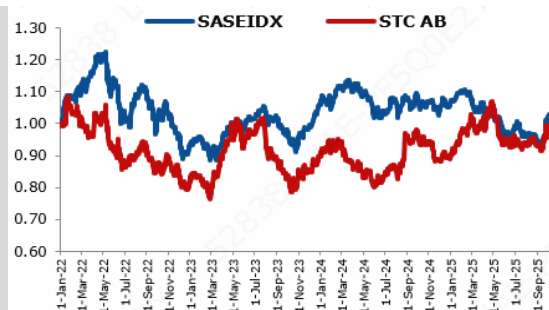


## Saudi Telecom Company (STC)

Expanding subscriber base along with revenue diversification supported top line

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 44.62	SAR 50.00	+12.1%	ACCUMULATE

- Mobile subscribers in KSA increased 5.9% YOY to 29.24 Mn and fixed subscriber grew 6.4% YOY to 6.05 Mn in 3Q25.
- Center 3 plans to invest SAR 37.5 Bn to expand data center capacity to 1 gigawatt by 2030, supporting rising AI and cloud computing demand.
- Secured a major government infrastructure contract with ministry of defence valued at c. SAR 33 Bn with project execution set to begin in 2026 and revenue recognition anticipated thereafter.
- Announced the dividends of SAR 0.55 per share, totaling SAR 2,744.4 Mn for the period of 3Q25.



### Stock Information

Market Cap (SAR, Mn)	223,500.00
Paid Up Capital (Mn)	50,000.00
52 Week High	46.20
52 Week Low	37.64
3M Avg. daily value (SAR)	146,761,600

### 3Q25 Net Profit in line with our estimate

STC Group ("STC, "the Company") net profit declined 11.5% YOY to SAR 4,107 Mn in 3Q25, in line with our estimate of SAR 4,061 Mn. The decrease in net profit is primarily due to an increase in direct costs and nil net profit from discontinued operations, partially offset by an increase in sales and other income, coupled with a decrease in operating expenses, and reversal of Zakat charges.

### P&L Highlights

STC's total revenue grew 3.6% YOY to SAR 19,264 Mn in 3Q25, driven by a rise in revenue from Carriers & Wholesale units, Business units and Commercial units due to an increase in the subscriber base. Revenue from Carriers and Wholesale units rose 17.5% YOY, revenue from business units 5.3% YOY, and revenue from Commercial units increased 3.1% YOY in 3Q25. STC KSA revenue grew 4.8% YOY to SAR 13,045 Mn in 3Q25, with a 5.9% YOY growth in mobile subscribers to 29.24 Mn and 6.4% YOY growth in fixed subscribers to 6.05 Mn in 3Q25. STC Kuwait reported a revenue of SAR 1,001 Mn in 3Q25. Mobile subscribers in Kuwait declined 3.2% YOY to 2.25 Mn in 3Q25. STC Bahrain witnessed a 3.6% YOY growth in revenue to SAR 495 Mn in 3Q25. Additionally, STC Bahrain subscribers rose 0.4% YOY to 936K in 3Q25. The Company's direct costs increased 22.2% YOY to SAR 10,013 Mn in 3Q25, which led to a decrease in gross profit by 11.1% YOY to SAR 9,251 Mn in 3Q25. Gross profit margin fell from 55.9% in 3Q24 to 48.0% in 3Q25. The Company's operating expenses decreased 15.6% YOY to SAR 3,043 Mn in 3Q25. EBITDA fell 8.7% YOY to SAR 6,208 Mn in 3Q25, while the EBITDA margin fell from 36.5% in 3Q24 to 32.2% in 3Q25. Thus, operating profit decreased 17.8% YOY to SAR 3,627 Mn in 3Q25. Moreover, operating profit margin also fell from 23.7% in 3Q24 to 18.8% in 3Q25.

### 3Q25 Result Review (SAR, Mn)

Total Assets	153,781
Total Liabilities	66,931
Shareholder Equity	83,948
EBITDA	6,208
Net Profit	4,107

Dividend Yield (12m)	9.06
Dividend Pay-out (%)	102.39
Price-Earnings Ratio(x)	18.80
Price-to-Book Ratio (x)	2.70
Book Value (SAR)	16.57
Return-on Equity (%)	32.14

### Stock Performance

5 Days	-1.06%
1 Months	0.77%
3 Months	5.42%
6 Months	1.59%
1 Year	10.48%
Month to Date (MTD%)	-1.06%
Quarter to Date (QTD%)	1.41%
Year to Date (YTD%)	16.83%

