



STC posted net income of SAR 2.4bn, below AJC and consensus estimate of SAR 3.1bn and SAR 2.8bn, respectively. The bottom line was primarily affected by the SAR 928mn Y/Y increase in operating expense primarily due to higher depreciation and amortization owing to investments in 5G, fiber optics, and software & systems, in addition to the cost of re-branding and acquiring customers. Revenue grew 0.4% Y/Y, in-line with our estimates. We maintain our recommendation of “Overweight” on the stock with a TP of **SAR 112.2/share**.

- STC registered net income of SAR 2.4bn in Q4-19, below AJC's and the market consensus estimates of SAR 3.1bn and SAR 2.8bn, respectively. The deviation of Q4-19 net income from our estimates is mainly on account of higher-than-expected depreciation and amortization as company invested heavily in 5G, fiber optics, cloud services and software. In addition, STC bore majority of the cost for re-branding in Q4-19. A minor part of the re-branding expenditure would be realized in H1-20.
- STC's sales in Q4-19 stood at SAR 13.3bn, reflecting an increase of 0.4% Y/Y, in-line with our estimate of SAR 13.6bn. STC deployed more than 2,300 5G towers in FY19 and expanded its fiber optic network to 217,000 km. FTTH customers rose 23%, while STC Pay subscribers reached 500,000 by the end of FY19. As part of its strategy, the company intends to expand its footprint in MENA through a controlling stake in an operator.
- Gross profit decreased to SAR 8.4bn (-1.7% Y/Y) as cost of revenue rose by SAR 204mn on a lower base, as a fee reversal of SAR 579mn was registered in Q4-18. The gross profit margin contracted to 63.1% in Q4-19 from 64.5% in Q4-18, in-line with our estimate of 62.5%. STC expects pricing dynamics to remain unchanged in FY20.
- Operating profit came in at SAR 2.4bn, representing a decline of 30.9% Y/Y, driven by SAR 928mn Y/Y increase in operating expense. Depreciation and amortization rose 36% Y/Y in Q4-19 due to continuous investment in 5G and fiber optics; the trend is expected continue in FY20 and FY21.
- The financial impact of STC's 8.88% direct stake in Careem after Uber's acquisition is expected in Q1-20.

**AJC view:** STC's net profit was below our expectations mainly due to SAR 928mn increase in operating expenses. Operating costs are likely to remain high over the next two years. We believe the company's continuous investments in infrastructure and technologies have started paying off in the form of an increase in mobile and fiber optics subscribers as well as growth in data revenue, supporting the company's top line. Additionally, with the expansion of 5G and FTTH networks and potential from STC Pay, the company is well positioned to tap opportunities in the IoT, cloud, 5G, and enterprise solution segments. We maintain our recommendation of “Overweight” on STC with a TP of **SAR 112.2/share**.

## Results Summary

SARmn (unless specified)	Q4-18	Q3-19	Q4-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	13,215	14,114	13,273	0.4%	-6.0%	-2.7%
Gross Profit	8,520	7,921	8,375	-1.7%	5.7%	-1.7%
Gross Margin	64.5%	56.1%	63.1%	-	-	-
EBIT	3,476	3,328	2,403	-30.9%	-27.8%	-30.6%
Net Profit	3,106	2,746	2,411	-22.4%	-12.2%	-22.5%

Source: Company reports, Aljazira Capital

## Overweight

Target Price (SAR) **112.2**

Upside / (Downside)\* **23.4%**

Source: Tadawul \*prices as of 28<sup>th</sup> of January 2020

## Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenue	51,963	54,376	56,777
Growth %	1.8%	4.6%	4.4%
Net Income	10,780	10,755	12,618
Growth %	5.9%	-0.2%	17.3%
EPS	5.39	5.38	6.31

Source: Company reports, Aljazira Capital

## Key Ratios

SARmn (unless specified)	FY18	FY19	FY20E
Gross Margin	58.6%	59.6%	59.4%
Net Margin	20.7%	19.8%	22.2%
P/E	17.0x	16.0x	14.6x
P/B	2.8x	2.6x	2.5x
EV/EBITDA (x)	9.5x	9.9x	9.6x

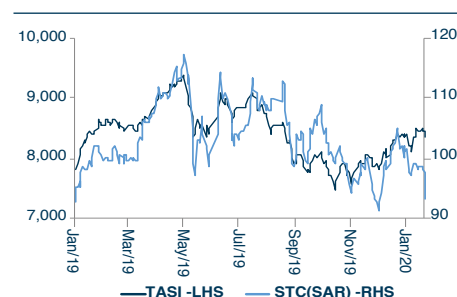
Source: Company reports, Aljazira Capital

## Key Market Data

Market Cap(bn)	183.6
YTD%	-10.7%
52 week (High)/(Low)	117.4/90.5
Share Outstanding (bn)	2.0

Source: Company reports, Aljazira Capital

## Price Performance



Source: Tadawul, Aljazira Capital

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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