

YAMAMAH
Insights

EQUITY HUB +

H1 2026 Report

STC

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Company Report · Telecommunications · Saudi Arabia

28 October 2026

Saudi Telecom Company (stc)

1H26 results review: operating profit up 7.8% y/y; net profit 2.1% lower on zakat normalisation and higher net finance costs

stc's 1H26 results show a core business that continues to grow in line with a mature market, while the sources of growth are moving toward subsidiaries, wholesale and digital infrastructure. Operating profit rose 7.8% y/y and EBITDA margin widened by 0.5pp to 32.3%. Net profit attributable to shareholders declined 2.1% to SAR7.3bn, as the 1H25 base included a reversal of prior-year zakat provisions and net finance costs rose after the USD2bn sukuk issued in January 2026. Excluding non-recurring items, stc reports net profit growth of 6.3%.

1 Results

Revenue reached SAR40.1bn (+3.7% y/y). Gross margin improved 0.7pp to 49.0%, and operating cash flow rose to SAR8.3bn from SAR4.6bn. In our view, the profit decline is explained by a SAR727mn zakat swing and a SAR463mn deterioration in net finance income rather than by the operating business.

2 Sector

Connectivity in Saudi Arabia is close to saturation, with internet penetration of 99.6% (CST). stc KSA revenue grew 3.3%, with mobility at 2.8%, while carrier and wholesale revenue grew 8.8%. The ICT market's growth is concentrated in IT services, which MCIT sizes at SAR115.4bn against SAR83.5bn for telecom services in 2025.

3 Customer

Average mobile data use reached 53GB per person per month in 2025 (CST), and 85% of retail payments were electronic (SAMA). Usage is growing faster than revenue per subscriber, which shifts value toward bundles, digital finance through STC Bank (8.5mn customers) and enterprise services.

4 Technology and AI

AI affects stc on two lines. On cost, stc is running Level 4 autonomous-network programmes with Huawei and Cisco. On revenue, center3 targets 300MW of data-centre capacity by 2027 and 1GW by 2030, and stc is negotiating an AI data-centre joint venture with HUMAIN (49% stc) of up to 1GW.

5 Opportunity and risk

We see sovereign compute demand as stc's largest opportunity, given its fibre, sites and government customer base. The largest risk is the capital cycle. Capex rose 31% y/y and net debt rose to SAR9.5bn, while the base dividend of about SAR11bn a year exceeds current free cash flow. Leverage, at 0.38x net debt to EBITDA, leaves room to fund the cycle.

Company data

Tadawul code	7010
Sector	Telecommunication Services
Issued shares	5.0bn
Largest shareholder	PIF, 62%
Credit ratings	A+ (Fitch) · A+ (S&P) · Aa3 (Moody's)
Dividend policy	SAR0.55 per quarter, 4Q24–3Q27

1H26 financial summary

SAR mn	1H25	1H26	y/y
Revenue	38,660	40,110	+3.7%
EBITDA	12,289	12,968	+5.5%
EBITDA margin	31.8%	32.3%	+0.5pp
Operating profit	7,207	7,771	+7.8%
Net profit*	7,472	7,319	−2.1%
Basic EPS (SAR)	1.50	1.47	−2.0%
Operating cash flow	4,623	8,342	+80.5%
Capex	3,644	4,773	+31.0%
Net debt**	473	9,534	n.m.

* Attributable to shareholders. ** stc definition, at 30 June.

Source: stc interim condensed consolidated financial statements; Yamamah Insights analysis. Please see the disclaimer on the final page.

FRAMEWORK

From company results to the sector's direction: a five-axis assessment

This report reads stc's 1H26 results through five connected axes. Each axis tests the next. Current results are set against the direction of the sector, the sector against changes in customer behaviour, and customer behaviour against technology and AI. The final axis identifies the opportunity and the risk that matter most for stc's earnings over the coming years.

Company results → Sector change → Customer behaviour → Technology and AI → Opportunity and risk

#	Axis	What the evidence shows	Our reading for stc	Signal
1	**Company results**	Revenue +3.7%; EBITDA +5.5% at a 32.3% margin; operating profit +7.8%. Net profit to shareholders -2.1% after a SAR727mn zakat swing and a SAR463mn swing in net finance income.	The operating base is improving. Reported earnings now carry a financing cost that was absent in 1H25, and this will persist while the investment cycle is debt-funded.	Supportive
2	**Sector change**	Internet penetration 99.6% (CST). IT market SAR115.4bn vs telecom SAR83.5bn (MCIT). Global telecom revenue CAGR of about 2.8% to 2029 (PwC). Mobily revenue +5.3% and Zain KSA −0.7% in 1H26.	Growth in connectivity will track population and pricing. Enterprise IT, wholesale and data centres carry most of the incremental growth, where stc already has scale.	Mixed
3	**Customer behaviour**	53GB of mobile data per person per month (CST). E-payments 85% of retail payments (SAMA). stc mobile subscribers +4.8% against mobility revenue +2.8%.	Volume is not priced linearly, so revenue per subscriber declines. stc's advantage moves from coverage to the ecosystem: app, payments, content and enterprise services.	Mixed
4	**Technology and AI**	McKinsey: telcos scaling AI target a 10–15% EBITDA improvement. Gartner: MENA data-centre systems spending +37.3% in 2026. center3 targets 1GW by 2030.	AI supports margins through automation and opens a compute revenue line. Returns depend on utilisation and on how much value the JV structure leaves with stc.	Supportive
5	**Opportunity and risk**	Subsidiaries' share of gross profit rose to 24.0% from 18.8%. Capex +31%; free cash flow SAR3.6bn against SAR5.5bn of dividends paid.	The opportunity is to convert digital infrastructure into a second earnings engine. The risk is that capex, dividends and debt service compete for the same cash flow.	Monitor

3.7%
Revenue growth, 1H26 y/y
Derived (stc rounds to 3.8%)

32.3%
EBITDA margin, 1H26 (+0.5pp y/y)
Disclosed

24.0%
Subsidiaries' share of group gross profit (1H25: 18.8%)
Disclosed

0.38x
Net debt to LTM EBITDA (1H25: 0.02x)
Disclosed

Signals reflect Yamamah Insights' assessment of each axis's effect on stc's earnings trajectory: **Supportive** (favourable), **Mixed** (offsetting forces), **Monitor** (the outcome depends on execution and capital allocation). They are analytical readings, not investment recommendations.

Source: stc interim condensed consolidated financial statements; Yamamah Insights analysis. Please see the disclaimer on the final page.

