FAB SECURITIES أبوظبي الأول للأوراق المالية

First Look Note | 2Q26

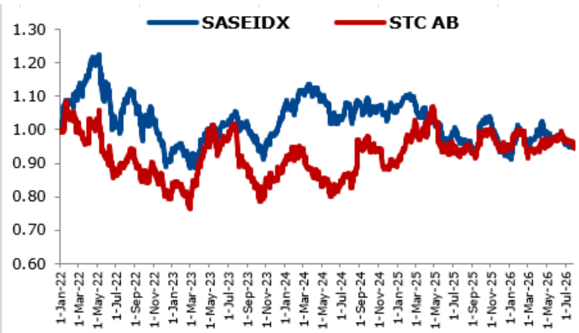
Saudi Equity Research   Sector: Telecom   Market: Tadawul

Saudi Telecom Company (STC)

Revenue and subscriber growth offset one-off earnings headwinds

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 43.40	SAR 50.00	+15%	BUY

- Mobile subscribers in KSA rose 4.8% YOY to 30.3 Mn, while fixed subscribers expanded 3.0% YOY to 6.1 Mn in 1H26.
- STC expanded its 5G tower footprint to 12.12K sites, while fiber-connected households increased 5.2% YOY to 3.87 Mn during 1H26.
- STC plans to invest up to USD 1.0 Bn in data center capacity over the next five years, with deployment aligned to customer demand and utilization.
- STC declared the dividends of SAR 0.55 per share, totaling SAR 2.7 Bn for the period of 2Q26.



Stock Information	
Market Cap (SAR, Mn)	218,200.00
Paid Up Capital (Mn)	50,000.00
52 Week High	45.38
52 Week Low	40.20
3M Avg. daily value (SAR)	102,302,200

2Q26 Result Review (SAR, Mn)	
Total Assets	166,997
Total Liabilities	79,285
Total Equity	84,986
EBITDA	6,411
Net Profit	3,623

Dividend Yield (12m)	5.02
Dividend Pay-out (%)	73.76
Price-Earnings Ratio(x)	14.78
Price-to-Book Ratio (x)	2.57
Book Value (SAR)	16.98
Return-on Equity (%)	16.92

Stock Performance	
5 Days	2.68%
1 Months	0.83%
3 Months	1.77%
6 Months	-2.50%
1 Year	4.60%
Month to Date (MTD%)	1.16%
Quarter to Date (QTD%)	0.93%
Year to Date (YTD%)	1.54%

2Q26 Net Profit higher than our estimate

STC Group ("STC, "the Company") net profit decreased from SAR 3,823 Mn in 2Q25 to SAR 3,623 in 2Q26, beating our estimate of SAR 3,336 Mn. The decline in net profit is primarily driven by higher direct costs, lower other income, and higher zakat charges compared to zakat reversals recorded in the prior-year period, partly offset by growth in revenue. Excluding non-recurring items in both the current quarter and the corresponding quarter last year, the Company's net profit would have increased by 0.7% YOY in 2Q26.

P&L Highlights

STC's total revenue grew 3.7% YOY to SAR 20,171 Mn in 2Q26, driven by broad-based growth across the group, with positive contributions from both STC KSA and subsidiaries. STC KSA revenue grew 3.8% YOY to SAR 13,149 Mn in 2Q26, driven by an increase in subscriber's base. STC KSA's mobile subscribers grew 4.8% YOY to 30.3 Mn, while fixed subscribers also increased by 3.0% YOY to 6.1 Mn in 1H26. STC Kuwait revenue declined 5.9% YOY to SAR 1,010 Mn in 2Q26. However, mobile subscribers in Kuwait increased 5.0% YOY to 2.3 Mn in 1H26. STC Bahrain witnessed a marginal decline of 0.4% YOY in revenue to SAR 501 Mn in 2Q26. Despite the revenue decline, STC Bahrain's subscribers also rose 2.0% YOY to 953.2k in 1H26. STC channel revenue declined 4.2% YOY to SAR 3,530 Mn in 2Q26. Solution segment revenue grew 11.7% YOY to SAR 3,241 Mn in 2Q26. STC Bank's revenue grew 5.0% YOY to SAR 395 Mn in 2Q26. Sirar segment increased 43.4% YOY to SAR 254 Mn in 2Q26. The Company's specialized segment revenue increased substantially from SAR 103 Mn in 2Q25 to SAR 489 Mn in 2Q26. Center 3 segment revenue increased 23.1% YOY to SAR 607 Mn in 2Q26. Iot segment revenue increased from SAR 74 Mn in 2Q25 to SAR 124 Mn in 2Q26.

