stc`s Earnings Call Transcript

H1 2026

Call Date	30th of July, 2026
Hosts	Mr. Ali AlHarbi – Corporate Finance, VP Mr. Thato Motlanthe – Investor Relations, VP Mrs. Hend AlBassam – Investor Relations, GM

(Mrs. Hend AlBassam– Investor Relations GM)

Good afternoon, everyone, and welcome to stc's H1 2026 earnings call. My name is Hend AlBassam, General Manager of Financial Markets Communication, and I'll be your host for the call today. Joining us on this call are the group Corporate Finance VP, Mr. Ali AlHarbi, along with our Investor Relations VP, Mr. Thato Motlanthe. As many of you have seen, Mr. Thato Motlanthe joined stc in mid-May from MTN, where he held the Group IR function. As usual, the call will provide an overview of stc's performance in the first half of 2026 followed by our Q&A session. I will now hand the call over to Thato, our Investor Relations VP.

H1 2026 Overview:

(Mr. Thato Motlanthe – Investor Relations VP)

Thank you very much, Hend, and my warm greetings to you all. We're pleased to share a strong performance for stc group for the six-month period and for the second quarter of 2026, reflecting solid operational and financial delivery. The presentation is scheduled for one hour in which we will run through an overview of the first-half performance followed by an operational and strategic review. We will then cover the financial performance before opening up for questions. Before I hand over to the Vice President of Corporate Finance, Mr. Ali AlHarbi, to take us through the presentation, I'll just start with three high-level messages for the H1 results.

Firstly, we are pleased with the strong momentum in the business with continued growth in mobile and fixed subscribers YoY, as well as in STC Bank customers and stc tv subscribers. The group maintained its disciplined approach to investment with a capex intensity of 11.9% for the first half. This supported the continued expansion of 5G and fiber as well as growth in our digital infrastructure operations, including the likes of specialized.

Secondly, we sustained our strategic progress, underpinned by key initiatives including the ROSHN agreement to develop a neutral fiber optic network, along with the ongoing work to finalize the partnership with HUMAIN, which is aimed at advancing our data center ambitions.

The third message is that these efforts have translated into a strong financial performance, with record revenue reported for the six months. This was driven broadly across the stc portfolio with improvement in profitability supported by the group efficiency program. The group also maintained a strong financial position, which underpins our long-term growth strategy and ability to deliver sustainable returns to our shareholders, including quarterly dividends in line with the policy.

In brief, I think it's fair to say that stc group has delivered a resilient operational and financial performance for H1 2026 through disciplined execution.

With those messages, let me hand over to Ali.

(Mr. Ali AlHarbi – Corporate Finance VP)

Hello everyone, and thank you very much for being with us today. As you have seen, stc announced its results yesterday. The results were achieved through operational excellence and strong performance that demonstrates the resilience of our strategy, with the strength of our core telco business supported by continued growth across our key digital capabilities.

We will provide you more details during the call, but for the high-level financial performance for H1, the group delivered healthy revenue growth of 3.8% YoY with net profit increasing by 6.3% when we exclude the non-recurring items in the current and the comparable period last year.

The financial strength of the business is reflected in the healthy cash balance of ⃁ 14 billion at the end of the period, which enables us to continue our growth and expansion strategy. Capex spending reached ⃁ 4.8 billion in H1 2026, with a capex intensity of 11.9%, demonstrating stc's commitment to maintain its leadership in the telco and infrastructure business. Net-Debt to EBITDA is 0.4x, which again emphasizes the strong financial position of stc and its ability to continue its growth and execute its strategy.

Operational & Strategic Review:

Turning to the operational and strategic review, in terms of 5G coverage, you will see that the coverage has increased compared to last year, and this is a result of our continued investment in our telco infrastructure, including 5G. For the fiber optic connections, it increased to 3.87 million, which demonstrates stc's commitment to enhancing its coverage and infrastructure.

There is also a good story about stc tv, as its subscribers increased significantly to 6.34 million, thanks to the enhanced offers that are also supported by more content offered by stc tv. STC Bank began operating as a full-fledged bank after obtaining its digital banking license last year. The number of customers reached 8.5 million, which shows great expansion in STC Bank's customer base. STC Bank has also started to offer more banking services through digital channels with excellent customer experience.

The group efficiency program, which we have discussed previously, was launched in 2024. The group remains committed to operating in a very efficient manner, and this is reflected in our EBITDA and gross profit performance. These results were supported by the group efficiency program and the savings that have been achieved.

The group has maintained a healthy balance sheet, with Net-Debt to EBITDA remaining very low, which gives the group the strength and the ability to continue to grow strategically. In terms of credit ratings, the group was able to maintain its high rating. stc is among the highest-rated telco companies globally.

