

Saudi Telecom Company (STC)

Growth in subscriber base and rise in banking service enhance the top line

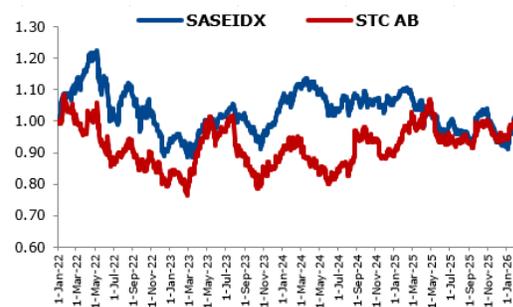
Current Price
SAR 41.82

Target Price
SAR 50.00

Upside/Downside (%)
+20%

Rating
BUY

- Mobile subscribers in KSA rose 5.9% YOY to 30.0 Mn in 4Q25, while fixed subscribers expanded 5.0% YOY to 6.0 Mn.
- The Company entered into a strategic partnership with AST SpaceMobile in 4Q25 to deliver space-based telecommunications services.
- "Specialized" executed an Islamic Murabaha facility agreement with Saudi banks, while "center3" signed an MoU with HUMAIN to form a joint venture in 4Q25.
- STC declared the dividends of SAR 0.55 per share, totaling SAR 2,744.4 Mn for the period of 4Q25.



4Q25 Net Profit slightly lower than our estimate

STC Group ("STC, "the Company") net profit declined from SAR 13,456 Mn in 4Q24 to SAR 3,249 in 4Q25, slightly lower than our estimate of SAR 3,392 Mn. The decrease in net profit is primarily due to a higher base in 4Q24, driven by elevated profit from discontinued operations. The decline in net profit is also attributed to rise in direct costs, finance charges, and decline in finance income in 4Q25, partially offset by increase in revenue and other income coupled with decline in depreciation & amortisation expenses.

P&L Highlights

STC's total revenue grew 2.4% YOY to SAR 19,894 Mn in 4Q25, driven by a rise in revenue in KSA region, partially offset by decline in revenue from Kuwait and Brahin region. STC KSA revenue grew 2.8% YOY to SAR 12,755 Mn in 4Q25, with a 5.9% YOY growth in mobile subscribers to 30.0 Mn and 5.0% YOY growth in fixed subscribers to 6.0 Mn in 4Q25. STC Kuwait revenue decline marginally 0.9% YOY to SAR 1,043 Mn in 4Q25. Mobile subscribers in Kuwait declined 2.3% YOY to 2.3 Mn in 4Q25. STC Bahrain witnessed a 3.9% YOY decreased in revenue to SAR 465 Mn in 4Q25. However, STC Bahrain subscribers rose 2.8% YOY to 950k in 4Q25. STC channel revenue declined 17.7% YOY to SAR 2,905 Mn in 4Q25. Whereas Solution segment revenue grew 4.7% YOY to SAR 3,907 Mn in 4Q25. STC Bank's revenue expanded 9.1% YOY to SAR 368 Mn in 4Q25. Sirar revenue segment declined 7.3% YOY to SAR 299 Mn in 4Q25. The Company's specialized segment revenue declined 2.7% YOY to SAR 113 Mn in 4Q25. Center 3 segment revenue declined 2.6% YOY to SAR 514 Mn in 4Q25. Iot segment revenue increased 14.3% YOY to SAR 138 Mn in 4Q25. While SCCC segment revenue increased from SAR 66 Mn in 4Q24 to SAR 142 Mn in 4Q25. The Company's direct costs increased

Stock Information

Market Cap (SAR, Mn)	209,100.00
Paid Up Capital (Mn)	50,000.00
52 Week High	46.20
52 Week Low	40.70
3M Avg. daily value (SAR)	118,673,600

4Q25 Result Review (SAR, Mn)

Total Assets	157,477
Total Liabilities	71,090
Shareholder Equity	86,386
EBITDA	5,972
Net Profit	3,249

Dividend Yield (12m)	9.98
Dividend Pay-out (%)	73.76
Price-Earnings Ratio(x)	14.11
Price-to-Book Ratio (x)	2.52
Book Value (SAR)	16.72
Return-on Equity (%)	17.16

Stock Performance

5 Days	-4.08%
1 Months	-6.98%
3 Months	-1.97%
6 Months	-0.67%
1 Year	-3.38%
Month to Date (MTD%)	-5.81%
Quarter to Date (QTD%)	-2.70%
Year to Date (YTD%)	-2.70%

