

# Saudi Telecom Company

Q1 2018

## Recommendation Neutral

Fair Value (SAR) 84.00

Price as of April 23, 2018 84.5  
Expected Return -0.60%

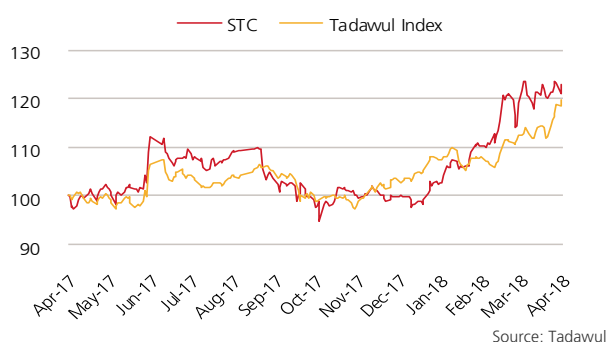
### Company Data

Tadawul Symbol 7010.SE  
52 Week High (SAR) 86.00  
52 Week Low (SAR) 65.10  
YTD Change 23.90%  
3-Month Average Volume (Thousand Shares) 323  
Market Cap. (SAR Million) 169,000  
Market Cap. (USD Million) 45,067  
Outstanding Shares (Million Shares) 2,000

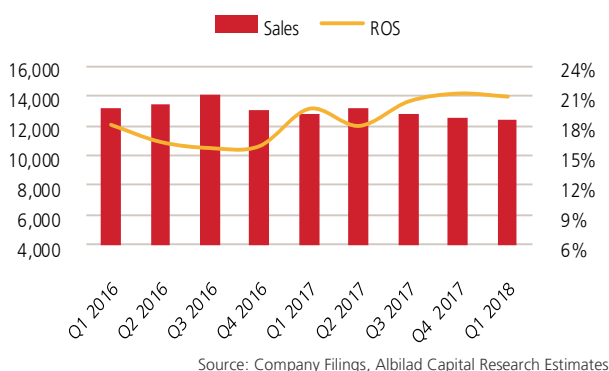
### Major Shareholders (> 5%)

Public Investment Fund 70.00%  
General Organization for Social Insurance 7.00%  
Public Pensions Agency 6.77%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



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The net profit of Saudi Telecom Company edged up 2% in the first quarter of this year plateauing at SAR 2,588 million compared to SAR 2,535 million in Q1 2017, however the net profit was almost unchanged compared to SAR 2,586 million in Q4 2017.

STC attributed the YoY bottom line increase to a slump in the cost of services by SAR 211 million, thus offsetting the dip in revenues and the increase in operating expenses. Revenues slid SAR 138 million (1.1%), while operating expenses increased by SAR 55 million, therefore the operating profit edged up only 0.65%. On the other hand, non-operating income (net) inched up from SAR 154 million to SAR 224 million on lower costs of the early retirement program.

Compared to the previous quarter of 2017, the positive changes at the non-operating level neutralized the impact of negative operating changes. The cost of services leapt by SAR 867 million, however the top line expanded by SAR 470 million combined with a decrease of SAR 130 million in operating expenses, thus the operating profit slumped 9% QoQ. The net income from non-operating items amounted to SAR 224 million compared to a loss of SAR 49 million in Q4 2017 predominately as a result of the dip in the cost of the early retirement program by SAR 150 million.

Moreover, STC reported an increase of 2.1% YoY in EBITDA, thus hitting SAR 4,644 million compared to SAR 4,551 million for Q1 2017. The EBITDA margin improved from 36.3% to 37.5%, nonetheless the margin dwindled from around 42% in Q4 2017.

The telecom operator stated that it would pay a quarterly dividend of SAR 1 per share that will be payable on May 28, 2018 to shareholders of record on May 7, 2018.

The first-quarter net profit came in line with consensus, exceeding our forecast by only 3% and the analysts' mean estimate by 2.4%. The telecom operator grappled with tough changes in the first quarter, however it managed to mitigate them through tightening its grip on the cost of services plus re-pricing of internet packages as well as the improvement in non-operating items. The most notable negative changes that did not exist in the first quarter of 2017 include lifting the ban on many internet communications applications in Q3 2017, the value added tax in January 2018, as well as a 45% reduction in mobile termination rates in the last week of December 2017. Factoring in better than initially forecasted margins and CAPEX optimization, our valuation is revised upward to SAR 84 per share.

