



US\$59.3bn Market cap
16% Free float
US\$107.77mr Avg. daily volume

Target price **120.0** +8% over current
Current price **111.0** as at 7/3/2022

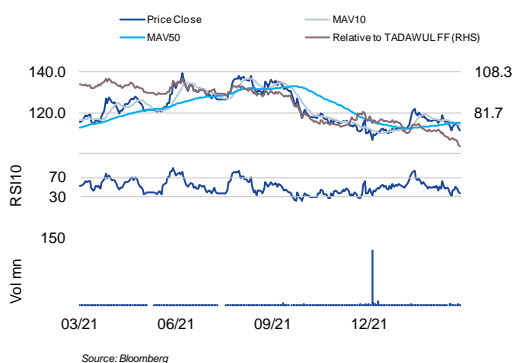
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SAR mn)	2020	2021	2022e
Revenue	58,953	63,417	66,563
Y-o-Y	8.4%	7.6%	5.0%
Gross Profit	33,954	33,794	35,331
Gross margin	57.6%	53.3%	53.1%
EBITDA	22,090	22,841	23,825
EBITDA margin	37.5%	36.0%	35.8%
Net profit	10,995	11,311	11,969
EPS (SAR)	5.50	5.66	5.98
DPS (SAR)	5.00	4.00	5.00
EV/EBITDA	10.0	9.7	9.3
P/E	20.2	19.6	18.5

Source: Company data, Al Rajhi Capital

STC

Weaker than expected results; Lower TP to SAR120/share

While 4Q21 revenue came inline, the cost of sales was higher than expected, resulting in a weak gross margin that resulted in weaker than expected net profit as well. The decline in gross margin could be attributed to a) the change in revenue mix with higher contribution from the business segment versus the higher-margin consumer segment which continues to remain muted b) the end of reversal of royalty fees. Business growth was led by Solutions which had registered an 18% y-o-y top-line growth in 4Q. In terms of annual performance, STC's 2021 revenue grew 7.6% y-o-y while gross margin marginally declined to 53.3% (57.6% in 2020). Overall, adj. EBITDA grew 3.4% and net profit grew by 2.9% y-o-y. Overall, we expect a similar top-line performance in 2022 with no material change compared to our previous estimates but we lower our margin estimates. Also, previously we had assumed a dividend-based valuation method for the company, given the possibility of the company to pay special dividends, which did not come through for 2021. There was also the sale of shares by PIF, reducing stake from 69.4% to 64% towards the end of last year with previously announced intentions to retain majority but lower ownership resulting in selling pressure. Overall, we expect sentiments to remain muted. We revert to an equal mix of valuation methods for STC (DCF/relative/Div. Yield methods) and lower our target price to SAR120/share (from SAR140/share). We rate the stock Neutral based on our methodology.

Figure 1 STC Q4 2021 results

(SAR mn)	4Q 2021	4Q 2020	Y-o-Y	3Q 2021	Q-o-Q	ARC est	vs ARC
Revenue	16,087	15,216	6%	15,735	2%	16,084	0%
Gross profit	8,516	8,446	1%	8,369	2%	8,860	-4%
Gross margin	52.9%	55.5%		53.2%		55.1%	
Operating profit	3,204	3,205	0%	3,192	0%	3,484	-8%
Operating margin	19.9%	21.1%		20.3%		21.7%	
Net profit	2,613	2,593	1%	2,924	-11%	2,936	-11%
Net margin	16.2%	17.0%		18.6%		18.3%	

Source: Company data, Al Rajhi Capital

Valuation and risks: Our 12m forward-looking target price for the company is arrived at SAR120/share using an equal mix of DCF (SAR116/share, 9.5x EV/EBITDA based SAR118/share, and implied 4% dividend yield - SAR125/share). Our DCF has a terminal growth rate of 2% after 5-year explicit forecasts, while the 9.5x multiple valuation is based on 2Y historical averages. Based on our TP, we have a Neutral rating. Upside risks to our valuation are increase in data prices, more benign competition, lower than expected capex spending, payment from Government for receivables, meaningful contributions from other investments, cash from asset/land sales, higher efficiency driving up margins, further material traction in fintech boosting cash flows. Downside risks are impairment of receivables, higher than expected capex, increase in competition in both consumer and business segments, and increase in SAIBOR. Non-operating items below EBIT keep fluctuating which may add to stock volatility.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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