1 · COMPANY RESULTS

Revenue up 3.7% y/y, with gross margin gains carried through to operating profit

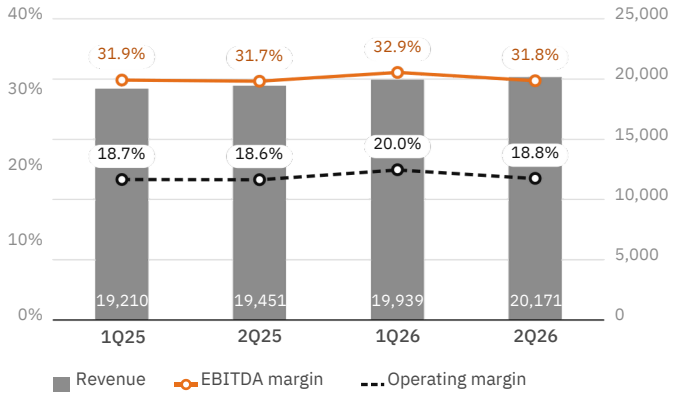
Revenue rose 3.7% y/y to SAR40.1bn, with similar growth in both quarters (+3.8% in 1Q26 and +3.7% in 2Q26). stc KSA, the domestic operating business, grew 3.3% to SAR26.2bn. Within it, the commercial unit grew 3.0%, the business unit 2.1% and carrier and wholesale 8.8%. Subsidiaries grew 4.6% to SAR14.0bn.

Gross profit grew faster than revenue, at +5.2%, because cost of revenue rose only 2.4%. Gross margin reached 49.0%, +0.7pp higher. stc reports that subsidiaries' gross profit rose 33.9% and that their share of group gross profit increased to 24.0% from 18.8%. In our view, this mix shift is the main source of the margin gain.

Operating expenses grew in line with revenue and held at 29.6% of sales. Operating profit therefore rose 7.8% to SAR7.8bn and EBITDA 5.5% to SAR13.0bn. On a sequential basis, 2Q26 operating profit was 4.7% below 1Q26, as general and administrative expenses rose 9.1% q/q and selling and marketing expenses 5.6% q/q.

Figure 1: Quarterly revenue and margins

Revenue in SAR mn (right axis); margins in % (left axis)



Source: stc interim condensed consolidated financial statements (1Q26, 1H26); Yamamah Insights analysis. EBITDA = operating profit + depreciation, amortisation and impairment, consistent with stc's disclosure.

Table 1: Income statement summary

SAR mn unless stated

SAR mn	1Q25	2Q25	1Q26	2Q26	1H25	1H26	1H y/y
Revenue	19,210	19,451	19,939	20,171	38,660	40,110	+3.7%
Gross profit	9,098	9,560	9,772	9,865	18,658	19,637	+5.2%
Gross margin	47.4%	49.1%	49.0%	48.9%	48.3%	49.0%	+0.7pp
EBITDA	6,120	6,168	6,557	6,411	12,289	12,968	+5.5%
Operating profit	3,584	3,624	3,978	3,793	7,207	7,771	+7.8%
Net finance income/(cost)	187	70	(88)	(118)	256	(206)	n.m.
Profit before zakat and tax	3,405	3,690	3,920	3,777	7,095	7,696	+8.5%
Zakat and tax	311	216	(152)	(49)	526	(201)	n.m.
Net profit to shareholders	3,649	3,823	3,696	3,623	7,472	7,319	-2.1%
Basic EPS (SAR)	**0.73**	**0.77**	**0.74**	**0.73**	**1.50**	**1.47**	**–2.0%**

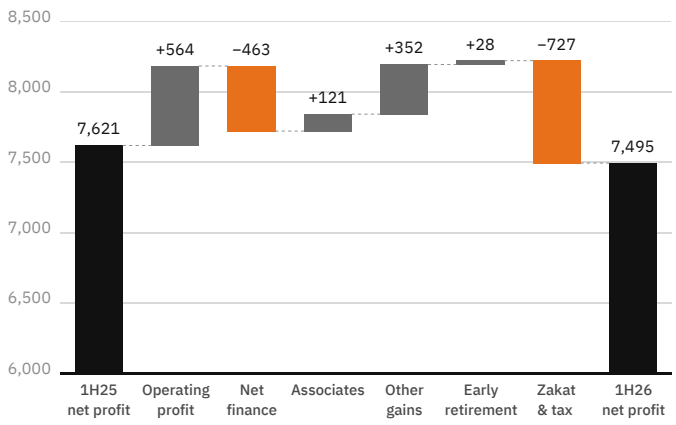
Source: stc interim condensed consolidated financial statements (1Q26, 1H26); Yamamah Insights analysis. n.m. = not meaningful (sign change).

The quarterly mix changed in 2Q26. Group growth was steady across the two quarters, but its composition changed. The commercial unit grew 5.2% y/y in 1Q26 and 0.9% in 2Q26, while the business unit accelerated to 8.4% and carrier and wholesale to 11.4% in 2Q26. In our view, the consumer slowdown is the more important signal for 2H26, as the commercial unit generates 41% of group revenue, while enterprise growth follows project timing.

1 · COMPANY RESULTS

Net profit bridge: operating gains absorbed by zakat normalisation and higher financing costs

Figure 2: Net profit bridge, 1H25 to 1H26
SAR mn; total net profit including non-controlling interests. Axis starts at SAR6,000mn.



Source: stc interim condensed consolidated financial statements (1Q26, 1H26); Yamamah Insights analysis.

Profit before zakat and tax rose 8.5% y/y to SAR7.7bn, while net profit attributable to shareholders fell 2.1%. The gap comes from two items below the operating line.

Zakat. The charge moved to an expense of SAR201mn from a benefit of SAR526mn. stc attributes the 1H25 benefit to reversing prior-year zakat provisions that were no longer required. 1H26 also included a smaller reversal in 2Q26. The effective rate of 2.6% is therefore still below a normalised level.

Financing. Finance income fell 37.8%, in our view because treasury balances were drawn down to fund the SAR9.97bn special dividend paid in June 2025. Finance cost rose 28.3% after the USD2bn sukuk.

Offsetting items. Share of associates and joint ventures rose 85.2% to SAR263mn. This line includes stc's 43.06% interest in the combined tower company formed after the TAWAL transaction completed in February 2025. Other income and other gains added SAR352mn y/y. The 1Q25 base included a SAR219mn revaluation loss on financial instruments linked to raising the Telefónica stake to 9.97%. Early-retirement costs fell by SAR28mn.

Underlying trend. stc reports net profit excluding non-recurring items up 6.3% in 1H26 and 1.2% in 2Q26, and 2Q26 net profit was 4% above the average analyst estimate. We read the underlying trend through PBT (+8.5%) and EBITDA (+5.5%).

Table 2: Cost structure and below-the-line items
% of revenue; last column shows the item's own y/y change

% of revenue	1H25	1H26	Item y/y
Cost of revenue	51.7%	51.0%	+2.4%
Selling and marketing	7.9%	8.0%	+5.5%
General and administrative	8.6%	8.6%	+4.0%
Depreciation, amortisation and impairment	13.1%	13.0%	+2.3%
Finance income	2.1%	1.3%	−37.8%
Finance cost	1.4%	1.8%	+28.3%
Share of associates and joint ventures	0.4%	0.7%	+85.2%
Effective zakat and tax rate	(7.4%)	2.6%	n.m.