FY - Ending December	2015A	2016A	2017A	2018F
P/E	18.25	18.99	16.68	16.77
Dividend Yield	%4.7	%4.7	4.7%	4.7%
P/B	2.79	2.82	2.72	2.63
Price/sales	3.34	3.21	3.33	3.42
Current Ratio	1.63	1.36	1.32	1.43
Revenues growth	%10.5	%4.0	-3.7%	-2.5%
EPS	4.63	4.45	5.07	5.04

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018F*
Sales	45,826	50,651	52,674	50,747	49,455
Cost of Services	17,670	20,306	23,986	21,255	20,507
<b>Cost of Services/Sales</b>	<b>38.6%</b>	<b>40.1%</b>	<b>45.5%</b>	<b>41.9%</b>	<b>41.5%</b>
SG&A	7,802	9,337	9,884	9,327	8,999
<b>SG&amp;A/Sales</b>	<b>17.0%</b>	<b>18.4%</b>	<b>18.8%</b>	<b>18.4%</b>	<b>18.2%</b>
Provisions	1,293	1,715	775	871	848
<b>EBITDA</b>	<b>19,060</b>	<b>19,294</b>	<b>18,029</b>	<b>19,293</b>	<b>19,100</b>
EBITDA Margin	41.6%	38.1%	34.2%	38.0%	38.6%
Depreciation and amortization	7,030	7,434	8,078	8,208	8,170
<b>EBIT</b>	<b>12,031</b>	<b>11,859</b>	<b>9,951</b>	<b>11,085</b>	<b>10,931</b>
Net Interest Income	155	208	344	230	369
Investment Income	-261	-379	116	308	247
Others (Net)	239	-1,202	-534	-533	-503
<b>Pre-Tax Income</b>	<b>12,163</b>	<b>10,486</b>	<b>9,877</b>	<b>11,091</b>	<b>11,043</b>
Tax and Zakat	775	697	751	721	718
<b>Net Income</b>	<b>11,389</b>	<b>9,789</b>	<b>9,126</b>	<b>10,370</b>	<b>10,325</b>
Minority	429	531	227	237	249
<b>NAI</b>	<b>10,959</b>	<b>9,258</b>	<b>8,899</b>	<b>10,133</b>	<b>10,077</b>
ROS	23.9%	18.3%	16.9%	20.0%	20.4%
Balance Sheet (SAR mn)	2014A	2015A	2016A	2017A	2018F*
Cash	5,467	4,504	3,631	2,567	4,859
Short Term Investments	14,347	16,802	15,004	14,465	17,738
Accounts Receivables	8,515	11,796	19,768	25,549	21,920
Others	1,953	3,097	1,693	1,771	1,748
<b>Total ST Assets</b>	<b>31,069</b>	<b>36,989</b>	<b>40,564</b>	<b>44,813</b>	<b>46,715</b>
Net Fixed Assets	38,229	40,488	39,419	39,941	39,743
Long Term Investments	15,306	13,389	13,703	14,723	14,969
Intangible assets	4,523	4,783	7,840	7,774	9,087
Others	967	1,013	251	863	111
<b>Total LT Assets</b>	<b>59,024</b>	<b>59,672</b>	<b>61,213</b>	<b>63,300</b>	<b>63,910</b>
<b>Total Assets</b>	<b>90,094</b>	<b>96,661</b>	<b>101,777</b>	<b>108,113</b>	<b>110,624</b>
Short Term Debt and CPLTD	1,997	1,903	1,867	648	201
Accounts Payable	14,046	20,811	22,259	33,180	32,476
<b>Total ST Liabilities</b>	<b>16,043</b>	<b>22,714</b>	<b>24,126</b>	<b>33,828</b>	<b>32,677</b>
Total Long Term Debt	7,785	5,744	4,017	4,006	3,805
Retirement Compensation	3,768	4,076	3,776	3,923	4,085
Other Non-Current Liabilities	1,168	2,165	2,897	3,111	3,081
Minority Interest	906	1,421	1,337	1,003	2,658
<b>Equity</b>	<b>60,422</b>	<b>60,541</b>	<b>59,941</b>	<b>62,241</b>	<b>64,318</b>
<b>Total Liabilities and Equity</b>	<b>90,094</b>	<b>96,661</b>	<b>96,094</b>	<b>108,113</b>	<b>110,624</b>
Cash Flow (SAR mn)	2014A	2015A	2016A	2017A	2018F*
Operating Cash Flow	18,781	20,716	18,375	16,700	21,025
Financing Cash Flow	(5,387)	(9,942)	(11,511)	(9,980)	(8,945)
Investing Cash Flow	(8,887)	(11,737)	(7,728)	(7,790)	(9,787)
Change in Cash	4,507	(963)	(863)	(1,070)	2,292

Source: Company Filings, Albilad Capital 4,859 Estimates

\* Historical financial statements were prepared according to the previous Saudi reporting standards. The financial statements for the period ( 2016 - 2018) are presented according to IFRS.

Presentation of financial statements may differ from the company's presentation, with no impact on the final results.

## Albilad Capital Rating Methodology

Al-Bilad Capital 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.

<b>Overweight:</b>	The Target share price exceeds the current share price by $\geq 10\%$ .
<b>Neutral:</b>	The Target share price is either more or less than the current share price by $< 10\%$
<b>Underweight:</b>	The Target share price is less than the current share price by $\geq 10\%$ .
<b>To be Revised:</b>	No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials , waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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