



**US\$32.30bn** Market cap  
**16%** Free float  
**US\$12.66mn** Avg. daily volume

Target price **76.00** 25.6% over current  
Current price **60.50** as at 20/4/2016

Research Department  
Equity Research Team

Tel +966 11 2119370, devassyp@alrajhi-capital.com

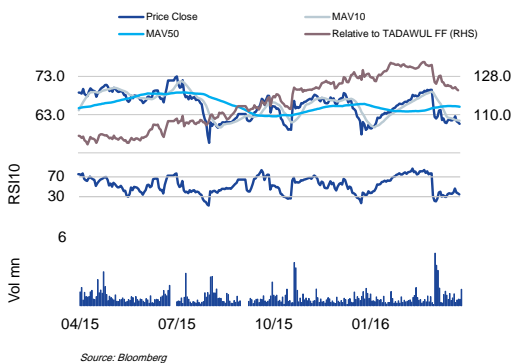
Existing rating

**Underweight** **Neutral** **Overweight**

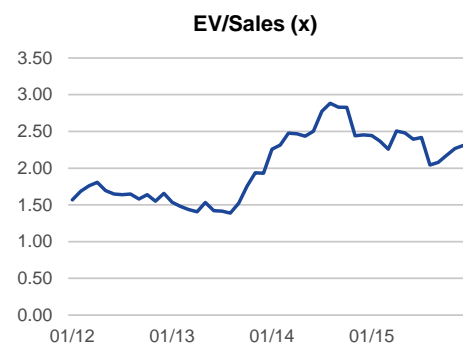
**Flash view**

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

**Performance**



**Valuation**



Source: Company data, Al Rajhi Capital

**STC**  
**Q1: Maintain Overweight**

STC reported Q1 net profit of SAR2.38bn broadly in-line with our estimate of SAR2.45bn. Top-line grew ~2% y-o-y, while bottom-line declined 5% y-o-y due to the 2-month bonus paid last year. More importantly, at the EBITDA level, the company was able to reverse declines seen in EBITDA margin over the past three quarters, to 39% in Q1 2016. Domestic revenue which constitutes bulk of top-line grew 3% y-o-y, lower than the average growth of 10.4% seen in the last four quarters, but better than Mobily's performance in Q1 which reported 6% y-o-y decline in top-line. Despite in-line results we will mostly lower our estimates given the regulatory headwinds related to cut in GCC roaming rates and probable internet revenue fee being discussed currently, post discussion with management. However, this is unlikely to materially change our view on the company. At current market price, our estimated dividend yield comes to ~7% which is very attractive. We are overweight with TP of SAR76 per share.

Earnings vs our forecast	Above	In Line	Below
<b>Likely impact:</b>			
Earnings estimates	Up	No Change	<b>Down</b>
Dividend estimates	Up	<b>No Change</b>	Down
Recommendation	Upgrade	<b>No Change</b>	Downgrade
Long term view	Stronger	<b>Confirmed</b>	Weaker

- **Revenue:** Revenue came in at SAR12.76bn, an increase of 2.3% y-o-y with broadly commensurate growth from domestic and international segments. Enterprise business segment continued to show strong growth (17% y-o-y in Q1 2016). Q1 revenue came 5% below our expectation probably because of higher than estimated impact from reduction in termination rates.
- **EBITDA and Net profit:** EBITDA margin, which in the past three quarters saw successive declines, jumped to 39%. We believe EBITDA margin could decline to around 37-38% in the long term. Net profit at SAR2.38bn came broadly in-line with our estimate. Net profit declined 5% because of the 2 month bonus (SAR395mn) paid in Q1 2015.
- **Valuation:** The stock has fallen 13% in the last one month mainly because of impact of new regulations – cut in GCC roaming rates and probable introduction of internet revenue fee. However we believe the impact should be much lower. We will revise our estimates post discussion with management. For now, we are Overweight on STC with TP of SAR76/share.

Figure 1 Summary of results

	1Q16	4Q15	1Q15	y-o-y	q-o-q	ARC est.	vs ARC est.
Revenue	12,759,000	13,246,194	12,473,480	2%	-4%	13,378,656	-5%
EBIT	3,004,000	2,554,388	3,379,741	-11%	18%	3,047,029	-1%
EBITDA	4,962,000	4,459,062	5,159,848	-4%	11%	4,951,703	0%
Net profit	2,375,000	1,950,491	2,503,577	-5%	22%	2,449,759	-3%
DPS	1.0	1.0	1.0			1.0	0%

Source: Company data, Al Rajhi Capital



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

### Contact us

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561, Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

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