Source: stc interim condensed consolidated financial statements (1Q26, 1H26); Yamamah Insights analysis.

Total comprehensive income fell 19.1% to SAR7.2bn. Other comprehensive income swung to a SAR316mn loss from a SAR1.2bn gain, mainly on foreign-currency translation and fair-value changes on hedging and equity instruments.

1 · COMPANY RESULTS

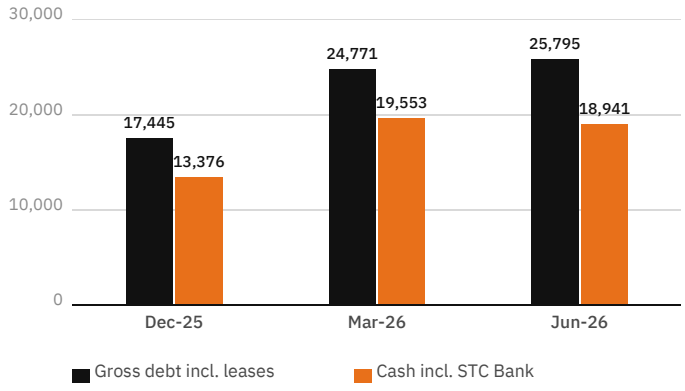
Balance sheet: borrowings up SAR8.3bn in 1H26 as leverage moves from a low base

Borrowings rose to SAR23.5bn at end-June from SAR15.2bn at end-2025. The increase came mainly from the USD2bn dual-tranche sukuk completed in January 2026. It comprised a USD750mn five-year tranche priced at 4.489% and a USD1.25bn ten-year tranche at 5.083%, against an order book above USD8bn. Net debt, on stc's definition, reached SAR9.5bn compared with SAR0.5bn a year earlier. That equals 0.38x LTM EBITDA, with interest coverage of 10.9x.

In our view, leverage remains low for an A+ rated operator, so the balance sheet can absorb the investment cycle. The relevant question is the pace of increase rather than the level. Cash of SAR18.9bn includes SAR6.0bn held by STC Bank, which serves the bank's own liquidity needs.

Figure 3: Gross debt and cash balances

SAR mn



Source: stc interim condensed consolidated financial statements (1Q26, 1H26); Yamamah Insights analysis. Gross debt = long- and short-term borrowings + lease liabilities.

Table 3: Balance sheet summary

SAR mn unless stated

SAR mn	Dec-25	Mar-26	Jun-26
Property and equipment	43,286	42,752	42,732
Intangible assets and goodwill	17,325	16,982	17,098
Investments in associates and JVs	12,936	13,021	12,910
Trade receivables	26,727	26,425	26,728
Contract assets and costs (current)	8,428	9,374	9,971
Cash and equivalents (incl. STC Bank)	13,376	19,553	18,941
Total assets	**157,477**	**166,157**	**166,997**
Borrowings (long and short term)	15,191	22,475	23,537
Lease liabilities	2,253	2,296	2,259
Trade and other payables	22,259	20,421	21,198
Total liabilities	**71,090**	**78,607**	**79,285**
Total equity	**86,386**	**87,550**	**87,712**
Gross debt incl. leases / equity	20.2%	28.3%	29.4%
Current ratio (x)	1.44	1.62	1.63

Source: stc interim condensed consolidated financial statements (1Q26, 1H26); Yamamah Insights analysis. Dec-25 audited; Mar-26 and Jun-26 unaudited.

Digital banking is expanding the balance sheet

Current financial assets rose SAR3.9bn to SAR9.5bn. Current financial liabilities rose SAR3.2bn to SAR13.2bn. The cash flow statement attributes SAR3.1bn of inflows to liabilities from digital banking operations, and stc cites growth in STC Bank deposits and investments. Bank deposits are a different kind of liability from corporate debt, so we exclude them from leverage measures.

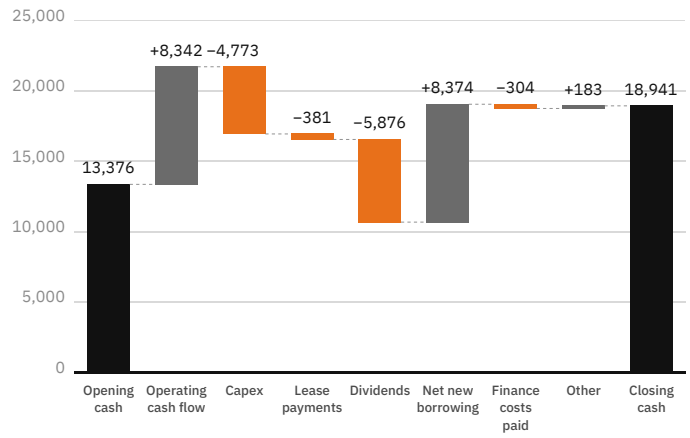
Working capital points to project-based revenue

Trade receivables were flat at SAR26.7bn, equivalent to about 122 days of annualised revenue. Current contract assets rose 18.3% to SAR10.0bn, while total contract liabilities fell 17.8% to SAR4.4bn. More revenue is being recognised ahead of billing, which is typical of enterprise and project contracts. We would watch how quickly these balances convert to cash.

1 · COMPANY RESULTS

Cash flow: operating cash flow up 80% y/y; dividends and capex funded partly by new borrowing

Figure 4: Cash bridge, 1H26
SAR mn

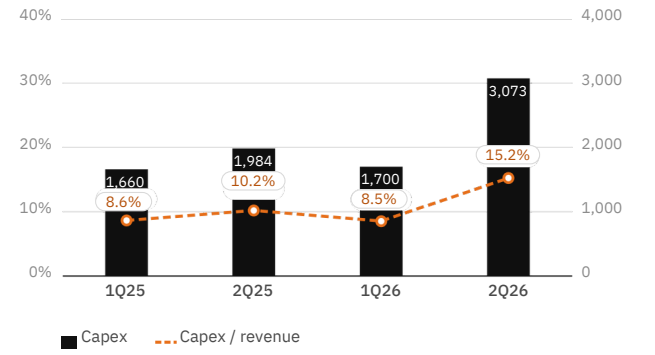


Source: stc interim condensed consolidated financial statements (1Q26, 1H26); Yamamah Insights analysis. Dividends include SAR389mn paid to non-controlling interests. Other = other investing and financing flows and FX.

Operating cash flow rose to SAR8.3bn from SAR4.6bn. The improvement came mainly from a smaller outflow on trade payables (SAR1.1bn against SAR3.8bn), lower end-of-service payments (SAR281mn against SAR991mn) and lower zakat paid. Digital banking flows contributed a net inflow of SAR231mn. Excluding them, operating cash flow was SAR8.1bn.

