First Look Note | 3Q26

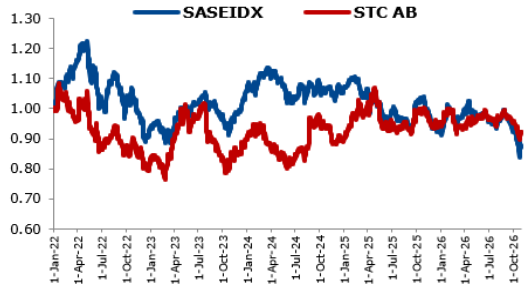
Saudi Equity Research | Sector: Telecom | Market: Tadawul

Saudi Telecom Company (STC)

Higher operating expenses and zakat charges offset revenue growth

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 41.16	SAR 50.00	+21%	BUY

- STC KSA's mobile subscribers increased 4.8% YOY to 30.6 Mn, while fixed subscribers grew 4.0% YOY to 6.2 Mn as of 3Q26.
- STC expanded its 5G network to 12.38K towers, up 31.5% YOY, while households connected to its fiber optic network increased 7.0% YOY to 3.95 Mn as of September 2026.
- STC launched colab, its innovation and corporate venture-building arm, during 3Q26 to support the development of new business models and digital innovation.
- STC announced an interim cash dividend of SAR 0.55 per share for 3Q26, totalling SAR 2.74 Bn, with distribution scheduled for November 2026.



Stock Information	
Market Cap (SAR, Mn)	207,500.00
Paid Up Capital (Mn)	50,000.00
52 Week High	45.10
52 Week Low	39.86
3M Avg. daily value (SAR)	99,003,660

3Q26 Result Review (SAR, Mn)	
Total Assets	168,305
Total Liabilities	79,833
Shareholder Equity	85,590
EBITDA	6,182
Net Profit	3,599

Dividend Yield (12m)	5.34
Dividend Pay-out (%)	73.76
Price-Earnings Ratio(x)	14.56
Price-to-Book Ratio (x)	2.44
Book Value (SAR)	17.02
Return-on Equity (%)	17.50

Stock Performance	
5 Days	0.48%
1 Months	-2.90%
3 Months	-5.51%
6 Months	-2.95%
1 Year	-6.19%
Month to Date (MTD%)	0.83%
Quarter to Date (QTD%)	-2.90%
Year to Date (YTD%)	-3.44%

3Q26 Net Profit in line with our estimate

STC Group ("STC, "the Company") net profit attributable to equity shareholders declined 12.4% YOY to SAR 3,599 in 3Q26, in line with our estimate of SAR 3,590 Mn. The decline in net profit was primarily attributable to higher direct costs, operating expenses, finance costs, and zakat and income tax expenses compared to zakat reversals recorded in the prior-year period, along with lower finance income, partially offset by higher revenue and other income.

P&L Highlights

STC's total revenue increased 3.7% YOY to SAR 19,985 Mn in 3Q26, primarily driven by an increase in subsidiaries revenue. STC KSA revenue declined 3.3% YOY to SAR 12,616 Mn in 3Q26. However, STC KSA's mobile subscribers increased 4.8% YOY to 30.6 Mn, while fixed subscribers grew 4.0% YOY to 6.2 Mn in 3Q26. Similarly, STC Bahrain revenue grew 4.7% YOY to SAR 519 Mn in 3Q26, while subscribers declined 1.8% YOY to 924.0K. STC channels revenue decreased 2.0% YOY to SAR 3,372 Mn in 3Q26. STC Kuwait's revenue increased 5.6% YOY to SAR 1,057 Mn in 3Q26, while mobile subscribers increased 5.2% YOY to 2.4 Mn. Solutions segment revenue increased 9.6% YOY to SAR 3,394 Mn in 3Q26. STC Bank revenue grew from SAR 336 Mn in 3Q25 to SAR 518 Mn in 3Q26. Sirar segment revenue increased 16.9% YOY to SAR 239 Mn in 3Q26, while specialized segment revenue rose significantly from SAR 70 Mn in 3Q25 to SAR 481 Mn in 3Q26. Center3 segment revenue increased 35.4% YOY to SAR 638 Mn in 3Q26. Meanwhile, IoT segment revenue increased from SAR 56 Mn in 3Q25 to SAR 107 Mn in 3Q26. Additionally, SCCC segment revenue grew from SAR 72 Mn in 3Q25 to SAR 94 Mn in 3Q26. STC's direct costs increased 2.5% YOY to SAR 10,261 Mn in 3Q26. Consequently, gross profit grew 5.1% YOY to SAR 9,724 Mn, as revenue growth exceeded the increase in direct costs. Gross profit margin improved