As for dividends, we maintain our dividend policy as announced in the past. If we look at the dividend yield, including our special dividends, you will see that the dividend yield is very high, at 9.7%.

Moving to subscribers, this remains an important driver of our growth. At stc KSA, the mobile subscribers increased by 4.8% compared to last year, while fixed subscribers increased by 3%. stc Kuwait and stc Bahrain also achieved growth in their mobile subscribers compared to last year. Focusing on stc KSA, mobile subscribers growth was achieved across all segments, including prepaid, postpaid and M2M. Growth in fixed subscribers was also broad-based, supported by increases in fixed telephone lines, fixed-wired broadband and fixed-wireless access.

In addition, I would like to highlight briefly some selected business and strategic developments from Q2 2026. stc continued to advance its strategic partnerships and expansion plans, including the recently announced MoU extension with HUMAIN. We also published our sustainability report for the year 2025, which highlighted an upgrade in stc's MSCI rating to AA. This achievement reflects stc's continued commitment to sustainability, which remains an integral part of our strategic initiatives.

Financial Performance:

Turning to our financial performance:

- The group's revenue reached ⃁ 40.1 billion in the first half of 2026, increasing by 3.8% compared to the same period last year, supported by a 3.3% increase in stc KSA revenue and a 4.6% increase in subsidiaries' revenue. For Q2 2026, revenue reached ⃁ 20.2 billion, with an increase of 3.7% compared to the corresponding quarter last year.

- When it comes to gross profit, it may be better to focus on the first-half comparison because it provides a clearer, long-term view of our performance. In H1 2026, gross profit increased by 5.3% YoY, outpacing revenue growth. This is a very strong gross profit number, thanks to our efficiency program, the revenue mix and our focus on enhancing profitability across all our business units and services. In Q2 2026, gross profit increased by 3.2% YoY and by 0.9% QoQ.

- As for stc KSA's revenue, it recorded a 3.3% YoY increase in H1 2026, driven by increases across all business units.

    - The Commercial Unit increased by 3% YoY in H1 2026, supported by both the mobility and fixed segments, as well as by our sales channels and enhanced offers across both the mobility and fixed segments.
    - For the Business Unit, it increased by 2.1% in H1 2026, supported by increases in both the public and private segments.
    - The Carrier & Wholesale Unit achieved strong growth of 8.8% YoY in H1 2026, supported by increases in both the international and national segments.

- The group achieved strong EBITDA growth of 5.5% in H1 2026 compared to the same period last year, with the EBITDA margin improving to 32.3%. As we mentioned previously, our focus is not only on growing revenue but also on maintaining a healthy level of profitability, as EBITDA is one of our key measures when it comes to profitability. For Q2 2026, EBITDA increased by 3.9% compared to the same quarter last year.

- Operating profit also increased by 7.8% YoY in H1 2026 compared to the same period last year. This growth was driven by the increase in revenue and the efficiency measures implemented across the group. The group efficiency program is not limited to stc KSA but extends across all our subsidiaries.

- Net profit stood at ⃁ 7.3 billion in H1 2026, compared to ⃁ 7.5 billion in H1 2025. However, after excluding non-recurring items in both periods, net profit would have increased by 6.3% YoY in H1 2026. For Q2 2026, net profit increased by 1.2% YoY after excluding non-recurring items in both the current quarter and the comparable quarter last year.

Before I conclude, please let me reiterate some important financial metrics.

- For H1 2026, the increase in capex is part of our strategy to maintain our leadership in telco and infrastructure domains.

- Free cash flow increased significantly in H1 2026 compared to the same period last year, driven by our working capital management and better collections during the period.

- Net-Debt to EBITDA demonstrates the group's strong financial position and financial flexibility to support its ambitious growth plans.

Closing Remarks:

In conclusion, stc continued to execute its strategy very successfully while maintaining its leadership in the telco and digital space.

(Mrs. Hend AlBassam– Investor Relations GM)

Thank you, Ali and Thato, for the presentation and for your comments on the results. We will now open the floor for questions. If you would like to ask a question, please click the "Raise Hand" button, and I will unmute your microphone.