Capex rose 31.0% to SAR4.8bn, or 11.9% of revenue. Most of the increase fell in 2Q26, when capex reached SAR3.1bn (+55% y/y). Free cash flow (operating cash flow less capex) reached SAR3.6bn, compared with SAR5.5bn of dividends paid to shareholders. Net new borrowing of SAR8.4bn closed the gap and raised cash by SAR5.6bn.

Figure 5: Quarterly capex and capex intensity
Capex in SAR mn (right axis); capex / revenue in % (left axis)



Source: stc interim condensed consolidated financial statements (1Q26, 1H26); Yamamah Insights analysis. 2Q figures derived as 1H less 1Q.

Table 4: Key ratios and indicators to monitor

Indicator	1H25	1H26	Driver / what to watch
EBITDA margin	31.8%	32.3%	Mix shift toward higher-margin subsidiaries
Net margin (to shareholders)	19.3%	18.2%	Zakat and finance swings
ROE (annualised)	17.4%	17.4%	Stable despite lower net profit
Operating cash flow / EBITDA	37.6%	64.3%	Lower working-capital outflow
Capex / revenue	9.4%	11.9%	FY25: 15.2%; 2H is typically heavier
FCF / dividends paid	6.3%	65.0%	Coverage gap funded by borrowing
Net debt / LTM EBITDA (x)	0.02	0.38	Company definition
Interest coverage (x)	13.0	10.9	Operating profit / finance cost
Dividends declared / net profit	207%	75%	1H25 includes the SAR2.00 special dividend

Source: stc interim condensed consolidated financial statements (1Q26, 1H26); Yamamah Insights analysis. Net debt / EBITDA as disclosed by stc. ROE annualised on average equity attributable to shareholders.

1 · COMPANY RESULTS

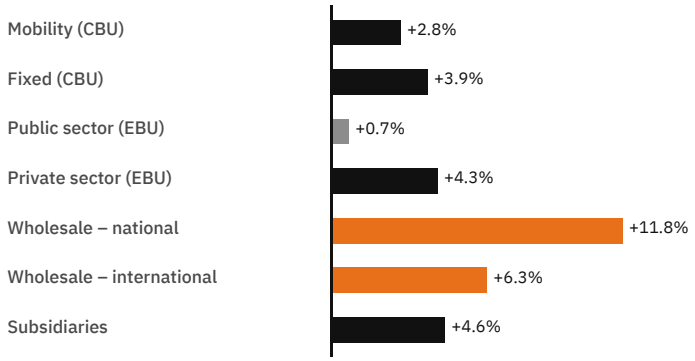
Revenue mix: subsidiaries and wholesale are growing faster than the core consumer business

The group now operates as two businesses with different growth profiles. stc KSA generates 65% of revenue and grows close to the domestic market rate. Subsidiaries generate 35% and carry most of the incremental gross profit. Their share of group gross profit rose to 24.0% in 1H26 from 18.8% a year earlier.

Within stc KSA, the fastest growth came from carrier and wholesale. National wholesale grew 11.8% and international 6.3%, and the unit's project pipeline now includes the SAR3bn Silklink fibre programme in Syria awarded in February 2026. Public-sector enterprise revenue grew 0.7% in 1H26. The business unit grew 8.4% in 2Q26, indicating that the timing of government projects drives quarterly variance.

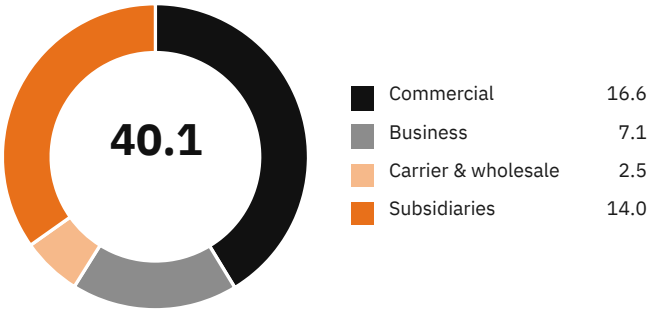
Mobility revenue rose 2.8%, against 4.8% growth in mobile subscribers. On our calculation, revenue per mobile subscriber fell about 1.9%, which in our view reflects additions weighted toward lower-value segments, in a market where management describes pricing as stable.

Figure 6: Revenue growth by unit, 1H26 y/y
%



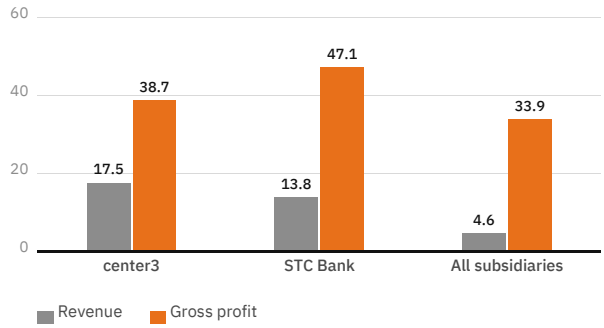
Source: stc 2Q26 earnings presentation; Yamamah Insights analysis.

Figure 7: Revenue mix, 1H26
SAR bn



Source: stc 2Q26 earnings presentation. Subsidiaries derived as group revenue less stc KSA.

Figure 8: Subsidiaries — revenue vs gross profit growth, 1H26
% y/y



Source: stc 2Q26 earnings presentation.

Portfolio. Listed solutions (7202) grew revenue 9.0% to SAR6.2bn, with net profit up 2.1%. center3 (data centres and connectivity infrastructure) grew revenue 17.5% and gross profit 38.7%. STC Bank (85% owned; 8.5mn customers) grew revenue 13.8% and gross profit 47.1%. Smaller units grew from low bases: iot squared +63.1%, sirar +60.1%, sccc +59.5%. stc Kuwait revenue declined 3.3% in local currency. Associates include the combined tower company (43.06%), and stc holds a 9.97% voting stake in Telefónica.

3Q26 UPDATE

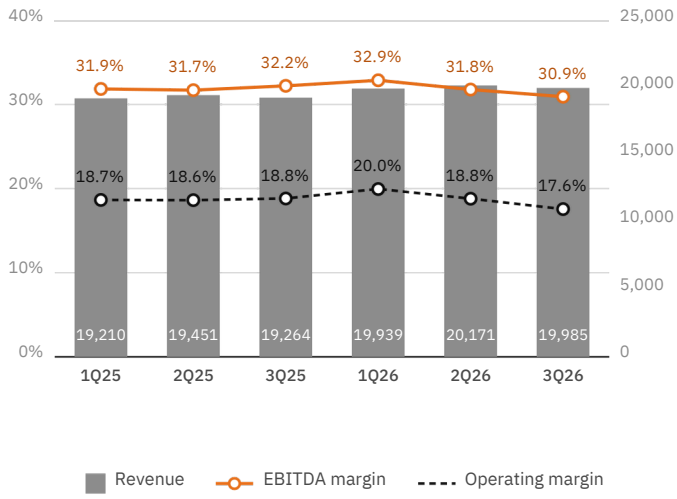
3Q26 results: revenue up 3.7% y/y, but operating profit 3.2% lower as costs outpaced gross profit

stc reported 3Q26 results on 28 October 2026. Revenue rose 3.7% y/y to SAR20.0bn, the same pace as in 1H26, but was 0.9% below 2Q26. stc attributes the growth mainly to subsidiaries, whose revenue rose 18.5% y/y in the quarter. Revenue for 9M26 reached SAR60.1bn (+3.7%).

