STC

RESULT ANALYSIS

Q3 2026

In-line results with higher non-operating income

STC reported an in-line set of Q3 26 results with the net income decreasing by 12.4% yoy (-0.7% qoq) to SAR3.60bn. This is compared to the SNB Capital and consensus estimates of SAR3.55bn and SAR3.54bn (range of SAR3.43bn–SAR3.65bn), respectively. Adjusting for one-off items of Q3 25 such as 1) gain of SAR474mn from revaluation of STV fund units, and 2) reversal of zakat provisions of SAR472mn, recurring earnings increased by 13.9% yoy. Revenue and gross margins came in-line with our estimates, while the impact of higher opex was offset by higher non-operating income due to increased income from associates & JVs, and higher net other gains.

- Revenues grew by 3.7% yoy (-0.9% qoq) to SAR19.99bn and came in-line with our estimates. The growth was mainly driven by higher subsidiaries revenue as STC KSA's revenues decreased by 3.3% yoy (-4.1% qoq). Among subsidiaries, Specialized recorded the highest growth (+587% yoy) followed by iot2 (+91.1% yoy) and STC Bank (+53.7% yoy). STC KSA remains the largest contributor to the topline (54.7% vs 58.5% in Q3 25) followed by Solutions (14.7 vs 13.9% in Q3 25) and Channels (14.6% vs 13.9% in Q3 25). In comparison, Mobily and Zain KSA's revenues grew by 4.5% and 3.0% yoy in Q3 26, respectively.
- STC KSA's mobile subscribers grew by 4.8% yoy (+1.0% qoq) to 30.6mn in Q3 26 (74% prepaid, 22% post-paid and 5% M2M). Fixed subscribers increased by 4.0% yoy (+1.6% qoq) to 6.2mn. Kuwait's mobile subscribers rose by 5.2% yoy (+4.3% qoq) to 2.4mn while Bahrain's mobile users fell by 1.8% yoy (-3.1% qoq) to 924,000.
- Gross profits increased by 5.1% yoy (-1.4% qoq) to SAR9.72bn and came in-line with our estimates of SAR9.78bn. Gross margins expanded to 48.7% vs 48.0% in Q3 25 and were in-line with our estimates of 48.9%. We believe the yoy margin expansion was driven by increased contribution from higher-margin business units.
- EBITDA decreased marginally by 0.4% yoy (-3.6% qoq) to SAR6.18bn and came in-line with our estimates of SAR6.36bn. EBITDA margin stood at 30.9% vs 32.2% in Q3 25 and was lower than our estimate of 31.8%. SG&A expenses grew to SAR3.54bn (17.7% of sales) vs SAR3.04bn in Q3 25 (15.8% of sales) and were slightly higher than our estimate of SAR3.42bn (17.1% of sales). D&A expenses stood at SAR2.67bn vs SAR2.58bn in Q3 25 and our estimate of SAR2.63bn.
- Net non-operating income stood at SAR88mn vs net non-opex of SAR480mn in Q3 25 (Adjusted for one-off items 1) gain of SAR474mn from revaluation of STV fund units and 2) reversal of zakat provisions of SAR472mn) and our estimated net non-opex of SAR177mn. We believe this was mainly driven by increased income from associates & JVs, and higher net other gains from land sale gains which offset the impact of increased finance costs and lower finance income.

Outlook

Based on our recent update, we are Overweight on STC with a PT of SAR52.3. We believe STC's outlook remains positive, supported by improving earnings visibility from data centre expansion and increasing contribution from Center3, STC Bank and large government contract. The stock is trading at 2027f P/E and EV/EBITDA of 13.8x of 7.4x, vs the peer group average of 12.4x and 6.2x, respectively.

Q3 26 Results Summary (SAR mn)

	Q3 26	Q3 25	% yoy	Q3 26f	% Var^	Q2 26	% qoq
Revenue	19,985	19,264	3.7%	19,989	(0.0)%	20,171	(0.9)%
Gross income	9,724	9,251	5.1%	9,775	(0.5)%	9,865	(1.4)%
Gross margin (%)	*48.7%*	*48.0%*	*0.6%*	*48.9%*	*(0.2)%*	*48.9%*	*(0.2)%*
EBITDA	6,182	6,209	(0.4)%	6,357	(2.7)%	6,411	(3.6)%
EBITDA margin (%)	*30.9%*	*32.2%*	*(1.3)%*	*31.8%*	*(0.9)%*	*31.8%*	*(0.9)%*
Net income	3,599	4,107	(12.4)%	3,551	1.4%	3,623	(0.7)%
Adj. net income*	3,599	3,161*	13.9%	3,551	1.4%	3,473	3.6%
Adj. Net margin (%)	18.0%	16.4%	*1.6%*	17.8%	*0.2%*	17.2%	*0.8%*
Adj. EPS (SAR)	0.72	0.63	13.9%	0.71	1.4%	0.69	3.6%

Source: The Company, SNB Capital Research, ^ % Var indicates variance from SNB Capital forecasts, *adjusted for one-off items

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