



Strong long-term prospects backed by government contract boost and operating efficiency; lift TP and keep “Overweight” recommendation

Saudi Telecom Company (STC)'s Q1-25 performance reflects a temporary topline weakness, largely due to pressures in certain subsidiaries; however, robust recovery in the Business segment and sustained growth in Consumer operations suggest normalization ahead. The SAR 32.6bn government contract, set to begin contributing from H2-26, is expected to add ~SAR 2.0bn annually and significantly boost FY26–27E revenue. While gross margins may remain under pressure in the near term due to subsidiary mix and the Tawal deconsolidation, cost controls and efficiency gains are supporting steady EBITDA margins. Moreover, we see Tawal deal to be value accretive in the long term due to stronger balance sheet and potentially lower CAPEX requirements. We forecast STC's revenue CAGR of 3.8% over FY24-29E to reach a topline of SAR 91.3bn. The gross margin is expected to reach 49.5% and EBITDA margin to 33.1% by FY29E. This will result in a net income CAGR of 9.5% during FY24-29E (considering normalized FY24 earnings). We revise up our TP on STC to SAR 49.6/share (from SAR 45.5/share) and retain the “Overweight” rating.

Subdued topline growth in Q1-25 but resilient operating performance, bottom line supported by zakat reversal: STC posted a net profit of SAR 3.6bn (+11.0% Y/Y) in Q1-25, in line with AJC's estimate of SAR 3.5bn, driven by zakat reversal of SAR 311mn in addition to gross margin expansion and modest revenue growth. Revenue rose 1.6% Y/Y to SAR 19.2bn, in line with our estimate of SAR 19.1bn. The Business segment (+9.7% Y/Y) led the growth, while the Commercial segment rose 1.7% Y/Y. STC KSA's topline rose 2.6% Y/Y, while subsidiaries' revenue declined 0.7% mainly due to a decrease in Channels' (-2.4% Y/Y) and other operating segments' revenue. The mobile subscribers in KSA grew 7.6% Y/Y in Q1-25, while fixed line subscribers rose 4.6% Y/Y. Gross profit rose 5.0% Y/Y to SAR 9.1bn (matching AJC's estimate). The gross margin at 47.4% was ~150bps higher than 45.8% in Q1-24 and was marginally below our expectation of 47.5%. Operating profit grew 2.0% Y/Y to SAR 3.6bn, as gross margin expansion was partially offset by higher D&A expenses (+10.2% Y/Y). EBITDA grew 5.2% Y/Y to SAR 6.1bn (AJC estimate: SAR 5.9bn), as EBITDA margin expanded to 31.9% from 30.8% in Q1-24 with a moderate growth in OPEX (excl. D&A; +4.6% Y/Y).

Topline pressure is likely to ease, the large value government contract to enhance revenue trajectory FY26 onwards: We see pressure on STC's topline to be temporary considering robust growth shown by the subsidiaries in the recent past. Moreover, recovery in Business segment (+9.7% Y/Y) in Q1-25, indicates a recovery after a 7.7% decline in FY24. Further, the SAR 32.6bn government project won by the company will start contributing to the topline from H2-26. The contract is expected to add ~SAR 2.0bn annually to the revenue, boosting the growth in FY26-27E. Additionally, STC continues to solidify its Consumer segment leadership with healthy growth in mobile and fixed subscribers. STC Bank is also expected to start full-fledged operations this year. We forecast STC's revenue CAGR of 3.8% over FY24-29E to reach SAR 91.3bn.

Near-term pressure persists on GP margin but OPEX control to deliver steady EBITDA margin; gradual margin expansion anticipated in the long term: STC's gross margin is expected to remain under pressure this year due to ongoing impact of low margins from subsidiaries and deconsolidation of Tawal. However, the cost control measures taken by the company over the past few years including the early retirement program are expected to pay off in the form of improved operating efficiencies supporting the EBITDA margin, despite additional expenses related to leaseback of towers. We expect GP margin to contract to 48.3% in FY25E from 49.2% (47.2% excluding one-off gains) in FY24, while EBITDA margins would be steady at 31.6% vs. 31.5% (29.5% excluding one-off gains). In the long term, margins are expected to improve gradually, driven by 1) subsidiaries maturing and achieving profitability and 2) expected better margins from the aforementioned government contract. We forecast the gross margin to reach 49.5% and EBITDA margin to 33.1% by FY29E. This will result in a net income CAGR of 9.5% during FY24-29E (considering normalized FY24 earnings).

