

## Overweight

Price Target (SAR): 42.0

Current: 37.1

Upside/Downside: 13.2% above current

Valuation Multiples	23E	24E	25E
P/E (x)	13.5	14.1	13.7
EV/EBITDA (x)	8.0	7.6	7.3

## Major Shareholders

Major Shareholders	% Ownership
Public Investment fund	64.0

## Price Performance

Price Performance	1M	3M	YTD
Absolute	5.0%	-10.6%	1.4%
Relative to TASI	2.4%	-5.1%	-2.2%

## Earnings

(SAR mn)	2023e	2024e	2025e
Revenue	72,161	75,805	78,859
Y-o-Y %	7.0%	5.0%	4.0%
Gross Profit	37,225	38,995	40,453
Gross Margin	51.6%	51.4%	51.3%
EBITDA	24,280	25,401	26,351
Operating Margin	19.5%	19.8%	19.9%
Net Profit	13,974	13,382	13,778
Net Margin	19.8%	18.1%	17.9%
EPS (SAR)	2.8	2.7	2.8

P/E	13.5	14.1	13.7
EV/EBITDA	8.0	7.6	7.3
DPS (SAR)	1.6	1.6	1.6
Payout ratio	57.2%	59.8%	58.1%

Source: Company data, Al Rajhi Capital

# Saudi Telecom Company

## STC reports marginally higher revenue and gross margin beat. We change rating to overweight with a TP of SAR42/sh

STC reported slightly higher revenue while beating consensus in gross margin, hitting 57.4% in the quarter. Top-line grew 11.0% y-o-y during 3Q23 to SAR18.1bn supported by the growth across all segments and subsidiaries. On a gross level, STC reported gross profit of SAR9.7bn (one-time reversal of SAR641mn in 3Q23 vs SAR1bn in 3Q22), 7.8% higher than the 3Q22 gross profit of SAR9.0bn while the adjusted margins stood at 53.8% vs 54.9%. Although gross profit improved sharply vs estimates, the company witnessed substantial opex increase related to expansions, offsetting the majority of increase in gross profit. As such, the company reported an adjusted operating profit of SAR3.7bn vs SAR3.6bn in 3Q22. STC also reported one-time income of SAR1.3bn from land sale. Overall, STC's reported net profit (excluding the reversal and one-offs) increased by SAR392mn to SAR3.63bn in the third quarter as compared to SAR3.24bn in 3Q22. Net profit margin of the company stood at 20.0% vs 19.7% 3Q2022. Given the better than expected margins, we revised our target price to SAR42/sh up from SAR40/sh, while the current market price is SAR37.1/sh and change rating to overweight.

Figure 1 Earnings Summary Q3 2023

3Q23 Results	Q3 2023	Q3 2022	y-o-y	Q2 2023	q-o-q	ARC	vs ARC
Revenue	18,106	16,308	11.0%	18,327	-1%	17,801	1.7%
Gross Profit	10,388	10,040	3.5%	9,133	14%	9,078	14.4%
G. margin	57.4%	61.6%					51.0%
Op. profit	4,338	4,576	-5.2%	3,281	32%	3,432	26.4%
Op. margin	24.0%	28.1%					19.3%
Net profit	4,904	3,541	38.5%	3,008	63%	4,030	21.7%
Net margin	27.1%	21.7%					22.6%

Source: Company data, Al Rajhi Capital.

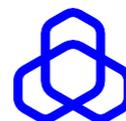
**Segment overview:** STC reported flat y-o-y growth rate in its core business (STC KSA) driven by higher competition in the enterprise segment. STC took a hit in gross profit level, declining by 4.3% mainly from to the higher competition seen in B2B. On the other hand, STC's subsidiaries contributed positively to both sales and gross level. STC Bank reported 22.6% y-o-y growth after two weak quarters with a decline of -5%, and -1.9% respectively. The launch of STC bank is around the corner which will be a catalyst for STC and could provide strong growth opportunities with lucrative margins. Tawal reported strong top-line growth of 25.0% while gross profit reported 30.3% increase. Overall, the company witnessed growth across all of its subsidiaries which reduced the disappointing performance of the enterprise segment.

Figure 2 Revenue by subsidiaries Q3 2023 (SAR mn)

(SAR mn)	3Q 2023	3Q 2022	Y-o-Y
Saudi Telecom Company			
Revenue	12,385	12,371	0.1%
Gross profit	8,184	8,555	-4.3%
Channels by STC			
Revenue	3,216	2,597	23.8%
Gross profit	720	583	23.6%
Solutions			
Revenue	2,794	2,227	25.5%
Gross profit	837	537	55.9%
Tawal			
Revenue	844	675	25.0%
Gross profit	674	517	30.3%
Stc Bank			
Revenue	299	244	22.6%
Gross profit	68	42	64.0%
Intigral			
Revenue	177	128	38.2%
Gross profit	146	73	100.5%

Source: Company data, Al Rajhi Capital.

**Valuation:** We arrived at our target price for STC using an equal mix of DCF and EV/EBITDA. The DCF target price is SAR44/sh, based on a 2% terminal growth rate and 9.5% weighted average cost of capital. The EV/EBITDA target price is SAR40/sh derived from 8x multiple of FY 2024E EBITDA. Overall, we change our rating to overweight with a target price of SAR42/sh up from SAR40/sh while the current market price is SAR37.1/sh (implies an upside of 13.2%).