Q&A Session: (Mr. Ali AlHarbi – Corporate Finance VP)

	Question	Answer
A	**Q1)** Regarding margins, I would like to understand whether there are further efficiencies you can deliver in the next couple of years to increase the profitability of your business.	**A1)** Our goal is to maintain a very healthy EBITDA margin, which is one of the group's KPIs. The group efficiency program started in 2024 and will continue to ensure that profitability improves while we also grow our top line. So, we expect the group will continue enhancing its margins, as this is one of our goals. However, we have to look at the margins and profitability over the longer term and we expect the same momentum will continue through the end of this year.
	Q2) Capex was approximately 11% or 12% in the first half. Do you expect it to be higher for the full year?	**A2)** It's part of our strategy to expand, particularly in infrastructure. Capex increased in the first half compared with the same period last year, mainly due to investment in telecom infrastructure, data centers and specialized by stc. Revenue from specialized increased in H1 compared to last year, as specialized by stc is the strategic arm for mission-critical communications.
	Q3) Can you talk a little bit about data centers? I think stc is planning to invest up to USD 10 billion in data centers, and there is also the ongoing partnership with HUMAIN. Can you please talk about it in more detail?	**A3)** The group has previously announced, through its subsidiary center3, that it will invest up to USD 10 billion in data centers. This investment is driven by expected demand and market growth over the next five years. We expect more capex to be allocated to data centers in the coming years. However, we will deploy this capital carefully, taking into account market dynamics, demand, and utilization levels. We have already started to see stronger demand for data centers in Saudi Arabia compared with the wider region, and we expect this demand to remain strong. Regarding HUMAIN, as recently announced, the proposed joint venture is still under discussion. Once finalized, some of the capex included in our previously announced investment plan would be deployed through the joint venture.
B	**Q1)** Regarding center3, could you please comment on what the specific funding mix would be, debt vs equity or partner capital, especially in light of the USD 10 billion ambition, and whether you will seek independent project level financing to shield your balance sheet?	**A1)** center3 has two main business streams: data centers and international connectivity through subsea cables. The data center investment will be undertaken by center3, and its capital structure will therefore evolve based on the business plan, the required capex, and the execution of the data center expansion. Our plan is to fund part of this capex through external debt. We are evaluating all available debt sources, including project financing and other funding options available to the group and center3. In summary, we expect center3's data center investments to result in some increase in the group's debt over time. The group can raise the debt required for the data center investments efficiently, given the group's available debt capacity.

	Q2) On the potential IPO roadmap, what specific KPIs do you see as milestones for subsidiaries like center3 and STC Bank to be considered ready for listing, and when would you expect them to reach that stage?	**A2)** An IPO is part of the group's strategy for its subsidiaries, but we have one important condition: we will take a subsidiary public only when it is ready, as readiness is very important. We do not expect any of the subsidiaries to pursue an IPO within one year from now. The plan remains in place, but before announcing any IPO, we want to ensure that the relevant subsidiary is fully prepared. This will require further investment by subsidiaries such as center3 and STC Bank to ensure that, when they go public, they will be able to create a sustain value for their shareholders.
	Q3) Just another clarification on the HUMAIN joint venture. Could you please comment on what specific regulatory hurdles or operational bottlenecks are delaying the finalization of the agreement, and when you would expect the first phase of the 250 megawatt capacity to go live?	**A3)** The joint venture is still under discussion, and we have not yet finalized all aspects of the agreement, including the operating model. We cannot disclose further details about the operating model or the terms of the agreement with HUMAIN at this stage. We can only disclose what we previously announced. The agreement was extended to allow us to complete all regulatory requirements and finalize the remaining commercial and legal discussions. The process is progressing well and according to plan. We expect to have greater clarity on the HUMAIN joint venture by the end of this year.
C	**Q1)** The gross margin at stc KSA took a step down in Q2. I believe it was down around 5% YoY. What were the reasons for the gross margin dropping below its recent range in Q2?	**A1)** We always encourage looking at gross profit and the profitability of the group over the longer term. Gross profit may sometimes be lower, mainly due to the revenue mix or the recognition of projects with lower margins. Again, profitability is key for us, and we always aim to maintain very healthy EBITDA and gross profit. Our view is that profitability, including gross profit, will continue to improve and remain very healthy and strong.
	Q2) Following up on the earlier HUMAIN question, you said the operating model is still to be settled. Could you just give a bit of color on what within the operating model is really the issue here?	**A2)** There is no issue with the HUMAIN joint venture. It is simply a large project that requires a huge investment, so we need to allow sufficient time to finalize the commercial and legal discussions, the operating model, and the roles of each party. The joint venture will be conducted directly between center3 and HUMAIN. It's only a matter of finalizing all aspects of the relationship, including the operating model.
	Q3) With regard to capex for specialized, that's obviously a big infrastructure project. Could you give a bit of color on the phasing of this and how much of the capex phasing between the first and the second quarters is specifically attributable to investments in specialized?	**A3)** specialized will deploy most of the capex required by the end of this year, and the remainder will continue to be deployed into next year. The positive development is that we started recognizing revenue from January 1st this year. You have seen Q1 results, and you will also see the Q2 revenue results for specialized. There has been substantial growth in specialized, reflecting the recognition of revenue from this project.
D	**Q1)** Commercial Unit revenue seems to be slowing down during the quarter, with just about 1% growth, while the Business Unit revenue seems to have accelerated to around 8%, and Carrier & Wholesale Unit revenue also accelerated to around 11%. So, could you talk about these revenue trends during Q2? What is driving the slowdown in Commercial Unit revenue while, at the same time, Business Unit revenue is accelerating?	**A1)** Regarding the Commercial Unit, subscriber growth remains strong compared with last year. However, when assessing quarterly performance, we prefer to take a longer term view of the Commercial Unit because of the effect of seasonality. For example, Ramadan and the increase in visitors had a positive impact on Q1. Hajj also supported the Commercial Unit. Although Hajj took place in Q2, visitor activity began earlier in the year. Regarding the Business Unit, we expect growth to continue. We have mentioned previously that this segment could face some pressure during 2025 and 2026. However, the unit was able to maintain its performance in the public sector while also benefiting from growth in the private sector.

