



Event Update – STC pay gets approval to become a digital bank from the Saudi Council of Ministers

The Saudi Cabinet approved digital banking licenses to two entities – STC pay and Saudi Digital Bank on June 22, 2021. STC pay will convert into STC bank with paid-up capital of SAR 2.5bn. The approval is subject to the completion requirements of SAMA and relevant authorities.

STC to retain 85% stake in STC pay with additional capital infusion

STC pay's capital currently stands at SAR 948mn, which increased from SAR 400mn after conversion of STC's loan worth SAR 148mn to share capital and infusion of SAR 400mn capital by STC. As announced earlier in November 2020, STC will inject additional SAR 802mn to retain its 85% stake in STC pay's share capital.

Western Union to invest SAR 750mn for 15% share in STC pay

Western union signed a deal with STC in November 2020 to buy 15% stake in STC pay. Western Union will invest SAR 750mn through a wholly-owned subsidiary. This gives a first-round valuation of SAR 5bn to STC Pay/STC bank, that is 2x paid-up capital.

Shareholding structure of STC bank:

Investor	Investment	Ownership
STC	SAR 1,750mn	85%
Western Union Company	SAR 750mn	15%

Source: Company announcements

AJC view and valuation: We believe that approval of digital banking license is a big boost to STC pay and STC. STC pay would be able to leverage its experience of operating the largest digital wallet in the region and rapidly growing customer base. Further, association with Western Union, a global player, would help the company to expand its reach. We remain positive on STC due to its bright long-term prospects and potential value unlock through listing of subsidiaries. The company has already announced the IPO of its subsidiary Solutions by STC, and we believe that some of the company's other subsidiaries including STC Pay stand a good chance of being listed in future. Thus, STC's shareholders are likely to benefit from the potential unlocking of value through the listing of its subsidiaries. Moreover, the company's continuous investment in developing strong infrastructure for 5G technology, cloud computing, and the Internet of things makes it a leading contender to grab opportunities arising from expected increase in data demand with growing adoption of 5G. We maintain our **"Overweight"** rating on the stock and TP of **SAR 142.9/share**. The stock is currently trading at P/E of 22.9x and P/B of 4.0x based on our FY22 estimates. The stock yields 3.8% dividend yield as per our FY22 estimates.

Overweight

Target Price (SAR) 142.9

Upside / (Downside)* 7.6%

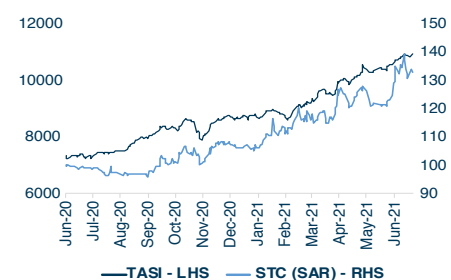
Source: Tadawul *prices as of 22nd of June 2021

Key Market Data

Market Cap (SAR bn)	264
YTD%	25.3%
52-week (High)/(Low)	139.8/94.0
Share Outstanding (mn)	2,000

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- 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.
- 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.
- 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.
- 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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