

Q4 21

## Growth potential is fairly valued

We maintain our Neutral rating on STC with a PT of SAR117.7. We expect the company to report an earnings growth of 8.3% in 2022f to SAR12.6bn driven by higher revenues and operational efficiencies. We believe the new dividend policy provides a support to the stock price while the progress in STC Pay's banking license will be a key growth driver in the future. The stock is trading at 2022f PE and EV/EBITDA of 18.3x and 9.4x, higher than the peer's group average of 16.8x and 7.2x, respectively. We believe the premium is justified given the potential of STC Pay, however, the upside is limited at the current levels.

### Positive data from CITC

Based on CITC report, the number of mobile subscribers in Saudi reached 47.2mn in Q2 21, up 6.9% yoy and 7.2% qoq. This reflects a penetration rate of 135% vs 129% in Q2 20. M2M subscriptions reached 4.81mn in Q2 21, up 246% yoy and 5.5% qoq. We believe increase in demand for data, 5G and the adoption of new technologies are key growth drivers and we expect them to remain the main drivers for the sector going forward.

### STC Pay, a new potential

The digital banking license was recently granted to STC Pay (paid-up capital of SAR2.5bn). STC owns 85% of the entity and the remaining 15% is with Western Union (WU). STC pay is the largest digital wallet in the Middle East with more than 4.5mn users and was valued at SAR5.0bn at the time of the stake sale to WU (November 2020). This translates into per share value of SAR2.5 of STC. We believe the progress in providing banking services and regional expansion are its key value driver. However, we do highlight that robust growth in the digital payment segment attracted fresh competition (such as Neoleap by AlRajhi), which we believe may potentially impact STC Pay's growth trajectory and margin profile.

### Attractive dividends policy to remain until Q4 24

In October 2021, STC announced its new 3 years dividend policy where it remains committed to distribute at least SAR1.0/share quarterly, subject to its financial position and capex requirements. Since the beginning of the previous policy, STC paid additional DPS of SAR1.0 in 2020 and SAR2.0 in 2018 which we believe indicates the ability and probability to increase pay-outs going forward. The current dividend yield of STC is 3.5%, compared to the market dividend yield of 2.6% and Saudi Aramco's of 3.7%.

### Net income to reach SAR12.6bn in 2022f

We expect STC earnings to reach SAR12.6bn in 2022f, up 8.3% yoy. The growth would be driven by higher revenues and operational efficiency. We expect revenues to grow by 5.0% yoy in 2022f on stronger demand for data and Solutions while EBITDA margins are expected to expand from 36.6% to 36.9%. We project 2020-23 earnings CAGR of 5.9%.

### Remain Neutral on STC with a PT of SAR117.7

We remain Neutral on STC with a PT of SAR117.7. We believe the new dividend policy provides a support to the stock while STC pay will be the major growth driver. The stock trades at 2022f PE and EV/EBITDA of 18.3x and 9.4x, higher than the peers average of 16.8x and 7.2x, respectively.

### Summary Financials

| SAR mn            | 2020   | 2021f  | 2022f  | 2023f  | CAGR  |
|-------------------|--------|--------|--------|--------|-------|
| Revenues          | 58,953 | 63,418 | 66,592 | 69,268 | 5.5%  |
| Gross income      | 33,954 | 34,052 | 35,906 | 37,397 | 3.3%  |
| Gross margin (%)  | 57.6%  | 53.7%  | 53.9%  | 54.0%  | -2.1% |
| EBITDA            | 22,090 | 23,219 | 24,580 | 25,651 | 5.1%  |
| EBITDA Margin (%) | 37.5%  | 36.6%  | 36.9%  | 37.0%  | -0.4% |
| Net income        | 10,995 | 11,611 | 12,573 | 13,412 | 6.8%  |
| Net margin (%)    | 18.7%  | 18.3%  | 18.9%  | 19.4%  | 1.3%  |
| EPS (SAR)         | 5.50   | 5.81   | 6.29   | 6.71   | 6.8%  |

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

## NEUTRAL

|                           |              |
|---------------------------|--------------|
| <b>Price target (SAR)</b> | <b>117.7</b> |
| Current price (SAR)       | 115.2        |
| Upside/Downside (%)       | 2.2          |

### VALUATION MULTIPLES

|               | 20   | 21f  | 22f  |
|---------------|------|------|------|
| P/E (x)       | 21.0 | 19.8 | 18.3 |
| P/B (x)       | 3.6  | 3.4  | 3.2  |
| EV/EBITDA (x) | 10.4 | 9.9  | 9.4  |
| Div Yield (%) | 3.5  | 3.5  | 3.5  |

Source: SNB Capital Research estimates

### MAJOR SHERHOLDERS

| Investor | % Ownership |
|----------|-------------|
| PIF      | 70.0%       |
| GOSI     | 6.2%        |
| QFIs     | 5.5%        |

Source: Saudi Exchange, SNB Capital. As of 1 Nov 2021

### STOCK DETAILS

|                          |                |
|--------------------------|----------------|
| M52-week range H/L (SAR) | 139/100        |
| Market cap (\$mn)        | 61,440         |
| Shares outstanding (mn)  | 2,000          |
| Listed on exchanges      | Saudi Exchange |

| Price perform (%) | 1M     | 3M     | 12M    |
|-------------------|--------|--------|--------|
| Absolute          | (9.3)  | (15.0) | 15.0   |
| Rel. to market    | (11.1) | (20.8) | (33.8) |

| Avg daily turnover (mn) | SR    | US\$ |
|-------------------------|-------|------|
| 3m                      | 122.3 | 32.7 |
| 12m                     | 85.6  | 22.8 |

|                |                |
|----------------|----------------|
| Reuters code   | 7010.SE        |
| Bloomberg code | STC AB         |
|                | www.stc.com.sa |

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|               |   |
|---------------|---|
| 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   |
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