

## Saudi Telecom Company (STC)

Increase in mobile subscribers coupled with higher contributions from subsidiaries drove top-line

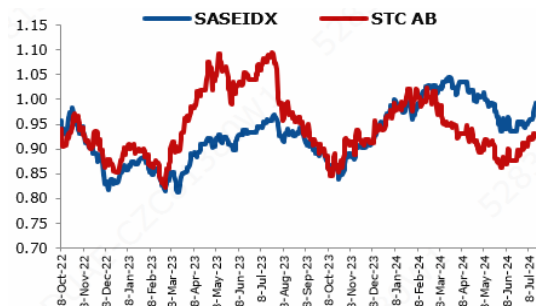
**Current Price**  
SAR 38.65

**Target Price**  
SAR 46.00

**Upside/Downside (%)**  
+19%

**Rating**  
BUY

- STC's KSA Mobile subscribers rose 9.7% YOY to 27.4 Mn in 2Q24, while fixed subscribers marginally increased 2.5% YOY to 5.7 Mn in 2Q24.
- STC Group established a strategic partnership with PLDT to provide international voice services for Filipinos and enterprise customers engaged in international travel.
- The Company signed an agreement with Saudi Cloud Computing Company (SCCC) to establish a center of excellence in the Kingdom utilizing Alibaba's Cloud services.
- STC announced an interim dividend of SAR 0.4 per share for the period 2Q24, amounting to a total dividend of SAR 1,995 Mn
- STC Bank launched the Beta version after receiving formal approval from SAMA.



### 2Q24 Net Profit higher than our estimate

STC Group ("STC, "the Company") recorded a 9.8% YOY growth in net profit to SAR 3,304 Mn in 2Q24, higher than our estimate of SAR 3,090 Mn. The growth in profit is mainly attributable to the increase in revenues and improved gross margins coupled with a decline in operating expenses partially offset by an increase in the cost of revenue, cost of the early retirement program, and net finance cost coupled with a decline in net other gains.

### P&L Highlights

STC's revenue grew 4.5% YOY to SAR 19.2 Bn in 2Q24 owing to a rise in subscriber base and an increased contribution from STC subsidiaries. STC KSA's mobile subscribers rose 9.7% YOY to 27.4 Mn in 2Q24, while the fixed subscriber base increased 2.5% YOY to 5.65 Mn. Channel segment revenue rose 2.1% YOY to SAR 3.8 Bn in 2Q24, while Solutions segment revenue grew 2.6% YOY to SAR 2.8 Bn. STC's direct cost grew 2.9% YOY to SAR 9.6 Bn in 2Q24. Thus, gross profit increased 6.2% YOY to SAR 9.6 Bn in 2Q24. Gross profit margin increased 78 bps YOY and 82 bps QOQ to 50.0% in 2Q24. Selling and overhead expenses declined 3.2% YOY to SAR 1.5 Bn YOY in 2Q24. Moreover, G&A Expenses fell 6.0% YOY to SAR 1.6 Bn in 2Q24. As a result, the Company's EBITDA rose 10.2% YOY to SAR 6.4 Bn in 2Q24. EBITDA margin increased from 31.8% in 2Q23 to 33.5% in 2Q24. Depreciation and amortization expenses marginally declined 0.4% YOY to SAR 2.5 Bn in 2Q24. Thus, operating profit rose 18.4% YOY to SAR 3.9 Bn in 2Q24 with a 238 bps YOY and 9 bps QOQ growth in operating margin to 20.3%. The Company's other expenses rose from SAR 37 Mn in 2Q23 to SAR 122 Mn in 2Q24. STC's finance income rose 14.1% YOY to SAR 436 Mn in 2Q24. On the other hand, finance charges increased significantly from SAR 248 Mn in 2Q23 to SAR 505 Mn in 2Q24 due to a significant increase in debt. In addition, zakat

### Stock Information

Market Cap (SAR, Mn)	193,250.00
Paid Up Capital (Mn)	50,000.00
52 Week High	43.92
52 Week Low	34.09
3M Avg. daily value (SAR)	140,779,300

