Saudi Telecom Co.

Results Flash Note Q2-25

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Zakat reversals and gross margin expansion led the earnings growth, partially offset by higher OPEX

Saudi Telecom Company (STC)'s net income rose 15.7% Y/Y SAR 3.8bn in Q2-25, beating AJC's estimate of SAR 3.4bn. The deviation from our estimate was mainly due to reversal of Zakat and income tax amounting to SAR 216mn and better gross margin. Revenue grew 2.6% Y/Y to SAR 19.5bn, in line with our estimate of SAR 19.3bn. The topline growth was mainly led by the commercial segment (+3.9% Y/Y), followed by carriers and wholesale (+2.7% Y/Y). STC's subsidiaries posted a 4.4% Y/Y increase in revenue. The gross margin expanded substantially to 49.1% vs. 46.6% in Q2-24 and higher than our estimate of 47.2%. Operating profit grew 2.6% Y/Y to SAR 3.6bn (in line with AJC estimate of SAR 3.5bn), as gross margin expansion was offset by higher D&A expenses and OPEX. However, EBITDA margin expanded to 31.7% in Q2-25 from 30.4% in Q2-24 (AJC estimate: 31.5%). We retain our TP on STC at SAR 49.6/share with an "Overweight" rating.

- STC posted a net profit of SAR 3.8bn (+15.7% Y/Y) in Q2-25, above AJC's estimate of SAR 3.4bn. The variance from our estimate was primarily driven by the reversal of Zakat and income tax totaling SAR 216mn, along with a stronger-than-expected gross margin.
- Revenue rose 2.6% Y/Y to SAR 19.5bn, in line with our estimate of SAR 19.3bn. The Commercial segment's revenue rose 3.9% Y/Y, while the carriers and wholesale segment's revenue was up 2.7% Y/Y. STC KSA's topline rose 1.7% Y/Y. Among subsidiaries, Solutions (+4.7% Y/Y) was the leading contributor to the topline growth followed by STC Bank (+23.8% Y/Y), whereas Channels revenue declined 4.2% Y/Y. The mobile subscribers in KSA grew 5.7% Y/Y in Q2-25 to 28.9mn with both pre-paid and post-paid subscriber based showing healthy expansion. Fixed line subscribers rose 5.6% Y/Y to 6.0mn.
- Gross profit rose 8.2% Y/Y to SAR 9.6bn (above AJC's SAR 9.1bn). The gross margin at 49.1% was ~250bps Y/Y higher than 46.6% in Q2-24 and was above our expectation of 47.2%. Topline growth, that was mainly led by the commercial segment perhaps supporting the gross margin expansion.
- Operating profit grew 2.6% Y/Y to SAR 3.6bn, as the positive effect of gross margin was wiped out by higher D&A expenses (+13.8% Y/Y) and OPEX (excl. D&A; +10.7% Y/Y). The D&A expenses were higher mainly due to increase in amortization owing to the new spectrum license. As a result, the operating margin was flat at 18.6% (AJC estimate: 18.4%). The OPEX sales ratio increased to 17.4% from 16.2% in Q2-24. EBITDA grew 6.9% Y/Y to SAR 6.2bn (AJC estimate: SAR 6.1bn), as EBITDA margin expanded to 31.7% from 30.4% in Q2-24.

AJC view and valuation: STC's operating performance in Q2-25 was broadly in line with our expectations with the higher-than-expected gross margin being compensated by higher OPEX. The one-off zakat reversals boosted the earnings. The company's commercial unit continues to hold momentum with consistent expansion in both mobile and fixed subscriber base. Although pressure in the business segment persists, over the longer term, business segment will see meaningful increment from SAR 32.6bn government project which is slated to commence in H2-26. The balance sheet of the company remains strong with net cash position and lower leverage after sale of Tawal. Overall, we maintain our positive stance on the company given resilient operating performance despite leaseback of towers and value unlocking potential from listing of subsidiaries in future. Moreover, at current valuation stock yields a healthy FY25E dividend of 5.2%. STC is currently trading at P/E of 14.7x and EV/EBITDA of 8.8x based on our FY25E estimates. We retain our TP on STC at **SAR 49.6/share** with an "**Overweight**" rating, given 17.5% upside potentia.

Results Summary

SAR mn	Q2-24	Q1-25	Q2-25	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	18,959	19,210	19,451	2.6%	1.3%	1.0%
Gross Profit	8,832	9,098	9,560	8.2%	5.1%	5.2%
Gross Margin	**46.6%**	**47.4%**	**49.1%**	-	-	-
EBITDA	5,768	6,120	6,168	6.9%	0.8%	1.6%
EBIT	3,533	3,584	3,624	2.6%	1.1%	2.5%
Net Profit	**3,304**	**3,649**	**3,823**	15.7%	4.8%	13.7%
EPS	0.66	0.73	0.76	-	-	-

Source: Company Reports, AlJazira Capital Research

Recommendation	**Overweight**
Target Price (SAR)	**49.6**
Upside / (Downside)*	**17.5%**

Source: Tadawul *prices as of 27th of July 2025

Key Financials

SARmn (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	71,777	75,893	78,665	82,058
Growth %	6.4%	5.7%	3.7%	4.3%
Gross Profit	34,740	37,300	38,042	39,892
EBITDA	22,445	23,926	24,675	25,837
Net Income	13,295	24,689	14,370	14,238
Growth %	9.2%	85.7%	-41.8%	-0.9%
EPS	2.66	4.94	2.87	2.85
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%	48.4%	48.6%
EBITDA Margin	31.3%	31.5%	31.4%	31.5%
Net Margin	18.5%	32.5%	18.3%	17.4%
ROE	16.3%	26.7%	15.2%	14.8%
ROA	8.3%	15.4%	8.7%	8.5%
P/E (x)	15.2	8.1	14.7	14.8
P/B (x)	2.5	2.2	2.2	2.2
EV/EBITDA (x)	8.6	8.4	8.8	8.5
Dividend Yield	6.4%	9.4%	5.2%	5.2%

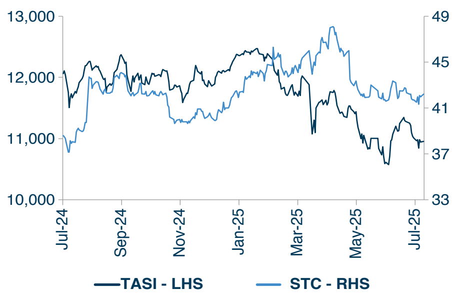
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	211.1
YTD%	**5.4%**
52 week (High)/(Low)	48.30/36.40
Share Outstanding (bn)	5.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadwaul, Aljazira Capital Research

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

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.

Disclaimer