

# Saudi Telecom Co. (STC) - 3Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation: **Buy**

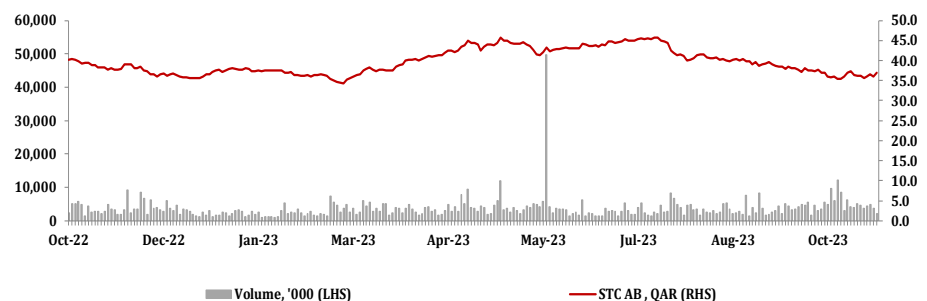
Target Price (SAR): **48.40**

Previous Reco. & Date: TP: SAR 48.40 per share; Buy on 12-September-2023

Upside / (Downside): **31%**

Date: 30-10-2023

Bloomberg Ticker	STC AB
Current Market Price (SAR)	36.850
52wk High / Low (SAR)	46/33.95
12m Average Vol. (000)	3,669.2
Mkt. Cap. (USD/SAR mn)	184,250/184,250
Shares Outstanding (mn)	5,000.0
Free Float (%)	36%
3m Avg Daily Turnover (000)	1,59,163.9
6m Avg Daily Turnover (000)	1,68,695.3
P/E'23e (x)	14.9x
EV/EBITDA'23e (x)	8.0x
Dividend Yield '23e (%)	5.4%
Price Perf. (1m/3m) (%)	-2%/-16.9%



## Revenue increased 10% YoY, in-line with U-Capital estimate.

STC revenue for the quarter stood at SAR 18,106mn (10% YoY and -1% QoQ) in line with our estimate of SAR 17,692mn. The YoY growth can be attributed to rise in revenues in Commercial unit, Mobile Segment and Residential unit. Additionally, the group witnessed growth in mobile subscribers in Q3'23 vs Q3'22 across KSA, Kuwait and Bahrain further adding to the revenue growth.

## Gross and operating profits improves QoQ, beats estimate.

The company's gross and operating profit for Q3'23 stood at SAR 10,388mn and SAR 4,338mn respectively, beating our estimated figure of SAR 8,898mn and SAR 3,228mn respectively. Gross and operating profit increased 14% and 32% respectively on a QoQ basis likely due to decrease in cost of revenues by SAR 1,475mn in Q3'23 compared to previous quarter.

## Net profit increases 38% YoY, beats estimate.

The company's net income for the quarter was SAR 4,904mn, surpassing our estimated SAR 2,842mn. Net income saw a significant increase (38% YoY and 63% QoQ), primarily attributed to better-than-expected margins (Gross margin: 57.4% vs. 50.3% and Operating margin: 24% vs. 18.2%), and likely due to a SAR 1,103mn increase in net other gains, mainly due to the SAR 1,296mn gained from the sale of land.

## Maintaining Target Price.

Saudi telecom giants are expected to experience substantial growth in the coming years, thanks to Vision 2030. Under this initiative, the government is planning substantial investments in the telecommunications sector. Additionally, the STC Group has achieved a significant milestone in digital transformation in the region by successfully conducting the first live trials for the advanced 5.5G generation across the Middle East and North Africa. The group also aims to expand its presence through its recent 9.9% acquisition of Telefónica S.A., which has a strong presence in Spain, Germany, the UK, and Brazil. Taking these factors into consideration, we are maintaining our 'Buy' rating and maintaining our target price at SAR 48.4 per share.

## Valuation.

STC is trading at 2023e P/E of 14.9x compared to the historical average 1-year forward P/E of 15.3x. Additionally, the stock is valued at EV/EBITDA multiple of 8.0x, based on our FY23 estimate, compared to the historical average of 7.7x.

Income Statement												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Sales/Revenue	16,468	17,034	18,179	18,327	18,106	17,692	10%	-1%	2%	50,398	54,612	8%
Gross Profit (Loss)	10,040	9,029	9,355	9,133	10,388	8,898	3%	14%	17%	28,365	28,876	2%
Operating Profit (Loss)	4,576	2,969	3,731	3,281	4,338	3,228	-5%	32%	34%	12,120	11,349	-6%
<b>Net Profit (Loss) after Zakat and t</b>	<b>3,541</b>	<b>3,085</b>	<b>3,109</b>	<b>3,008</b>	<b>4,904</b>	<b>2,842</b>	<b>38%</b>	<b>63%</b>	<b>73%</b>	<b>9,086</b>	<b>11,021</b>	<b>21%</b>
Balance Sheet												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Shareholders' Equity	73,331	73,500	74,631	75,497	78,839	78,339	8%	4%	1%	73,331	78,839	8%
Key Ratios												
	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Gross Profit Margin	61.0%	53.0%	51.5%	49.8%	57.4%	50.3%						
Operating Profit Margin	27.8%	17.4%	20.5%	17.9%	24.0%	18.2%						
Net Profit Margin	21.5%	18.1%	17.1%	16.4%	27.1%	16.1%						
Return on Equity (RoE)	19.3%	16.8%	16.7%	15.9%	24.9%	14.5%						

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research


For our earlier report, please [click here](#).


