

## Double-digit normalized earnings growth driven by gross margin expansion and higher non-operating gains

Saudi Telecom Company (STC)'s net income rose 1.3% Y/Y to SAR 3.7bn in Q1-26, beating AJBC's estimate of SAR 3.3bn. The deviation from our estimate was mainly due to better gross margin and lower total other expenses, despite higher OPEX. Normalized net income growth stood at 12.0% Y/Y (adjusted for one-off items in Q1-25). Revenue grew 3.8% Y/Y to SAR 19.9bn, in line with our estimate of SAR 19.7bn. The topline growth was mainly led by the commercial segment (+5.2% Y/Y) and carriers and wholesale (+6.2% Y/Y). Subsidiaries' revenue rose 5.8% Y/Y. The gross margin expanded ~ 160bps to 49.0% vs. 47.4% in Q1-25 and was higher than our estimate of 47.6%. Operating profit grew 11.0% Y/Y to SAR 4.0bn (slightly ahead of AJBC estimate of SAR 3.8bn); gross margin expansion was offset by higher OPEX. EBITDA margin expanded to 32.9% from 31.9% in Q1-25 (AJBC estimate: 32.0%).

- **STC's net profit** increased 1.3% Y/Y to SAR 3.7bn in Q1-26, exceeding AJBC's estimate of SAR 3.3bn. The deviation from our estimate was primarily driven by stronger gross margin and lower total other expenses, whereas OPEX was higher than our expectations. The lower total other expenses were supported by higher net other gains booked and net share in results of investments in associates and JVs. Zakat and income tax expense was lower than our expectation. On the contrary, finance cost and cost of early retirement were above expectations. Normalized net income growth stood at 12.0% Y/Y (adjusted for one-off items in Q1-25). On Q/Q basis, net income grew 13.0% Y/Y, despite almost flat revenue (+0.2%), due to decline in OPEX (-15.8% Y/Y).
- **Revenue** rose 3.8% Y/Y to SAR 19.9bn, in line with our estimate of SAR 19.7bn. The Commercial segment's revenue rose 5.2% Y/Y, while the carriers and wholesale segment's revenue was up 6.2% Y/Y. STC KSA's topline expanded 2.8% Y/Y, subsidiaries recorded revenue growth of 5.8% Y/Y. Specialized by STC (+526% Y/Y) and Solutions (+6.3% Y/Y) were the leading contributors to the topline growth, whereas Channels revenue declined 13.0% Y/Y. The mobile subscribers in KSA grew 5.3% Y/Y in Q1-26 to 30.6mn with both pre-paid and post-paid subscriber based showing healthy expansion. Fixed line subscribers rose 3.1% Y/Y to 6.1mn.
- **Gross profit** rose 7.4% Y/Y to SAR 9.8bn (broadly in line with AJBC's SAR 9.4bn). The gross margin at 49.0% was ~160bps Y/Y higher than 47.4% in Q1-25 and above our expectation of 47.6%. We believe gross margin expansion was supported by healthy commercial segment performance and sharp uptick in revenues from certain smaller subsidiaries.
- **Operating profit** grew 11.0% Y/Y to SAR 4.0bn, supported by gross profit growth but limited by higher OPEX (excl. D&A; +8.0% Y/Y). The D&A expenses rose modestly by 1.7%. Operating margin stood at 20.0% (AJBC estimate: 19.1%). The OPEX sales ratio increased to 16.1% from 15.5% in Q1-25. EBITDA grew 7.1% Y/Y to SAR 6.6bn (AJBC estimate: SAR 6.3bn), as EBITDA margin expanded ~100 bps to 32.9%.

**AJBC view and valuation:** STC showcased a healthy growth in earnings in Q1-26. Improved revenue growth momentum and gross margin expansion were further supported by higher non-operating gains. However, increase in OPEX partially offset these positives. The company's commercial unit continues to lead the growth with expansion in both mobile and fixed subscriber base. A consistent decline in Channels' revenue remains a pressure point, while smaller subsidiaries such as Specialized, Sirar, STC Bank are showing acceleration in revenue generation and are likely to support profitability as they mature. The stock currently trades at EV/EBITDA of 8.4x, P/E of 16.1x and a dividend yield of 5.1% 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	Q1-25	Q4-25	Q1-26	Change Y/Y	Change Q/Q	Deviation from AJBC Estimates
Revenue	19,210	19,894	19,939	3.8%	0.2%	1.3%
Gross Profit	9,098	9,791	9,772	7.4%	-0.2%	4.3%
Gross Margin	47.4%	49.2%	49.0%	-	-	-
EBITDA	6,120	5,972	6,557	7.1%	9.8%	4.0%
EBIT	3,584	3,605	3,978	11.0%	10.4%	5.8%
Net Profit	3,649	3,249	3,696	1.3%	13.8%	10.5%
EPS	0.73	0.65	0.74	-	-	-

Source: Company Reports, Aljazira Capital Research

<b>Recommendation</b>	<b>Overweight</b>
<b>Target Price (SAR)</b>	<b>49.6</b>
<b>Upside / (Downside)*</b>	<b>15.8%</b>

Source: Tadawul \*prices as of 28<sup>th</sup> of April 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%

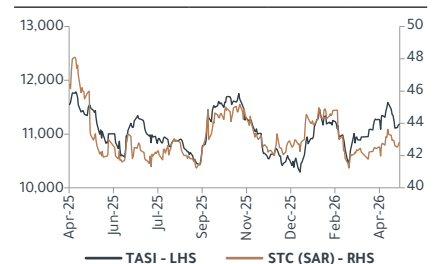
Source: Company reports, Aljazira Capital Research

### Key Market Data

Market Cap(bn)	214.1
YTD%	<b>-0.4%</b>
52 week (High)/(Low)	48.05/40.20
Share Outstanding (mn)	5000.0

Source: Company reports, Aljazira Capital Research

### Price Performance



Source: Tadawul, Aljazira Capital Research

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RESEARCH  
DIVISION

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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.

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