

3Q22 Results Update

November 30, 2022

Recommendation Overweight

Previous Recommendation	Overweight
Current Price (SAR)	38.0
Target Price (SAR)	47.1
Upside/Downside (%)	23.9%

As of November 29, 2022

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	190.0
52-wk High (SAR)	48.9
52-wk Low (SAR)	37.1
Total Outstanding shares (in bn)	5.0
Free Float (%)	36.0%

STC vs. TASI (Rebased)

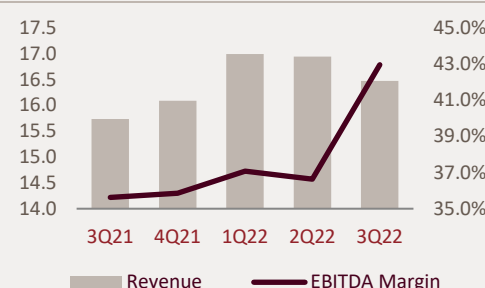


Price Performance (%)	Absolute	Relative
1m	(5.0%)	3.2%
6m	(9.2%)	6.1%
12m	(14.4%)	(13.9%)

Major Shareholders (%)

Public Investment Fund	64.0%
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Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of November 29, 2022

Improved contributions across business segment drives topline growth in 3Q22

Saudi Telecom Co. (STC)'s revenue soared 4.7% YoY to SAR 16.5bn in 3Q22 on increase in revenue contribution from its Enterprise, Consumer, and Wholesale business units during the quarter. Cost of sales plunged 12.7% YoY, resulting in a 20.0% YoY surge in gross profit to SAR 10.0bn in 3Q22. Consequently, gross margin expanded 778 bps YoY to 61.0% during the quarter. Despite a rise in selling and marketing, and general and administrative expenses, the company's operating profit climbed 43.4% YoY to SAR 4.6bn in 3Q22. Consequently, operating margin widened 751 bps YoY to 27.8% in 3Q22. Total expenses surged during the quarter, owing to impairment provision related to BGSM investment, which amounted to SAR 722mn. However, net income surged 21.1% YoY to SAR 3.5bn during the quarter, supported by an increase in finance and other income. Consequently, net margin advanced 292 bps YoY to 21.5% in 3Q22.

STC reported robust performance in 3Q22 as its top line and bottom line advanced 4.7% and 21.1% YoY, respectively. The rise in the top line was supported by improved performance in the Enterprise, Consumer, and Wholesale business units, which advanced 12.4%, 6.9%, and 7.3% YoY, respectively. The increased pace of STC group's digital transformation supported growth in the enterprise business unit. The rise in consumer revenue was supported by an increase in FTTH subscribers, fixed wireless access subscribers, and working lines by 1.5% YoY, 18.1% YoY, and 5.9% YoY, respectively. Increase in mobility revenue by 8% and resident segment revenue by 1.6% also supported consumer business unit growth. The company's telecom revenue soared 7.9% YoY to SAR 12.4bn, that from solutions advanced 14.1% YoY to SAR 2.2bn, and that from other operating segments rose 8.9% YoY to SAR 2.7bn during the quarter. The growth, however, was slightly offset by a 45.3% YoY fall in revenue from channels by the STC segment. As of 3Q22, the company deployed 7,247 5G towers across the KSA. The company faces certain headwinds in the form of stringent regulation and intense competition in the telecom sector. Nevertheless, STC continue to improve operational performance and maintain its network leadership in the KSA. Additionally, the company's healthy balance sheet, supported by a low leverage level, would help invest in new growth opportunities. Hence, we retain our "Overweight" rating on the stock.

- STC's revenue increased 4.7% YoY to SAR 16.5bn in 3Q22, driven by improved revenue contribution across business segments, except channels by STC, during the quarter.
- Gross profit soared 20.0% YoY to SAR 10.0bn, as cost of sales fell 12.7% YoY during the quarter. Consequently, gross margin expanded to 61.0% in 3Q22 from 53.2% in 3Q21.
- Increase in the top line countervailed the rise in SG&A expenses and resulted in a 43.4% YoY surge in operating income to SAR 4.6bn during the quarter. Subsequently, EBIT margin expanded to 27.8% in 3Q22 from 20.3% in 3Q21.
- The rise in finance cost and losses from equity-accounted investees was offset by the fall in early retirement cost and rise in commission and other income and led to 21.1% YoY growth in net income to SAR 3.5bn in 3Q22. Consequently, net margin advanced to 21.5% from 18.6% in 3Q21.
- STC's board of directors recommended 4% cash dividend for 3Q22 at SAR 0.4 per share, amounting to SAR 2.0bn.
- On November 10, 2022, STC inked a binding agreement with Arabian Internet and Communications Services Co. (solutions) to sell its entire 49% stake in Contact Center Co. for cash consideration.

Valuation: We revise our target price to a fair value of SAR 47.1 per share but maintain our "Overweight" rating on the stock.

	3Q22	3Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	16,468	15,735	4.7%	67,332	63,417	6.2%
Gross Profit (SAR mn)	10,040	8,369	20.0%	37,706	33,794	11.6%
EBITDA (SAR mn)	7,073	5,606	26.2%	26,278	22,841	15.1%
Net Profit (SAR mn)	3,541	2,924	21.1%	12,716	11,311	12.4%
EPS Basic (SAR)*	0.71	0.58	21.1%	2.54	2.26	12.4%
Gross Margin (%)	61.0%	53.2%	7.8%	56.0%	53.3%	2.7%
EBITDA Margin (%)	43.0%	35.6%	7.3%	39.0%	36.0%	3.0%
Net Profit Margin (%)	21.5%	18.6%	2.9%	18.9%	17.8%	1.0%

Source: Company Financials, Yaqeen Capital.

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Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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