Saudi Telecom Company

Higher Sales along with lower Zakat expense supported the bottom-line

Rating : BUY

First Look Note – 4Q21

Sector: Telecom

4Q21 profit missed our estimate

Saudi Telecom Company (STC) reported a slight increase by 0.8% YOY in Net Profit to SAR2,614 Mn in 4Q21, as compared to SAR2,592 Mn in 4Q20, missing our estimate. This increase was mainly due to higher Sales and lower Zakat expense and Selling & overhead expenses.

P&L highlights

Sales increased by 5.7% YOY to SAR16,087 Mn in 4Q21, up from SAR15,217 Mn in 4Q20. Furthermore, Direct Costs increased by 11.8% YOY to SAR7,572 Mn in 4Q21, up from SAR6,770 Mn in 4Q20. As a result, the Gross Profit barely increased by 0.8% YOY to SAR8,516 Mn in 4Q21, up from SAR8,447 Mn in 4Q20, with a Gross margin equal to 52.9% from 55.5% in 4Q20. Selling and Marketing Expenses decreased by 13.7% YOY to SAR1,128 Mn in 4Q21 from SAR1,307 Mn in 4Q20. While the General & Admin Expenses increased by 7.4% YOY to SAR1,621 Mn in 4Q21, as compared to SAR1,509 Mn in 4Q20. Therefore, the EBITDA stood at SAR5,767 Mn in 4Q21, which is an increase by 2.4% YOY from SAR5,630 Mn in 4Q20. Whereas the Depreciation and Amortization increased by 5.7% YOY to SAR2,563 Mn in 4Q21, as compared to SAR2,425 Mn in 4Q20. Thus, the Operating Profit remained stable YOY at SAR3,204 Mn in 4Q21. Moreover, the Other income/expense decreased by 6.8% YOY to SAR105 Mn in 4Q21, down from SAR113 Mn in 4Q20. Zakat and Income tax declined by 35.4% YOY to SAR270 Mn in 4Q21, down from SAR418 Mn in 4Q20.

Balance sheet highlights

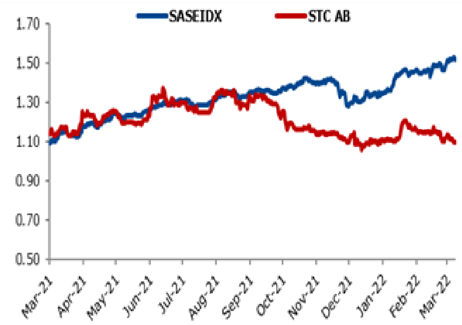
The Total Assets increased by 4.8% YOY to SAR127.78 Bn in 4Q21, up from SAR121.97 Bn in 4Q20. Total Liabilities slightly declined by 0.5% YOY to SAR56.4 Bn in 4Q21, down from SAR56.71 Bn in 4Q20. Total equity increased by 9.4% YOY to SAR71.4 Bn in 4Q21, as compared to SAR65.3 Bn in 4Q20.

Target price and rating

We maintain our BUY rating on STC with a Target Price of SAR135.0. Saudi Telecom Company (STC) is known as one of the most valuable telecom brands in Middle East with SAR39.77 Bn in Total Value. The Company witnessed a successful year in 2021. The Revenue increased strongly by 7.6% YOY to SAR63.4 Bn in 2021, up from SAR59 Bn in 2020. The Company mainly reports Revenue via three segments – STC, Channels by stc and Other Operating segments. STC segment drives the Total Revenue with 72% of the Total value. The Channels by stc increased the most and contributed SAR3.10 Bn in 2021. The stc KSA seg-

Recommendation	
Current price (08-March)	111.60
Target price	135.00
Upside/(Downside) (%)	+21%

Stock Information	
Market Cap (SAR mm)	223,200.00
Paid Up Capital (USD)	20,000.00
52 Week High	139.80
52 Week Low	103.20
3M Avg. daily value	394,254,400