Additionally, the Company's SCCC segment revenue increased from SAR 49 Mn in 2Q25 to SAR 79 Mn in 2Q26. STC's direct costs increased 4.2% YOY to SAR 10,306 Mn in 2Q26. As a result, gross profit grew 3.2% YOY to SAR 9,865 Mn in 2Q26, as growth in revenue surpassed the rise in direct costs. Gross profit margin declined 24 bps YOY to 48.9% in 2Q26. The Company's total operating expenses increased from SAR 3,391 Mn in 2Q25 to SAR 3,454 Mn in 2Q26. Despite the increase in operating expenses, the Company's EBITDA grew 3.9% YOY to SAR 6,411 Mn in 2Q26, while the EBITDA margin edged up from 31.7% in 2Q25 to 31.8% in 2Q26. Depreciation & amortization decreased 2.9% YOY to SAR 2,618 Mn in 2Q26. Thus, STC's operating profit grew 4.7% YOY to SAR 3,793 Mn in 2Q26. Moreover, operating profit margin increased from 18.6% in 2Q25 to 18.8% in 2Q26. STC's recorded other expenses of SAR 16 Mn in 2Q26, compared to other income of SAR 66 Mn in 2Q25, mainly due to an increase in finance cost owing to sukuk issuance, lower finance income, and net other losses partially offset by a decrease in early retirement cost, higher net other income, and higher profit share from associates. STC also recorded zakat charge of 49 Mn in 2Q26, compared to zakat reversal of SAR 216 Mn in 2Q25.

Balance Sheet Highlights

STC's cash & cash equivalents including short term Murabaha declined from SAR 14.7 Bn in 2Q25 to SAR 14 Bn in 2Q26. Total debt increased from SAR 15.2 Bn in 2Q25 to SAR 23.5 Bn in 2Q26. Additionally, the Company's working capital increased from SAR 20.0 Bn in 2Q25 to SAR 26.1 Bn in 2Q26. Cash flow from operating activities increased substantially from SAR 4.6 Bn in 1H25 to SAR 8.3 Bn in 1H26, mainly supported by effective working capital management. The Company's capex increased from SAR 3.6 Bn in 1H25 to SAR 4.8 Bn in 1H26. STC generated free cash flow of SAR 3.6 Bn in 1H26, compared to SAR 1.0 Bn in 1H25, owing to an increase in operating activities partially offset by an increase in capex.

Target Price and Rating

We maintain our BUY rating on STC with a target price of SAR 50.0 per share. STC reported a 5.2% YOY decline in net income in 2Q26, primarily driven by higher direct costs, lower other income, and zakat charges compared to zakat reversals recorded in the prior-year period. Despite this, the Company's revenue and EBITDA grew 3.7% YOY and 3.9% YOY to SAR 20.2 Bn and 6.4 Bn, respectively during 2Q26. Operational momentum remained healthy across STC's core markets. STC's mobile subscribers in KSA rose 4.8% YOY to 30.3 Mn, while fixed subscribers expanded 3.0% YOY to 6.1 Mn in 1H26, reflecting continued customer acquisition and deeper market penetration. Additionally, the Company's subscribers in Kuwait and Bahrain grew 5.0% YOY and 2.0% YOY to 2.3 Mn and 953.2K, respectively during 1H26. The Company continued to strengthen its digital infrastructure to support rising data demand and long-term growth. During the period, STC expanded its 5G tower footprint to 12.12K sites, while fiber-connected households increased 5.2% YOY to 3.87 Mn. STC continued to strengthen its strategic partnerships during the quarter, supporting infrastructure expansion, next-generation connectivity, and long-term digital transformation initiatives. STC also partnered with ROSHN Group to develop a neutral fiber-optic network for the upcoming phases of the Sedra community in Riyadh, enabling all telecom operators to access shared infrastructure while strengthening STC's presence in large-scale residential developments. The Company also progressed its collaboration with AST SpaceMobile to advance direct-to-device (D2D) satellite connectivity, expanding the potential for seamless mobile coverage. In addition, the Company extended its MoU with HUMAIN through its subsidiary, center3, providing additional time to complete the regulatory approvals and operational requirements needed to establish the planned joint venture. STC reiterated its commitment to long-term infrastructure and digital investments. The Company plans to invest up to USD 1.0 Bn in data center capacity over the next five years, with deployment aligned to customer demand and utilization. Meanwhile, STC Bank remains in its investment phase, with the Company expecting further capital injections over the next 3-5 years to support customer acquisition and product expansion. The Company's financial position remains robust as of 2Q26. STC ended the quarter with a healthy cash balance of SAR 14.0 Bn, while maintaining a conservative Net Debt/EBITDA ratio of 0.4x, consistent with its capital structure strategy following recent sukuk issuances to support strategic investments. Free cash flow improved significantly to SAR 3.6 Bn in 1H26, compared to SAR 1.0 Bn in 1H25, reflecting stronger cash generation and disciplined working capital management. Moreover, STC declared a 2Q26 dividend of SAR 0.55 per share and reaffirmed its quarterly dividend policy of SAR 0.55 per share through 3Q27, with any special dividend remaining subject to annual review. The Company expects profitability to improve further as its Group Efficiency Program continues to deliver cost savings and operational efficiencies across the business. Thus, based on our analysis we maintain our BUY rating on the stock.

