

Q4 23

Growth potential and attractive valuation

We maintain our Overweight rating on STC with a PT of SAR44.0. We believe the strong revenue growth from Channels and Solutions, asset monetization program and global expansion plans are key stock drivers. Fixed dividend policy of SAR1.6/share also provide downside protection, in our view. We expect the company to record revenue and net income 2022-2025f CAGR of 5.5% and 7.0% to SAR79.2bn and SAR14.9bn, respectively. The stock is trading at 2024f P/E and EV/EBITDA of 13.5x and 7.4x vs the peer group average of 12.8x and 6.0x, respectively.

Other segments to drive top-line growth

During 9M 23, STC recorded a strong revenue growth of 9.1% yoy to SAR54.6bn. STC KSA (topline contribution of c68%) remained flat yoy, the growth was driven by Channels (c20% of topline) and Solutions (c15%), increasing by 27.3% yoy and 28.3% yoy, respectively. Saudi Digitization strategy is propelling strong demand for digital solutions and STC is significantly investing to improve its digital capacity through its subsidiaries. We believe this is a key driver of the company's long-term growth. We expect KSA segment to record a 2022-25f CAGR of 2.3%, while Channels and Solutions are expected to record a CAGR of 11.2% and 13.1%, respectively. Accordingly, we expect STC's revenue to record a CAGR of 5.5% to SAR79.2bn by 2025f.

Asset monetization to continue

STC is unlocking value through asset monetization program that was started with Solutions IPO and 15% stake sale in STC Pay in 2021. After that, it 1) signed MOU with PIF to sell a 51% stake in Tawal for a valuation of SAR21.9bn, 2) sold 49% stake in CCC to Solutions and 3) sold a land plot for SAR1.38bn. We expect the asset monetization plans to continue mainly through IPOs of subsidiaries and/or selling land plots. We believe the proceeds will be recycled to expand operations and global reach. To highlight, STC acquired three tower companies from United Group in Europe and acquired a stake in Telefonica. We believe further monetisation and/or acquisitions will be another key stock catalyst.

Net income to grow at CAGR of 7.0%

Following a topline growth of 8.3% yoy in 2023f, we expect revenues to increase by another 4.3% yoy in 2024f as growth in other segments start to normalize. We expect margins to remain stable yoy in 2024f (in-line with 2023f) due to higher contribution from lower margins segments. Therefore, we expect EBITDA margins to decline from 37.2% in 2022 to 34.4% in 2023f and to improve gradually to 35.0% by 2025f supported by operational efficiencies. We expect earnings to record a 2022-2025f CAGR of 7.0% to reach SAR14.9bn in 2025f.

Maintain Overweight rating with a PT of SAR44.0

We maintain our Overweight on STC with a PT of SAR44.0. We believe the strong growth from STC's other segments, asset monetization program and operational efficiencies will drive the stock going forward. The stock trades at 2024f P/E and EV/EBITDA of 13.5x and 7.4x vs peers average of 12.8x and 6.0x, respectively. We believe the premium is justified given the growth potential, strong balance sheet along with stable dividend policy with a divided yield of 4.2%.

Summary Financials

SAR mn	2022	2023f	2024f	2025f	CAGR
Revenues	67,432	73,000	76,173	79,195	5.5%
Gross income	37,393	38,621	40,740	42,481	6.9%
Gross margin (%)	55.5%	52.9%	53.5%	53.6%	
EBITDA	25,079	25,142	26,567	27,736	4.3%
EBITDA Margin (%)	37.2%	34.4%	34.9%	35.0%	
Net income	12,171	14,135	14,098	14,892	6.9%
Net margin (%)	18.4%	19.6%	18.7%	19.0%	
EPS (SAR)	2.43	2.83	2.82	2.98	7.0%

Source: The Company, SNB Capital Research

OVERWEIGHT

Price target (SAR)	44.0
Current price (SAR)	38.2
Upside/Downside (%)	15.2

VALUATION MULTIPLES

	22	23f	24f
P/E (x)	15.7	13.5	13.5
P/B (x)	2.6	2.4	2.2
EV/EBITDA (x)	7.3	7.9	7.4
Div Yield (%)	4.2	4.2	4.2

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

Investor	% Ownership
PIF	64.0%
Foreign investment	9.72%

Source: Saudi Exchange, SNB Capital. As of 9 Nov 2023

STOCK DETAILS

M52-week range H/L (SAR)	46/34
Market cap (\$mn)	50,993
Shares outstanding (mn)	5,000
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	6.7	(7.7)	(1.5)
Rel. to market	4.2	(2.6)	3.4

Avg daily turnover (mn)	SAR	US\$
3m	152.8	40.7
12m	145.6	38.8

Reuters code	7010.SE
Bloomberg code	STC AB
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NOVEMBER 2023

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