

Saudi Telecom Co. (STC)

Strong operational results, muted net income growth on high base

6 May 2021

STC reported strong EBIT growth of 12.6% and 15.9%, respectively, thanks to double-digit revenue growth coupled with cost efficiencies. Net income growth, however, was muted due to a high base in Q1 2020. We remain positive on the company's growth prospects, but maintain our Neutral recommendation as we believe the positives are already priced in.

We maintain our **Neutral** recommendation for STC with a 52-week target price of **SAR 121.4/share**.

STC's revenues jumped by 12.6% Y-o-Y and 3.1% Q-o-Q to SAR15.7bn during Q1 2021 thanks to the growth in the broadband and Fixed Wireless Access subscriber base by 10.1%, Fiber to The Home (FTTH) by 26%, and data revenues by 4.5%, while the Enterprise revenues also hiked by 33.4% Y-o-Y as per management. Telecom revenues grew by 9.0% Y-o-Y and 0.2% Q-o-Q, while Channels by STC and other operating segments reported 14.8% and 14.2% Y-o-Y growth, respectively. Core telecom segment revenues continued to report above average growth despite the high base in 2020.

Gross profit increased by 4.4% Y-o-Y and 1.3% Q-o-Q to SAR8.6bn, while gross margins tightened to 54.5% vs 58.8% during Q1 2020 and 55.5% in Q4 2020. Saudi telecom segment margin lost 200 bps compared to Q1 2020, reaching 61% vs 63% in Q1 2020.

EBIT jumped by 15.9% Y-o-Y and 8.6% Q-o-Q to SAR3.5bn thanks to higher cost efficiencies as SG&A fell by 2.2% Y-o-Y. EBIT margin expanded to 22.2% vs 21.6% in Q1 2020.

Double-digit EBIT growth failed to filter through net income, however, which grew by only 1.4% Y-o-Y to SAR2.9bn due to a high base in Q1 2020, where non-operating income reported a gain of SAR496mn from the sale of Careem for the same quarter last year. As a result, net margins tightened to 19.1% during Q1 2021 vs 21.2% in Q1 2020 but improved from 17.2% in Q4 2020.

During the quarter, STC announced the distribution of an additional special dividend of SAR1.0/share for FY2020, bringing to the total dividend per share for FY2020 to SAR5.0/share. In line with its pre-announced dividends policy, STC announced the distribution of SAR1.0/share for Q1 2021, which represents a dividend yield (annualized) of 3.15% and a payout ratio of 67.6%.

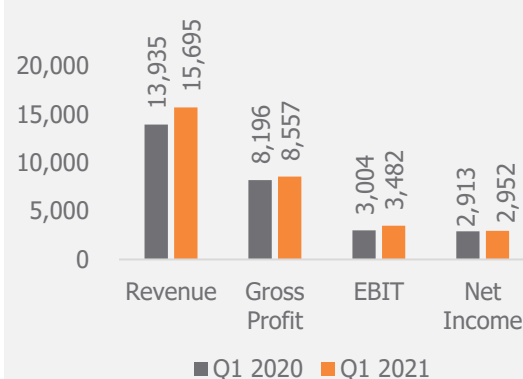
We valued STC based on DCF, DDM, and Multiples valuation, yielding target prices of SAR124.8, SAR98.0, and SAR134.8, respectively. STC's telecom segment is expected to continue to benefit from STC's heavy investments in 5G and fiber-optic, especially amid increased demand from the residential business amid COVID. Long term prospects remain promising as non-core segments mature and turn to profitability and capex requirements ease. We remain positive on the company's growth prospects, but maintain our Neutral recommendation as we believe the positives are already priced in.

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (05-05-2021)	SAR123.0
Target Price (52 Weeks)	SAR121.4
Upside/ (Downside)	-1.3%
Shariah Compliance	Pass

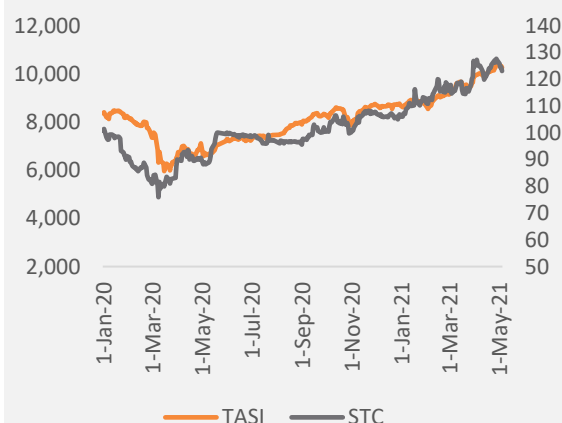
Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Revenue Growth	3.1%	2.3%	5.1%
Gross Margin	54.5%	55.5%	58.8%
EBIT Margin	22.2%	21.1%	21.6%
Net Margin	19.1%	17.2%	21.2%

Key Financial Results (Q1 2021)



Share Price Performance



Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of its value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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