1.0% YOY to SAR 10,103 Mn in 4Q25. As a result, gross profit grew 3.9% YOY to SAR 9,791 Mn in 4Q25, as growth in revenue surpassed the rise in direct costs. Gross profit margin rose 72 bps YOY to 49.2% in 4Q25. Selling & overhead expenses declined 1.3% YOY to SAR 1,872 Mn in 4Q25. G&A expenses fell marginally 0.1% YOY to SAR 1,948 in 4Q25. Thus, operating expenses declined 0.7% YOY to SAR 3,819 in 4Q25. STC's EBITDA grew 7.1% YOY to SAR 5,972 Mn in 4Q25, while the EBITDA margin expanded from 28.7% in 4Q24 to 30.0% in 4Q25. Depreciation & amortization decreased 9.2% YOY to SAR 2,368 Mn in 4Q25. Thus, operating profit grew 21.4% YOY to SAR 3,605 Mn in 4Q25. Moreover, operating profit margin increased from 15.3% in 4Q24 to 18.1% in 4Q25. STC's recorded other income of SAR 77 Mn in 4Q25, compared to other expenses of SAR 2,297 Mn in 4Q24. Finance income declined 49.7% YOY to SAR 220 Mn in 4Q25. Whereas, finance charges rose 4.9% YOY to SAR 304 Mn in 4Q25. The Company's zakat expenses declined from SAR 507 Mn in 4Q24 to SAR 216 Mn in 4Q25. STC recorded the loss from discontinued operations of SAR 54 Mn in 4Q25, compared to profit of SAR 13,174 Mn in 4Q25, due to one-off transaction-related accounting gains recognized in December 2024. The Company's NCI grew from SAR 31 Mn in 4Q24 to SAR 78 Mn in 4Q25.

Balance Sheet Highlights

STC's cash & cash equivalents including short term Murabaha declined from SAR 16.6 Bn in 3Q25 to SAR 15.1 Bn in 4Q25. Total debt increased marginally from SAR 15.1 Bn in 3Q25 to SAR 15.2 Bn in 4Q25. Additionally, working capital declined from SAR 33.8 Bn in 2024 to SAR 17.8 Bn in 2025. Cash flow from operating activities declined 8.1% YOY to SAR 18.3 Bn in 2025. STC generated free cash flow of SAR 6.5 Bn in 2025, compared to SAR 8.0 Bn in 2024.

Target Price and Rating

We maintain our BUY rating on STC with a target price of SAR 50.0 per share. STC reported a sharp decline in net income by 75.9% YOY in 4Q25, primarily due to elevated profit from discontinued operations in 4Q24, which created a higher base effect. However, excluding the one-off impact in 4Q24, the Company reported healthy performance during 4Q25. STC delivered strong growth in its mobile and fixed subscriber base in KSA. Mobile subscribers in KSA increased 5.9% YOY to 30.0 Mn in 4Q25, whereas fixed subscribers grew 5.0% YOY to 6.0 Mn, reflecting deeper market penetration across the region, which supports overall revenue growth. The Company's mobile subscriber base in Kuwait declined by 2.3% YOY to 2.3 Mn in 4Q25. In contrast, despite a contraction in revenue in Bahrain, the mobile subscriber base continued to expand, growing 2.8% YOY to 950K in 4Q25. In 4Q25, STC entered into a strategic partnership with AST SpaceMobile to deliver space-based telecommunications services, expanding its customer reach and supporting long-term revenue diversification. The Company also continued to strengthen its subsidiaries, its "Specialized" unit signed an Islamic Murabaha financing facility with Saudi banks, while center3 signed a MOU with HUMAIN to establish a joint venture focused on developing AI data centres in the Kingdom of Saudi Arabia. Additionally, STC Bank subsidiary recorded strong momentum in digital banking adoption, surpassing 8 Mn customers since its launch at the beginning of the 2025. On the infrastructure front, the Company expanded its 5G footprint to over 10,800 network sites, while cumulative fiber-optic connections reached 3.75 Mn households by the end of 2025. Furthermore, the Company conducted the region's first 7 GHz frequency band trial for 6G in partnership with the Communications, Space and Technology Commission and Nokia, strengthening its position in technological innovation in 2025. The Company also signed key strategic agreements, including a SAR 32.64 Bn telecom infrastructure contract, a SAR 2 Bn collaboration with Oracle, and a SAR 1.2 Bn partnership with Red Sea Global in 2025, thereby reinforcing its position as a leading digital infrastructure enabler in KSA. Moreover, in line with its dividend policy, STC announced a dividend of SAR 0.55 per share (5.5% of par value), totaling SAR 2,744.4 Mn, for 4Q25, in line with its approved three-year dividend policy. Thus, based on these factors, we maintain our BUY rating on the stock.

STC - Relative valuation

(at CMP)	2021	2022	2023	2024	2025F	2026F
PE	18.49	17.18	15.73	8.47	14.10	15.16
PB	3.02	2.84	2.65	2.34	2.51	2.42
EV/EBITDA	8.94	7.83	9.15	8.21	8.67	8.28
BVPS	13.854	14.700	15.797	17.883	16.683	17.246
EPS	2.262	2.434	2.659	4.938	2.966	2.758
DPS	1.600	1.600	2.600	3.750	2.200	2.200
Dividend yield	3.8%	3.8%	6.2%	9.0%	5.3%	5.3%