Gross profit grew 5.1% to SAR9.7bn and gross margin widened 0.6pp y/y to 48.7%, slightly below 48.9% in 2Q26. The mix-led gross margin gain therefore continued.

Unlike 1H26, the gain did not reach operating profit. Operating expenses (gross profit less operating profit) rose 10.5% y/y to SAR6.2bn, or 31.1% of revenue against 29.2% in 3Q25. Operating profit fell 3.2% y/y and 7.4% q/q to SAR3.5bn, its first y/y decline in 2026, and operating margin narrowed 1.3pp to 17.6%. Derived EBITDA was SAR6.2bn (–0.4% y/y), a 30.9% margin. For 9M26, operating profit rose 4.1% and EBITDA 3.5%.

Figure 8.1: Quarterly revenue and margins, 1Q25–3Q26
Revenue in SAR mn (right axis); margins in % (left axis)



Source: stc interim financial statements (1Q26, 1H26), 3Q26 announcement and 9M26 release; Yamamah Insights analysis. 3Q EBITDA derived as 9M less 1H.

Table 4.1: 3Q26 income statement summary
SAR mn unless stated

SAR mn	3Q25	2Q26	3Q26	y/y	q/q	9M25	9M26	9M y/y
Revenue	19,264	20,171	19,985	+3.7%	–0.9%	57,924	60,096	+3.7%
Gross profit	9,251	9,865	9,724	+5.1%	–1.4%	27,908	29,362	+5.2%
Gross margin	48.0%	48.9%	48.7%	+0.6pp	–0.2pp	48.2%	48.9%	+0.7pp
EBITDA*	6,209	6,411	6,182	–0.4%	–3.6%	18,497	19,150	+3.5%
EBITDA margin	32.2%	31.8%	30.9%	–1.3pp	–0.9pp	31.9%	31.9%	–0.1pp
Operating profit	3,627	3,793	3,511	–3.2%	–7.4%	10,834	11,282	+4.1%
Operating margin	18.8%	18.8%	17.6%	–1.3pp	–1.2pp	18.7%	18.8%	+0.1pp
Zakat and tax	157	(49)	(156)	n.m.	n.m.	683	(357)	n.m.
Net profit to shareholders	4,107	3,623	3,599	–12.4%	–0.7%	11,579	10,918	–5.7%
Comprehensive income to shareholders	3,942	2,968	3,739	–5.1%	+26.0%	12,659	10,749	–15.1%
Basic EPS (SAR)*	**0.82**	**0.73**	**0.72**	**–12.2%**	**–1.4%**	**2.32**	**2.19**	**–5.6%**

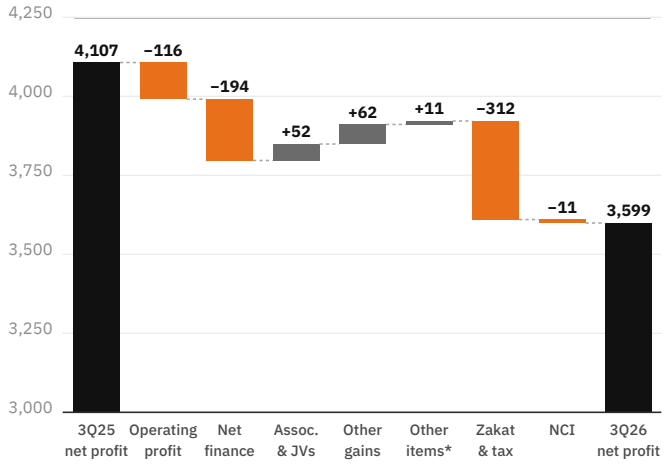
Source: stc 3Q26 results announcement on Tadawul and 9M26 release; 2Q26 and 3Q25 from stc disclosures; Yamamah Insights analysis. * 3Q EBITDA and 3Q EPS derived as 9M less 1H. n.m. = not meaningful (sign change).

The consumer slowdown extended into 3Q26. stc reports 9M26 growth of 2.0% in the commercial unit, against 3.0% in 1H26, which on our estimate implies broadly flat y/y revenue in 3Q26. Carrier and wholesale slowed to 5.1% for 9M26 from 8.8% in 1H26. Subsidiaries accelerated to 18.5% in 3Q26 from 4.6% in 1H26 and carried the quarter. This confirms the signal we flagged after 2Q26: group growth now depends more on subsidiaries and project timing than on the consumer base.

3Q26 UPDATE

3Q26 net profit bridge: zakat normalisation and higher net finance costs explain most of the 12.4% decline

Figure 8.2: Net profit bridge, 3Q25 to 3Q26
SAR mn; net profit attributable to shareholders. Axis starts at SAR3,000mn.



Source: stc 3Q26 interim condensed consolidated financial statements; Yamamah Insights analysis. * Early-retirement programme cost and other net items. NCI = non-controlling interests.

Table 4.2: 9M26 indicators against 1H26
% unless stated

Indicator	1H26	9M26	Read-across
Revenue growth y/y	+3.7%	+3.7%	Steady; mix toward subsidiaries
Gross margin	49.0%	48.9%	3Q26: 48.7%
EBITDA margin	32.3%	31.9%	3Q26: 30.9%
Operating profit y/y	+7.8%	+4.1%	3Q26: −3.2%
Net profit y/y (reported)	−2.1%	−5.7%	Zakat and finance swings
Net profit y/y excl. non-recurring (stc)	+6.3%	+2.6%	Underlying growth slowing
Net margin (to shareholders)	18.2%	18.2%	Gains offset higher costs
Basic EPS (SAR)	1.47	2.19	9M25: 2.32
Dividends declared (SAR/share)	1.10	1.65	SAR0.55 for 3Q26
Shareholders' equity (SAR bn)	—	85.6	+2.0% vs comparative

Source: stc 1H26 and 9M26 interim statements, 3Q26 announcement and 9M26 release; Yamamah Insights analysis.

Net profit attributable to shareholders fell 12.4% y/y to SAR3.6bn and 0.7% q/q. It was above the average analyst estimate of SAR3.5bn.

Zakat. The charge was an expense of SAR156mn against a benefit of SAR157mn in 3Q25, when stc reversed prior-year provisions that were no longer required. The SAR312mn swing is the largest item in the bridge. For 9M26, zakat and tax was an expense of SAR357mn against a benefit of SAR683mn.

Financing. Finance income fell SAR70mn and finance cost rose SAR124mn, a net SAR194mn drag consistent with the debt-funded investment cycle discussed in our 1H26 review.