64 bps YOY to 48.7% in 3Q26. The Company's operating expenses increased 16.4% YOY to SAR 3,542 Mn in 3Q26. As a result, EBITDA declined marginally by 0.4% YOY to SAR 6,182 Mn in 3Q26, while EBITDA margin contracted 130 bps YOY to 30.9%. Depreciation & amortization rose 3.4% YOY to SAR 2,671 Mn in 3Q26. Thus, STC's operating profit decreased 3.2% YOY to SAR 3,511 Mn in 3Q26. Moreover, operating profit margin declined from 18.8% in 3Q25 to 17.6% in 3Q26. The Company recorded other income of SAR 550 Mn in 3Q26, compared to SAR 425 Mn in 3Q25, supported by higher net other gains, primarily from land sales, and an increase in the share of results of investments from associates and joint ventures. Finance income declined 28.4% YOY to SAR 176 Mn, while finance costs increased 46.4% YOY to SAR 391 Mn in 3Q26. Consequently, profit before zakat declined 4.6% YOY to SAR 3,846 Mn in 3Q26. The Company recorded zakat and income tax expenses of SAR 156 Mn in 3Q26, compared to a tax reversal of SAR 157 Mn in 3Q25.

Balance Sheet Highlights

STC's cash and cash equivalents, including short-term Murabaha deposits and excluding STC Bank's cash balances, declined from SAR 12.0 Bn in 3Q25 to SAR 8.3 Bn in 3Q26. Total debt increased marginally from SAR 23.5 Bn in 2Q26 to SAR 23.7 Bn in 3Q26. Additionally, the Company's working capital remained flat from SAR 26.1 Bn in 2Q26 to SAR 26.2 Bn in 3Q26. Net cash flow from operating activities decreased to SAR 3.5 Bn in 3Q26 from SAR 6.7 Bn in 3Q25. The Company's capex increased from SAR 2.4 Bn in 3Q25 to SAR 2.9 Bn in 3Q26.

Target Price and Rating

We maintain our BUY rating on STC with a target price of SAR 50.0 per share. STC reported a 12.4% YOY decline in net profit to SAR 3.6 Bn in 3Q26, primarily driven by higher direct costs, operating expenses, finance costs and zakat and income tax expenses, compared with the reversal of prior-year zakat provisions in 3Q25. Lower finance income also weighed on profitability, partially offset by higher revenue and other income. Revenue increased 3.7% YOY to SAR 20.0 Bn, supported by growth in subsidiaries revenue. However, EBITDA declined 0.4% YOY to SAR 6.2 Bn, with the EBITDA margin contracting to 30.9% in 3Q26 from 32.2% in 3Q25. STC continued to expand its subscriber base across key markets. In KSA, mobile and fixed subscribers increased 4.8% YOY and 4.0% YOY to 30.6 Mn and 6.2 Mn, respectively. In Kuwait, mobile subscribers grew 5.2% YOY to 2.4 Mn, while Bahrain recorded a 1.8% YOY decline to 924.0K subscribers. The Company also continued to strengthen its telecommunications infrastructure, with the number of 5G towers increasing 31.5% YOY to 12.38K and households connected to its fibre-optic network rising 7.0% YOY to 3.95 Mn. During 9M26, STC's high-speed internet expansion initiative exceeded 95% completion and is expected to cover more than 4,000 residential communities, benefit over 410K people and extend across more than 12,000 km of secondary roads. The Company continued to advance its digital infrastructure and technology capabilities through strategic partnerships and innovation initiatives. At LEAP 2026, STC signed agreements with Ericsson and Cisco to expand its 5G networks and advance autonomous network capabilities, alongside collaborations with EZDITEK and DataVolt to enhance data centre connectivity. Co-operation with AWS was also expanded across cloud computing and digital services, while partnerships with AMD and Intel are expected to support advanced computing and AI applications. Additionally, STC launched colab, its innovation and corporate venture-building arm, to strengthen its investment ecosystem and develop new business models across local and regional markets. The Company also supported the Ministry of Defense Health Services in conducting its first remote robotic surgery between healthcare facilities in Riyadh and Dhahran, demonstrating the capabilities of its digital infrastructure and communications networks in enabling advanced healthcare applications. STC continues to prioritise business continuity through its advanced infrastructure and technical and operational capabilities, supporting service reliability and resilience amid evolving operating conditions. Furthermore, the Company announced an interim cash dividend of SAR 2.74 Bn for 3Q26, equivalent to SAR 0.55 per share, in line with its approved quarterly dividend policy. The dividend is scheduled for distribution in November 2026, bringing total dividend distributions for 9M26 to SAR 8.2 Bn. Thus, based on our analysis we maintain our BUY rating on the stock.

