

Saudi Telecom Co. (STC) - 1Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation:

Hold

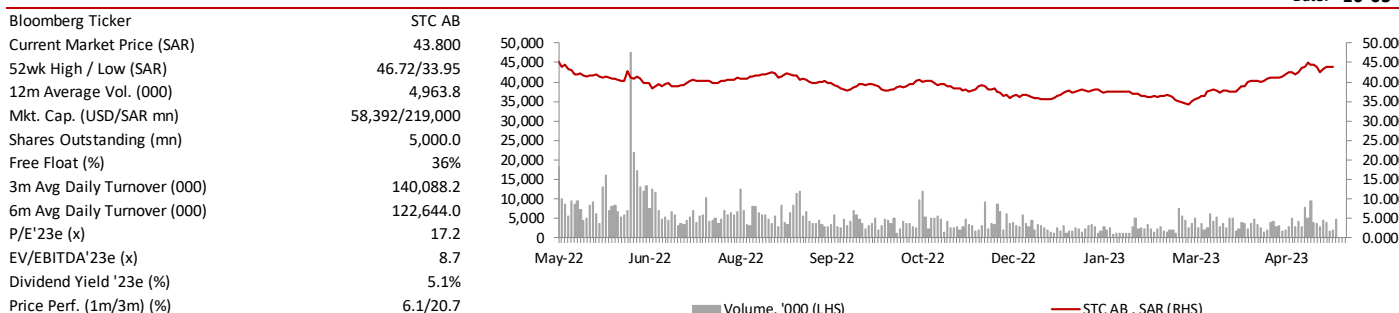
Target Price (SAR): 38.40

Previous Reco. & Date:

TP: SAR 38.40 per share; Hold on 13-Dec-2022

Upside / (Downside): -12.3%

Date: 10-05-2023



Revenue beats U-Capital's estimates

The company reported Q1 2023 revenue of SAR 18,179mn (7.45% y-o-y), which was above U-Capital's estimate of SAR 17,382mn. The deviation from our estimate was largely due to positive revenue contributions from the group's subsidiaries, which grew by 29%.

Gross profit aligns with estimates; increased G&A expenses impact Operating profit

The company's gross profit for the quarter was SAR 9,355mn, in line with our estimated figure of SAR 9,473mn. Additionally, the operating profit of SAR 3,731mn fell slightly below our estimated figure of SAR 3,890mn. The deviation was due to increased general and administrative expenses, which were allocated for strategic investments aimed at growth and expansion into new domains.

Net income misses estimates

The company's net income for the quarter was SAR 3,109mn, falling below our estimated figure of SAR 3,331mn. The deviation was primarily due to an increase in Zakat and income tax expenses.

Maintain target price

We believe that the telecom sector will continue to experience strong growth in the future. Furthermore, STC is expanding its presence in Europe through its subsidiary, TAWAL. We maintain a 'Hold' rating on the stock.

Income Statement												
(SAR mn)	1Q22	2Q22	3Q22	4Q22	1Q23	1Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23e	YoY (%)
Sales/Revenue	16,919	16,939	16,468	17,034	18,179	17,382	7%	7%	5%	67,432	70,727	5%
Gross Profit (Loss)	9,150	9,174	10,040	9,029	9,355	9,473	2%	4%	-1%	37,393	38,019	2%
Operating Profit (Loss)	3,824	3,720	4,576	2,969	3,731	3,890	-2%	26%	-4%	15,088	14,640	-3%
Net Profit attributable to sharehoders	3,035	2,837	3,541	2,757	3,109	3,331	2%	13%	-7%	12,171	12,698	4%
Balance Sheet												
(SAR mn)	1Q22	2Q22	3Q22	4Q22	1Q23	1Q23e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	70,367	71,786	73,331	73,500	74,631		6%	2%				
Key Ratios												
	1Q22	2Q22	3Q22	4Q22	1Q23	1Q23e						
Gross Margin	54%	54%	61%	53%	51%	55%						
Operating Profit Margin	23%	22%	28%	17%	21%	22%						
Net Profit Margin	18%	17%	22%	16%	17%	19%						
Return on Equity (RoE)	17%	16%	19%	15%	17%							

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report on the sector, please [click here](#).

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%