

Saudi Telecom Co. (STC) - 4Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation:

Buy

Target Price (SAR):

48.40

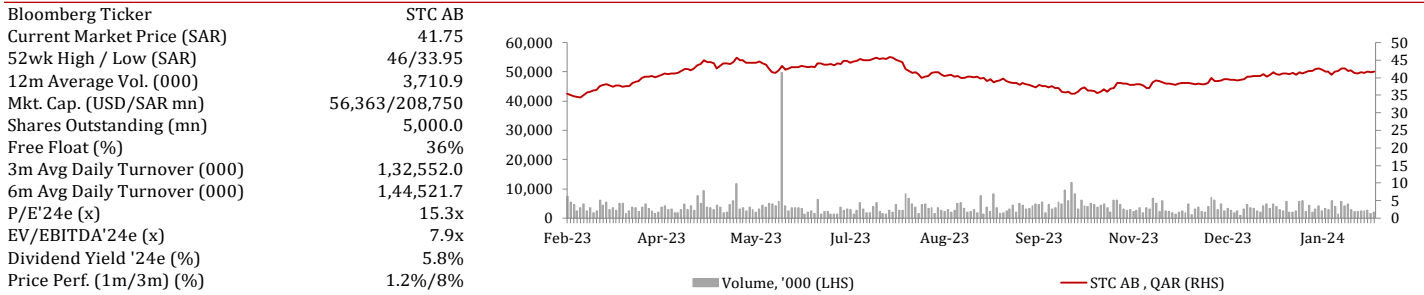
Previous Reco. & Date:

TP: SAR 48.40 per share; Buy on 12-September-2023

Upside / (Downside):

16%

Date: 20-02-2024



Revenue increased 4% YoY for 4Q23, in-line with U-Capital estimate

STC revenue for the quarter stood at SAR 17,725mn (4% YoY and -2% QoQ) in line with U-Capital estimate of SAR 17,979mn and Bloomberg consensus of SAR 18,531mn. For FY23, revenue stood at SAR 72,337mn, reflecting a 7% increase compared to previous year. This growth is primarily driven by a 5.1% increase in commercial unit revenues, a 1.4% increase in carriers and wholesale unit revenues within STC KSA, and a significant 23.9% rise in subsidiary revenues.

Gross and operating profits declines significantly QoQ for 4Q23

The company's gross profit for 4Q23 stood at SAR 8,929mn (-1% YoY and -14% QoQ) missing our estimated SAR 10,016mn and Bloomberg consensus of SAR 9,690mn. This miss vs our estimate is due to higher-than-expected cost of sales. Operating profit for 4Q23 stood at SAR 2,851mn (-4% YoY and -34% QoQ) missing U-Capital estimate of SAR 4,214mn and Bloomberg consensus of SAR 3,263mn. This deviation is due to higher-than-expected operating expenses for 4Q23. For FY23, operating profit stood at SAR 14,200, reflecting a 6% decline compared to FY22. This YoY decrease is primarily due to STC's ongoing investment in new areas as per its strategic plan. This expansion strategy led to an increase in operating expenses for FY23, resulting in the decline in operating income.

Net profit decreases 26% YoY for 4Q23 - below Bloomberg consensus and U-Capital estimate

The company's net income for the quarter was SAR 2,274mn (-26% YoY and -54% QoQ) - below Bloomberg consensus of SAR 2,948 mn and U-Capital estimate of SAR 3,336mn. The notable QoQ can be attributed to a SAR 1,103mn increase in net other gains, primarily driven by the SAR 1,296mn gained from the sale of land in 3Q23. This sale significantly boosted the net income for the third quarter, leading to a higher comparative figure. Similarly, the YoY decline in net income for 4Q23 is attributable to lower operating margins amid an increase in operating expenses due to continued investment in new domains. For FY23, net income amounted to SAR 13,295 million, reflecting a 9% increase compared to the previous year. This increase is attributed to higher net other gains as well as a positive contribution from associates and joint ventures.

Maintaining Target Price

STC achieved robust FY23 results, marked by its highest recorded revenues in 2023 and a 9% increase in net income. However, it's important to note that this net income growth includes a one-off gain from the sale of AlKhobar land. Moreover, STC has persisted in its investments in new domains, leading to an uptick in operating expenses for FY23, given that these invested companies are still in their startup phases. Looking ahead to 2024 and beyond, we anticipate continued growth driven by STC's ongoing investments across new domains, as well as its expansion of the 5G network and strategic partnerships with Red Sea Global, Diriyah, and Microsoft. Additionally, STC's collaboration with two Korean companies KT and Hyundai E&C, to spearhead the establishment of a leading digital infrastructure in Saudi Arabia. These partnerships and collaborations are expected to yield long-term benefits for STC. This places it among our top picks and considering these developments, coupled with substantial investment by the Saudi Government in the telecommunications sector, we are maintaining our **Buy** rating and retaining our target price at **SAR 48.4 per share**.

Valuation

STC is trading at 2024e P/E of 15.3x compared to the historical average 1-year forward P/E of 15.4x. Additionally, the stock is valued at EV/EBITDA multiple of 7.9x, based on the FY24 estimate, compared to the historical average of 7.8x.