STC's other income rose significantly from SAR 94 Mn in 3Q24 to SAR 404 Mn in 3Q25, mainly due to the upward revaluation of STV LP fund units. The Company recorded a zakat reversal of SAR 157 Mn in 3Q25, compared to tax expenses of SAR 177 Mn in 3Q24, 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 increased from SAR 15.7 Bn in 2Q25 to SAR 16.6 Bn in 3Q25. Total debt decreased marginally from SAR 15.2 Bn in 2Q25 to SAR 15.1 Bn in 3Q25. Additionally, working capital increased from SAR 20.0 Bn in 2Q25 to SAR 21.1 Bn in 3Q25. Furthermore, the Company's total assets increased from SAR 151.8 Bn in 2Q25 to SAR 153.8 Bn in 3Q25. STC's shareholder's equity after deducting non-controlling interest stood at SAR 83.9 Bn in 3Q25, up from SAR 82.7 Bn in 2Q25. STC generated free cash flow of SAR 4.0 Bn in 3Q25, compared to SAR 1.2 Bn in 3Q24.

### Target Price and Rating

We revised our rating from BUY to ACCUMULATE on Saudi Telecom Company with an unchanged target price of SAR 50.0 per share. STC recorded a decrease in net income by 11.5% YOY in 3Q25. However, this decline is due to the one-off impact of a non-recurring item. Excluding the one-off impact in 3Q24 and 3Q25, the Company reported 19.2% YOY growth in net profit during 3Q25. STC delivered strong growth in its mobile and fixed subscriber base in KSA, along with a positive impact from zakat reversals during 3Q25. Mobile subscribers in KSA increased 5.9% YOY to 29.24 Mn in 3Q25, whereas fixed subscribers grew 6.4% YOY to 6.05 Mn. This demonstrates the continued expansion of both mobile and fixed-line penetration in the Kingdom. STC incurred total capex of SAR 6.1 Bn during 9M25, compared to SAR 7.2 Bn in 9M24. For the Channel business, the Company is prioritizing high-margin business areas over volume-driven growth and expects additional margin expansion through 2026–2027 as optimization efforts progress. The Company's subsidiary, center3, announced to invest SAR 37.5 Bn to enhance digital infrastructure across the Kingdom and the region, with the goal of expanding and developing its data center network to achieve a total capacity of 1 gigawatt by 2030. Furthermore, to strengthen and diversify the Kingdom's digital economy, center3 signed a strategic agreement with HUMAIN, a subsidiary of the Public Investment Fund, to provide secure and high-efficiency connectivity across domestic and international networks, supporting HUMAIN's AI ecosystem. Stc Group's venture capital arm, tali ventures, led a strategic investment in Tarmeez Capital to drive fintech growth in sukuk and debt instruments, strengthening the Kingdom's financial ecosystem. The group signed a strategic partnership with Red Sea Global to develop advanced digital infrastructure and deliver cutting-edge connectivity services, with an investment of SAR 1.2 Bn, supporting the digital transformation of the Kingdom's Giga projects. STC group launched the Business-Critical Network to enhance secure, high-speed, and resilient connectivity for Saudi Arabia's key sectors, including government, healthcare, and oil and gas. The Company plans to increase capital intensity in the next 2–3 years for data center expansion, to boost margins and achieve long-term profitability. Furthermore, the Company has secured a major project currently under deployment, with revenues expected from late 2026; strong revenue growth is expected to be generated from 2027. STC secured a major government infrastructure contract with ministry of defence valued at c. SAR 33 Bn with project execution set to begin in 2026 and revenue recognition anticipated thereafter. The Company announced the dividends of SAR 0.55 per share, totalling SAR 2,744 Mn for the period of 3Q25. Thus, based on these factors, we assigned an ACCUMULATE rating on the stock.

#### STC - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	20.33	19.76	18.36	16.81	9.05	14.92
PB	3.50	3.23	3.04	2.83	2.50	2.68
EV/EBITDA	9.70	9.57	8.40	9.79	9.07	9.1
BVPS	12.789	13.854	14.700	15.797	17.883	16.690
EPS	2.199	2.262	2.434	2.659	4.938	2.995
DPS	2.000	1.600	1.600	2.600 <sup>1</sup>	3.750 <sup>2</sup>	2.200
Dividend yield	4.5%	3.6%	3.6%	5.8%	8.4%	4.9%