Recommendation	Overweight
Target Price (SAR)	49.6
Upside / (Downside)*	9.0%

Source: Tadawul *prices as of 8th of May 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	71,777	75,893	78,048	82,058
Growth %	6.4%	5.7%	2.8%	5.1%
Gross Profit	34,740	37,300	37,678	39,892
EBITDA	22,445	23,926	24,658	26,202
Net Income	13,295	24,689	14,106	14,686
Growth %	9.2%	85.7%	-42.9%	4.1%
EPS	2.66	4.94	2.82	2.94
DPS	2.60	3.75	2.20	2.20

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	48.4%	49.1%	48.3%	48.6%
EBITDA Margin	31.3%	31.5%	31.6%	31.9%
Net Margin	18.5%	32.5%	18.1%	17.9%
ROE	16.3%	26.7%	15.0%	15.2%
ROA	8.3%	15.4%	8.6%	8.7%
P/E	15.2x	8.1x	16.1x	15.5x
P/B	2.5x	2.2x	2.4x	2.4x
EV/EBITDA (x)	8.6x	8.4x	9.5x	9.0x
Dividend Yield	6.4%	9.4%	4.8%	4.8%

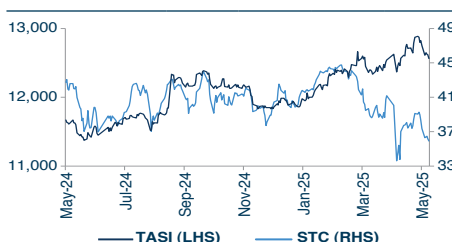
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	227.5
YTD%	13.8%
52 weeks (High)/(Low)	48.30/35.85
Share Outstanding (bn)	5.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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The sale of tower business (Tawal) provides balance sheet strength; it could result in lower CAPEX requirements in the long term and potential for higher dividends: The deconsolidation of Tawal’s debt and cash received in the Tawal deal has strengthened STC’s balance sheet further. The gross debt (including leases) has declined from SAR 26.2bn in FY23 to SAR 17.3bn in FY24 with debt/equity ratio dropping from 0.32x to 0.19x during the same period. We expect leverage to ease gradually to 0.15x by FY29E. Moreover, any CAPEX required to expand tower network will be done by the new tower entity. This will reduce the future CAPEX requirement of the company, providing room for higher shareholders’ return in the form of dividends. As of now we forecast constant DPS payment at SAR 2.2 per share (4.8% FY25E dividend yield), but it is noteworthy that there is the possibility of higher dividend payments given the history of payment of special dividends.

AJC view and valuation: STC’s operating performance in Q1-25 was broadly in line with our expectations. While the company posted modest revenue growth this quarter, primarily due to a decline seen in certain subsidiaries, we don’t see the decline in subsidiaries business to be sustainable. We expect top-line momentum to improve in the coming quarters, supported by a healthy recovery in the Business segment following last year’s softness. Over the longer term, Business segment will see meaningful increment from SAR 32.6bn government project which is slated to commence in H2-26. Moreover, the Consumer segment growth will be backed by ongoing continuous expansion of mobile and fixed subscriber base. Additionally, operating expenses (ex-D&A) remain well-contained, even after accounting for incremental costs related to the tower leaseback arrangement. Thus, we believe the company is well positioned to deliver stronger financial performance ahead. We value STC with 50% weight to DCF (WACC = 8.5%; terminal growth = 2.5%) and 25% each to FY25E EV/EBITDA (8.5x) and P/E (18.0x). With the blended valuation approach we arrive at a TP of **SAR 49.6/share**. We maintain our **“Overweight”** rating. STC is currently trading at P/E of 16.1x, EV/EBITDA of 9.5x and a dividend yield of 4.8% based on our FY25E estimates.

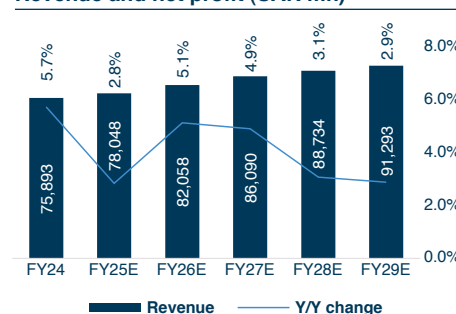
The upside risks to our valuation are 1) stronger than the expected expansion across the business line with significant market share gain, 2) substantial changes in the revenue mix leading to sharp improvement in margins and 3) higher than expected value unlocking from the subsidiaries. **Downside risks** include 1) lack of improvement in the profitability of subsidiaries as expected, 2) Continued weakness in the business segment and 3) loss of market share to competitors.

