn)	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Revenue	58,953	63,008	67,432	71,777	75,893	78,888	82,770	86,152	89,092
Cost of sales	(24,999)	(29,214)	(30,038)	(37,037)	(38,593)	(41,666)	(44,282)	(46,516)	(48,402)
<b>Gross profit</b>	<b>33,954</b>	<b>33,794</b>	<b>37,393</b>	<b>34,740</b>	<b>37,300</b>	<b>37,222</b>	<b>38,488</b>	<b>39,636</b>	<b>40,690</b>
Operating expenses	(21,223)	(20,666)	(22,305)	(21,579)	(22,875)	(23,504)	(24,569)	(25,580)	(26,537)
<b>Operating profit</b>	<b>12,731</b>	<b>13,128</b>	<b>15,088</b>	<b>13,161</b>	<b>14,426</b>	<b>13,718</b>	<b>13,919</b>	<b>14,055</b>	<b>14,153</b>
Other income	(165)	(252)	(1,524)	412	(2,775)	81	82	84	86
Finance expenses - Net	(210)	(241)	(94)	414	484	980	933	961	943
<b>Earnings before tax</b>	<b>12,356</b>	<b>12,635</b>	<b>13,470</b>	<b>13,987</b>	<b>12,134</b>	<b>14,779</b>	<b>14,935</b>	<b>15,100</b>	<b>15,182</b>
Tax	(1,170)	(1,040)	(1,083)	(1,327)	(1,192)	(894)	(903)	(913)	(918)
<b>Earnings before MI</b>	<b>11,185</b>	<b>11,595</b>	<b>12,387</b>	<b>12,660</b>	<b>10,943</b>	<b>13,885</b>	<b>14,031</b>	<b>14,187</b>	<b>14,263</b>
Income from discontinued operations	0	0	0	759	13,973	0	0	0	0
Minority interest	(190)	(283)	(216)	(124)	(228)	(257)	(260)	(263)	(264)
<b>Net income</b>	<b>10,995</b>	<b>11,311</b>	<b>12,171</b>	<b>13,295</b>	<b>24,689</b>	<b>13,628</b>	<b>13,771</b>	<b>13,924</b>	<b>13,999</b>

Balance Sheet (SAR mn)	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Property and equipment	47,848	47,205	46,645	48,701	41,514	43,228	45,067	46,972	48,896
Intangibles	10,466	10,735	11,775	17,001	14,954	15,875	16,811	17,740	18,643
Right to use assets	2,893	2,952	3,030	3,894	1,352	2,000	2,558	3,038	3,451
Other non-current assets	14,906	15,420	14,979	19,273	30,050	30,282	30,516	30,754	30,994
<b>Total non-current assets</b>	<b>76,113</b>	<b>76,311</b>	<b>76,430</b>	<b>88,869</b>	<b>87,871</b>	<b>91,385</b>	<b>94,952</b>	<b>98,503</b>	<b>101,984</b>
Contract assets	6,059	5,733	6,624	7,034	7,840	8,149	8,550	8,900	9,204
Receivables	15,725	24,857	23,179	21,401	22,223	23,100	24,237	25,227	26,088
Inventories	1,009	918	1,023	1,905	1,889	2,040	2,168	2,277	2,369
Cash & Cash Equivalents	9,004	8,281	17,794	13,371	15,543	13,428	12,306	11,059	10,553
Short term murabaha	10,434	7,944	7,989	14,767	15,212	15,212	15,212	15,212	15,212
Other current assets	3,628	3,735	4,181	12,297	10,059	10,159	10,260	10,362	10,466
<b>Total current assets</b>	<b>45,859</b>	<b>51,468</b>	<b>60,790</b>	<b>70,776</b>	<b>72,767</b>	<b>72,089</b>	<b>72,734</b>	<b>73,038</b>	<b>73,892</b>
<b>Total assets</b>	<b>121,972</b>	<b>127,779</b>	<b>137,220</b>	<b>159,646</b>	<b>160,638</b>	<b>163,473</b>	<b>167,686</b>	<b>171,541</b>	<b>175,876</b>
Share Capital	20,000	20,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total reserves	43,946	49,271	23,500	28,985	39,417	42,044	44,815	47,740	50,739
Minority interest	1,321	2,115	2,526	2,530	3,069	3,326	3,586	3,849	4,113
<b>Total equity</b>	<b>65,267</b>	<b>71,386</b>	<b>76,026</b>	<b>81,515</b>	<b>92,485</b>	<b>95,370</b>	<b>98,402</b>	<b>101,589</b>	<b>104,852</b>
Short term borrowings	318	1,457	277	8,316	392	1,002	1,498	929	109
Short term lease liabilities	742	870	913	948	593	276	185	162	159
Trade payables	19,711	17,114	20,708	21,823	22,627	24,429	25,963	27,273	28,379
Contract liabilities	1,901	3,592	4,671	4,134	4,067	4,391	4,667	4,902	5,101
Other current liabilities	10,218	10,528	9,831	12,403	11,277	11,453	11,620	11,779	11,930
<b>Total current liabilities</b>	<b>32,891</b>	<b>33,561</b>	<b>36,400</b>	<b>47,623</b>	<b>38,956</b>	<b>41,551</b>	<b>43,933</b>	<b>45,045</b>	<b>45,678</b>
Long term debt	8,638	7,847	10,214	13,642	14,740	12,409	10,911	9,981	9,872
Long term lease liabilities	2,238	2,354	2,383	3,328	1,571	730	490	429	420
Other non-current liabilities	12,938	12,633	12,197	13,538	12,886	13,413	13,950	14,497	15,053
<b>Total non-current liabilities</b>	<b>23,814</b>	<b>22,833</b>	<b>24,794</b>	<b>30,508</b>	<b>29,197</b>	<b>26,552</b>	<b>25,351</b>	<b>24,907</b>	<b>25,346</b>
<b>Total Liabilities</b>	<b>56,705</b>	<b>56,393</b>	<b>61,194</b>	<b>78,131</b>	<b>68,153</b>	<b>68,103</b>	<b>69,284</b>	<b>69,952</b>	<b>71,024</b>
<b>Equity and liabilities</b>	<b>121,972</b>	<b>127,779</b>	<b>137,220</b>	<b>159,646</b>	<b>160,638</b>	<b>163,473</b>	<b>167,686</b>	<b>171,541</b>	<b>175,876</b>

