

US\$55.32bn  
Market Cap.

36.0%  
Free Float

US\$36.3mn  
Avg. Daily Value traded

## Overweight

**Price Target (SAR): 46.0**

Current: 41.5

Upside/Downside: 10.8% above current

Valuation Multiples	23E	24E	25E
P/E (x)	15.1	14.6	14.1
ROE (%)	17.0	16.7	16.4
EV/EBITDA (x)	8.5	8.1	7.8

## Major Shareholders % Ownership

Public Investment Fund	64.00%
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## Price Performance

	1M	3M	YTD
Absolute	5.9%	14.5%	2.7%
Relative to TASI	3.4%	1.8%	2.4%

## Earnings

(SAR mn)	2023E	2024E	2025E
Revenue	73,027	75,983	78,630
YoY %	8.3%	4.0%	3.5%
Gross Profit	38,267	39,853	41,338
GM Margin %	52.4%	52.5%	52.6%
YoY %	2.3%	4.1%	3.7%
EBITDA	24,961	26,245	27,254
EBITDA Margin	34.2%	34.5%	34.7%
Net Income	13,713	14,211	14,684
Net Income Margin %	18.8%	18.7%	18.7%
YoY %	12.7%	3.6%	3.3%
EPS	2.7	2.8	2.9
DPS	1.6	1.8	2.1
P/E	15.1	14.6	14.1
EV/EBITDA	8.5	8.1	7.8
ROE	17.0%	16.7%	16.4%

Source: Company data, Al Rajhi Capital

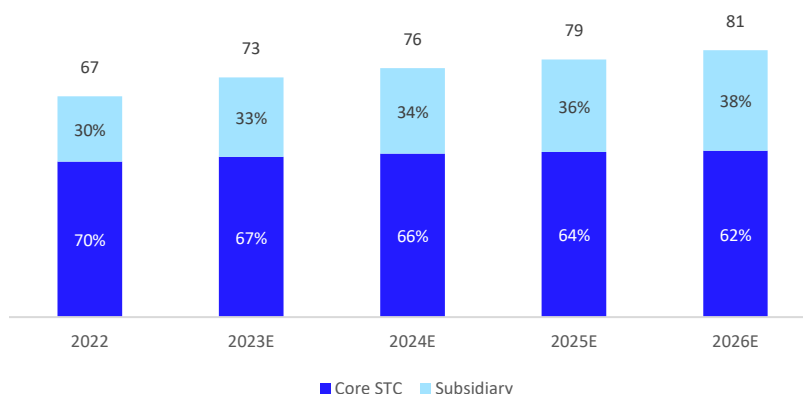
# Saudi Telecom Co.

## TP revised up to SAR46/sh; maintain OW.

STC has rallied by 12% since our last upgrade in November 2023. We continue to remain "Overweight" on the stock, upgrading our target price by 10% to SAR 46/sh. Our conviction stems from the booming ICT market in the Kingdom, which is expected to keep enterprise business at elevated levels given the digital transformation plans for the Kingdom. In addition, STC is the market leader when it comes to the consumer business and is likely to maintain its upward trajectory with an increase in subscriber base. Lastly, we have upgraded revenues from subsidiaries, mainly STC Solutions, based on our FY24/25e forecasts for the company. Hence, we revise our revenues for FY24e by 0.2% while keeping our EBITDA margins flattish around 34.5%, resulting in an upgrade to our PAT by 6.2% for the same period. Moreover, we remain confident in the company's ability to diversify and expand in line with the DARE 2.0 strategy. The company has several M&As in the pipeline, including Telefonica S.A., and the acquisition of three tower companies is awaiting regulatory approval. STC has also signed a non-binding offer from PIF to acquire 51% of its tower business, namely Tawal, for SAR11.2bn (100% EV of SAR21.9bn). These strategic initiatives provide further upside to our investment case. Lastly, the company also has a clear dividend policy of paying SAR1.6/sh annually, representing a dividend yield of 4%. We believe the Tawal deal will not only improve efficiency for the company but will also pave the way for a one-off special dividend. The stock provides a capital gain of 11% to our upgraded TP taking the total return to 15%. Hence, we remain Overweight on STC.

**Our assumptions for the next 3 years:** The Kingdom is in the midst of an ICT boom led by digital transformation and an uptick in economic and construction activity. STC, being the market leader, is set to greatly benefit from the increased ICT activity, which will directly boost its enterprise segment. We expect revenues and profitability for STC to grow at a 3-year CAGR of 3.7% and 3.9%, respectively. In addition, we expect a steady increase in the consumer segment in line with population growth as well as increased penetration. Lastly, we expect revenue from subsidiaries to increase by a 3-year CAGR of 8%, raising its contribution to the top line to 38% by FY26e from the current 33% in FY23e. So far in 9MFY23, revenue from subsidiaries has increased by 25% YoY. On the margin front, we expect the GP/EBITDA margins to remain flat.

Figure 1 Subsidiary revenues mix to increase (SAR bn)



Source: Company Data, Al Rajhi Capital estimates

**Valuations:** We value STC using equal weights for discounted cash flow (DCF) analysis and EV/EBITDA-based relative valuation, resulting in a TP of SAR46/sh. For relative valuation, we have used a multiple of 8.2x and applied it to FY24e earnings. The present target price suggests an upside of 10.8% from the latest closing value. Moreover, the current dividend yield of 4% has an upside risk as solid FCFF generation makes a strong case for increasing the overall dividend payout ratio from the current levels.

