

## Saudi Telecom Company (STC)

Growth in subscribers base and zakat reversals strengthened the bottom line

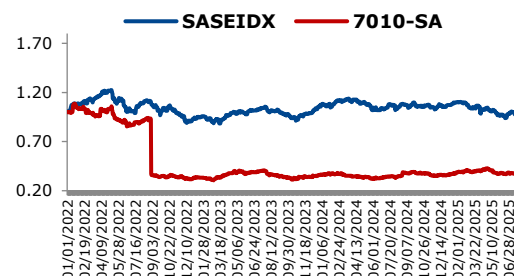
**Current Price**  
SAR 42.12

**Target Price**  
SAR 50.00

**Upside/Downside (%)**  
**+18.7%**

**Rating**  
**BUY**

- EBITDA rose 6.9% YOY to SAR 6,168 Mn, while EBITDA margin rose 129 bps YOY to 31.7% in 2Q25.
- The Company's KSA mobile subscriber surged 5.7% YOY to 28.93 Mn, whereas the fixed subscriber base grew 5.6% YOY to 5.98 Mn in 2Q25.
- The Company declared an interim dividend of SAR 0.55 per share for 2Q25, totaling SAR 2,744.38 Mn.
- The Group signed a partnership agreement with Oracle, valued at over SAR 2 Bn, to accelerate digital transformation across the KSA region.



### Stock Information

Market Cap (SAR, Mn)	210,644.9
Paid Up Capital (Mn)	4,986.92
52 Week High	48.30
52 Week Low	36.40
3M Avg. daily value (SAR)	3,266,586

### 2Q25 Result Review (SAR, Mn)

Total Assets	151,779
Total Liabilities	66,265
Total Equity after NCI	82,699
EBITDA	6,168
Net Profit	3,823

Dividend Yield (12m)	8.9
Dividend Pay-out (%)	73.92
Price-Earnings Ratio(x)	16.90
Price-to-Book Ratio (x)	2.23
Book Value (SAR)	17.93
Return-on Equity (%)	12.73

### Stock Performance

5 Days	1.94%
1 Months	-2.84%
3 Months	-12.25%
6 Months	-2.73%
1 Year	7.59%
Month to Date (MTD%)	-0.99%
Quarter to Date (QTD%)	-0.99%
Year to Date (YTD%)	5.30%

### 2Q25 Net Profit higher than our estimate

STC Group ("STC, "the Company") recorded a net profit of SAR 3,823 Mn in 2Q25, higher than our estimate of SAR 3,464 Mn. The increase in net profit is primarily due to the rise in revenue, lower direct costs, and a reversal of Zakat provisions, partially offset by an increase in operating expenses and D&A expenses.

### P&L Highlights

STC's total revenue grew 2.6% YOY to SAR 19,451 Mn in 2Q25, driven by a rise in revenue from Carriers & Wholesale units and Commercial units due to an increase in the subscriber's base. Revenue from Carriers and Wholesale unit rose 2.7% YOY, and revenue from Commercial unit increased 3.9% YOY in 2Q25. STC KSA revenue grew 1.7% YOY to SAR 12,667 Mn in 2Q25 with a 5.7% YOY growth in mobile subscribers to SAR 28.93 Mn and 5.6% YOY growth in fixed subscribers to SAR 5.98 Mn in 2Q25. STC Kuwait's revenue rose 5.5% YOY to SAR 1,073 Mn in 2Q25. However, mobile subscribers in Kuwait declined 3.2% YOY to 2.23 Mn in 2Q25. STC Bahrain witnessed a 6.2% YOY growth in revenue to SAR 504 Mn in 2Q25. The Company's direct costs declined 2.3% YOY to SAR 9,891 Mn in 2Q25, which led to an increase in gross profit by 8.2% YOY to SAR 9,560 Mn in 2Q25. Gross profit margin grew from 46.6% in 2Q24 to 49.1% in 2Q25. The Company's operating expenses increased 10.7% YOY to SAR 3,392 Mn in 2Q25, supported by growth in S&M expenses and G&A expenses. As a result, EBITDA rose 6.9% YOY to SAR 6,168 Mn in 2Q25, while EBITDA margin grew 129 bps YOY to 31.7% in 2Q25. Thus, operating income increased 2.6% YOY to SAR 3,624 Mn in 2Q25. Moreover, the operating profit margin remained constant at 18.6% in 2Q25 compared to 2Q24. STC's finance income fell 23.4% YOY to SAR 331 Mn, while finance charges declined 27.5% YOY to SAR 261 Mn in 2Q25. The Company recorded a zakat reversal, compared to tax expenses of SAR 278 Mn in 2Q24, due to the release of Zakat provisions from previous years that were no longer required following

the conclusion of historical tax assessments.