FABS Estimates & Co Data,

¹DPS for 2023 includes a special dividend of SAR 1 per share,

²DPS for 2024 consists of a special dividend of SAR 2 per share

STC - P&L

SAR Mn	4Q24	3Q25	4Q25	4Q25F	var.	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Sales	19,429	19,264	19,894	20,313	-2.1%	2.4%	3.3%	75,893	77,819	2.5%
Direct costs	-10,006	-10,013	-10,103	-9,885	2.2%	1.0%	0.9%	-38,567	-40,119	4.0%
Gross profit	9,423	9,251	9,791	10,428	-6.1%	3.9%	5.8%	37,326	37,700	1.0%
Selling & overhead exp.	-1,896	-1,462	-1,872	-1,759	6.4%	-1.3%	28.0%	-6,562	-6,372	-2.9%
G&A expenses	-1,950	-1,580	-1,948	-2,052	-5.1%	-0.1%	23.3%	-6,813	-6,859	0.7%
Operating expenses	-3,847	-3,042	-3,819	-3,811	0.2%	-0.7%	25.6%	-13,375	-13,230	-1.1%
EBITDA	5,576	6,209	5,972	6,617	-9.7%	7.1%	-3.8%	23,951	24,469	2.2%
D&A expenses	-2,606	-2,582	-2,368	-2,588	-8.5%	-9.2%	-8.3%	-9,525	-10,031	5.3%
Operating profit	2,970	3,627	3,605	4,029	-10.5%	21.4%	-0.6%	14,426	14,438	0.1%
Other income/(expenses)	-2,297	425	77	-150	NM	NM	NM	-2,775	133	-104.8%
Finance Income	436	246	220	284	-22.8%	-49.7%	-10.9%	1,718	1,276	-25.7%
Financial charges	-290	-267	-304	-341	-10.9%	4.9%	13.6%	-1,234	-1,125	-8.8%
Profit before zakat	819	4,031	3,597	3,821	-5.9%	NM	-10.8%	12,134	14,723	21.3%
Zakat	-507	157	-216	-384	-43.6%	NM	NM	-1,192	466	NM
Profit from Continuing operations before NCI	312	4,188	3,381	3,437	-1.7%	NM	-19.3%	10,943	15,189	38.8%
Profit from discontinued operations	13,174	0	-54	0	NM	NM	NM	13,973	-54	NA
NCI	31	81	78	45	NM	NM	-3.4%	228	307	34.9%
Profit attributable	13,456	4,107	3,249	3,392	-4.2%	-75.9%	-20.9%	24,689	14,828	-39.9%

FABS estimate & Co Data

STC - Margins

	4Q24	3Q25	4Q25	YOY Ch	QOQ Ch	2024	2025	YOY Ch
Gross Profit	48.5%	48.0%	49.2%	72	120	49.2%	48.4%	-74
EBITDA	28.7%	32.2%	30.0%	132	-221	31.6%	31.4%	-11
Operating Profit	15.3%	18.8%	18.1%	283	-71	19.0%	18.6%	-45
Net Profit	69.3%	21.3%	16.3%	NM	-499	32.5%	19.1%	NM

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	49.83	70.0%	34.88
Relative Valuation (RV)	50.39	30.0%	15.12
Weighted Average Valuation (SAR)			50.00
Current market price (SAR)			41.82
Upside/Downside (%)			+19.6%

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 9.2%. It is arrived after using a cost of equity of 9.6% and after-tax cost of debt of 3.7% with a debt-to-equity ratio of 6.7%. Cost of equity is calculated by using 10-year government bond yield of 5.5%, the beta of 1.00 and equity risk premium of 4.1%. 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 3.7%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	56,125
Terminal value (SAR, Mn)	162,151
FV to Common shareholders (SAR, Mn)	248,647
No. of share (Mn)	4,990
Current Market Price (SAR)	41.82
Fair Value per share (SAR)	49.83

DCF Method

(All Figures in SAR Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	14,725	15,561	16,493	17,309	18,055
Depreciation and Amortization	10,525	11,103	11,592	12,013	12,540
(-) CAPEX	-13,513	-13,594	-13,765	-13,942	-14,114
Change in Net Working Capital	1,073	-1,322	685	275	947
Free Cash Flow to Equity (FCFF)	12,810	11,748	15,004	15,655	17,429
Discounting Factor	0.93	0.85	0.78	0.71	0.65
Discounted FCFF	11,890	9,989	11,686	11,169	11,391

FABS estimate & Co Data

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 8.6x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2026F	2027F
Etihad Etisalat Company (Mobily)	13,712	7.2x	6.8x	13.5x	12.3x
Thaicom	417	14.7x	10.3x	67.4x	56.2x
Emirates Telecommunications Group Company	50,571	6.9x	6.5x	16.7x	13.4x
Telstra Group Ltd	40,430	8.6	8.4	24.7x	23.2x
Bharti Airtel	128,533	11.6x	10.0x	41.9x	28.6x
Average		9.8x	8.4x	32.8x	26.7x
Median		8.6x	8.4x	24.7x	23.2x
Max (Quartile 3)		11.6x	10.0x	41.9x	28.6x
Min (Quartile 1)		7.2x	6.8x	16.7x	13.4x

Source: FAB Securities

