

2Q19 Results Update

August 05, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	108.0
Target Price (SAR)	111.3
Upside/Downside (%)	3.1%

As of August 5th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	216.0
52 Wk High (SAR)	117.4
52 Wk Low (SAR)	74.5
Total Outstanding shares (in bn)	2.0
Free Float (%)	23.1%

STC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	5.0%	6.0%
6m	12.4%	10.4%
12m	33.6%	28.3%

Major Shareholders (%)

Public Investment Fund	70.0%
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Quarterly Revenue (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 5th August 2019

STC's net profit continued its uptrend on lower cost of sales

Saudi Telecom Co. (STC)'s top line increased 4.0% YoY and 1.6% QoQ to SAR 13.6bn in 2Q19, supported by improved data prices and higher revenue contribution from the Wholesale and Enterprise business units (BU). Gross profit increased 14.5% YoY and 3.8% QoQ owing to a sharp drop in the cost of sales. On a quarterly basis, the rise in the selling and marketing expenses was offset by the decline in general, administration, and depreciation costs, leading to a 6.2% QoQ increase to SAR 3.5bn of the operating profit. Consequently, STC's net income increased 16.5% YoY and 3.6% QoQ to SAR 2.8bn in 2Q19, owing to the factors mentioned above, although the finance costs and costs of early retirement continued to increase.

STC's major focus remains on implementing its strategy, i.e., developing the information technology and communication infrastructure and investing in digital economy and cloud computing, in line with the Kingdom's National Transformation Plan 2020 and Vision 2030. This has resulted in increased revenue from various BUs. The company is a leading provider of the cloud computing service as a result of the increase in demand for key IT platforms across the Kingdom. However, industry-wide heightened competition and regulatory scrutiny in the telecom industry could impact the company's current top line performance. Given these countervailing factors, we maintain our "Neutral" rating on the company's stock.

- STC's revenue grew 4.0% YoY and 1.6% QoQ to SAR 13.6bn in 2Q19, largely supported by growth in revenue contribution from business subsidiaries and improved data prices.
- Gross profit increased 14.5% YoY and 3.8% QoQ to SAR 8.2bn for 2Q19, largely attributed to the lower cost of sales. Consequently, gross margin for 2Q19 improved to 60.3% as against 54.8% in 2Q18 and 59.0% in 1Q19.
- Operating income grew 19.9% YoY and 6.2% QoQ to SAR 3.5bn, in spite of an overall rise in operating expenses. Operating margin improved to 25.6% during the quarter vis-à-vis 22.2% in 2Q18 and 24.5% in 1Q19.
- EBITDA rose 18.0% YoY to SAR 5.7bn during the quarter as a result of the implementation of the IFRS 16. The EBITDA margin improved to 41.6% in 2Q19 from 36.6% in the same quarter of the previous year.
- Net income grew 16.5% YoY to SAR 2.8bn in 2Q19, on the back of higher revenue and the lower cost of sales.
- STC's board recommended a cash dividend of 10% (SAR 1 per share) for 2Q19, amounting to SAR 2bn for its 2bn outstanding shares.
- During the quarter, the company officially rolled out the commercial operation of five-generation (5G) services for the first time in the Kingdom.
- STC also announced the issuance of the first international US dollar-denominated sukuk worth SAR 4.7bn by its subsidiary STC Sukuk Company Limited.
- STC launched a maintenance and technical support center accredited by Apple for smart devices. The center is located in Riyadh's Al-Ghadir District.

Valuation: We revise our target price slightly upward to SAR 111.3 per share, taking into consideration the strong 2Q19 performance. However, we maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	13,604	13,079	4.0%	54,088	51,963	4.1%
Gross Profit (SAR mn)	8,207	7,167	14.5%	33,589	30,546	10.0%
EBITDA (SAR mn)	5,655	4,791	18.0%	22,440	19,836	13.1%
Net Profit (SAR mn)	2,848	2,444	16.5%	11,560	10,780	7.2%
EPS basic (SAR)	1.42	1.22	16.5%	5.78	5.39	7.2%
Gross Margin (%)	60.3%	54.8%	5.5%	62.1%	58.8%	3.3%
EBITDA Margin (%)	41.6%	36.6%	4.9%	41.5%	38.2%	3.3%
Net Profit Margin (%)	20.9%	18.7%	2.2%	21.4%	20.7%	0.6%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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