

SAUDI TELECOM CO.

الأهلي كابيتال
NCB Capital

EVENT FLASH

Weak revenues mitigated by Opex efficiencies

STC reported a 3Q17 net income of SR2.6bn, increasing 18.2% YoY and 10.3% QoQ. This is higher than the NCBC and consensus estimates of SR2.3bn. We believe the lower than expected revenues were mitigated by an expansion in gross margins and lower Opex.

- Revenues declined 8.5% YoY and 2.8% QoQ to SR12.8bn. This is 4.9% lower than our estimates. We believe this is due to the impact of the finger print initiative and general the slowdown in economic activity. Mobily's revenues declined 4.3% YoY, while Zain's grew 10.6% YoY. Based on CITC, mobile subscribers stood at 43.6mn in 2Q17, representing a penetration rate of 137%. This is lower than 151% in 2016 and 168% in 2015.
- Gross profit was SR7.7bn (up 7.5% YoY and 5.0% QoQ), and came in broadly in-line with our estimates of SR7.4bn. Gross margin stood at 59.6%, higher than our estimate of 54.6% and 50.7% in 3Q16.
- EBITDA stood at SR5.0bn, reflecting an EBITDA margin of 38.8% higher than our estimate of 33.1%. This is highest margin since 2Q15. Operating income came-in at SR3.0bn in 3Q17, 22.3% higher than our estimate. We believe the variance is due to lower than expected SG&A which may reflect STC's initiative to control costs to improve profitability.
- Higher non-opex partially mitigated the improvement in EBIT. Based on our estimates, income from international operations was SR88mn vs a profit of SR93mn in 2Q17. Moreover, we believe non-opex came in at SR333mn vs our estimate of SR108mn and compared to SR226mn in 2Q17.
- CITC announced the 3rd revision in interconnection charges between mobile operators, starting December 2017. Charges for mobile calls per minute were reduced by 45% to SR0.055 from SR0.10 while land line charges will decline to SR0.021 from SR0.045. CITC stated that higher competition and lower end-user prices are the main reasons for the revision.
- In October 2017, STC announced that Oman Telecommunications Regulatory Authority decided not to proceed with the award process for the 3rd telecom license in the country.
- We are Neutral on STC with a PT of SR72.1. A strong balance sheet and attractive dividend yield of 6.1% are the key advantages. Moreover, progress in tower sale is the key catalysts going forward.

3Q17 Results Summary

SR mn	3Q17A	3Q16A	% YoY	3Q17E	%Var^	% QoQ
Revenues	12,835	14,026	(8.5)	13,498	(4.9)	(2.8)
Gross income	7,650	7,117	7.5	7,370	3.8	5.0
Gross margin (%)	59.6%	50.7%	8.86	54.6%	5.00	4.44
EBITDA	4,985	4,392	13.5	4,468	11.6	7.5
EBITDA Margin (%)	38.8%	31.3%	7.53	33.1%	5.74	3.72
Net income	2,621	2,217	18.2	2,307	13.6	10.3

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

NEUTRAL

Target price	72.1
Current price (SR)	65.2
Upside/Downside (%)	10.5

STOCK DETAILS

52-week range H/L (SR)	77/58
Market cap (\$ mn)	34,836
Shares outstanding (mn)	2,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.9)	(12.1)	11.1
Rel. to market	(1.3)	(8.1)	(6.4)

Avg daily turnover (mn)	SR	US\$
3M	15.8	4.2
12M	33.3	8.9

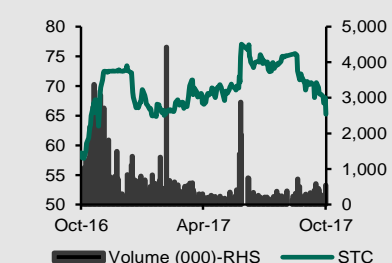
Reuters code	7010.SE
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	14.7	13.5	12.6
P/B (x)	2.2	2.1	2.0
EV/EBITDA (x)	7.2	6.9	6.7
Div Yield (%)	6.1	6.1	6.1

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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