Net Finance Costs Temper Adjusted Profit Growth

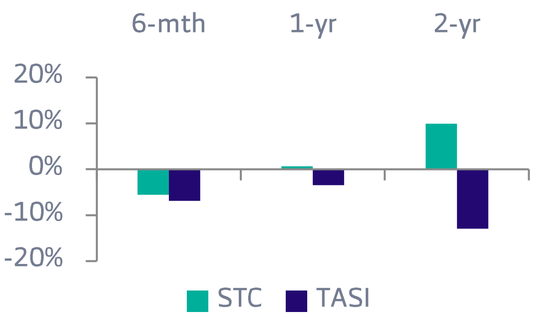
August 02, 2026

Upside to Target Price	15.9%	Rating	Buy
Expected Dividend Yield	5.1%	Last Price	SAR 43.14
Expected Total Return	20.0%	12-mth target	SAR 50.00

Market Data	
52-week high/low	SAR 45.38/40.20
Market Cap	SAR 215,700 mln
Shares Outstanding	5,000 mln
Free-float	37.99%
12-month ADTV	2,843,963
Bloomberg Code	STC AB

STC	2Q2026	2Q2025	Y/Y	1Q2026	Q/Q	RC Estimate
Sales	20,171	19,451	4%	19,939	1%	19,839
Gross Profit	9,865	9,560	3%	9,772	1%	9,818
Gross Margins	49%	49%		49%		49%
Operating Profit	3,793	3,624	5%	3,978	(5%)	3,930
Net Profit	3,623	3,823	(5%)	3,696	(2%)	3,526

(All figures are in SAR mln)



- STC group's 2Q2026 topline grew to SAR 20.2 bln (+4% Y/Y, +1% Q/Q), in line with our SAR 19.8 bln estimate. Y/Y growth was driven by the Business Unit (+8.4%), Carriers & Wholesale Unit (+11.4%), and Commercial Unit (+0.9%). STC KSA revenue rose +3.8% Y/Y (SAR +0.48 bln), while subsidiary revenues rose +3.5% Y/Y (SAR +0.24 bln), mainly driven by Specialized (up +374% Y/Y, or SAR +386 mln) and partly offset by Channels (down -4% Y/Y, or SAR -156 mln) due to management's focus on profitability. STC KSA's mobile subscribers reached 30.3 mln (+4.8% Y/Y), led by prepaid customers, while fixed subscribers rose to 6.1 mln (+3.0% Y/Y). Regional subscribers also grew +2.8% Y/Y to 3.25 mln. 1H2026 topline increased +3.8% Y/Y, driven by +3.7% growth at STC KSA and +3.5% growth across subsidiaries.
- Gross profit grew slower than topline, as gross margin edged down from comparable periods. The margin decline was driven by -492bps contraction in STC KSA's gross margin to 56% (from 61% in 2Q2025), partly offset by a sharp expansion in subsidiaries' gross margin to 36% (from 27% in 2Q25), supported by Specialized's second consecutive quarter of strong margin expansion to 76% (vs. 47% 2Q2025). However, 1H2026 gross profit growth of +5.3% Y/Y outpaced topline growth. 2Q OPEX was slightly above our estimate at SAR 6.1 bln (+2% Y/Y, +5% Q/Q). Operating margin stood at 18.8%, compared with 18.6% last year and 20.0% last quarter.
- Net profit reached SAR 3.62 bln (-5% Y/Y, -2% Q/Q), close to market consensus of SAR 3.60 bln and our SAR 3.53 bln estimate. The Y/Y decline was due to a positive Zakat provision of SAR 216 mln in 2Q2025 versus SAR (49) mln expense in 2Q2026, while Q/Q decline was mainly impacted by +5% higher OPEX. After adjusting for one-off items in all periods, normalized 2Q2026 earnings would have inched up +0.7% Y/Y, weighed by higher net finance costs following the sukuk issuance. Nevertheless, normalized 1H2026 earnings grew +6.3% Y/Y. STC announced a SAR 0.55 DPS for the quarter. We maintain our Buy rating and target price of SAR 50.00 per share.

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Disclaimer

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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