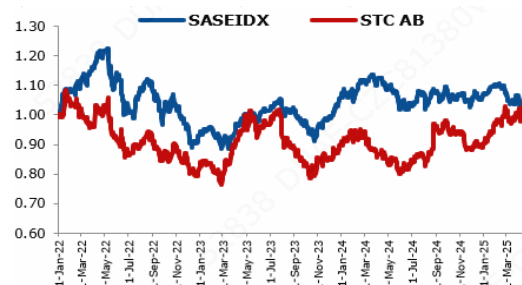


Saudi Telecom Company (STC)

Decrease in direct cost coupled with zakat reversal drove profitability

| Current Price | Target Price | Upside/Downside (%) | Rating |
|---------------|--------------|---------------------|--------|
| SAR 47.60 | SAR 50.00 | +5% | HOLD |

- EBITDA rose 5.2% YOY to SAR 6,120 Mn while EBITDA margin rose by 110 bps YOY to 31.9% in 1Q25.
- Signed a SAR 32.64 Bn contract with a government entity to build and operate telecom infrastructure over 15 years, with revenues starting in 4Q26.
- Announced an interim dividend of SAR 0.55 per share for 1Q25, totaling to SAR 2,742.80 Mn.
- Sirar by STC has been granted a Tier 1 license by the National Cybersecurity Authority to provide Managed Security Operations Center services in Saudi Arabia.
- Increased its ownership stake in Telefonica from 4.97% to 9.97%.



1Q25 Net Profit higher than our estimate

STC Group ("STC, "the Company") recorded a net profit of SAR 3,649 Mn in 1Q25, higher than our estimate of SAR 3,454 Mn mainly due to increase in revenue, decrease in direct cost, reversal of zakat provision partially offset by an increase in operating expenses.

P&L Highlights

STC's revenue grew 1.6% YOY to SAR 19,210 Mn in 1Q25, mainly due to increased revenue of business and commercial units. STC's business unit revenue grew 9.7% YOY while the commercial unit revenue increased 1.7% YOY in 1Q25 due to increase in subscriber base and Ramadan seasonality. STC KSA revenue grew 2.6% YOY to SAR 12,652 Mn in 1Q25 with a 7.6% YOY growth in mobile subscribers to SAR 28.97 Mn and 4.6% YOY growth in fixed subscribers to SAR 5.89 Mn in. STC Kuwait's revenue rose 5.4% YOY to SAR 1,063 Mn in 1Q25. However, mobile subscribers in Kuwait increased 2.8% YOY to 2.22 Mn. Similarly, STC Bahrain witnessed a 2.6% YOY growth in revenue to SAR 504 Mn in 1Q25 with a 1.0% YOY decline in mobile subscribers to 891.38 thousand. The Company's direct costs decreased 1.3% YOY to SAR 10,112 Mn in 1Q25, which led to an increase in gross profit by 5.0% YOY to SAR 9,098 Mn in 1Q25. Gross profit margin rose 154 bps YOY to 47.4% in 1Q25. The Company's operating profit increased 2.0% YOY to SAR 3,584 Mn in 1Q25, partially offset by a one-time loss of SAR 219 Mn from changes in financial instruments after increasing stake in Telefónica to 9.97%. EBITDA rose 5.2% YOY to SAR 6,120 Mn in 1Q25, while the EBITDA margin grew 110 bps YOY to 31.9% in 1Q25. The Company recorded zakat and income tax reversal of SAR 311 Mn in 1Q25, compared to an expense of SAR 230 Mn in 1Q24. As a result, STC's net margin grew 162 bps YOY to 19.0% in 1Q25.

Stock Information

| | |
|---------------------------|-------------|
| Market Cap (SAR, Mn) | 238,000.00 |
| Paid Up Capital (Mn) | 50,000.00 |
| 52 Week High | 48.30 |
| 52 Week Low | 35.85 |
| 3M Avg. daily value (SAR) | 200,343,800 |

1Q25 Result Review (SAR, Mn)

| | |
|-------------------|---------|
| Total Assets | 162,611 |
| Total Liabilities | 68,610 |
| Total Equity | 91,069 |
| EBITDA | 6,120 |
| Net Profit | 3,649 |

| | |
|-------------------------|--------|
| Dividend Yield (12m) | 3.68 |
| Dividend Pay-out (%) | 102.39 |
| Price-Earnings Ratio(x) | 20.70 |
| Price-to-Book Ratio (x) | 2.65 |
| Book Value (SAR) | 17.93 |
| Return-on Equity (%) | 29.32 |

