

**Rating**  
**12- Month Target Price**
**Neutral**  
**SAR 73.00**
**SAUDI TELECOM COMPANY (STC)**  
 2Q2017 First Look

**Expected Total Return**

Price as on July-26, 2017	SAR 74.22
Upside to Target Price	-1.6%
Expected Dividend Yield	5.4%
Expected Total Return	3.7%

**Market Data**

52 Week H/L	SAR 78.90/51.00
Market Capitalization	SAR 148,440 mln
Shares Outstanding	2,000 mln
Free Float	16.14%
12-Month ADTV	557,692

**1-Year Price Performance**


Source: Bloomberg



2Q2017 (SAR mln)	Actual	RC Forecast
Revenue	13,203	13,086
Gross Profit	7,283	7,263
Net Income	2,377	2,453
EPS (SAR)	1.19	1.23

**Revenue Recovery**

STC reported a net income of SAR 2.38 billion, close to our SAR 2.45 billion estimate and SAR 2.40 billion consensus. Bottom line declined by -6% Q/Q but increased +8% Y/Y. STC managed to raise net income Y/Y by augmenting the non-operating segment. Cost of sales remained in check; however, operating expenses excluding D&A witnessed a growth causing EBITDA margins to decline 100bps Y/Y and Q/Q to 35%. We are glad to see topline growing on Q/Q basis recovering to SAR 13.2 billion. The deviation versus our estimate is due to higher than expected other income and expenses while major operational heads came in line. Net margins of 18% are below our forecast of 19% and last quarter's 20% but 200 bps above last year levels. We maintain our Neutral stance with a target price of SAR 73.00 and await further clarity on the new transforming initiatives to revise future outlook.

**Growing top line Q/Q**

STC posted a -2% Y/Y decline in revenues, but a +3% Q/Q recovery to SAR 13.2 billion. We attribute revenue growth mainly to government reinstating allowances and marginally to higher enterprise revenue contribution. Management has demonstrated the ability to control its cost of service; gross margins remained flat Q/Q at 55% leading gross profit to SAR 7.3 billion, growing +4% Q/Q. We believe that the impact of regulatory changes is in the past. We expect revenues close to SAR 13 billion for the upcoming two quarters.

**EBITDA In line with expectations**

Management reacted to sector changes by initiating an operational efficiency program. However, operating expenses, excluding D&A, have witnessed unexpected growth of +9% Q/Q and +2% Y/Y representing 57% of total operating expenses compared to 55% last quarter. We attribute such growth to management trying to boost topline. EBITDA grew at +1% Q/Q but declined by -5% Y/Y reaching SAR 4.6 billion. EBITDA margins declined by 100 bps Y/Y and Q/Q to 35%, matching our expectations on the back of higher revenue growth despite increasing operating expenses.

**Net margin missed expectations**

Net income of SAR 2.38 billion (+8% Y/Y, -6% Q/Q) was close to our SAR 2.45 billion forecast. Highlight of the quarter revolved around growing revenues, improving non-operating income (led by higher equity investment income) and controlling other income and expenses. Cost efficiency program is impacting financials positively. Dividend yield of 5.4% is attractive compared to TASI's 3.3%. Net margins decreased to 18% compared to 20% last quarter and our higher estimate of 19%. Trading at a 2017E P/E of 13.7x, close to TASI's P/E of 14.3x, we maintain our SAR 73.00 target price and Neutral recommendation.

**Key Financial Figures**

FY Dec 31 (SAR mln)	2016A	2017E	2018E
Revenue	51,833	54,425	57,146
Gross Profit	28,772	31,022	33,145
Net Profit	8,532	10,802	12,620
EPS (SAR)	4.27	5.40	6.31
DPS (SAR)	4.00	4.00	4.00

**Key Financial Ratios**

FY Dec 31	2016A	2017E	2018E
BVPS (SAR)	30.5	31.9	34.3
ROAE	14%	17%	19%
ROAA	9%	11%	12%
EV/EBITDA	8.4x	7.2x	6.7x
P/E	17.4x	13.7x	11.8x

## 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

For any feedback on our reports, please contact [research@riyadcapital.com](mailto:research@riyadcapital.com)

## Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.