



RESULT ANALYSIS

Higher top-line mitigated by lower margins

STC reported a broadly in-line set of Q4 20 results, with net income increasing +15.6% yoy (-3.0% qoq) to SAR2.68bn. This compares to the NCBC and consensus estimates of SAR2.52bn and SAR2.67bn, respectively. We believe the strong revenue growth of +14.7% yoy was offset by lower margins which declined from 63.0% in Q4 19 to 55.8% in Q4 20. We believe this is attributed to higher access charges and device sales.

- Revenues increased +14.7% yoy (+2.2% qoq) to SAR15.2bn and came broadly in-line with our estimates. Despite VAT increase and limited roaming contribution, we believe STC continued to benefit from higher demand for mobile and data services. For 2020, FTTH revenues grew +27.6% yoy, while data revenues and subscribers increased 9% and 10.7%, respectively. The Enterprise unit revenues were up +24.6% yoy and STC's subsidiaries grew +13.8%.
- Gross profit stood at SAR8.49bn, lower than our estimates of SAR8.63bn. We believe the variance is due to the increase in government and access charges and higher device sales. Gross margin was 55.8%, the lowest since Q2 18 and compared to our estimates of 59.3% and Q4 19 of 63.0%.
- EBITDA stood at SAR5.72bn in Q4 20, +5.5% higher than our estimates of SAR5.42bn on lower operating costs. SG&A stood at SAR2.77bn in Q4 20 vs our estimates of SAR3.21bn, SG&A/sales came in at 18.2%, vs our estimates of 22.0% and Q4 19 of 25.4%. Depreciation stood at SAR2.43bn, in-line with our estimates. EBITDA margin came-in at 37.6% vs our estimates of 37.2% and 37.6% in Q4 19.
- Non-opex expenses stood at SAR160mn vs our estimates of SAR385mn, mainly due to the decrease in the cost of early retirement benefit (SAR100mn vs our estimates of SAR200mn and SAR146mn in Q3 19). Other expenses/losses came in at SAR60mn vs our estimates of SAR185mn.
- Based on our last update published in Feb 2020, we are Neutral on STC with a PT of SAR93.5. Since then, the stock recorded a strong rally of 18%. We await the full financials to update our PT and estimates. The stock key strengths are strong balance sheet (cash balance of SAR8.0bn as of September 2020) and sustainable annual dividend policy of SAR4/share (dividend yield of 3.6%). The stock trades at 2021f PE of 19.6x vs the peer group average of 15.1x. STC announced a cash dividend of SAR1 for Q4 20, in-line with its dividends policy which we believe is lower than the market expectations of an additional payout.

Q4 20 Results Summary

SAR mn	Q4 20	Q4 19	%yoy	Q4 20f	%Var^	% qoq
Revenues	15,213	13,265	14.7%	14,552	4.5%	2.2%
Gross income	8,489	8,360	1.5%	8,626	(1.6)%	(5.4)%
Gross margin (%)	55.8%	63.0%	(722)bps	59.3%	(347)bps	(448)bps
EBITDA	5,716	4,987	14.6%	5,417	5.5%	(1.2)%
EBITDA margin (%)	37.6%	37.6%	(2)bps	37.2%	35bps	(132)bps
Operating income	3,290	2,400	37.1%	3,098	6.2%	(4.9)%
Net income	2,683	2,321	15.6%	2,519	6.5%	(3.0)%
EPS (SR)	1.34	1.16	15.6%	1.26	6.5%	(3.0)%

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

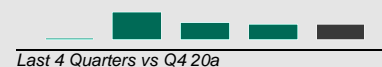
NEUTRAL

Price target (SR) 93.5

Current price (SR) 111.4

*PT last updated in February 2020

NET INCOME



Last 4 Quarters vs Q4 20a

STOCK DETAILS

M52-week range H/L (SAR)	116.2/75.9
Market cap (\$mn)	59,413
Shares outstanding (mn)	2,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	4.5	7.9	13.4
Rel. to market	2.2	3.8	8.3

Avg daily turnover (mn)	SR	US\$
3m	67.3	18.0
12m	96.0	25.6

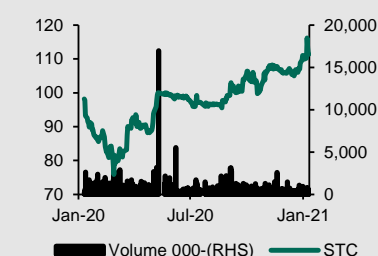
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VALUATION MULTIPLES

	19a	20a	21f
P/E (x)	20.6	19.8	19.6
P/B (x)	3.6	3.4	3.2
EV/EBITDA (x)	10.3	10.1	9.9
Div Yield (%)	3.6	3.6	3.6

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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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
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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