Saudi Telecom Company 3Q26 Earnings Summary

Revenue increased 3.7% Y/Y to SAR 19,985mn in 3Q26 but declined 0.9% Q/Q. Growth was entirely driven by subsidiaries whose revenue rose 18.5% Y/Y. 9M26 Business unit was the major drag (-2.4% Y/Y), in line with management's cautious Enterprise outlook amid moderating government ICT spending, while Commercial and Carrier & Wholesale units' growth completely offset the drag by a growth of 2.0% and 5.1%, respectively. Operating metrics remained supportive, with KSA mobile and fixed subscribers up 4.8% and 4.0% Y/Y to 30.6mn and 6.2mn, respectively, fiber-connected households up 7.0% to 3.95mn and 5G towers up 31.5% to 12.38K.

Profitability weakened in 3Q26, with net profit (attributable) down 12.4% Y/Y. Gross profit rose 5.1% Y/Y, but higher OPEX took operating profits down by 3.2% Y/Y, slowing 9M26 operating profit growth to 4.1% from 7.8% in 1H26. Below the line, zakat and income tax swung to an expense of SAR 156mn from a positive SAR 157mn in 3Q25, accounting for SAR 313mn of the profit decline, while finance costs rose SAR 124mn. Net other gains of SAR 673mn, mainly from land sales and STV LP fund revaluation, supported the bottom line, resulting in the net profit beating consensus by 2.8%, despite a 9.1% miss at the operating level. Separately, 9M26 capex rose 27.4% Y/Y to SAR 7.7bn, with capex intensity now at 12.9% vs 11.9% in 1H26. Overall, subsidiaries carried top-line growth, while softer core KSA revenue and higher costs weighed on operating profitability. stc announced dividend of SAR 0.55/share.

Rating and Target Price:

We are BUY rated on STC with a target price of SAR 46.7 (17.9% upside).

Results vs. Consensus:

- Revenues in line with estimates.
- Net income in line with estimates.

Key highlights

- 3Q26 revenue increased 3.7% Y/Y to SAR 20.0bn, driven by 18.5% growth across subsidiaries. However, revenue declined 0.9% Q/Q, despite a 0.2% increase in the Commercial unit and 5.0% growth in subsidiaries.
- stc KSA's mobile subscriber base grew 5% Y/Y to 30.6mn, while fixed subscribers increased 4% to 6.2mn. stc Kuwait's mobile subscribers rose 5% to 2.4mn, whereas stc Bahrain's subscriber base declined 2% to 924.0k.
- Gross profit increased 5% Y/Y partially offset by a 2% Y/Y increase in cost of revenue, while sequentially, gross profits fell 1%, despite a marginal fall in cost of sales. Gross margin expanded 64bps Y/Y but contracted 25bps Q/Q to 48.7%.
- Operating profit declined 3% Y/Y and 7% Q/Q, driven by operating expenses increasing 10% Y/Y and 2% Q/Q. Operating margin contracted 126bps Y/Y and 124bps Q/Q to 17.6%.
- Total other income declined by SAR 69mn Y/Y, reflecting a SAR 70mn decrease in finance income and a SAR 124mn increase in finance costs. These movements were partly offset by a SAR 52mn increase in the share of results from associates and joint ventures and a SAR 62mn increase in other gains, mainly from land sales. Q/Q, total other income increased by SAR 351mn, supported by SAR 673mn in net other gains, compared with a SAR 62mn loss in the previous quarter. The improvement primarily reflected gains from land sales and the revaluation of STV LP fund units. This was partly offset by lower finance income, higher finance costs, and a decline in net other income to an expense of SAR 88mn from income of SAR 187mn.
- Zakat and income tax expense amounted to SAR 156mn in 3Q26, compared with a positive contribution of SAR 157mn in 3Q25, reflecting the non-recurrence of the prior-year reversal of

Zakat provisions that were no longer required. Q/Q, Zakat and income tax expense increased SAR 107mn, following a similar provision reversal in the previous quarter.

- Net profit declined 12% Y/Y and 1% Q/Q to SAR 3.60bn; excluding 2Q26 non-recurring items, it grew 3.6% Q/Q. Net margin contracted 331bps Y/Y but expanded 5bps Q/Q to 18.0%.
- The company's BoD announced a cash dividend of SAR 0.55 per share for 3Q26, implying a dividend yield of 5.1%.
- Net debt increased to SAR 15.4bn at end-3Q26 from SAR 3.1bn a year earlier, taking net debt to EBITDA to 0.61x from 0.13x. 9M26 free cash flow declined 20.6% Y/Y to SAR 4.1bn, mainly reflecting higher capital expenditure (+27.4% to SAR 7.7bn).

Developments & Contract Signings in this Quarter

- At LEAP 2026 in September, stc signed agreements with Ericsson and Cisco to expand 5G and autonomous network capabilities, data-center connectivity deals with EZDITEK and DataVolt, and AI and cloud partnerships with AWS, AMD and Intel, deepening the enterprise pipeline.

3Q26 Snapshot:

SAR mln	3Q26	2Q26	3Q25	3Q23	Q/Q bps	Y/Y bps	3-yr CAGR	9M26	9M25	Y/Y bps
Sales	19,985	20,171	19,264	18,106	-0.9%	3.7%	3.3%	60,096	57,924	3.7%
Gross Income	9,724	9,865	9,251	10,388	-1.4%	5.1%	-2.2%	29,362	27,908	5.2%
Operating Income	3,511	3,793	3,627	4,338	-7.4%	-3.2%	-6.8%	11,282	10,834	4.1%
Net Income	3,599	3,623	4,107	4,904	-0.7%	-12.4%	-9.8%	10,918	11,579	-5.7%
EPS (SAR)	0.72	0.72	0.82	0.98	-0.7%	-12.4%	-9.8%	2.18	2.32	-5.7%

Margins	3Q26	2Q26	3Q25	3Q23	Q/Q bps	Y/Y bps	3-yr bps	9M26	9M25	Y/Y bps
GM%	48.7%	48.9%	48.0%	57.4%	-25	64	-871	48.9%	48.2%	68
OM%	17.6%	18.8%	18.8%	24.0%	-124	-126	-639	18.8%	18.7%	07
NM%	18.0%	18.0%	21.3%	27.1%	05	-331	-908	18.2%	20.0%	-182
OPEX to sales (%)	31.1%	30.1%	29.2%	33.4%	99	189	-233	30.1%	29.5%	61

Source: Company Announcement

Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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Head Office
8092 King Fahd Road | Riyadh 12313-3735 | Kingdom of Saudi Arabia

Mailing Address
P.O. Box 23454 Riyadh 11426 | Kingdom of Saudi Arabia
Tel: +966 11 282 6666 | 800 125 9999
www.bsfcapital.sa