

**FY18 Results Update**

**February 18, 2019**

<b>Recommendation</b>	<b>Neutral</b>
Previous Recommendation	Neutral
Current Price (SAR)	101.2
Target Price (SAR)	96.1
Upside/Downside (%)	(5.0%)

As of February 17<sup>th</sup> 2019

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	202.4
52 Wk High (SAR)	103.8
52 Wk Low (SAR)	74.0
Total Outstanding shares (in bn)	2.0
Free Float (%)	16.2%

**STC vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	3.3%	(0.7%)
6m	24.3%	14.8%
12m	39.0%	22.7%

**Major Shareholders (%)**

Public Investment Fund	70.0%
General Org. For Social Insurance	7.0%
Public Pension Agency	6.77%

**Quarterly Revenue (SAR mn) and Operating Margin**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 17<sup>th</sup> February 2019

**Strong set of results led by rise in data revenue, decline in costs**

Saudi Telecom Co. (STC) posted a 7.7% YoY growth in net income in FY18, amounting to SAR 10.8bn, in line with rising revenue, decline in cost of sales, lower early retirement cost, and a reduction in selling and marketing expenses. Revenue grew 2.7% YoY, while cost of sales declined 2.7% YoY, resulting in improved gross profit. For 4Q18, operating profit expanded 21.1% YoY, despite higher selling, marketing, general and administration expenses, as the firm spent heavily on multiple campaigns to improve customer experience and on customer-centric initiatives. However, growth in operating profit was partially offset by a reduction in earnings from investments as STC recorded an impairment provision of SAR 168.0mn with respect to its investment in Binariang GSM Holdings. EPS came in at SAR 1.56 for the quarter, beating consensus estimates.

During the quarter, STC won the auction on frequencies organized and managed by Communications and Information Technology Commission (CITC) in the frequency band of 2,300 MHz for SAR 360.0mn. The new frequencies shall increase the capacity of the company's mobile network to meet the growing demand for services and also improve the speed and quality of Internet services. Additionally, with its efforts to steadily deploy fiber optics and invest in its digital payment platform, STC continues to attempt to tap into the kingdom's growing broadband population that increased significantly during the Hajj season. However, an industrywide decline in mobile subscriber base in the Kingdom could pose a challenge to the upside potential in the top line.

- STC's net revenue grew 2.7% YoY to SAR 52.1bn in FY18, largely supported by growth in data revenue (+5.6% YoY).
- Gross profit grew 6.9% YoY to SAR 30.6bn for FY18, in line with higher revenue. Consequently, gross margin improved to 58.7% in FY18 from 56.4% in FY17, led by a reduction in the cost of sales.
- Operating income grew 11.6% YoY to SAR 12.3bn, despite a rise in general, administrative and depreciation expenses. Operating margin improved to 23.5% during the year vis-à-vis 21.7% in FY17.
- Net income grew 7.7% YoY to SAR 10.8bn in FY18, as higher operating income was boosted by a decline in the cost of early retirement and lower selling and marketing expenses. The growth was, however, partially offset by losses in investments in associates and JVs.
- STC's Board recommended a 10% (SAR 1 per share) cash dividend for 4Q18 and an additional dividend of SAR 2 per share for year 2018. The company also announced a new dividend policy of maintaining a minimum SAR 1 per share of dividend on quarterly basis for three years and a special dividend subject to board approval.
- The company was the first to launch 5G services in the MENA region and continues to deploy a fiber optic network in the kingdom to provide a faster and high-quality network to customers. Such investments support the company's strategy of growth and digital transformation in-line with the Kingdom's 'Vision 2030'. Moreover, STC's investment arm, STC Pay, signed a memorandum of understanding (MoU) with the US-based MasterCard to provide international payment services, in line with STC's efforts to digitize payments.

**Valuation:** We revise our target price to SAR 96.1 while retaining our 'Neutral' rating on the stock. We believe the risks-rewards are balanced on the stock, considering the increasing competition and the decline in the subscriber base, which may negatively impact the earnings.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	13,166	12,503	5.3%	53,395	52,068	2.5%
Gross Profit (SAR mn)	8,651	7,348	17.7%	32,145	30,565	5.2%
EBITDA (SAR mn)	5,411	4,831	12.0%	21,271	19,857	7.1%
Net Profit (SAR mn)	3,116	2,555	22.0%	11,464	10,790	6.2%
EPS basic (SAR)	1.56	1.28	22.0%	5.73	5.40	6.1%
Gross Margin (%)	65.7%	58.8%	6.9%	60.2%	58.7%	1.5%
EBITDA Margin (%)	41.1%	38.6%	2.5%	39.8%	38.1%	1.7%
Net Profit Margin (%)	23.7%	20.4%	3.2%	21.5%	20.7%	0.8%

Source: Company Financials, FALCOM Research

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FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by 10%.

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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