

SAUDI TELECOM CO.

الأهلي كابيتال
NCB Capital

EVENT FLASH

Higher cost of services offset by better other income

STC reported an in-line set of 1Q18 results with a net profit of SR2.59bn, increasing 2.0% YoY but declining 0.5% QoQ. This is slightly higher than the consensus estimates of SR2.52bn. We believe the higher than expected cost of services was offset by higher than expected other income.

- Revenues stood at SR12.4bn, down 1.1% YoY but growing 3.9% QoQ. This is in-line with our estimates. We believe higher income from data was mitigated by lower MTR income, a decline in mobile subscribers and the introduction of VAT. In 1Q18, Mobily revenues declined 1.1% YoY but increased 0.2% QoQ to SR2.83bn. Based on 2017 data from CITC, the number of mobile subscribers declined -16.1% YoY to 40.2mn, reflecting a penetration rate of 127% (vs 151% in 2016). Starting from January 2018, CITC reduced interconnection charges by 45% to SR0.055.
- Gross profit stood at SR7.0bn in 1Q18, coming 6.0% lower than our estimates. Gross margin stood at 56.5% in 1Q18, coming lower than our estimate of 59.8% and 4Q17 levels of 62.0%. We believe the variance is due to lower MTR income and the sale of low margin phones.
- Operating profit stood at SR2.6bn in 1Q18 vs our estimates of SR2.9bn and SR2.6bn in 1Q17. EBITDA stood at SR4.64bn, 5.4% lower than our estimates of SR4.9bn. EBITDA margin stood at 37.5% vs our estimates of 39.5% and 41.7% in 4Q17. We believe the decline in EBITDA margin is mainly due to lower cost of services.
- The weaker than expected operating income was offset by higher other income. STC's total other income stood at SR224mn compared to SR157mn in 2017 and our estimates of a loss of SR26.3mn. The variance is due to 1) lower early retirement cost and 2) higher "other income".
- STC announced a cash dividend of SR1.0/share for 1Q18, in-line with our estimates. Starting in 2015, STC introduced a three years fixed dividends policy with a quarterly DPS of SR1.0. This policy will expire in 3Q18. We expect STC to extend the current policy supported by 1) strong balance sheet and 2) a FCF yield of 7.4%.
- We remain Neutral on STC with a PT of SR80.2. STC is trading at a 2018E P/E of 17x, higher than the peers average of 14.5x, a premium that we believe reflects all the positives.

1Q18 Results Summary

SR mn	1Q18A	1Q17A	% YoY	1Q18E	%Var^	% QoQ
Revenues	12,386	12,524	(1.1)%	12,445	(0.5)%	3.9%
Gross income	6,997	6,924	1.1%	7,442	(6.0)%	(5.4)%
Gross margin (%)	56.5%	55.3%	1.2%	59.8%	3.3%	(3.5)%
EBITDA	4,644	4,551	2.0%	4,911	(5.4)%	(6.4)%
EBITDA margin (%)	37.5%	36.3%	1.2%	39.5%	(2.0)%	(4.2)%
Net income	2,588	2,538	2.0%	2,602	(0.6)%	(0.5)%
EPS (SR)	1.29	1.27	2.0%	1.30	(0.6)%	(0.5)%

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

NEUTRAL

Target price (SR)	80.2
Current price (SR)	83.2
Upside/Downside (%)	(3.6)

STOCK DETAILS

M52-week range H/L (SR)	85/65
Market cap (\$mn)	44,443
Shares outstanding (mn)	2,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	1.7	18.1	21.6
Rel. to market	(3.6)	7.8	1.9

Avg daily turnover (mn)	SR	US\$
3M	25.6	6.8
12M	19.5	5.2

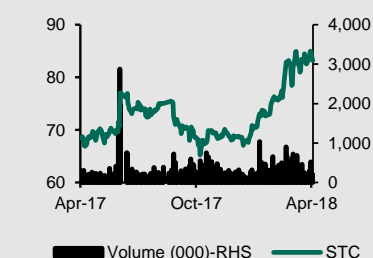
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VALUATION MULTIPLES

	17A	18E	19E
P/E (x)	16.4	17.1	17.5
P/B (x)	2.7	2.6	2.5
EV/EBITDA (x)	8.6	8.7	8.8
Div. Yield (%)	4.8	4.8	4.8

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

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