January 30, 2018

Rating	Neutral
12- Month Target Price	SAR 73.00

Saudi Telecom Company (STC)

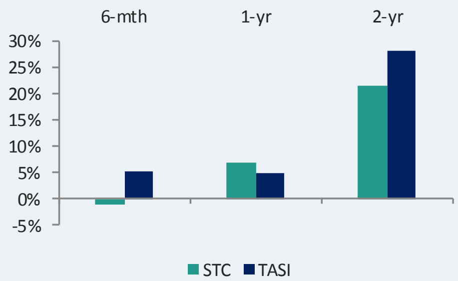
4Q2017 First Look

Expected Total Return	
Price as on Jan-29, 2018	SAR 72.70
Upside to Target Price	0.4%
Expected Dividend Yield	5.5%
Expected Total Return	5.9%

Market Data	
52 Week H/L	SAR 78.90 /64.50
Market Capitalization	SAR 145,400 mln
Shares Outstanding	2,000 mln
Free Float	16.14%
12-Month ADTV	294,221
Bloomberg Code	STC AB

1-Year Price Performance

Source: Bloomberg



4Q2017 (SAR mln)	Actual	RC Forecast
Revenue	12,494	12,643
Gross Profit	7,588	7,270
Net Income	2,649	2,404
EPS (SAR)	1.32	1.20

Efficiency Drives Profit

Maintaining its position as the sector leader, STC posted a net profit of SAR 2.6 billion, increasing by +27% Y/Y and +1% Q/Q; beat both our estimates and market consensus of SAR 2.4 billion. Revenue reached SAR 12.5 billion, +4% higher Y/Y but declined by -3% Q/Q. The increase in revenue Y/Y is explained by the increase in FTTH users, revenue from data as well as enterprises sales. Quarterly decline is due to shrinking market and has affected all operators. We attribute EPS deviation from our estimates primarily to gross margin expansion leading to an increase in gross profit and operating profit. STC posted a gross margin of 61%, rising by 300 bps on yearly basis and 100 bps on quarterly basis. Operating profits were up +61% Y/Y, helped by the Company's operating efficiency program, where it aims to optimize operational costs and rationalize spending. The increase can be traced to reduction of cost of services. We believe the management has illustrated its ability to control costs. We maintain our Neutral stance with a target price of SAR 73.00; await update on the subscribers' base and full financials to firm-up our view.

Topline posts a quarterly decline

Although it was a tough quarter for the whole sector, STC has managed to overcome it by putting more focus on other revenue streams, which reduced the effect of market retraction. The Company reported revenues of SAR 12.5 billion, increasing by +8% Y/Y by putting more focus on other revenue segments (FTTH, sales from enterprises and revenue from data). The -3% Q/Q decline can be attributed to the market retracting amid tough operating environment including allowing VoIP, which affected the revenue from international calls and expected decline in subscribers in the market.

Gross margins rise to 61%

STC reported a gross profit of SAR 7.6 billion, rising +8% Y/Y but declining by -1% Q/Q. Gross margin has reached 61%, increasing by 300 bps on yearly basis and 100 bps on quarterly basis. The company has managed to reduce the cost of services by SAR 279 million during the period. Operating efficiency program proved its effectiveness in 4Q as cost optimization measures were implemented. Operating profit has increased by +61% Y/Y to SAR 2.9 billion.

Net margin beats expectations

STC managed to register a net income of SAR 2.6 billion, just above our forecast as well as street estimates of SAR 2.4 billion. STC management has succeeded this quarter by diversifying its revenue sources as well as implementing cost optimization measures, which we expect to continue going forward. Although investors are still uncertain about the sector amid decline in subscriber base, we believe there are opportunities for all operators, which can offset the decline in the subscriber base. We await release of full financials as well as subscriber numbers to firm-up our view. For now, maintain our Neutral rating and a target price of SAR 73.00. Consistent dividend payout with a clear policy is an added attraction for the stock.

Key Financial Figures

FY Dec 31 (SAR mln)	2016A	2017E*	2018E
Revenue	51,833	53,678	54,580
Gross Profit	28,772	29,555	30,704
Net Profit	8,532	11,104	12,620
EPS (SAR)	4.95	5.09	6.31
DPS (SAR)	4.00	4.00	4.00

**preliminary data*

Key Financial Ratios

FY Dec 31	2016A	2017E	2018E
BVPS (SAR)	30.54	31.42	31.55
ROAE	13.9%	17.9%	20.0%
ROAA	8.6%	11.0%	12.6%
EV/EBITDA	7.8x	7.2x	6.8x
P/E	14.7x	14.3x	11.6x

Muhammad Faisal Potrik
muhammed.faisal@riyadcapital.com
+966-11-203-6807

Fahad K. Alasgah
fahad.k.al-asgah@riyadcapital.com
+966-11-203-6805

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

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.

الرياض المالية
riyad capital

RiyadCapital

إدارة الثروات - إدارة الأصول - الوساطة - المصرفية الاستثمارية

920012299
riyadcapital.com

شركة الرياض المالية تعمل بموجب ترخيص من هيئة السوق المالية برقم 37-07070 وسجل تجاري رقم 1010239234
الإدارة العامة: 6775 شارع التخصصي - العليا، الرياض 12331 - 3712