Operating and other items. Operating profit fell SAR116mn. Associates added SAR52mn and other gains SAR62mn, mainly from land sales.

Underlying trend. Other net gains of SAR673mn in 3Q26, mainly land sales and revaluation of STV fund units, compare with a net loss of SAR62mn in 2Q26. stc reports net profit excluding non-recurring items up 3.6% q/q. For 9M26, underlying growth was 2.6%, down from 6.3% at 1H26, which points to a weaker underlying third quarter.

3Q26 against the five-axis framework

Company results — Supportive

Gross margin gains continued, but operating profit fell 3.2% as operating expenses rose 10.5%. 4Q26 needs to confirm the operating base.

Customer behaviour — Mixed

Consumer revenue implied flat in 3Q26, while mobile subscribers rose 4.8% to 30.6mn and FTTH households reached 3.95mn (+7.0%). Usage still outpaces revenue.

Opportunity and risk — Monitor

Subsidiaries' 18.5% growth supports the second-engine case. The SAR0.55 dividend was maintained (record 2 Nov, payment 19 Nov 2026). 9M26 capex rose 27.4% y/y to SAR7.7bn, and net debt rose to SAR15.4bn at end-September from SAR9.5bn at end-June.

Signals are those of the 1H26 review; 3Q26 evidence is noted against each, not a change of assessment.

2 · SECTOR CHANGE

Saudi telecoms: connectivity is near saturation, and growth is shifting to enterprise IT and digital infrastructure

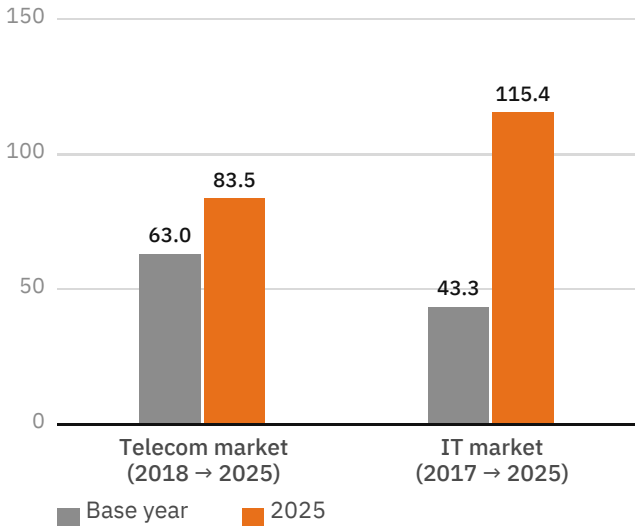
99.6%	86%	5.8mn	SAR199bn
Internet penetration, 2025 CST, Saudi Internet Report 2025	5G population coverage, 3Q25 (2021: 44%) MCIT	Homes covered by fibre, end-2025 MCIT	ICT market size, 2025 MCIT

The Saudi connectivity market has reached high penetration on every main measure. Internet penetration stands at 99.6% (CST), 5G covers 86% of the population (MCIT) and there were 68.2mn mobile subscriptions in 2024 (CST). New customer acquisition is therefore no longer the main source of revenue growth. Growth now depends on data usage, value-added services and enterprise demand.

Value within ICT is moving toward IT services. MCIT puts the IT market at SAR115.4bn in 2025, up from SAR43.3bn in 2017, a 13.0% CAGR on our calculation. The telecom services market was SAR83.5bn, against SAR63bn in 2018, a 4.1% CAGR. The global pattern is similar. PwC projects global telecom revenue to grow at about 2.8% a year to 2029 with mobile ARPU edging lower, and McKinsey estimates telcos' beyond-core B2B services growing at 8.9% a year against 1.6% for core connectivity.

Figure 9: ICT market by segment

SAR bn



Source: MCIT; Yamamah Insights analysis. Base years differ (telecom 2018, IT 2017).

Table 5: Listed Saudi operators, 1H26

1H26	Revenue (SAR bn)	y/y	Net profit (SAR bn)	Profit y/y	Net margin
stc (7010)	40.11	+3.7%	7.32	−2.1%	18.2%
Mobily (7020)	10.12	+5.3%	1.78	+11.5%	17.6%
Zain KSA (7030)	5.30	−0.7%	0.41	+84.1%	7.6%

Sources: company filings; Decypha (Mobily); Zain KSA release. stc net profit attributable to shareholders. Zain KSA net profit includes SAR112mn of one-off income; Zain reports +8% excluding it.

Competitive position

stc remains the scale operator. Its revenue is about four times Mobily's, and it holds close to 59% of fixed broadband subscriptions (Opensignal, December 2024). Mobily grew revenue 5.3% from a smaller base in 1H26, while Zain KSA's revenue was broadly flat. Management describes pricing as stable and rational. In our view, Mobily's faster growth reflects its smaller base and enterprise wins rather than price competition.

Industry structure is separating infrastructure from services

Operators are moving passive infrastructure into separate vehicles. stc completed the sale of 51% of TAWAL to PIF in February 2025 for SAR8.9bn in cash and retains 43.06% of the combined tower company. It has also launched a neutral fibre network with ROSHN. Retained stakes keep a share of infrastructure income through associates.

Regulation is opening new spectrum and new access technologies

In CST's November 2024 auction, stc won 40MHz in the 600MHz band and 100MHz in the 3800MHz band. CST's 2025–2027 spectrum outlook adds mmWave (26GHz) for 5G and fixed wireless access, and CST consulted in October 2025 on rules for satellite direct-to-device services. In our view, these steps widen competition at the edges of the market: rural coverage, home broadband and private networks.

3 · CUSTOMER BEHAVIOUR

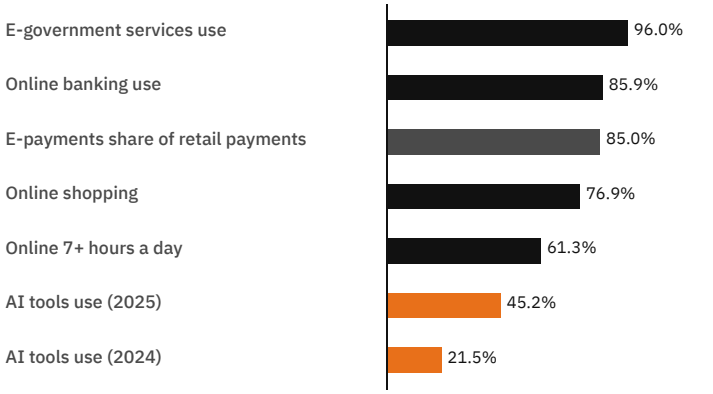
Customers: rising data intensity and digital-first habits are moving value beyond connectivity

53GB	30.3mn	8.5mn	3.87mn
Mobile data per person per month, 2025 — about 3x the global average CST	stc mobile subscribers, +4.8% y/y (of which prepaid 22.4mn, postpaid 6.6mn) stc 2Q26	STC Bank customers since the January 2025 launch stc 1H26 call	stc FTTH households, +5.2% y/y stc 2Q26

Usage is rising faster than revenue. Saudi users consume 53GB of mobile data per person per month (CST), about three times the global average. GlobalData expects Saudi mobile voice revenue to decline at 3.4% a year over 2025–30 as calls move to over-the-top applications, while mobile data revenue grows 6.6% a year. Because data is sold in bundles rather than by unit, higher consumption lifts network cost more than revenue. This is consistent with the 1.9% decline in stc's mobility revenue per subscriber that we calculate for 1H26.