Stock Performance

| | |
|------------------------|--------|
| 5 Days | -0.83% |
| 1 Months | 4.96% |
| 3 Months | 9.43% |
| 6 Months | 12.93% |
| 1 Year | 27.61% |
| Month to Date (MTD%) | 0.00% |
| Quarter to Date (QTD%) | 4.96% |
| Year to Date (YTD%) | 19.00% |

Balance Sheet Highlights

The Company's cash & cash equivalent increased 6.1% YOY to SAR 28.4 Bn in 1Q25. Working capital increased 3.9% YOY to SAR 29.5 Bn in 1Q25 while total assets grew marginally 1.7% YOY to SAR 162.6 Bn. Total Debt decreased significantly 31.3% YOY to SAR 15.1 Bn in 1Q25 increasing its stake in Telefonica. STC's shareholder's equity after deducting non-controlling interest stood at SAR 91.0 Bn in 1Q25, up from SAR 80.4 Bn in 1Q24.

Target Price and Rating

We maintain our HOLD rating on Saudi Telecom Company with a revised target price of SAR 50.0. STC witnessed robust financial performance in 1Q25. The Company achieved a global milestone by localizing eSIM software with Thales, becoming the world's first telecom operator to earn GSMA's SAS-UP license, supporting ICT localization in Saudi Arabia. STC signed a SAR 32.64 Bn contract with a government entity to build and operate telecom infrastructure over 15 years, with revenues starting in 4Q26, simultaneously it signed an agreement with Ooredoo to establish a high-efficiency, low-latency international ground fibre corridor between Saudi Arabia and Oman, enhancing regional and intercontinental connectivity through the SONIC project. STC Bank officially launched as a digital bank in Saudi Arabia after receiving SAMA's approval, marking a key milestone in the Kingdom's digital transformation and building on the success of STC Pay. STC Group enhanced connectivity speed in the two Holy Mosques by more than 120% during Ramadan, expanding its 5G network to ensure seamless, high-speed service for millions of pilgrims and visitors. Resultantly, the Company witnessed a 37% rise in data usage with an 18% increase in voice services. Sirar by STC has been granted a Tier 1 license by the National Cybersecurity Authority to provide Managed Security Operations Center services in Saudi Arabia. This will allow Sirar to provide services different organizations, private sector companies, and government entities. The Company anticipates a modest increase in the capex owing to the recently announced government projects and data center expansion. STC Group increased its stake in Telefónica from 4.97% to 9.9% funded through its own resources and bank debt. The Company announced interim dividend of SAR 0.55 per share for 1Q25, totalling SAR 2,742.8 Mn. Based on the available information, we maintain our HOLD rating on the stock.

STC - Relative valuation

| (at CMP) | 2020 | 2021 | 2022 | 2023 | 2024 | 2025F |
|----------------|-------|-------|-------|-------------------|-------------------|-------|
| PE | 21.56 | 20.95 | 19.47 | 17.83 | 9.60 | 17.0 |
| PB | 3.71 | 3.42 | 3.22 | 3.00 | 2.65 | 2.9 |
| EV/EBITDA | 10.31 | 10.17 | 8.94 | 10.40 | 9.64 | 8.9 |
| DPS | 2.00 | 1.60 | 1.60 | 2.60 ¹ | 3.75 ² | 2.20 |
| Dividend yield | 4.2% | 3.4% | 3.4% | 5.5% | 7.9% | 4.6% |

FABS Estimates & Co Data, ¹DPS for 2023 includes special dividend of SAR 1 per share, ²DPS for 2024 includes special dividend of SAR 2 per share.

STC - P&L

| SAR Mn | 1Q24 | 4Q24 | 1Q25 | 1Q25F | Var | YOY Ch | QOQ Ch | 2024 | 2025F | YOY Ch |
|----------------------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Sales | 18,908 | 19,266 | 19,210 | 19,996 | -3.9% | 1.6% | -0.3% | 75,893 | 80,156 | 5.6% |
| Direct costs | -10,244 | -9,850 | -10,112 | -10,178 | -0.6% | -1.3% | 2.7% | -38,593 | -40,880 | 5.9% |
| Gross profit | 8,664 | 9,416 | 9,098 | 9,818 | -7.3% | 5.0% | -3.4% | 37,300 | 39,277 | 5.3% |
| EBITDA | 5,815 | 5,570 | 6,120 | 6,319 | -3.1% | 5.2% | 9.9% | 23,926 | 25,151 | 5.1% |
| Operating profit | 3,513 | 2,970 | 3,584 | 3,928 | -8.8% | 2.0% | 20.7% | 14,426 | 15,588 | 8.1% |
| Zakat | -230 | -507 | 311 | -291 | NM | NM | NM | -1,192 | -901 | -24.4% |
| Profit attributable | 3,286 | 13,456 | 3,649 | 3,454 | 5.7% | 11.0% | -72.9% | 24,689 | 13,908 | -43.7% |