Financial Ratios	
Dividend Yield (12month)	4.48
Dividend Payout	70.62
Price-Earning Ratio	19.76
Price-to-Book Ratio	3.22
Book Value	34.68
Return-on Equity	16.98
Earning Per Share	5.66
Beta	0.79

Stock Performance	
5 Days	-2.28%
1 Months	-3.96%
3 Months	1.45%
6 Months	-17.58%
1 Year	-3.53%
Month to Date (%)	-2.11%
Quarter to Date (%)	-0.71%
Year to Date (%)	-0.71%

ment added SAR2.55 Bn and Other Operating segment another SAR2.03 Bn in 2021. Around 92.1% of the Total Revenue is generated from KSA, that is domestic operations, and the balance is from International Operations. The Cost of Revenue increased strongly by 18.5% YOY to SAR29.6 Bn in 2021, up from SAR25 Bn in 2020. As a result, the Gross Profit declined slightly by 0.5% YOY to SAR33.8 Bn in 2021, down from SAR34 Bn in 2020. The growth in Cost of Revenue outweighed the growth in Sales and contracted the Gross Profit. As a result, the Gross Profit Margin declined by 431 bps to 53.3% in 2021, down from 57.6% in 2020. The EBITDA increased by 3.4% YOY to SAR22.8 Bn in 2021, up from SAR22 Bn in 2020. It was mainly due to reduction in both Selling and General Expenses by 9.8% YOY and 5.5% YOY, respectively. The cost optimization strategies implemented by the Company supported the profitability. The Depreciation and Amortization charges increased by 3.8% YOY to SAR9.7 Bn in 2021, up from SAR9.4 Bn in 2020. As a result, the Operating Profit increased by 3.1% YOY to SAR13.1 Bn in 2021, up from SAR12.7 Bn in 2020. However, the Operating Margin declined by 89 bps to 20.7% in 2021, down from 21.6% in 2020. Profit before Zakat increased by 2.3% YOY to SAR12.6 Bn in 2021, up from SAR12.4 Bn in 2020. It was driven by strong increase in Other Expenses by 52.1% YOY to SAR252 Mn in 2021, up from 165 Mn in 2020. The Zakat charges declined by 11.1% YOY to SAR1 Bn in 2021, down from SAR1.2 Bn in 2020. The NCI contribution strongly increased by 48.9% YOY to SAR283 Mn in 2021, up from SAR190 Mn in 2020, due to rebound in business operations and profitability in 2021. As a result, the Net Profit to Shareholders increased by 2.9% YOY to SAR11.3 Mn in 2021, up from SAR 11 Bn in 2020. The Net Profit Margin contracted by 81 bps to 17.8% in 2021, down from 18.7% in 2020. The Total Capex declined to SAR8.2 Bn in 2021, down from SAR10.84 Bn in 2020. As a result, the Capex to Revenue ratio declined to 12.95% in 2021, down from 18.39% in 2020. The performance metrics have declined slightly in 2021. The ROA stood at 8.85% in 2021, down from 9.01% in 2020. Similarly, the ROE metric declined to 16.33% in 2021, down from 17.19% in 2020. However, the Free Cash Flow has increased by 30% YOY to SAR14.63 Bn in 2021, up from SAR11.25 Bn in 2020. The Debt-to-Equity ratio declined slightly to 13.43% in 2021, down from 13.99% in 2020. The Long-Term borrowings declined in 2021, however, the Company increased its Short-Term debt obligations.