		The Carrier & Wholesale Unit also delivered a strong performance, benefiting from stc group's infrastructure in connectivity and subsea cables. We have seen stronger demand for wholesale services at both the national and international levels.
	Q2) Regarding your IPO plans, I understand you are probably waiting for a better time, but is the recent decline in channels revenue one of the reasons you want to wait longer?	**A2)** Again, the answer remains the same. IPOs are always part of stc's strategy to monetize its subsidiaries. However, timing is very important. We have an internal process through which we assess the readiness of each subsidiary every year. If a decision is made regarding an IPO, it will be announced immediately. As for the channels, the decline in channels' revenue was planned. The most important measures for channels are profitability, net income, and EBITDA. Its EBITDA remains healthy because we shifted the focus from nonprofitable or less profitable activities toward more profitable revenues. This also explains the decline in revenue.
	Q3) Is there any consideration for special dividends this year, and what would lead to that consideration?	**A3)** We have announced our dividend policy, and it's still valid until Q3 2027. Under this policy, stc has committed to paying ⃁ 0.55 per quarter. However, the policy also allows stc to consider special dividends. Any special dividend would be based on a careful assessment that takes into account several factors, including market conditions, stc's strategy, growth plans, and the company's financial position. As of now, no decision has been made regarding a special dividend. We assess and evaluate the possibility at the end of each period, and once a decision is made, it will be announced immediately on Tadawul.
E	**Q1)** Just to follow up, particularly on the Enterprise, we have seen decent, strong growth across the market, as reported by all operators. Is this a change in dynamics that you have seen in the market from last quarter to this quarter, and is it sustainable? Do you expect the same kind of trajectory in the following quarters as well?	**A1)** The Enterprise segment remains under pressure, as the B2B business is affected by changes in government expenditure and spending priorities. Public spending on ICT and digital services remains strong, although growth is lower than in the past. As explained earlier, there was initially a significant increase in government spending on digital services. This has now stabilized, and while we continue to see slight growth, we do not expect significant growth over the next one or two years due to the maturity of the digital services. The positive development in this segment is the good growth we have seen in the private sector. This could support B2B growth in the future. We expect growth to continue at a level similar to what we saw in H1, which was around 2%.
	Q2) Regarding channels, I know there have been rationalization efforts underway, and you are seeing some decline in revenue. Will you continue to see that decline in the second half? On the other hand, there was a margin uplift to compensate for that, but we have seen gross margins in channels decline this quarter. Could you give some color on that?	**A2)** channels is a strategic subsidiary responsible for the sales activities of stc group. The decline in revenue was planned and resulted from the focus on profitability, EBITDA, and margin enhancement. We were able to improve margins in the past, and we expect the company to return to growth, although at a low rate, over the next one to three years. The current focus for channels is profitability, and we expect the company to maintain its profitability moving forward.
F	**Q1)** In terms of the Consumer business, have you seen any sort of aggression or aggressiveness from your peers around pricing, or any sort of strategic aggression within that Consumer segment?	**A1)** We have seen good growth in the Consumer business in the first half, and the overall market has also grown. We have not observed any pricing issues in the market. We believe the market is now more stable and rational, with healthy growth that all operators can benefit from. A 3% increase in the Consumer segment is considered strong, and we expect this momentum to continue. The overall Consumer market is growing, and operators are benefiting from that growth. Hopefully, we will not see any pricing pressure, pricing issues, or price wars among operators.