**Key Risks:** The key risks for the company are as follows: 1) Pricing risk which may occur from government regulations. 2) Increased competition from local players, 3) Failure to adapt to newer technologies like 5G may hamper group's growth, 4) High debt levels in an increased interest rate environment pose financial risk for the company

## Key Financials

Figure 2 Income Statement

SAR mn	2023E	2024E	2025E
<b>Revenue</b>	<b>73,027</b>	<b>75,983</b>	<b>78,630</b>
<i>y-o-y growth</i>	8.3%	4.0%	3.5%
Cost of Sales	(34,760)	(36,130)	(37,292)
<b>Gross Profit</b>	<b>38,267</b>	<b>39,853</b>	<b>41,338</b>
<i>y-o-y growth</i>	2.3%	4.1%	3.7%
<i>margins</i>	52.4%	52.5%	52.6%
Selling and marketing expense	(6,268)	(6,844)	(7,083)
General & administrative expense	(7,038)	(6,764)	(7,000)
Other Expenses, net	(10,437)	(10,443)	(10,708)
<b>Operating Profit</b>	<b>14,524</b>	<b>15,802</b>	<b>16,546</b>
<i>y-o-y growth</i>	-3.7%	8.8%	4.7%
<i>margins</i>	19.9%	20.8%	21.0%
Interest income	1,423	1,054	773
Interest expenses	(1,095)	(910)	(842)
Other	371	(152)	(157)
<b>Pre-Tax Income</b>	<b>15,223</b>	<b>15,794</b>	<b>16,319</b>
Zakat	(1,302)	(1,264)	(1,306)
<b>NI before minority</b>	<b>13,921</b>	<b>14,531</b>	<b>15,014</b>
Minority	(208)	(320)	(330)
<b>Net Income</b>	<b>13,713</b>	<b>14,211</b>	<b>14,684</b>
<i>y-o-y growth</i>	12.7%	3.6%	3.3%
<i>margins</i>	18.8%	18.7%	18.7%
EPS	2.7	2.8	2.9

Source: Al Rajhi Capital estimates

Figure 4 Cash Flow Statement

SAR mn	2023E	2024E	2025E
Cash flow from Operations	16,021	32,482	25,284
Cash flow from Investing	(21,311)	(3,560)	(11,415)
Cash flow from Financing	(5,608)	(9,954)	(10,998)
Change in cash	(10,898)	18,967	2,871

Source: Al Rajhi Capital estimates

Figure 5 Key Ratios

	2023E	2024E	2025E
ROA (%)	9.5%	9.3%	9.3%
ROE (%)	17.0%	16.7%	16.4%
D/E (x)	0.2x	0.2x	0.2x
Current ratio	1.6x	1.9x	1.9x
Asset turnover ratio (x)	0.5x	0.5x	0.5x
Receiveable days	137	147	101
Inventory days	7	8	13
Payable days	212	217	239

Source: Al Rajhi Capital estimates

Figure 3 Balance sheet

SAR mn	2023E	2024E	2025E
Inventories	1,347	1,287	1,328
Trade Receivables, Prepayments and Other I	27,496	26,022	26,928
Derivative Financial Instruments	15,104	11,597	12,001
Cash and Bank Balances	6,896	25,864	28,734
Others	10,454	10,454	10,454
<b>TOTAL CURRENT ASSETS</b>	<b>61,297</b>	<b>75,223</b>	<b>79,445</b>
Property, Plant and Equipment	47,915	49,325	50,822
Intangible Asset and Goodwill	12,128	12,371	12,495
Right of use asset	3,060	3,091	3,122
Derivative Financial Instruments	1,142	997	1,016
Other non-current assets	21,613	15,091	15,354
<b>TOTAL NON-CURRENT ASSETS</b>	<b>85,857</b>	<b>80,875</b>	<b>82,809</b>
<b>TOTAL ASSETS</b>	<b>147,155</b>	<b>156,097</b>	<b>162,254</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	20,728	23,757	24,521
Derivative Financial Instruments	4,008	4,537	4,695
Other	9,303	8,431	8,650
<b>CURRENT LIABILITIES</b>	<b>37,326</b>	<b>40,023</b>	<b>41,177</b>
Long-Term Loans	13,613	13,613	13,613
Lease Liabilities	2,415	2,446	2,476
Employee Retirement Benefits	4,871	4,871	4,871
Derivative Financial Instruments	2,245	2,612	2,703
Others	4,929	5,483	5,630
<b>NON-CURRENT LIABILITIES</b>	<b>28,074</b>	<b>29,026</b>	<b>29,294</b>
<b>SHAREHOLDERS EQUITY</b>	<b>81,755</b>	<b>87,048</b>	<b>91,784</b>
<b>TOTAL LIABILITIES</b>	<b>147,155</b>	<b>156,097</b>	<b>162,254</b>

Source: Al Rajhi Capital estimates

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### Contact us

**Mazen AlSudairi, CFA, CMT**

Head of Research

Tel : +966 11 836 5468

Email: [alsudairim@alrajhi-capital.com](mailto:alsudairim@alrajhi-capital.com)

**Al Rajhi Capital**

Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

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