Cash Flows (SAR mn)	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Cash from operations	28,325	11,220	26,354	22,418	19,885	24,790	24,878	25,561	26,145
Cash from investments	(17,429)	(1,715)	(8,579)	(28,383)	(7,179)	(11,843)	(12,426)	(12,933)	(13,374)
Cash from financing	(9,919)	(10,235)	(8,256)	1,591	(10,495)	(15,062)	(13,574)	(13,875)	(13,278)
Net changes in cash	976	(730)	9,520	(4,375)	2,211	(2,115)	(1,122)	(1,247)	(506)
<b>Closing balance (C/b)</b>	<b>9,004</b>	<b>8,281</b>	<b>17,794</b>	<b>13,371</b>	<b>15,543</b>	<b>13,428</b>	<b>12,306</b>	<b>11,059</b>	<b>10,553</b>







Ratios	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
<b><u>Per Share (SAR)</u></b>									
EPS	2.2	2.3	2.4	2.7	4.9	2.7	2.8	2.8	2.8
BVPS	12.8	13.9	14.7	15.8	17.9	18.4	19.0	19.5	20.1
DPS	2.0	1.6	1.6	2.6	3.8	2	2.2	2.2	2.2
FCF/share	2.2	1.9	3.6	(1.2)	2.5	2.6	2.5	2.5	2.6
Revenue/share	11.8	12.6	13.5	14.4	15.2	15.8	16.6	17.2	17.8
<b><u>Valuations</u></b>									
M.Cap (SAR mn)	193,100	243,400	208,350	199,150	203,875	208,600	208,600	208,600	208,600
EV (SAR mn)	186,919	241,816	198,879	199,774	193,483	197,702	197,752	197,680	197,509
P/E	17.6	21.5	17.1	15.0	8.3	15.3	15.1	15.0	14.9
EV/EBITDA	8.5	10.6	7.9	8.9	8.1	8.4	8.2	7.9	7.7
EV/Sales	3.2	3.8	2.9	2.8	2.5	2.5	2.4	2.3	2.2
P/BV	3.0	3.5	2.8	2.5	2.3	2.3	2.2	2.1	2.1
P/S	3.3	3.9	3.1	2.8	2.7	2.6	2.5	2.4	2.3
Div. yield	5.2%	3.3%	3.8%	6.5%	9.2%	5.3%	5.3%	5.3%	5.3%
FCF yield	5.6%	3.9%	8.5%	-3.0%	6.2%	6.2%	6.0%	6.1%	6.1%
<b><u>Liquidity</u></b>									
Cash Ratio	0.3	0.2	0.5	0.3	0.4	0.3	0.3	0.2	0.2
Current ratio	1.4	1.5	1.7	1.5	1.9	1.7	1.7	1.6	1.6
Quick ratio	1.4	1.5	1.6	1.4	1.8	1.7	1.6	1.6	1.6
<b><u>Return ratio</u></b>									
ROA	9.2%	9.1%	9.0%	7.9%	6.8%	8.5%	8.4%	8.3%	8.1%
ROE	17.2%	16.3%	16.6%	16.8%	27.6%	14.8%	14.5%	14.2%	13.9%
ROCE	16.5%	15.6%	16.8%	12.2%	13.1%	12.5%	12.5%	12.4%	12.3%
<b><u>Cash cycle</u></b>									
Contract asset turnover	9.7	11.0	10.2	10.2	9.7	9.7	9.7	9.7	9.7
Payables turnover	1.3	1.7	1.5	1.7	1.7	1.7	1.7	1.7	1.7
Contract liabilities turnover	13.1	8.1	6.4	9.0	9.5	9.5	9.5	9.5	9.5
Receivables turnover	3.7	2.5	2.9	3.4	3.4	3.4	3.4	3.4	3.4
