Earnings Call Insight | 2Q26

KSA Equity Research | Sector: Telecom | Market: Tadawul

Saudi Telecom Company (STC)

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 43.56	SAR 50.00	+15%	BUY

2Q26 Net Profit higher than our estimate

- STC Group ("STC, "the Company") revenue grew 3.7% YOY to SAR 20.1 Bn in 2Q26, primarily attributable to increases in Commercial unit revenue by 0.9% YOY, Business unit revenue by 8.4% YOY, Carriers and Wholesale unit revenue by 11.4% YOY, and subsidiaries revenue by 3.5% YOY.
- STC KSA's mobile subscriber base grew 4.8% YOY to 30.3 Mn in 2Q26, reinforcing continued operational momentum.
- Fixed subscribers grew 3.0% YOY to reach 6.1 Mn in 2Q26, further underscoring the positive momentum in network expansion.
- Gross Profit grew 3.2% YOY to SAR 9.9 Bn in 2Q26, as growth in revenue surpassed the rise in direct costs. Resultantly, gross profit margin declined 24 bps YOY to 48.9% in 2Q26.
- The Company's operating expenses increased by 1.8% YOY to SAR 3.5 Bn in 2Q26.
- STC's EBITDA grew 3.9% YOY to SAR 6.4 Bn, with EBITDA margin rising 7 bps YOY to 31.8% in 2Q26.
- The Company's operating profit grew 4.7% YOY to SAR 3.7 Bn in 2Q26, with operating profit margin increased from 18.6% in 2Q25 to 18.8% in 2Q26, controlled OPEX supports EBITDA margin expansion.
- STC's cash & cash equivalents including short term Murabaha and excluding STC Bank declined from SAR 14.7 Bn in 2Q25 to SAR 14.0 Bn in 2Q26.
- Total debt increased from SAR 15.2 Bn in 2Q25 to SAR 23.5 Bn in 2Q26.
- Cash flow from operating activities increased substantially from SAR 4.6 Bn in 1H25 to SAR 8.3 Bn in 1H26.
- Free cash flow increased from SAR 1.0 Bn in 1H25 to SAR 3.6 Bn in 1H26.

Earnings Call Summary

- The Company's SAR 32.6 Bn Mission Critical project began revenue recognition in January 2026, with over SAR 800 Mn recognized to date. The project is expected to be fully operational by mid-2027.
- STC plans to invest up to USD 1 Bn in data centers over five years, deploying capital gradually in line with customer demand and utilization.
- STC issued USD 2 Bn of Sukuk to fund its long-term growth and expansion plans. While this increased finance costs in 1H26, management said it was an expected outcome of its investment-led funding strategy.
- STC Bank's customers grew 8.7% YOY to 8.5 Mn in 2Q26. Still early-stage after its 2024/2025 SAMA license, the bank recently launched lending and is now focused on customer and deposit growth to support future lending scale-up.
- The Company expects a rational pricing environment to persist, with no signs of aggressive price competition across the Saudi telecom market.
- STC incurred c. SAR 4.7 Bn in capex during 1H26, primarily to expand its 5G and fiber networks, data center infrastructure, and the Specialized subsidiary's Mission Critical project, reflecting its continued focus on long-term infrastructure investment.
- STC expects profitability to improve further as its Group Efficiency Program continues to deliver cost savings and operational efficiencies across the business.
- STC Bank remains in an investment phase, with management expecting additional capital injections to support customer growth and product expansion over the next 3–5 years.

- The Company reaffirmed its quarterly dividend of SAR 0.55 per share through 3Q27, while any special dividend will continue to be evaluated annually.
- Wholesale growth remains supported by strong demand for domestic infrastructure, international connectivity, and submarine cable investments, with management optimistic about the long-term opportunity.
- STC launched stc Cloud powered by Oracle Alloy, Saudi Arabia's sovereign cloud platform, offering local data residency and regulatory compliance to support secure digital transformation.
- The Company expects no subsidiary IPOs within the next year, with any future listings contingent on annual readiness assessments and the ability to maximize shareholder value.

STC - P&L

SAR Mn	2Q25	2Q26	2Q26F	Var	YOY Ch	QOQ Ch
Sales	19,451	20,171	20,214	-0.2%	3.7%	1.2%
Direct costs	-9,891	-10,306	-10,309	0.0%	4.2%	1.4%
Gross profit	**9,560**	**9,865**	**9,905**	-0.4%	3.2%	0.9%
Operating expenses	**-3,391**	**-3,454**	**-3,578**	-3.5%	1.8%	7.4%
EBITDA	**6,168**	**6,411**	**6,327**	1.3%	3.9%	-2.2%
Operating profit (EBIT)	**3,624**	**3,793**	**3,672**	3.3%	4.7%	-4.7%
Zakat	216	-49	-316	-84.5%	NM,	-67.8%
Profit attributable	**3,823**	**3,623**	**3,336**	**8.6%**	**-5.2%**	**-2.0%**

FABS estimate & Co Data

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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