Daily life is moving onto digital channels. CST reports that 61.3% of users spend seven or more hours online a day, 85.9% use online banking and 96% use e-government services. Electronic payments reached 85% of retail transactions in 2025 (SAMA). Customers now judge an operator on its app, payments and content as well as on its network.

Figure 10: Digital behaviour indicators, Saudi Arabia
% of internet users unless stated



Sources: CST, Saudi Internet Report 2025 (via SPA and MIT Sloan ME); SAMA (e-payments, 2025).

AI is becoming a mainstream consumer habit

Use of AI tools among Saudi internet users rose to 45.2% in 2025 from 21.5% in 2024 (CST). Deloitte's 2026 survey of adults aged 18–50 puts usage at 66%. Gartner expects agentic AI to resolve 80% of common customer-service issues without human intervention by 2029. Service quality will increasingly be measured by how well digital channels resolve issues, not by store and call-centre capacity.

A prepaid-heavy base leaves room for upgrades

Of stc's 29.0mn prepaid and postpaid mobile lines, 6.6mn (about 23%) are postpaid. Migration to postpaid and to bundled family and device plans is a lever for revenue per user that does not rely on price increases.

Home connectivity is diversifying

Fixed wireless access accounts for about 20% of Saudi fixed broadband (Opensignal), and GSMA expects 5G FWA to reach 16.5% of households by 2030. stc's fibre base of 3.87mn households grew 5.2%, which positions it on both technologies.

Demographics and visitors shape demand

The median age is 29, and 63% of Saudis are under 30 (GASTAT 2022 census), a profile that favours app-based, data-heavy consumption. Inbound visitors reached 29.3mn in 2025 (Ministry of Tourism), and the 2026 Hajj season hosted 1.55mn international pilgrims (GASTAT). Since May 2025, pilgrims have been able to activate eSIMs remotely (CST), which lowers the barrier to short-stay connectivity.

Implication for stc. The customer relationship is moving from a SIM to an ecosystem. stc's advantages are distribution, data and trust: 30.3mn mobile subscribers, a digital bank with 8.5mn customers and a leading fixed footprint. The challenge is to monetise usage through bundles, payments and services before value moves to over-the-top platforms.

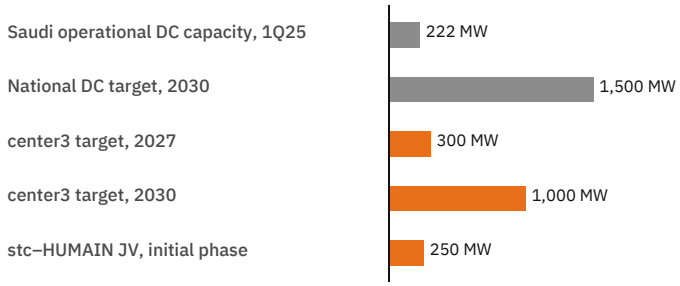
4 · TECHNOLOGY AND AI

Technology and AI: efficiency gains in the network and a new revenue line in compute infrastructure

Cost. AI's nearer-term effect on operators is on operating cost. McKinsey reports that telcos scaling AI target a 10–15% improvement in EBITDA. GSMA Intelligence finds that 75–85% of operator AI deployments are aimed at cost reduction, about half of them in customer care. stc is pursuing Level 4 autonomous networks with Huawei and Cisco, while TM Forum finds only 21% of operators at Level 3 or above. Bain cautions that AI agent and token costs could reach 20–30% of operating expenses and offset part of the savings.

Revenue. The larger change is AI compute. McKinsey sizes the GPU-as-a-service market addressable by telcos at USD35–70bn by 2030. Gartner expects MENA spending on data-centre systems to rise 37.3% in 2026. S&P Global estimates Saudi operational data-centre capacity at about 222MW in 1Q25 and IT load growing at a 29% CAGR over 2024–30. The national data-centre strategy targets up to 1.5GW by 2030.

Figure 11: Data-centre capacity markers
MW



Sources: S&P Global (1Q25 capacity); MCIT/SDAIA national strategy via US ITA (2030); stc annual report 2025 (center3); Argaam (JV MoU).

Figure 12: Where AI affects the telecom value chain, and stc's position in each layer

Layer	Effect of AI on the industry	stc assets and initiatives
Applications and services	AI-led customer care, digital banking, enterprise AI solutions	solutions (+9.0% revenue), STC Bank (8.5mn customers), iot squared (+63.1%)
Cloud and AI platforms	Sovereign cloud and model hosting for regulated sectors	stc Cloud on Oracle Alloy (sovereign cloud); sovereign LLM cloud with SambaNova (2025)
Compute and data centres	GPU and AI data-centre demand; power and land are binding constraints	center3: 300MW by 2027, 1GW by 2030, SAR37.5bn committed; JV with HUMAIN of up to 1GW (MoU)
Connectivity	AI traffic raises uplink demand and fibre needs to data centres	12.1k 5G sites; 3.87mn FTTH households; AST SpaceMobile satellite direct-to-device
Network operations (cost)	Automation of planning, fault management and energy use	Level 4 autonomous-network programmes with Huawei (June 2026) and Cisco (LEAP 2026)

Sources: stc IR releases and annual report 2025; company announcements; Yamamah Insights analysis.

Network demand. Ericsson's June 2026 Mobility Report finds uplink traffic growing faster than downlink at most operators it measures. It estimates that AI applications could lift uplink traffic three times or more by 2031 compared with 2025. Its November 2025 edition forecasts GCC data per smartphone rising from 30GB to 49GB a month over 2025–31. This sustains investment needs in 5G capacity and in fibre links between data centres.

Our reading. stc's AI exposure is concentrated in infrastructure, where it owns sites, fibre, power access and government relationships. The HUMAIN joint venture would give stc access to sovereign-scale demand. At a 49% stake, however, part of the value would be equity-accounted rather than consolidated. Returns will depend on utilisation and contract tenor. Singtel, for example, cites about five years' payback on GPU capacity and 7–10 years on data centres.

5 · OPPORTUNITY AND RISK

Key opportunity and key risk: sovereign compute demand against a heavier capital cycle

Key opportunity: digital infrastructure as a second earnings engine

stc can benefit most from Saudi demand for sovereign AI compute and enterprise cloud. It already owns data-centre sites through center3, national fibre, a government customer base and an A+ balance sheet. The proposed JV with HUMAIN targets up to 1GW, starting with 250MW subject to customer commitments.