Blended valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	53.0	50%	26.5
EV/EBITDA	41.6	25%	10.4
P/E	50.8	25%	12.7
Blended TP			49.6
Up/Downside (%)			9.0%

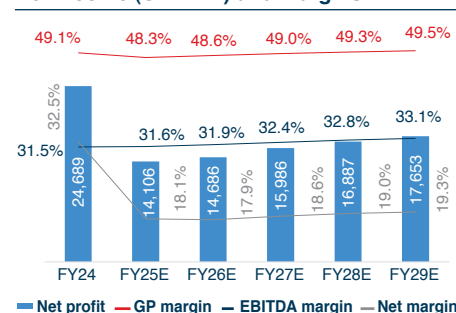
Source: AlJazira Capital research, * market price as of May 08, 2025

Revenue and net profit (SAR mn)



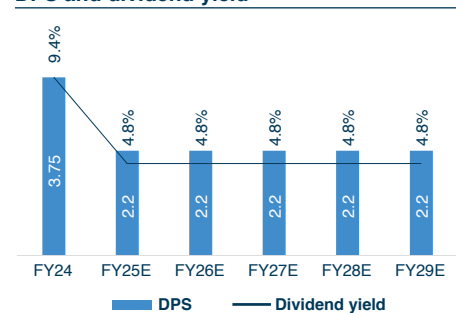
Source: Company reports, Aljazira Capital Research