## Financials

Figure 3 Income Statement

(SAR mn)	2023e	2024e	2025e
<b>Revenue</b>	<b>72,161</b>	<b>75,805</b>	<b>78,859</b>
cost of revenue	(34,937)	(36,809)	(38,406)
<b>Gross profit</b>	<b>37,225</b>	<b>38,995</b>	<b>40,453</b>
Selling and Distribution Expense	(6,509)	(6,836)	(7,095)
General and Administration Expense	(6,436)	(6,759)	(7,007)
Other Expenses, net	(10,176)	(10,429)	(10,694)
<b>Operating profit</b>	<b>14,105</b>	<b>14,972</b>	<b>15,657</b>
Interest income	1,317	1,054	773
Interest expenses	(825)	(774)	(723)
Other	935	(379)	(394)
<b>Profit before zakat</b>	<b>15,531</b>	<b>14,873</b>	<b>15,313</b>
Zakat	(1,243)	(1,190)	(1,225)
<b>NI before minority</b>	<b>14,289</b>	<b>13,683</b>	<b>14,088</b>
<b>minority</b>	<b>(314)</b>	<b>(301)</b>	<b>(310)</b>
<b>Net income</b>	<b>13,974</b>	<b>13,382</b>	<b>13,778</b>
<b>Dividend</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>
Payout	57%	60%	58%
<b>EBITDA</b>	<b>24,280</b>	<b>25,401</b>	<b>26,351</b>
EBITDA Margin	-3%	5%	4%

Source: Company Data, Al Rajhi Capital

Figure 5 Cash Flow Statement

(SAR mn)	2023e	2024e	2025e
Cash from operating activities	25,880	22,528	24,490
Cash from investing activities	(10,780)	(11,225)	(11,459)
Cash from financing activities	(8,709)	(10,736)	(10,739)
Net change in cash	6,390	567	2,291
Beginning cash	17,794	24,184	24,751
Ending cash	24,184	24,751	27,042

Source: Company Data, Al Rajhi Capital

Figure 6 Key Ratios

(SAR mn)	2023e	2024e	2025e
ROA (%)	9.7%	9.0%	8.9%
ROE (%)	17.4%	15.9%	15.6%
D/E (x)	16.8%	16.1%	15.4%
Net debt/EBITDA (x)	-0.3	-0.2	-0.3
Current ratio	1.7	1.8	1.8
Asset turnover ratio (x)	0.5	0.5	0.5
Receiveable days	137	147	101
Inventory days	7.1	8.0	13.4
Payable days	212	217	239

Source: Company Data, Al Rajhi Capital

Figure 4 Balance sheet Statement

(SAR mn)	2023e	2024e	2025e
Inventories	1,244	1,311	1,368
Trade Receivables, Prepayments and Other Receivables	24,713	25,961	27,006
Derivative Financial Instruments	11,013	11,569	12,035
Cash and Bank Balances	24,184	24,751	27,042
Others	7,989	7,989	7,989
<b>Total current assets</b>	<b>69,144</b>	<b>71,581</b>	<b>75,441</b>
Property, Plant and Equipment	47,819	49,224	50,761
Intangible Asset and Goodwill	12,128	12,371	12,495
Right of use asset	3,060	3,091	3,122
Derivative Financial Instruments	969	996	1,018
Other non-current assets	14,392	14,790	15,105
<b>Total non-current assets</b>	<b>78,368</b>	<b>80,471</b>	<b>82,500</b>
<b>Total Assets</b>	<b>1,47,512</b>	<b>1,52,052</b>	<b>1,57,942</b>
Short-Term Loans	277	277	277
Lease Liabilities	925	937	949
Zakat and Income Tax Payable	2,085	2,085	2,085
Trade and Other Payables	23,929	24,203	25,253
Derivative Financial Instruments	4,617	4,526	4,709
Other	8,114	8,416	8,669
<b>Total current liabilities</b>	<b>39,946</b>	<b>40,444</b>	<b>41,941</b>
Long-Term Loans	10,214	10,214	10,214
Lease Liabilities	2,415	2,446	2,476
Employee Retirement Benefits	4,871	4,871	4,871
Derivative Financial Instruments	2,481	2,606	2,711
Others	5,270	5,473	5,642
<b>Total non-current liabilities</b>	<b>25,252</b>	<b>25,610</b>	<b>25,915</b>
<b>Total liabilities</b>	<b>65,198</b>	<b>66,055</b>	<b>67,856</b>
Share Capital	50,000	50,000	50,000
Statutory Reserve	11,217	11,217	11,217
Treasury Shares	(704)	(704)	(704)
Retained Earnings	16,929	20,311	24,089
Other Reserves	2,032	2,032	2,032
Non-controlling equity	2,840	3,141	3,451
<b>Total Equity</b>	<b>82,314</b>	<b>85,998</b>	<b>90,085</b>
<b>Total equity and liabilities</b>	<b>1,47,512</b>	<b>1,52,052</b>	<b>1,57,942</b>

Source: Company Data, Al Rajhi Capital

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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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