FABS estimate & Co Data

STC – Margins

| | 1Q24 | 4Q24 | 1Q25 | YOY Ch | QOQ Ch | 2024 | 2025F | YOY Ch |
|------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Gross Profit | 45.8% | 48.9% | 47.4% | 154 | -151 | 49.1% | 49.0% | -15 |
| EBITDA | 30.8% | 28.9% | 31.9% | 110 | 295 | 31.5% | 31.4% | -15 |
| Operating Profit | 18.6% | 15.4% | 18.7% | 8 | 324 | 19.0% | 19.4% | 44 |
| Net Profit | 17.4% | 69.8% | 19.0% | 162 | NM | 32.5% | 17.4% | -1,518 |

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 | 51.02 | 70.0% | 35.72 |
| Relative Valuation (RV) | 47.63 | 30.0% | 14.29 |
| Weighted Average Valuation (SAR) | | | 50.00 |
| Current market price (SAR) | | | 47.60 |
| Upside/Downside (%) | | | +5% |

1) DCF Method:

STC is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.9%. It is arrived after using a cost of equity of 9.1% and after-tax cost of debt of 6.0% with a debt-to-equity ratio of 6.4%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 1.00 and equity risk premium of 4.0%. Government bond yield is calculated after adding 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 6.0%. Also, assumed a terminal growth rate of 2.0%.

| | |
|--|-----------------|
| Sum of PV (SAR, Mn) | 55,205 |
| Terminal value (SAR, Mn) | 1,69,844 |
| FV to Common shareholders (SAR, Mn) | 2,55,111 |
| No. of share (Mn) | 5,000 |
| Current Market Price (SAR) | 47.60 |
| Fair Value per share (SAR) | 51.02 |

DCF Method

| (All Figures in SAR Mn) | FY 2025E | FY 2026E | FY 2027E | FY 2028E | FY 2029E |
|--|--------------------------|---------------|---------------|---------------|---------------|
| NOPAT | 15,089 | 15,838 | 16,429 | 16,877 | 17,329 |
| Depreciation and Amortization | 9,562 | 10,274 | 10,884 | 11,404 | 11,838 |
| (-) CAPEX | -12,023 | -12,086 | -12,203 | -12,219 | -12,158 |
| (-) Change in Net Working Capital | -4,358 | -74 | -286 | 133 | 192 |
| Free Cash Flow to Equity (FCFF) | 8,270 | 13,953 | 14,825 | 16,195 | 17,201 |
| Discounting Factor | 0.94 | 0.87 | 0.80 | 0.73 | 0.67 |
| Discounted FCFF | 7,813¹ | 12,112 | 11,825 | 11,870 | 11,585 |

Source: FAB Securities, ¹Adjusted 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 EV/EBITDA multiple of 8.3x in line with peers.

| Company | Market (USD Mn) | EV/EBITDA (x) | | P/E (x) | |
|---|--------------------|---------------|-------------|--------------|--------------|
| | | 2025F | 2026F | 2025F | 2026F |
| Etihad Etisalat Company (Mobily) | 12,727 | 7.2x | 6.8x | 14.0x | 13.2x |
| Thaicom | 302 | 9.8x | 9.1x | 73.6x | 60.0x |
| Emirates Telecommunications Group Company | 41,340 | 6.5x | 6.2x | 12.0x | 11.7x |
| Telstra Group Ltd | 32,966 | 8.3x | 7.9x | 23.3x | 21.4x |
| Bharti Airtel | 128,388 | 14.3x | 11.9x | 48.5x | 37.7x |
| Average | | 9.2x | 8.4x | 34.3x | 28.8x |
| Median | | 8.3x | 7.9x | 23.3x | 21.4x |
| Max | | 9.8x | 9.1x | 48.5x | 37.7x |
| Min | | 7.2x | 6.8x | 14.0x | 13.2x |

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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