## Investment Research

Ubhar-Research@u-capital.net

## Head of Research


**Neetika Gupta**


 +968 2494 9036

 neetika@u-capital.net


## Research Team


**Ahlam Al-Harathi**

 +968 2494 9024


 ahlam.harathi@u-capital.net

**Said Ghawas**

 +968 2494 9034

 said.ghawas@u-capital.net


**Amira Al Alawi**


 +968 2494 9112

 amira.alalawi@u-capital.net

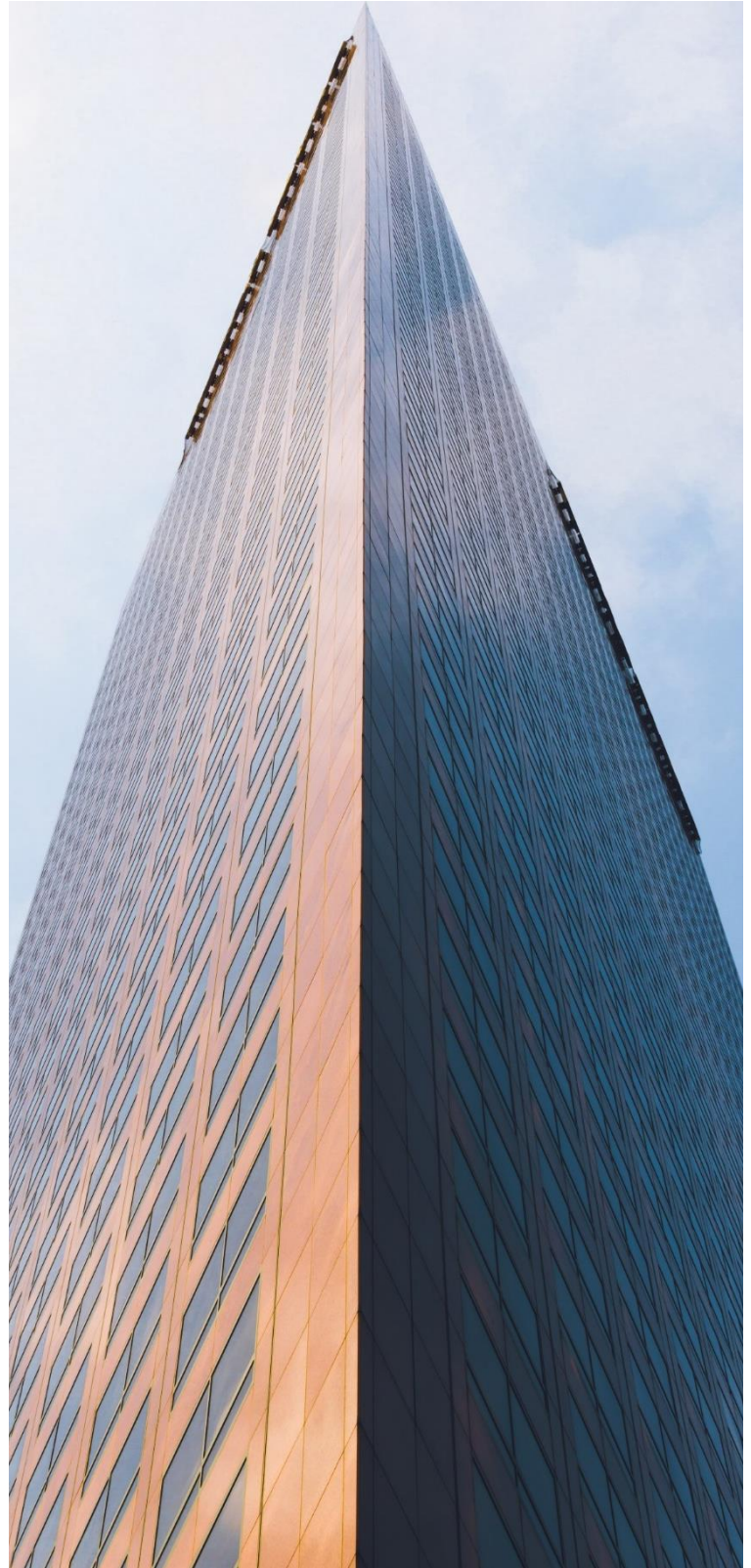
## Head of Brokerage

**Talal Al Balushi**

 +968 2494 9051

 talal@u-capital.net

Visit us at: [www.u-capital.net](http://www.u-capital.net)



## Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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