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	3Q24	2Q25	3Q25	3Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Sales	18,598	19,451	19,264	19,739	-2.4%	3.6%	-1.0%	75,893	78,301	3.2%
Direct costs	-8,196	-9,891	-10,013	-9,277	7.9%	22.2%	1.2%	-38,593	-40,403	4.7%
<b>Gross profit</b>	<b>10,402</b>	<b>9,560</b>	<b>9,251</b>	<b>10,462</b>	<b>-11.6%</b>	<b>-11.1%</b>	<b>-3.2%</b>	<b>37,300</b>	<b>37,898</b>	<b>1.6%</b>
Operating expenses	-3,605	-3,391	-3,043	-3,671	-17.1%	-15.6%	-10.3%	-13,375	-13,155	-1.6%
<b>EBITDA</b>	<b>6,797</b>	<b>6,168</b>	<b>6,208</b>	<b>6,790</b>	<b>-8.6%</b>	<b>-8.7%</b>	<b>0.7%</b>	<b>23,926</b>	<b>24,743</b>	<b>3.4%</b>
<b>Operating profit</b>	<b>4,410</b>	<b>3,624</b>	<b>3,627</b>	<b>4,273</b>	<b>-15.1%</b>	<b>-17.8%</b>	<b>0.1%</b>	<b>14,426</b>	<b>14,672</b>	<b>1.7%</b>
Zakat	-177	216	157	-311	NM	NM	-27.2	-1,192	299	-125.1%
<b>Profit attributable</b>	<b>4,643</b>	<b>3,823</b>	<b>4,107</b>	<b>4,061</b>	<b>1.1%</b>	<b>-11.5%</b>	<b>7.4%</b>	<b>24,689</b>	<b>14,975</b>	<b>-39.3%</b>

FABS estimate & Co Data

#### STC – Margins

	3Q24	2Q25	3Q25	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Gross Profit	55.9%	49.1%	48.0%	-791	-112	49.1%	48.4%	-75
EBITDA	36.5%	31.7%	32.2%	-432	52	31.5%	31.6%	7
Operating Profit	23.7%	18.6%	18.8%	-488	20	19.0%	18.7%	-27
Net Profit	25.0%	19.7%	21.3%	-365	166	32.5%	19.1%	-1,341

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	50.64	70.0%	35.45
Relative Valuation (RV)	48.49	30.0%	14.55
<b>Weighted Average Valuation (SAR)</b>			<b>50.00</b>
Current market price (SAR)			44.62
Upside/Downside (%)			+12.1%

### 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 9.1% and after-tax cost of debt of 5.1% with a debt-to-equity ratio of 6.8%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, the 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 an after-tax cost of debt of 5.1%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	59,646
Terminal value (SAR, Mn)	162,912
<b>FV to Common shareholders (SAR, Mn)</b>	<b>252,562</b>
No. of share (Mn)	4,987
Current Market Price (SAR)	44.62
<b>Fair Value per share (SAR)</b>	<b>50.64</b>

### DCF Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	14,202	14,221	15,044	15,695	16,367	16,909
Depreciation and Amortization	10,071	10,670	11,014	11,313	11,574	11,946
(-) CAPEX	-11,745	-11,648	-11,699	-11,823	-11,950	-12,064
(-) Change in Net Working Capital	-4,663	-111	-295	115	176	92
<b>Free Cash Flow to Equity (FCFF)</b>	<b>7,866</b>	<b>13,133</b>	<b>14,064</b>	<b>15,300</b>	<b>16,167</b>	<b>16,883</b>
Discounting Factor	0.99	0.91	0.83	0.77	0.70	0.65
<b>Discounted FCFF</b>	<b>1,941<sup>1</sup></b>	<b>11,915</b>	<b>11,730</b>	<b>11,730</b>	<b>11,393</b>	<b>10,937</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 2026 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)	13,591	7.6x	7.2x	14.9x	13.5x
Thaicom	314	10.4x	9.6x	236.3x	52.5x
Emirates Telecommunications Group Company	45,456	6.8x	6.4x	13.5x	12.6x
Telstra Group Ltd	35,747	8.9	8.4	25.8x	23.7x
Bharti Airtel	142,773	14.7x	12.8x	50.0x	45.8x
<b>Average</b>		<b>9.7x</b>	<b>8.9x</b>	<b>68.1x</b>	<b>29.6x</b>
<b>Median</b>		<b>8.9x</b>	<b>8.4x</b>	<b>25.8x</b>	<b>23.7x</b>
<b>Max (Quartile 3)</b>		<b>10.4x</b>	<b>9.6x</b>	<b>50.0x</b>	<b>45.8x</b>
<b>Min (Quartile 1)</b>		<b>7.6x</b>	<b>7.2x</b>	<b>14.9x</b>	<b>13.5x</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%

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