What would confirm it: signed capacity contracts, a final JV agreement before the MoU extension lapses (December 2026), and a further rise in subsidiaries' gross-profit share. Adjacent opportunities include enterprise IT (where the market has grown at about 13% a year), STC Bank and international wholesale capacity.

Key risk: the capital cycle and dividend coverage

Capex rose 31% in 1H26, and center3 alone plans up to USD10bn of data-centre investment. Over the same period, the base dividend policy (SAR0.55 per quarter until 3Q27) commits about SAR11bn a year. Free cash flow of SAR3.6bn covered 65% of 1H26 dividends paid, and net debt rose to SAR15.4bn at end-September from SAR9.5bn at end-June.

What would weaken the case: capex intensity returning to FY25 levels without matching revenue growth, delays in JV commitments, or rising funding costs. Each additional SAR10bn of debt at current sukuk pricing reduces net profit by about 3%. The table below illustrates this.

Table 6: Illustrative sensitivities (assumptions, not forecasts)

Sensitivity	Assumption (illustrative)	Result
Funding cost	Additional SAR10bn of borrowing at 5.0%, near the ten-year sukuk price (5.083%)	About SAR500mn of annual finance cost, or 3.4% of FY25 net profit to shareholders (SAR14.8bn)
Capex intensity	Capex at 15% of annualised 1H26 revenue (SAR80.2bn), near the FY25 level of 15.2%	Capex of about SAR12.0bn against annualised operating cash flow of SAR16.7bn, leaving about SAR4.7bn
Dividend coverage	Base dividend of SAR2.20 per share on about 4.99bn eligible shares	About SAR11.0bn a year, so roughly SAR6.3bn would need debt or asset monetisation under the capex assumption above

Yamamah Insights calculations. Each row assumes the stated input only; annualising 1H26 cash flow may not reflect seasonality. Results are pre-zakat.

Table 7: Risk map

Risk	Transmission channel	Indicator to monitor	Assessment
Capital intensity and dividend coverage	Capex, dividends and debt service compete for cash	Capex / revenue; FCF / dividends; net debt / EBITDA	High
Returns on AI infrastructure	Utilisation, pricing and JV structure determine value captured	Contracted MW; JV terms; center3 margins	High
Competition in mobility	Mobily growing faster from a smaller base	Mobility revenue vs subscriber growth	Medium
Public-sector spending timing	Enterprise revenue depends on government project cycles	Public-sector revenue growth; contract assets	Medium
Regulation and new entrants	Spectrum costs; satellite direct-to-device rules	CST auctions and D2D framework	Medium
International and FX	Translation losses; weaker regional units	stc Kuwait revenue; OCI translation line	Medium

Assessment reflects Yamamah Insights' view of potential effect on earnings and cash flow over the next two to three years.

Events that will test this assessment

4Q26 results
Consumer revenue trend after the 3Q26 slowdown; capex run-rate

Dec 2026
Six-month extension of the center3–HUMAIN MoU lapses; final JV terms

FY26 results
Full-year capex intensity against 15.2% in FY25; net debt to EBITDA

After 3Q27
Current dividend policy ends; the next policy will show how the board balances payouts against investment

METHODOLOGY

Methodology, definitions and sources

Data and conventions

Financial data come from stc's interim condensed consolidated financial statements for the three months to 31 March 2026 and the six months to 30 June 2026 (unaudited), stated in SAR thousands. Tables and charts use SAR mn; prose uses SAR bn where appropriate. Ratios are calculated on unrounded figures, so displayed totals may differ slightly through rounding. Revenue growth calculated from the statements is 3.7%; stc's release rounds it to 3.8%. Second-quarter cash-flow items are derived as 1H less 1Q. Segment and subsidiary figures are taken from stc's 2Q26 earnings presentation.

Three types of statement

Disclosed: figures reported by stc or by the named source. **Derived:** Yamamah Insights calculations from disclosed data, such as revenue per subscriber, CAGRs and margins. **Forward-looking readings:** marked "in our view" or "our reading". Sensitivities are labelled as assumptions and are not forecasts.

Sources

Company. stc interim condensed consolidated financial statements, 1Q26 and 1H26; stc investor relations releases, 1Q26 and 2Q26; stc 2Q26 earnings presentation and 1H26 earnings call; stc annual report 2025; stc Kuwait 2Q26 investor presentation; solutions (7202) 1H26 results.

Market disclosures. Argaam: stc 1H26 results and stated drivers; dividend announcements (28 Apr and 29 Jul 2026); USD2bn sukuk (Jan 2026); TAWAL completion (Feb 2025); center3–HUMAIN MoU (Dec 2025) and extension (Jun 2026); STC Bank licence. PIF: stc shareholding (2024).

Definitions

EBITDA = operating profit + depreciation, amortisation and impairment. **Free cash flow** = net cash from operating activities − purchases of property, equipment, intangibles and investment properties (stc definition). **Net debt** (stc) = borrowings − cash excluding STC Bank − short-term murabahas. **Gross debt** = borrowings + lease liabilities. **ROE** = annualised 1H net profit to shareholders / average shareholders' equity. **Interest coverage** = operating profit / finance cost. **Receivable days** = trade receivables / annualised revenue × 365. **Revenue per mobile subscriber change** = (1 + mobility revenue growth) / (1 + mobile subscriber growth) − 1.

3Q26 results

Sources. stc preliminary results announcement on Tadawul for the period ended 30 September 2026 (28 October 2026), stc 9M26 results release, 3Q26 dividend announcement and stc interim condensed consolidated financial statements for the nine months to 30 September 2026 (3 November 2026). **Method.** 3Q26 EBITDA and EPS are derived as 9M26 less 1H26. 3Q26 capex, net debt and the net profit bridge are based on the nine-month interim statements.

Official. Communications, Space and Technology Commission (CST): Saudi Internet Report 2025, ICT indicators, spectrum auction (Nov 2024), spectrum outlook 2025–2027, D2D consultation (Oct 2025), eSIM activation for pilgrims (May 2025). MCIT: ICT market size, 5G and fibre coverage. SAMA: e-payments share 2025. GASTAT: 2022 census, Hajj 2026. Ministry of Tourism: 2025 statistics.

Industry and research. Ericsson Mobility Report (Nov 2025, Jun 2026); McKinsey (Scaling the AI-native telco, 2025; AI infrastructure issue brief, 2026; B2B, 2025); Gartner (MENA IT spending, 2025; customer service, 2025); GSMA Intelligence (2025); GSMA Mobile Economy MENA 2025; TM Forum (Mar 2026); Bain (2026); PwC Global Telecom Outlook 2026; S&P Global (Saudi data centres); Opensignal; GlobalData; Deloitte Digital Consumer Trends KSA 2026; TelecomTV (Singtel, 2026).

Peers. Mobily 1H26 results (Decypha); Zain KSA 1H26 release (28 Jul 2026).

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