Inventory turnover	24.8	31.8	29.4	19.4	20.4	20.4	20.4	20.4	20.4
Contract asset days	38	33	36	36	38	38	38	38	38
Payable days	288	214	252	215	214	214	214	214	214
Contract liabilities days	28	45	57	41	38	38	38	38	38
Receivables days	97	144	125	109	107	107	107	107	107
Inventory days	15	11	12	19	18	18	18	18	18
Cash Cycle	(166)	(70)	(135)	(92)	(90)	(90)	(90)	(90)	(90)
<b><u>Profitability ratio</u></b>									
Gross margins	57.6%	53.6%	55.5%	48.4%	49.1%	47.2%	46.5%	46.0%	45.7%
EBITDA margins	37.5%	36.3%	37.2%	31.3%	31.5%	29.7%	29.3%	29.0%	28.7%
Operating margins	21.6%	20.8%	22.4%	18.3%	19.0%	17.4%	16.8%	16.3%	15.9%
PBT margins	21.0%	20.1%	20.0%	19.5%	16.0%	18.7%	18.0%	17.5%	17.0%
Net margins	18.7%	18.0%	18.0%	18.5%	32.5%	17.3%	16.6%	16.2%	15.7%
Effective tax rate	9.5%	8.2%	8.0%	9.5%	9.8%	6.0%	6.0%	6.0%	6.0%
<b><u>Leverage</u></b>									
Total debt (SAR mn)	11,936	12,526	13,787	26,233	17,296	14,417	13,085	11,502	10,561
Net debt (SAR mn)	2,932	4,245	(4,008)	12,861	1,752	989	779	443	8
Debt/Capital	15.5%	14.9%	15.4%	24.3%	15.8%	13.1%	11.7%	10.2%	9.2%
Debt/Total assets	9.8%	9.8%	10.0%	16.4%	10.8%	8.8%	7.8%	6.7%	6.0%
Debt/Equity	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.1	0.1
Debt/EBITDA	0.5	0.5	0.5	1.2	0.7	0.6	0.5	0.5	0.4
Net debt/EBITDA	0.1	0.2	(0.2)	0.6	0.1	0.0	0.0	0.0	0.0

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## Rating Criteria and Definitions

Rating	Rating Definitions
 <b>Strong Buy</b>	<b>Strong Buy</b> 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%
 <b>Buy</b>	<b>Buy</b> 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%
 <b>Hold</b>	<b>Hold</b> 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%
 <b>Neutral</b>	<b>Neutral</b> 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%
 <b>Sell</b>	<b>Sell</b> 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%
 <b>Strong Sell</b>	<b>Strong Sell</b> 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%
<b>Not rated</b>	<b>Not rated</b> This recommendation used for stocks which does not form part of Coverage Universe

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