	Q2) It's been a while since you have spoken about expansions outside of Saudi. I just wanted to get management's thoughts around whether they're seeing any opportunities outside and if they could share some detail around that.	**A2)** We have previously announced that growth and expansion outside KSA remain part of stc's strategy. In the past, we considered several opportunities in the MENA region, but we did not identify a suitable one. We have a process for evaluating every opportunity, and we want to ensure that any company we acquire adds value to stc group in terms of revenue and profitability and creates value for its shareholders. Therefore, we are very careful when considering potential opportunities. Over the past two years, you may have seen some shift toward Europe. The European market is more mature in terms of regulation and currency and macroeconomic conditions than the Middle East, although its growth may be more limited. The group remains open to opportunities outside KSA. However, there is currently no opportunity that we can announce. We will continue to consider opportunities that may arise in the MENA region or Europe.
G	**Q1)** Can you please discuss the reasons for the slowdown in revenue growth to 5% in Q2 at STC Bank and provide some outlook for the second half?	**A1)** STC Bank began operations in 2025 after obtaining its license from SAMA and has also started offering lending products. Our current focus is on customer growth. The customer base has reached 8.5 million, reflecting very strong customer acquisition. Deposits are also important for the bank seeking to expand its lending portfolio, as lending is one of STC Bank's key products. As some products were launched only this year, we expect it will take some time for their results to become visible. This is only the beginning for STC Bank, and we expect strong growth to continue over the next two to three years as the bank begins offering a full range of financial services in a digitally efficient manner. This should help increase not only the bank's revenue, but also its profitability and the profitability of the group.
	Q2) Regarding the costs paid to TAWAL, do you believe there is scope to optimize them?	**A2)** We have an MSA with TAWAL that includes certain clauses relating to discounts available to the group, including discounts linked to co-location and other conditions. We may not be able to disclose further details, but these provisions are part of the MSA and our relationship with TAWAL. Any applicable discounts will continue to be applied once the relevant MSA criteria are met.
H	**Q1)** With regard to the mission critical project, can we expect a faster ramp up in revenue from this business, considering the geopolitical situation? Is management expecting any further additions to the existing ⃁ 32.6 billion budget, or perhaps another similar mission critical project, such as a second phase? Given the current geopolitical situation, is there any possibility of that happening?	**A1)** Regarding specialized and the mission critical project, we began recognizing revenue in January. Since then, we have booked approximately ⃁ 900 million, mainly related to the mission critical project. We expect the project to be fully operational by the middle of next year and as previously announced, the ⃁ 32.6 billion is to be over 15 years. There is no second phase as of now, and we expect the current scope of the project to remain unchanged. In addition to the minimum value of ⃁ 32.6 billion, specialized may be able to offer these services to other government and semi government entities. Any additional growth could therefore come from demand from other government entities, semi government entities, or public companies. We cannot comment on whether the current situation will lead to further growth. However, the project was originally established to provide a private network in the country, and future growth could come from securing additional clients.
	Q2) Should we expect any major capital injection by the group into STC Bank in the next couple of years?	**A2)** Yes, STC Bank has very ambitious plans for revenue growth and customer acquisition as it seeks to grow and expand over the next three to five years. Accordingly, the requirement is assessed regularly. As part of the group's capital allocation, we expect STC Bank to require more capital in the future to support its growth and expansion.

	Q3) Regarding the very healthy growth that we saw during this quarter in the Wholesale segment, can you elaborate in more detail on the underlying reasons or what was driving that growth, and should we expect it to be sustainable?	**A3)** Wholesale growth was driven by both of its segments, national and international. Part of this growth resulted from our investments in wholesale infrastructure inside and outside Saudi Arabia, including international connectivity and subsea cables. We expect Wholesale to maintain its momentum this year. However, we cannot assume that the same level of growth will continue over the longer term. For now, we continue to see strong demand. Saudi Arabia has previously announced its ambition to become a hub for data and international connectivity. stc group and the Carrier & Wholesale Unit are benefiting from the country's broader vision to strengthen international connectivity and host data. We have also benefited from the open access framework announced several years ago. All these factors have supported Wholesale's strong growth. We expect growth to continue, although potentially at a different rate.

(Mrs. Hend AlBassam– Investor Relations GM)

I'd like to conclude today's call by thanking stc's management, Mr. Ali AlHarbi and Mr. Thato Motlanthe, for joining us and answering the questions. I would also like to thank all of you for your participation and engagement.

If you have any further questions, please feel free to contact us via the Investor Relations email displayed on your screen. Thank you, and have a great day.

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