STC - Relative valuation

(at CMP)	2021	2022	2023	2024	2025F	2026F
PE	19.23	17.87	16.36	8.81	5.20	15.19
PB	3.14	2.96	2.75	2.43	2.61	2.51
EV/EBITDA	9.45	8.30	9.72	8.65	9.11	8.51
BVPS	13.854	14.700	15.797	17.883	16.683	17.350
EPS	2.262	2.434	2.659	4.938	2.966	2.863
DPS	1.600	1.600	2.600[1]	3.750[2]	2.200	2.200
Dividend yield	3.7%	3.7%	6.0%	8.6%	5.1%	5.1%

FABS Estimates & Co Data, [1]DPS for 2023 includes a special dividend of SAR 1 per share, [2]DPS for 2024 consists of a special dividend of SAR 2 per share

STC – P&L

SAR Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	YOY Ch
Sales	19,451	19,939	20,171	20,214	-0.2%	3.7%	1.2%	77,819	81,152	4.3%
Direct costs	-9,891	-10,166	-10,306	-10,309	0.0%	4.2%	1.4%	-40,119	-41,225	2.8%
Gross profit	**9,560**	**9,772**	**9,865**	**9,905**	**-0.4%**	**3.2%**	**0.9%**	**37,700**	**39,927**	**5.9%**
Operating expenses	**-3,391**	**-3,216**	**-3,454**	**-3,578**	**-3.5%**	**1.8%**	**7.4%**	**-13,230**	**-13,715**	**3.7%**
EBITDA	**6,168**	**6,557**	**6,411**	**6,327**	**1.3%**	**3.9%**	**-2.2%**	**24,469**	**26,212**	**7.1%**
D&A expenses	-2,545	-2,579	-2,618	-2,655	-1.4%	2.9%	1.5%	-10,031	-10,544	5.1%
Operating profit	**3,624**	**3,978**	**3,793**	**3,672**	**3.3%**	**4.7%**	**-4.7%**	**14,438**	**15,668**	**8.5%**
Zakat	216	-152	-49	-316	NM	NM	NM	466	-1,270	NM
Profit attributable	**3,823**	**3,696**	**3,623**	**3,336**	**8.6%**	**-5.2%**	**-2.0%**	**14,828**	**14,315**	**-3.5%**

FABS estimate & Co Data

STC – Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	YOY Ch
Gross Profit	49.1%	49.0%	48.9%	-24	-11	48.4%	49.2%	75
EBITDA	31.7%	32.9%	31.8%	7	-110	31.4%	32.3%	86
Operating Profit	18.6%	20.0%	18.8%	17	-115	18.6%	19.3%	75
Net Profit	19.7%	18.5%	18.0%	-170	-58	19.1%	17.6%	-141

FABS estimate & Co Data

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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	49.67	70.0%	34.77
Relative Valuation (RV)	50.75	30.0%	15.23
Weighted Average Valuation (SAR)			**50.00**
Current market price (SAR)			43.40
Upside/Downside (%)			+15.2%

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 9.7% and after-tax cost of debt of 3.7% with a debt-to-equity ratio of 10.4%. 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 4.2%. Government bond yield is calculated after adding the KSA 10-year CDS spread over 10-year US risk free rate. The pre-tax cost of debt of 4.1% has been adjusted for the applicable tax rate, resulting in an after-tax cost of debt of 3.7%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	54,152
Terminal value (SAR, Mn)	164,975
FV to Common shareholders (SAR, Mn)	**247,867**
No. of share (Mn)	4,990
Current Market Price (SAR)	43.40
Fair Value per share (SAR)	**49.67**

DCF Method

(All Figures in SAR Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	15,198	16,840	17,804	18,620	19,174
Depreciation and Amortization	10,544	11,179	11,754	12,278	12,926
(-) CAPEX	-13,734	-14,121	-14,549	-14,945	-15,319
Change in Net Working Capital	1,453	-1,259	779	366	329
Free Cash Flow to Equity (FCFF)	**13,461**	**12,639**	**15,787**	**16,320**	**17,110**
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Discounted FCFF	**6,493[1]**	**11,169**	**12,777**	**12,097**	**11,616**

FABS estimate & Co Data, [1]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 8.6x in line with peers.

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2026F	2027F	2026F	2027F
Etihad Etisalat Company (Mobily)	12,894	6.7	6.4	13.0	11.7
Thaicom	387	14.5	11.3	NM	57.5
Emirates Telecommunications Group Company	45,411	6.1	5.8	14.4	12.4
Telstra Group Ltd	39,824	8.6	8.3	24.7	23.1
Bharti Airtel	1,19,501	10.7	9.7	38.7	29.1
Average		**9.3x**	**8.3x**	**22.7x**	**26.7x**
Median		**8.6x**	**8.3x**	**19.5x**	**23.1x**
Max (Quartile 3)		**10.7x**	**9.7x**	**28.2x**	**29.1x**
Min (Quartile 1)		**6.7x**	**6.4x**	**14.0x**	**12.4x**

Source: FAB Securities

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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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