### Balance Sheet Highlights

The Company's cash & cash equivalents declined from SAR 15.9 Bn in 1Q25 to SAR 15.7 Bn in 2Q25. Total debt remained constant at SAR 15.2 Bn in 2Q25, compared to 1Q25. Additionally, working capital declined from SAR 29.5 Bn in 1Q25 to SAR 20.0 Bn in 2Q25. Furthermore, the Company's total assets declined from SAR 162.6 Bn in 1Q25 to SAR 151.8 Bn in 2Q25. STC's shareholders' equity after deducting non-controlling interest stood at SAR 82.7 Bn in 2Q25, up from SAR 91.1 Bn in 1Q25.

### Target Price and Rating

We maintained our BUY rating on Saudi Telecom Company with a target price of SAR 50.0. STC delivered a solid financial performance in 2Q25, driven by strong growth in its mobile and fixed subscriber base in KSA, along with a positive impact from zakat reversals during 2Q25. The Company's cost efficiency program significantly improved operational and financial performance, resulting in a 6.9% YOY increase in EBITDA to SAR 6,168 Mn in 2Q25. STC's network recorded a 64% YOY increase in data usage and a 129% YOY surge in 5G traffic in Muzdalifah, which underpins the Company's robust network capabilities, scalability, and ongoing investments in infrastructure to support rising demand. The Company continues to invest in next-generation infrastructure and maintain its leadership in 5G deployment. STC's 5G network now covers over 9,500 sites across KSA and became the first operator in the region to commercially activate the low-frequency 600 MHz (N71) band, significantly enhancing coverage and signal penetration, especially in remote areas. This expanded 5G footprint and enhanced network capability are expected to drive higher subscriber acquisition and improved customer retention, especially in underserved regions. STC also continues to strengthen its regional positioning through key partnerships aimed at accelerating digital transformation and expanding its service portfolio. The Company entered into a strategic partnership with Oracle, valued at over SAR 2 Bn, aimed at accelerating digital transformation across the Kingdom through the development of advanced AI-enabled cloud infrastructure and the provision of sovereign cloud solutions via the Oracle Alloy platform. Additionally, STC established a strategic partnership with Singtel Group for various initiatives, including digital platform integration, human capital development, IOT solutions, and the expansion of subsea cable systems. Furthermore, STC announced a multi-year strategic partnership with Kyndryl to develop an advanced Multicloud Management Platform strategy. These initiatives align with STC's broader vision of becoming a fully integrated digital service provider across the region and are expected to enhance its long-term financial position by unlocking new revenue streams. STC also maintains a strong balance sheet, with a healthy cash balance of SAR 15.7 Bn as of 2Q25, which positions it well to support inorganic growth. Moreover, in line with its new dividend policy, the Company announced an interim dividend of SAR 0.55 per share for 2Q25, totalling SAR 2,744.38 Mn. Thus, based on the aforementioned factors, we maintain our BUY rating on the stock.

### STC - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	19.20	18.66	17.35	15.88	8.55	15.22
PB	3.30	3.05	2.87	2.67	2.36	2.56
EV/EBITDA	9.14	9.03	7.91	9.24	8.55	8.0
BVPS	12.789	13.854	14.700	15.797	17.883	16.470
EPS	2.199	2.262	2.434	2.659	4.938	2.775
DPS	2.000	1.600	1.600	2.600 <sup>1</sup>	3.750 <sup>2</sup>	2.200
Dividend yield	4.7%	3.8%	3.8%	6.2%	8.9%	5.2%

FABS Estimates & Co Data, <sup>1</sup>DPS for 2023 includes a special dividend of SAR 1 per share, <sup>2</sup>DPS for 2024 consists of a special dividend of SAR 2 per share

