

3Q19 Results Update

November 6, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	96.5
Target Price (SAR)	104.0
Upside/Downside (%)	7.8%

As of November 6th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	193.0
52 Wk High (SAR)	117.4
52 Wk Low (SAR)	80.0
Total Outstanding shares (in bn)	2.0
Free Float (%)	23.1%

STC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(8.1%)	(5.4%)
6m	(14.6%)	(0.3%)
12m	14.9%	15.7%

Major Shareholders (%)

Public Investment Fund	70.0%
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Quarterly Revenue (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 6th November 2019

Rise in direct costs offset gains from higher revenues

Saudi Telecom Co. (STC)'s revenue surged 6.0% YoY and 3.7% QoQ to SAR 14.1bn in 3Q19 owing to a higher revenue contribution from the consumer and wholesale business units, as well as a higher share of profit from subsidiaries. This was the highest quarterly revenue since 1Q12. Gross profit marginally rose 0.9% YoY to SAR 7.9bn, capped by an increase in the overall cost of sales. The operating income rose 2.9% YoY to SAR 3.3bn as decline in the selling and marketing expenses was countered by a rise in general, administration, and depreciation costs. However, operating margins contracted to 23.6% in 3Q19 from 24.3% in the same quarter a year ago as a result of increased direct costs. Net income increased 3.9% YoY to SAR 2.7bn in 3Q19, largely supported by an improvement in revenues and a decrease in the costs of early retirement.

STC continues to focus on enabling digital transformation in line with Saudi Vision 2030 through investments towards innovative solutions for digital payments, big data, cloud computing, IoT and artificial intelligence. Such efforts prepare the company to face global challenges in the telecom industry, which continues to face heightened competition. In June 2019, the sector overall witnessed a rise in fixed telephony, mobile and broadband subscribers, but a drop in mobile subscribers. In October 2019, Zain, an important competitor, launched commercial 5G operations in Saudi Arabia at competitive rates with a plan to cover 26 cities and utilize 2,600 towers by the end of 2019. We maintain our "Neutral" rating on the company's stock.

- STC's top line grew 6.0% YoY to SAR 14.1bn in 3Q19, largely supported by growth in revenue from the consumer and wholesale business.
- Gross profit increased 0.9% YoY to SAR 7.9bn for 3Q19. However, on a quarterly basis, it declined 3.5% as a result of an increase in the cost of sales. Consequently, the gross margin contracted to 56.1% for 3Q19, against 58.9% in 3Q18.
- Operating income grew 2.9% to SAR 3.3bn, mainly due to lower selling and marketing expenses. However, operating margin declined to 23.6% in 3Q19, compared with 24.3% in 3Q18.
- EBITDA grew 2.1% YoY to SAR 5.2bn as a result of the implementation of the IFRS 16, resulting in a positive impact of SAR 180mn. The EBITDA margin stood at 37.1%.
- Net income grew 3.9% YoY to SAR 2.7bn in 3Q19, largely supported by higher revenue. The net margin, however, stood at 19.5% during the quarter, recording a slight drop from 19.8% in the same quarter the previous year.
- STC's board recommended a cash dividend of 10% (SAR 1 per share) for 3Q19, amounting to SAR 2bn for its 2bn outstanding shares.
- The company announced that the 5G network for the corporate sector is expected to be rolled out by early 2020. During the quarter, the company deployed the 5G network in 196 sites in the two holy cities in the Hajj season to serve pilgrims of the Holy Mosque.
- STC entered an agreement with Panda Retail Company to develop data communication networks to serve the latter's customers to the fullest and provide them with free Internet within stores.

Valuation: We revise our target price to SAR 104.0 per share and maintain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	14,114	13,320	6.0%	54,256	51,963	4.4%
Gross Profit (SAR mn)	7,921	7,851	0.9%	31,876	30,546	4.4%
EBITDA (SAR mn)	5,238	5,128	2.1%	21,540	19,836	8.6%
Net Profit (SAR mn)	2,746	2,643	3.9%	11,215	10,780	4.0%
EPS basic (SAR)	1.37	1.32	3.9%	5.61	5.39	4.0%
Gross Margin (%)	56.1%	58.9%	(2.8%)	58.8%	58.8%	0.0%
EBITDA Margin (%)	37.1%	38.5%	(1.4%)	39.7%	38.2%	1.5%
Net Profit Margin (%)	19.5%	19.8%	(0.4%)	20.7%	20.7%	(0.1%)

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

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

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

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

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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