Income Statement												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Sales/Revenue	17,034	18,179	18,327	18,106	17,725	17,979	4%	-2%	-1%	67,432	72,337	7%
Gross Profit (Loss)	9,029	9,355	9,133	10,388	8,929	10,016	-1%	-14%	-11%	37,393	37,804	1%
Operating Profit (Loss)	2,969	3,731	3,281	4,338	2,851	4,214	-4%	-34%	-32%	15,088	14,200	-6%
Net Profit (Loss) after Zakat and t	3,085	3,109	3,008	4,904	2,274	3,336	-26%	-54%	-32%	12,171	13,295	9%
Balance Sheet												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Shareholders' Equity	73,500	74,631	75,497	78,839	78,985	77,814	7%	0%	2%	73,500	78,985	7%
Key Ratios												
	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Gross Profit Margin	53.0%	51.5%	49.8%	57.4%	50.4%	55.7%				55.5%	52.3%	
Operating Profit Margin	17.4%	20.5%	17.9%	24.0%	16.1%	23.4%				22.4%	19.6%	
Net Profit Margin	18.1%	17.1%	16.4%	27.1%	12.8%	18.6%				18.0%	18.4%	
Return on Equity (RoE)	16.8%	16.7%	15.9%	24.9%	11.5%	17.1%				16.6%	16.8%	

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research


For our earlier report, please [click here](#).


Investment Research

Ubhar-Research@u-capital.net

Head of Research


Neetika Gupta


 +968 2494 9036

 neetika@u-capital.net


Research Team


Ahlam Al-Harathi

 +968 2494 9024


 ahlam.harathi@u-capital.net

Said Ghawas

 +968 2494 9034

 said.ghawas@u-capital.net


Amira Al Alawi


 +968 2494 9112

 amira.alalawi@u-capital.net

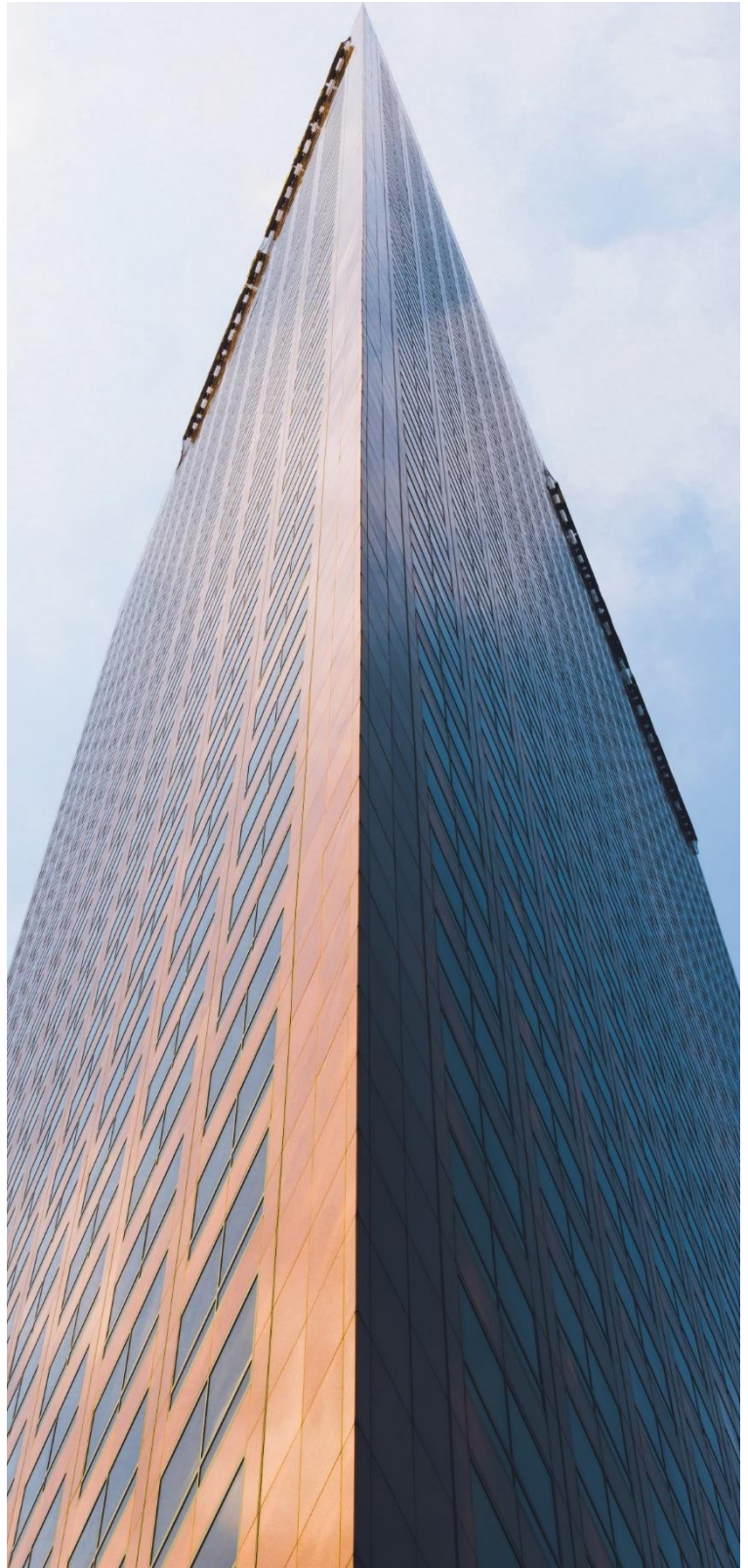
Head of Brokerage

Talal Al Balushi

 +968 2494 9051

 talal@u-capital.net

Visit us at: www.u-capital.net



Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net

PO Box 1137

PC 111, Sultanate of Oman

Tel: +968 2494 9000

Fax: +968 2494 9099

Email: research@u-capital.net

Disclaimer: This report has been prepared by Ubhar Capital (U Capital) Research, and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. All opinions and estimates included in this document constitute U Capital Research team's judgment as at the date of production of this report, and are subject to change without notice. This report may not be reproduced, distributed or published by any recipient for any other purpose.