#### STC – P&L

SAR Mn	2Q24	1Q25	2Q25A	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Sales	18,959	19,210	19,451	19,458	0.0%	2.6%	1.3%	75,893	78,495	3.4%
Direct costs	-10,127	-10,111	-9,891	-9,826	0.7%	-2.3%	-2.2%	-38,593	-40,033	3.7%
<b>Gross profit</b>	<b>8,832</b>	<b>9,098</b>	<b>9,560</b>	<b>9,632</b>	<b>-0.7%</b>	<b>8.2%</b>	<b>5.1%</b>	<b>37,300</b>	<b>38,463</b>	<b>3.1%</b>
<b>EBITDA</b>	<b>5,768</b>	<b>6,120</b>	<b>6,168</b>	<b>6,402</b>	<b>-3.6%</b>	<b>6.9%</b>	<b>0.8%</b>	<b>23,926</b>	<b>25,022</b>	<b>4.6%</b>
<b>Operating profit</b>	<b>3,533</b>	<b>3,584</b>	<b>3,624</b>	<b>3,912</b>	<b>-7.4%</b>	<b>2.6%</b>	<b>1.1%</b>	<b>14,426</b>	<b>14,948</b>	<b>3.6%</b>
Zakat	-278	311	216	-224	NM	NM	-30.4%	-1,192	-288	-75.8%
<b>Profit attributable</b>	<b>3,304</b>	<b>3,649</b>	<b>3,823</b>	<b>3,464</b>	<b>10.4%</b>	<b>15.7%</b>	<b>4.8%</b>	<b>24,689</b>	<b>13,873</b>	<b>-43.8%</b>

FABS estimate & Co Data

#### STC – Margins

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Gross Profit	46.6%	47.4%	49.1%	256	179	49.1%	49.0%	-15
EBITDA	30.4%	31.9%	31.7%	129	-15	31.5%	31.9%	35
Operating Profit	18.6%	18.7%	18.6%	0	-2	19.0%	19.0%	4
Net Profit	17.4%	19.0%	19.7%	223	66	32.5%	17.7%	-1,486

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Saudi Telecom Company. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	51.01	70.0%	35.70
Relative Valuation (RV)	47.66	30.0%	14.30
<b>Weighted Average Valuation (SAR)</b>			<b>50.00</b>
Current market price (SAR)			42.12
Upside/Downside (%)			+18.7%

### 1) DCF Method:

STC is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.8%. It is arrived after using a cost of equity of 9.0% and after-tax cost of debt of 5.9% with a debt-to-equity ratio of 7.2%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 1.00 and equity risk premium of 3.9%. Government bond yield is calculated after adding the KSA 10-year CDS spread over 10-year US risk free rate. The cost of debt is after adjusting a tax rate, arriving at after-tax cost of debt of 5.9%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	53,417
Terminal value (SAR, Mn)	183,242
<b>FV to Common shareholders (SAR, Mn)</b>	<b>254,366</b>
No. of share (Mn)	4,987
Current Market Price (SAR)	42.12
<b>Fair Value per share (SAR)</b>	<b>51.01</b>

### DCF Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	14,470	15,203	16,177	16,920	17,589
Depreciation and Amortization	10,074	10,689	11,061	11,380	11,636
(-) CAPEX	-11,774	-11,789	-11,894	-11,917	-11,877
(-) Change in Net Working Capital	-4,404	-81	-280	131	191
<b>Free Cash Flow to Equity (FCFF)</b>	<b>8,365</b>	<b>14,022</b>	<b>15,064</b>	<b>16,513</b>	<b>17,540</b>
Discounting Factor	0.97	0.89	0.82	0.75	0.69
<b>Discounted FCFF</b>	<b>4,038<sup>1</sup></b>	<b>12,461</b>	<b>12,323</b>	<b>12,436</b>	<b>12,159</b>

Source: FAB Securities, <sup>1</sup>Adjusted for Partial Year

## 2) Relative Valuation:

We have used local as well as international peers to value STC, and it is valued using the EV/EBITDA multiple. It is valued at a 2025 EV/EBITDA multiple of 8.8x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Etihad Etisalat Company (Mobily)	12,325	6.9x	6.5x	13.5x	12.6x
Thaicom	284	8.8x	8.4x	80.0x	43.1x
Emirates Telecommunications Group Company	44,936	6.6x	6.2x	13.5x	12.8x
Telstra Group Ltd	36,624	8.8	8.4	25.3x	23.2x
Bharti Airtel	134,265	14.7x	12.0x	50.0x	39.2x
<b>Average</b>		<b>9.2x</b>	<b>8.3x</b>	<b>36.5x</b>	<b>26.2x</b>
<b>Median</b>		<b>8.8x</b>	<b>8.4x</b>	<b>25.3x</b>	<b>23.2x</b>
<b>Max</b>		<b>8.8x</b>	<b>8.4x</b>	<b>50.0x</b>	<b>39.2x</b>
<b>Min</b>		<b>6.9x</b>	<b>6.5x</b>	<b>13.5x</b>	<b>12.8x</b>

Source: FAB Securities

## Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

## FAB Securities Contacts:

### Research Analyst

Ahmad Banihani                      +971-2-6161629                      [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

### Sales & Execution

Abu Dhabi Head Office

Trading Desk                      +971-2-6161700/1                      Online Trading Link

+971-2-6161777

Institutional Desk                      +971-4-4245765

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