July 2026

Saudi Telecom Co.(STC)

Results Flash Note Q2-26

Normalized earnings grow marginally with GP margin pressure offset by controlled OPEX

Saudi Telecom Company (STC)'s net income declined 5.2% Y/Y SAR 3.6bn in Q2-26, in line with AJBC's estimate of SAR 3.8bn. The drop in net income was primarily due to SAR 216mn zakat and income tax reversals in Q2-25. The normalized net profit rose 0.7% Y/Y. Revenue increased 3.7% Y/Y to SAR 20.2bn, in line with our estimate of SAR 20.1bn. The top-line growth was mainly led by the Business (+8.4% Y/Y) and carriers and wholesale (+11.4% Y/Y) segments. Commercial segment's revenue inched up 0.9%, while subsidiaries' revenue rose 3.5% Y/Y. The gross margin contracted ~ 20bps to 48.9% vs. 49.1% in Q2-25 and was lower than our estimate of 49.9%. Operating profit grew 4.7% Y/Y to SAR 3.8bn (below AJBC estimate of SAR 4.1bn); Operating margin improved 20 bps Y/Y to 18.8% and EBITDA margin expanded to 31.8% from 31.7% in Q2-25 (AJBC estimate: 33.2%).

- **STC's net profit** decreased 5.2% Y/Y to SAR 3.6bn in Q2-26, in line with AJBC's estimate of SAR 3.8bn. The drop in net income was primarily due to SAR 216mn zakat and income tax reversals. The normalized net profit rose 0.7% Y/Y. Additionally, higher finance costs also weighed on the earnings. On Q/Q basis, net income fell 2.0% Y/Y, despite higher revenue and gross profit, impacted by 7.4% Q/Q increase in OPEX.
- **Revenue** rose 3.7% Y/Y to SAR 20.2bn, in line with our estimate of SAR 20.1bn. The Commercial segment's revenue rose 0.9% Y/Y, while the carriers and wholesale segment's revenue was up 11.4% Y/Y. Business segment record an increase of 8.4% Y/Y. STC KSA's topline expanded 3.8% Y/Y, while subsidiaries recorded revenue growth of 3.5% Y/Y. The mobile subscribers in KSA grew 4.8% Y/Y in H1-26 to 30.3mn with both pre-paid and post-paid subscriber based showing healthy expansion. Fixed line subscribers rose 3.0% Y/Y to 6.1mn.
- **Gross profit** rose 3.2% Y/Y to SAR 9.9bn (in line with AJBC's SAR 10.0bn). The gross margin contracted 20 bps Y/Y to 48.9%, below our expectation of 49.9%. Slower growth in the Commercial unit compared to our expectations is likely to have resulted in lower-than-expected gross margin.
- **Operating profit** grew 4.7% Y/Y to SAR 3.8bn, supported by comparatively slower OPEX growth (excl. D&A; +1.8% Y/Y). The D&A expenses rose modestly by 2.9%. Operating margin stood at 18.8% (AJBC estimate: 20.3%). The OPEX sales ratio decreased to 17.1% from 17.4% in Q2-25. EBITDA grew 3.9% Y/Y to SAR 6.4bn (AJBC estimate: SAR 6.7bn), as EBITDA margin expanded ~90 bps to 31.8%.

AJBC view and valuation: STC's results were broadly in line with expectations. The company's topline growth remains moderate and stable while gross margin remains under pressure. However, controlled OPEX supports EBITDA margin expansion. The recovery in the Business unit and consistent expansion in both mobile and fixed subscriber base are key positives for the company. The stock currently trades at EV/EBITDA of 8.4x, P/E of 14.8x and a dividend yield of 5.2% based on our FY26E estimates. We maintain our "**Overweight**" recommendation on the stock and the TP of **SAR 49.6/share**.

Results Summary

SAR mn	Q2-25	Q1-26	Q2-26	Change Y/Y	Change Q/Q	Deviation from AJBC Estimates
Revenue	19,451	19,939	20,171	3.7%	1.2%	0.2%
Gross Profit	9,560	9,772	9,865	3.2%	1.0%	-1.8%
Gross Margin	49.1%	49.0%	48.9%	-	-	-
EBITDA	6,168	6,557	6,411	3.9%	-2.2%	-4.0%
EBIT	3,624	3,978	3,793	4.7%	-4.7%	-7.4%
Net Profit	3,823	3,696	3,623	-5.2%	-2.0%	-4.3%
EPS	0.76	0.74	0.72	-	-	-

Source: Company Reports, AlJazira Capital Research

Recommendation	**Overweight**
Target Price (SAR)	**49.6**
Upside / (Downside)*	**16.4%**

Source: Tadawul *prices as of 29th of July 2026

Key Financials

SARmn (unless specified)	FY23	FY24	FY25
Revenues	71,777	75,893	77,819
Growth %	6.4%	5.7%	2.5%
Gross Profit	34,740	37,326	37,700
EBITDA	22,445	23,951	24,469
Net Income	13,295	24,689	14,828
Growth %	9.2%	85.7%	-39.9%
EPS	2.66	4.94	2.97
DPS	2.60	3.75	2.20

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25
Gross Margin	48.4%	49.2%	48.4%
EBITDA Margin	31.3%	31.6%	31.4%
Operating Margin	18.3%	19.0%	18.6%
Net Margin	18.5%	32.5%	19.1%
ROE	16.3%	26.7%	17.2%
ROA	8.3%	15.4%	9.4%
P/E (x)	15.2	8.1	14.5
P/B (x)	2.5	2.2	2.5
EV/EBITDA (x)	8.6	8.4	8.7
Dividend Yield	6.4%	9.4%	5.1%

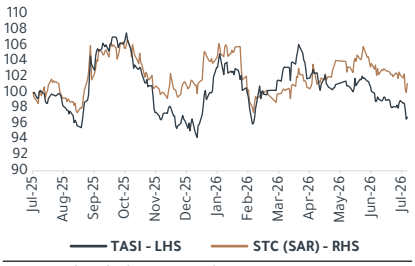
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	213.0
YTD%	-0.9%
52 week (High)/(Low)	48.05/40.20
Share Outstanding (mn)	5000.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadwaul, Aljazira Capital Research

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

Director - Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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