October 30, 2018

الرياض المالية
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Rating	Neutral
12- Month Target Price	SAR 78.00

Saudi Telecom Company (STC)

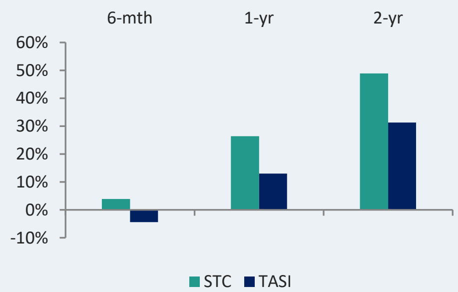
3Q2018 First Look

Expected Total Return	
Price as on Oct -29, 2018	SAR 86.00
Upside to Target Price	(9.3%)
Expected Dividend Yield	4.7%
Expected Total Return	(4.7%)

Market Data	
52 Week H/L	SAR 93.40/65.10
Market Capitalization	SAR 172,000 mln
Shares Outstanding	2,000 mln
Free Float	16.2%
12-Month ADTV	319,106
Bloomberg Code	STC AB

1-Year Price Performance

Source: Bloomberg



3Q2018 (SAR mln)	Actual	RC Forecast
Revenue	13,333	13,234
Gross Profit	7,805	7,306
Net Income	2,643	2,629
EPS (SAR)	1.32	1.31

EPS Meets Expectations

Saudi Telecom Company (STC) posted a +3% Y/Y and +8% Q/Q increase in net income to SAR 2.64 billion (EPS SAR 1.32), meeting our forecast of SAR 2.63 billion. Revenues have come in strongly at SAR 13.3 billion, also in line with our expectations of SAR 13.2 billion. Topline grew by +6% Y/Y and +1% Q/Q due to higher data prices and significant contribution from the last Hajj season. Growth in the Enterprise and Wholesale business segments has also helped revenues. Gross profit reached SAR 7.8 billion, rising by +5% Y/Y and +10% Q/Q. The stock currently trades at a 2018E PE of 16.5x as compared to TASI's 14.7x. We raise our target price to SAR 78.00 from SAR 73.00 earlier but maintain a Neutral rating.

Gross profit rises +10% Q/Q

STC posted revenues of SAR 13.3 billion for the third quarter in line with our estimates of SAR 13.2 billion, growing +6% Y/Y and +1% Q/Q. The Company was able to expand gross margins by 450bps Q/Q to 59%, although this was 100bps lower Y/Y. Gross profit was recorded at SAR 7.8 billion, up +5% Y/Y and +10% Q/Q. STC benefitted this quarter from rising data prices coupled with significant contribution from the Hajj season while growth in the Enterprise and Wholesale segments also helped.

Operating income reaches SAR 3.2 billion

Operating income came in at SAR 3.2 billion, up +11% Y/Y and +12% Q/Q despite higher operating expenses. Operating expenses increased by SAR 358 million on a quarterly basis, mainly due to a rise in general & administrative expenses and depreciation & amortization of SAR 245 million and SAR 120 million respectively. The SAR 76 million rise in operating expenses on a yearly basis is a consequence of an increase in general & admin and depreciation expenses, partly offset by a decline in selling and marketing expenses. Operating margin has expanded to 24% from 22% in the previous quarter and 23% last year.

Net income up +3% Y/Y

STC reported a net income of SAR 2.64 billion (up +3% Y/Y and +8% Q/Q), which matched our forecast of SAR 2.63 billion and was close to street estimates of SAR 2.53 billion. Growth in bottom-line was driven by a rise in revenues despite facing higher financial charges and in early retirement costs. Zakat provisions increased to SAR 221 million as compared to SAR 173 million last year. Net margin has risen by 100bps Q/Q to 20% but is down from 21% in 3Q2017.

Target price raised to SAR 78.00

STC's overall performance is praiseworthy given they have faced the brunt of the reduction in mobile termination rates and also been exposed to sector wide challenges such as the imposition of VAT and lifting of the ban on VoIP calls. The stock currently trades at a 2018E PE of 16.5x as compared to TASI's 14.7x. We maintain our Neutral stance but raise our target price to SAR 78.00 from SAR 73.00.

Key Financial Figures

FY Dec 31 (SAR mln)	2017A	2018E	2019E
Revenue	50,746	51,136	51,775
Gross Profit	29,491	28,994	30,030
Net Profit	10,133	10,426	10,818
EPS (SAR)	5.07	5.21	5.41
DPS (SAR)	4.00	4.00	4.00

Key Financial Ratios

FY Dec 31	2017A	2018E	2019E
BVPS (SAR)	31.62	32.43	33.43
ROAE	16%	16%	16%
ROAA	23%	23%	23%
EV/EBITDA	9.7x	9.5x	9.0x
P/E	16.9x	16.5x	15.9x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

** The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors*

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