Net income (SAR mn) and margins



Source: Company reports, Aljazira Capital Research

DPS and dividend yield



Source: Company reports, Aljazira Capital Research


Key Financial Data

Amount in USD mn, unless otherwise specified	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement									
Gross Revenue	63,008	67,432	71,777	75,893	78,048	82,058	86,090	88,734	91,293
Y/Y	6.9%	7.0%	6.4%	5.7%	2.8%	5.1%	4.9%	3.1%	2.9%
Cost of Revenue	(29,214)	(30,038)	(37,037)	(38,593)	(40,371)	(42,167)	(43,903)	(44,985)	(46,063)
Gross Profit	33,794	37,393	34,740	37,300	37,678	39,892	42,188	43,749	45,230
Gross margin	53.6%	55.5%	48.4%	49.1%	48.3%	48.6%	49.0%	49.3%	49.5%
Selling & marketing	(5,586)	(6,110)	(5,870)	(6,562)	(6,154)	(6,470)	(6,702)	(6,819)	(6,924)
General & administrative	(5,368)	(6,204)	(6,425)	(6,813)	(6,866)	(7,219)	(7,582)	(7,824)	(8,059)
Operating Income	13,128	15,088	13,161	14,426	14,432	15,702	16,897	17,716	18,456
Y/Y	3.1%	14.9%	-12.8%	9.6%	0.0%	8.8%	7.6%	4.8%	4.2%
Operating margin	20.8%	22.4%	18.3%	19.0%	18.5%	19.1%	19.6%	20.0%	20.2%
Depreciation and amortization	(9,713)	(9,990)	(9,284)	(9,500)	(10,226)	(10,500)	(11,006)	(11,390)	(11,791)
EBITDA	22,841	25,079	22,445	23,926	24,658	26,202	27,903	29,106	30,247
EBITDA margin	36.3%	37.2%	31.3%	31.5%	31.6%	31.9%	32.4%	32.8%	33.1%
Financial Income	378	602	1,482	1,718	1,769	1,462	1,339	1,352	1,366
Financial Charges	(619)	(697)	(1,068)	(1,234)	(1,163)	(1,096)	(837)	(768)	(742)
Income before Zakat	12,635	13,470	13,987	12,134	14,838	16,041	17,460	18,444	19,281
Zakat	(1,040)	(1,083)	(1,327)	(1,192)	(433)	(1,043)	(1,135)	(1,199)	(1,253)
Non-controlling interests	(283)	(216)	(124)	(228)	(300)	(312)	(340)	(359)	(375)
Net income	11,311	12,171	13,295	24,689	14,106	14,686	15,986	16,887	17,653
Y/Y	2.9%	7.6%	9.2%	85.7%	-42.9%	4.1%	8.8%	5.6%	4.5%
Net margin	18.0%	18.0%	18.5%	32.5%	18.1%	17.9%	18.6%	19.0%	19.3%
EPS	5.66	2.43	2.66	4.94	2.82	2.94	3.20	3.38	3.53
DPS	1.60	1.60	2.60	3.75	2.20	2.20	2.20	2.20	2.20
Balance sheet									
Assets									
Cash and cash equivalents	8,281	17,794	13,371	15,543	23,596	24,791	38,392	41,619	47,856
Accounts receivable, net	24,857	23,179	21,401	22,223	21,785	21,780	21,671	21,121	20,480
Other current assets	18,329	19,817	36,004	35,001	36,005	37,030	38,050	38,882	39,386
Total Current Assets	51,468	60,790	70,776	72,767	81,386	83,601	98,113	101,622	107,721
Property & Equipment	47,205	46,645	48,701	41,514	43,054	44,017	44,528	44,364	42,703
Intangible assets	10,735	11,775	17,001	14,954	15,811	15,701	3,536	3,197	2,965
Other non-current assets	18,372	18,009	23,167	31,402	24,097	24,920	25,825	26,828	27,945
Total non-current assets	76,311	76,430	88,869	87,871	82,962	84,638	73,888	74,389	73,614
Total Assets	127,779	137,220	159,646	160,638	164,348	168,239	172,001	176,011	181,335
LIABILITIES									
Trade Payables	17,114	20,708	21,823	22,627	23,841	25,146	26,458	27,568	28,488
Loans – current portion	1,457	277	8,316	392	6,400	6,565	6,199	5,679	5,478
Other current liabilities	14,990	15,415	17,484	15,937	15,938	15,938	15,939	15,940	15,940
Total current liabilities	33,561	36,400	47,623	38,956	46,179	47,649	48,596	49,187	49,905
Other non-current liabilities	9,519	9,709	11,607	9,272	9,272	9,272	9,272	9,272	9,272
Total non-current liabilities	22,833	24,794	30,508	29,197	23,984	24,159	23,539	22,690	22,319
Total Liabilities	56,393	61,194	78,131	68,153	70,163	71,808	72,135	71,877	72,224
EQUITY									
Share Capital	20,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Retained Earnings	37,985	10,954	27,472	38,449	40,145	42,362	45,749	49,947	54,835
Total Shareholder's Equity	71,386	76,026	81,515	92,485	94,185	96,431	99,867	104,134	109,111
Total Liabilities & Equity	127,779	137,220	159,646	160,638	164,348	168,239	172,001	176,011	181,335
Key fundamental ratios									
Liquidity ratios									
Current ratio (x)	1.53	1.67	1.49	1.87	1.76	1.75	2.02	2.07	2.16
Quick ratio (x)	1.51	1.64	1.45	1.82	1.72	1.71	1.97	2.02	2.11
Profitability ratios									
GP Margin	53.6%	55.5%	48.4%	49.1%	48.3%	48.6%	49.0%	49.3%	49.5%
Operating Margins	20.8%	22.4%	18.3%	19.0%	18.5%	19.1%	19.6%	20.0%	20.2%
EBITDA Margin	36.3%	37.2%	31.3%	31.5%	31.6%	31.9%	32.4%	32.8%	33.1%
Net Margins	18.0%	18.0%	18.5%	32.5%	18.1%	17.9%	18.6%	19.0%	19.3%
ROE	15.8%	16.0%	16.3%	26.7%	15.0%	15.2%	16.0%	16.2%	16.2%
ROA	8.9%	8.9%	8.3%	15.4%	8.6%	8.7%	9.3%	9.6%	9.7%
Leverage ratio									
Debt / equity (x)	0.18	0.18	0.32	0.19	0.19	0.19	0.18	0.16	0.15
Market valuation ratios									
EV	223,778	190,304	193,414	200,412	235,096	235,879	250,396	254,921	261,662
EV/sales (x)	3.6	2.8	2.7	2.6	3.0	2.9	2.9	2.9	2.9
EV/EBITDA (x)	9.8	7.6	8.6	8.4	9.5	9.0	9.0	8.8	8.7
EPS (SAR)	5.66	2.43	2.66	4.94	2.82	2.94	3.20	3.38	3.53
BVPS (SAR)	35.69	15.21	16.30	18.50	18.84	19.29	19.97	20.83	21.82
Market price (SAR*)	45.0	36.6	40.4	40.0	45.5	45.5	45.5	45.5	45.5
Market Cap (SAR mn)	224,800	183,000	202,000	200,000	227,500	227,500	227,500	227,500	227,500
DPS	1.6	1.6	2.6	3.8	2.2	2.2	2.2	2.2	2.2
Dividend yield	3.6%	4.4%	6.4%	9.4%	4.8%	4.8%	4.8%	4.8%	4.8%
P/E (x)	7.9	15.0	15.2	8.1	16.1	15.5	14.2	13.5	12.9
P/BV (x)	3.1	2.4	2.5	2.2	2.4	2.4	2.3	2.2	2.1

Source: Company reports, Aljazira Capital Research, * market price as of May 08, 2025





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RESEARCH DIVISION

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- 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.
- 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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