

Saudi Telecom Co. (STC)

Target Price: SAR 48.0/share
Upside: 15.4%

Recommendation

Buy

Current Market Price (SAR)	41.6
52wk High / Low (SAR)	46.0/34.0
Mkt. Cap. (USD/SAR Mn)	55,032/206,500
Shares Outstanding (mn)	5,000.0
Free Float (%)	35.7%
3m Average Vol. (000)	3,511.0
3m Avg Daily Turnover (SAR'000)	136,166
Dividend Yield '24e (%)	3.8%
P/E'24e (x)	15.4
EV/EBITDA'24e (x)	7.5

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Revenue	63,008	67,432	73,161	77,063
Gross profit	33,794	37,393	38,409	40,150
GPM (%)	54%	55%	53%	52%
EBIT	13,128	15,088	14,506	15,226
EBIT margin (%)	21%	22%	20%	20%
EBITDA	22,841	25,079	25,021	26,201
EBITDA margin (%)	36%	37%	34%	34%
Net Income	11,311	12,171	13,745	13,545
Net margin (%)	18%	18%	19%	18%
EPS (SAR)	2.26	2.43	2.75	2.71
RoE (%)	16%	16%	17%	15%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Public Investment Fund	64.00%
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Source: Bloomberg, Yaqeen Capital

Earnings surged on one-off gains; muted on adjusted basis

- STC net income jumped by 38.5% YoY (+63.0% QoQ) to SAR 4,904mn primarily driven by one-off gain of SAR 1,296mn related to disposal of Al Khobar land in 3Q2023. The net margin improved to 27.1% (+5.6ppts YoY, +10.7ppts QoQ) in 3Q2023. Excluding this one-off item, adjusted net income increased by 1.9% YoY to SAR 3,608mn in 3Q2023.
- Revenue was up by 11.0% YoY; however, it experienced a 1.2% QoQ decline, reaching SAR 18,106mn in 3Q2023. For 9M2023, revenue came higher by 9.1% YoY, hitting SAR 54,612mn a record level for this period. This growth was fueled by the Commercial, Carrier & Wholesale unit, and group subsidiaries.
- Gross profit of SAR 10,388mn, registering growth of 3.5% YoY and 13.7% QoQ in 3Q2023, however, gross margin declined to 57.4% (-4.2ppts YoY, +7.5ppts QoQ).
- Operating income decreased by 5.2% YoY (+32.2% QoQ) to SAR 4,338mn due to a rise in operating expenses (+10.7% YoY, +3.4% QoQ) in 3Q2023. Consequently, the operating margin came lower by 4.1ppts YoY (+6.1ppts QoQ) to 24.0% in 3Q2023.
- In 3Q2023, EBITDA reached SAR 6,952mn, with a decline of 1.7% YoY (+19.4% QoQ) with corresponding margin of 38.4% (-5.0ppts YoY, +6.6ppts QoQ).
- Finance costs surged by 64.8% YoY (+22.9% QoQ) to SAR 304mn in 3Q2023 largely on account of a sharp rise in total debt to SAR 22,236mn compared to SAR 10,212mn in 3Q2022.
- Mobile subscribers base rose by 9.1% YoY to 25.60mn (Prepaid: ~74%, Postpaid: ~22% and others: ~4%) while fixed subscribers count dropped slightly to 5.55mn (-0.2% YoY) in 3Q2023 for STC KSA.
- For 9M2023, net income increased by 17.1% YoY to SAR 11,021mn and net margin improved to 20.2% compared to 18.8% in 9M2022.

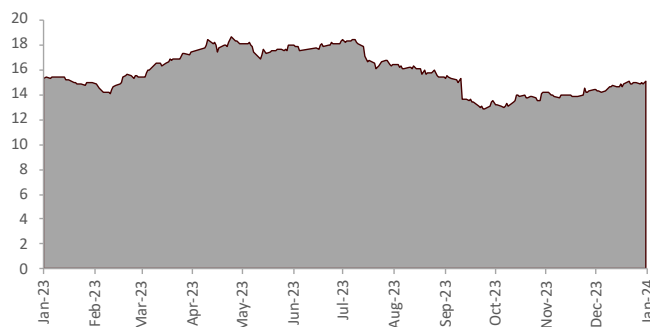
Outlook & Valuation: Saudi Arabia boasts a favorable demographic profile, characterized by a burgeoning and youthful population, rising income levels among locals, and widespread smartphone usage. These factors contribute to a robust demand for data services, further amplified by the increasing corporate emphasis on digitalization, thereby boosting the need for advanced telecom solutions. As the market leader in KSA, STC, with its solid financial standing and continuous network expansion, is strategically positioned to capitalize on the enduring trends in the domestic market over the medium to long term. Moreover, the company's strategic investments, such as the SAR 8.5 billion investment in Telefonica group and the acquisition of tower operations in Europe, are expected to support incremental growth in the coming years. Based on DCF valuation, we arrive at a fair value of SAR 48.0/share, offering a strong upside of 15.4% from the current level. Hence, we recommend a Buy rating on the stock.

Financial Summary

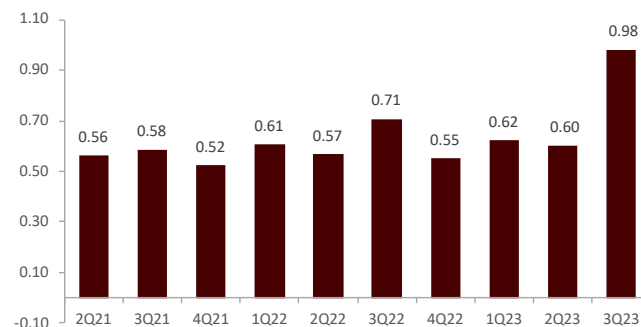
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	18,106	16,308	11%	18,327	-1%
Gross profit	10,388	10,040	3%	9,133	14%
GPM (%)	57%	62%		50%	
EBIT	4,338	4,576	-5%	3,281	32%
EBIT margin (%)	24%	28%		18%	
EBITDA	6,952	7,073	-2%	5,821	19%
EBITDA margin (%)	38%	43%		32%	
Net Income	4,904	3,541	38%	3,008	63%
Net margin (%)	27%	22%		16%	
EPS (SAR)	0.98	0.71	38%	0.60	63%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

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

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

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