On the Business front, the Company operates via three business units - The Enterprise Business Unit, The Consumer Business Unit and The Wholesale Business Unit. The Revenue generated from the Enterprise Business Unit increased strongly by 20.9% YOY due to strong rebound in consumer demand from public and private sectors. Similarly, the Consumer Business Unit witnessed a strong increase in the Residential segment Revenues by 10.5% mainly due to FTTH and Fixed wireless access subscribers. Lastly, the Revenue from the Wholesale Business Unit increased by 2.9%. It was driven by stc's infrastructure investments to aid the growth in the Company's services. The Solutions by stc IPO in 2021 witnessed an overall coverage of 130 times and successful subscription in the Saudi Markets. It was met with very high demand in the region. The Enterprise business sector added an Advanced Tech and Cyber security company launched by stc to provide services in the sector. During 2021, stc launched a digital hub known as MENA hub with an investment of USD1 Bn. It ensures stc's market position in the region and the ICT sector. Under the DARE strategy, the Company witnessed growth via stcpay which availed digital banking license to operate as a digital bank. The segment has 8 million registered users and around 3 million cards were subscribed by the customers. The annual EPS grew to SAR5.66 per share in 2021, up from SAR5.50 per share in 2020. The Dividend Payout Ratio declined to 70.67% in 2021, down from 72.73% in 2020, the Dividend Yield is 3.6% in 2021. The Company demonstrates healthy cash flow and stable financial position with regular dividend payments. It announced interim cash dividends worth SAR1.99 Bn for 4Q21. Based on our analysis we assign a BUY rating on the stock.

STC - Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	22.16	20.59	20.83	20.18	19.61
P/B (x)	3.53	3.39	3.59	3.47	3.20
Dividend yield	3.6%	3.6%	3.6%	3.6%	3.6%

FABs Estimate & Co Data

STC - P&L

SAR mm	4Q20	3Q21	4Q21	4Q21F	Var	YOY Ch	QOQ Ch	2,020	2,021	Change
Sales	15,217	15,735	16,087	16,313	-1.4%	5.7%	2.2%	58,953	63,417	7.6%
Direct costs	-6,770	-7,366	-7,572	-7,635	-0.8%	11.8%	2.8%	-24,999	-29,623	18.5%
Gross profit	**8,447**	**8,369**	**8,516**	**8,679**	**-1.9%**	**0.8%**	**1.8%**	**33,954**	**33,794**	**-0.5%**
Selling & overhead expenses	-1,307	-1,466	-1,128	-1,560	-27.7%	-13.7%	-23.1%	-6,054	-5,463	-9.8%
General & admin Exp.	-1,509	-1,298	-1,621	-1,235	31.2%	7.4%	24.9%	-5,811	-5,490	-5.5%
EBITDA	**5,630**	**5,606**	**5,767**	**5,884**	**-2.0%**	**2.4%**	**2.9%**	**22,090**	**22,841**	**3.4%**
Depreciation & amortization	-2,425	-2,414	-2,563	-2,410	6.4%	5.7%	6.2%	-9,359	-9,713	3.8%
Operating profit (EBIT)	**3,205**	**3,192**	**3,204**	**3,474**	**-7.8%**	**0.0%**	**0.4%**	**12,731**	**13,128**	**3.1%**
Other income/(expenses)	-113	39	-105	-114	-7.5%	-6.8%	NM	-165	-252	52.1%
Finance Income	92	86	100	103	-3.2%	8.8%	16.6%	414	378	-8.7%
Financial charges	-146	-153	-175	-156	11.9%	19.5%	14.3%	-624	-619	-0.8%
Profit before zakat	**3,038**	**3,164**	**3,024**	**3,308**	**-8.6%**	**-0.5%**	**-4.4%**	**12,356**	**12,635**	**2.3%**
Zakat	-418	-196	-270	-225	19.7%	-35.4%	37.9%	-1,170	-1,040	-11.1%
Profit before NCI	**2,621**	**2,968**	**2,754**	**3,082**	**-10.6%**	**5.1%**	**-7.2%**	**11,185**	**11,595**	**3.7%**
NCI	-28	-44	-141	-53	NM	NM	NM	-190	-283	48.9%
Profit attributable	**2,592**	**2,924**	**2,614**	**3,029**	**-13.7%**	**0.8%**	**-10.6%**	**10,995**	**11,311**	**2.9%**

FABS estimate & Co Data

STC- Margins

SAR mm	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2,020	2,021	Change
Gross margin	55.5%	53.2%	52.9%	-257	-25	57.6%	53.3%	-431
Operating margin	21.1%	20.3%	19.9%	-115	-37	21.6%	20.7%	-89
Net profit margin	17.0%	18.6%	16.2%	-79	-234	18.7%	17.8%	-81

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

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