STC - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	18.26	16.97	15.53	8.36	5.20	14.30
PB	2.98	2.81	2.61	2.31	2.48	2.37
EV/EBITDA	8.97	7.86	9.23	8.19	8.66	8.39
BVPS	13.854	14.700	15.797	17.883	16.683	17.401
EPS	2.262	2.434	2.659	4.938	2.966	2.888
DPS	1.600	1.600	2.600[1]	3.750[2]	2.200	2.200
Dividend yield	3.9%	3.9%	6.3%	9.1%	5.3%	5.3%

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	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	YOY Ch
Sales	19,264	20,171	19,985	20,070	-0.4%	3.7%	-0.9%	77,819	81,072	4.2%
Direct costs	-10,013	-10,307	-10,261	-10,316	-0.5%	2.5%	-0.4%	-40,119	-41,347	3.1%
Gross profit	**9,251**	**9,865**	**9,724**	**9,754**	**-0.3%**	**5.1%**	**-1.4%**	**37,700**	**39,726**	**5.4%**
Operating expenses	-3,042	-3,453	-3,542	-3,271	8.3%	16.4%	2.6%	-13,230	-14,107	6.6%
EBITDA	**6,209**	**6,411**	**6,182**	**6,483**	**-4.6%**	**-0.4%**	**-3.6%**	**24,469**	**25,619**	**4.7%**
D&A expenses	-2,582	-2,619	-2,671	-2,673	-0.1%	3.4%	2.0%	-10,031	-10,543	5.1%
Operating profit	**3,627**	**3,793**	**3,511**	**3,809**	**-7.8%**	**-3.2%**	**-7.4%**	**14,438**	**15,076**	**4.4%**
Zakat	157	-49	-156	-234	-33.3%	NM	NM	466	-614	-231.7%
Profit attributable	**4,107**	**3,623**	**3,599**	**3,590**	**0.2%**	**-12.4%**	**-0.7%**	**14,828**	**14,441**	**-2.6%**

FABS estimate & Co Data

STC – Margins

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	YOY Ch
Gross Profit	48.0%	48.9%	48.7%	64	-25	48.4%	49.0%	55
EBITDA	32.2%	31.8%	30.9%	-130	-85	31.4%	31.6%	16
Operating Profit	18.8%	18.8%	17.6%	-126	-124	18.6%	18.6%	4
Net Profit	21.3%	18.0%	18.0%	-331	5	19.1%	17.8%	-124

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	49.14	70.0%	34.40
Relative Valuation (RV)	52.03	30.0%	15.61
Weighted Average Valuation (SAR)			**50.00**
Current market price (SAR)			41.16
Upside/Downside (%)			+21%

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 9.3%. It is arrived after using a cost of equity of 9.6% and after-tax cost of debt of 4.3% with a debt-to-equity ratio of 6.9%. Cost of equity is calculated by using 10-year government bond yield of 5.8%, the beta of 1.00 and equity risk premium of 3.8%. 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 4.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	61,474
Terminal value (SAR, Mn)	141,469
FV to Common shareholders (SAR, Mn)	**202,943**
No. of share (Mn)	4,990
Current Market Price (SAR)	41.16
Fair Value per share (SAR)	**49.14**

DCF Method

(All Figures in SAR Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
NOPAT	14,624	16,677	17,665	18,495	19,191	19,796
Depreciation and Amortization	10,543	11,177	11,753	12,282	12,934	13,543
(-) CAPEX	-13,720	-14,120	-14,564	-14,971	-15,353	-15,753
Change in Net Working Capital	1,366	-1,257	783	368	398	-1,596
Free Cash Flow to Equity (FCFF)	**12,813**	**12,477**	**15,636**	**16,174**	**17,170**	**15,990**
Discounting Factor	*0.98*	*0.90*	*0.82*	*0.75*	*0.69*	*0.63*
Discounted FCFF	**3,155**	**11,246**	**12,897**	**12,208**	**11,861**	**10,109**

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 2027 EV/EBITDA multiple of 7.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2026F	2027F
Etihad Etisalat Company (Mobily)	11,696	6.2x	5.8x	11.7x	10.7x
Thaicom	307	12.0x	7.7x	136.1x	77.5x
Emirates Telecommunications Group Company	50,432	6.7x	6.4x	14.9x	13.7x
Telstra Group Ltd	37,933	8.7	8.2	24.7x	22.5x
Bharti Airtel	127,787	10.1x	8.9x	31.0x	23.5x
Average		**8.7x**	**7.4x**	**43.7x**	**29.6x**
Median		**8.7x**	**7.7x**	**24.7x**	**22.5x**
Max (Quartile 3)		**10.1x**	**8.2x**	**31.0x**	**23.5x**
Min (Quartile 1)		**6.7x**	**6.4x**	**14.9x**	**13.7x**

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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