### 2Q24 Result Review (SAR, Mn)

Total Assets	160,039
Total Liabilities	81,092
Total Equity	76,401
EBITDA	6,415
Net Profit	3,304

### Financial Ratios

Dividend Yield (12m)	6.73
Dividend Pay-out (%)	59.98
Price-Earnings Ratio(x)	14.30
Price-to-Book Ratio (x)	2.39
Book Value (SAR)	16.14
Return-on Equity (%)	17.38

### Stock Performance

5 Days	-0.51%
1 Months	1.44%
3 Months	2.66%
6 Months	-4.95%
1 Year	-10.52%
Month to Date (MTD%)	1.44%
Quarter to Date (QTD%)	1.44%
Year to Date (YTD%)	-1.77%

expense declined 7.1% YOY to SAR 307 Mn in 2Q24. The share of profit attributable to non-controlling interest holders increased from SAR 39 Mn in 2Q23 to SAR 82 Mn in 2Q24.

### Balance Sheet Highlights

STC's total borrowings increased significantly from SAR 10.7 Bn in 2Q23 to SAR 23.9 Bn in 2Q24. Cash and cash equivalent increased from SAR 22.4 Bn in 2Q23 to SAR 26.4 Bn in 2Q24. The Company's free cash flow stood at SAR 3.4 Bn in 1H24 compared to SAR 1.6 Bn in 1H23. Working capital declined 9.8% YOY to SAR 24.0 Bn in 2Q24. STC's total assets grew 14.1% YOY to SAR 160.0 Bn in 2Q24.

### Target Price and Rating

We maintain our BUY rating on Saudi Telecom Company with an unchanged target price of SAR 46.00. STC's KSA Mobile subscribers rose 9.7% YOY to 27.4 Mn in 2Q24 and fixed subscribers increased 2.5% YOY to 5.7 Mn. Strong growth in the subscriber base drove profitability. Voice call volumes in the Mosque of Makkah rose 13% YOY in Ramadan while data volumes witnessed a 38% YOY increase due to solid technological developments and enhanced efficiency of services. Also, the Company increased its digital capacity and services to accommodate a large number of visitors in Madinah city. STC Group increased data network capacity in Madinah city by 35% YOY and reinforced 5G services to meet the growing demand resulting in the 60% additional data capacity compared to the previous year. STC Pay received formal approval from the Saudi Central Bank (SAMA) for Beta launch in April 2024, which will be available for selected customers and marks as the next step for STC Pay's transition into STC Bank. Additionally, STC Group signed a strategic agreement with PLDT to deliver seamless international voice services for Filipinos living overseas and enterprise customers. The agreement positions the Company as an exclusive international voice traffic aggregator for PLDT and Smart. STC Group also entered into a strategic partnership with Saudi Cloud Computing Company (SCCC) to establish a center of excellence in the KSA. The Company plans to accelerate the Kingdom's digital transformation by utilizing Alibaba Cloud technologies to provide advanced digital platforms and cloud solutions to meet customer expectations. The Company announced an interim dividend of SAR 0.40 per share amounting to SAR 1,995 Mn for 2Q24 in line with the three-year dividend policy started in 4Q21. STC is expected to increase the minimum dividend in the new policy. Thus, based on our analysis, we assign a BUY rating on the stock.

### STC - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	18.4	17.8	17.3	16.1	14.7	14.8
PB	3.2	3.1	2.8	2.7	2.5	2.5
EV/EBITDA	9.2	8.4	8.4	7.3	7.8	7.3
Dividend yield	4.1%	5.1%	4.1%	4.1%	6.7%	4.1%

FABS Estimates & Co Data

**STC – P&L**

SAR Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Sales	18,327	19,100	19,155	19,356	-1.0%	4.5%	0.3%	72,337	76,995	6.4%
Cost of Sales	-9,312	-9,714	-9,584	-9,968	-3.9%	2.9%	-1.3%	-34,533	-37,727	9.3%
<b>Gross profit</b>	<b>9,015</b>	<b>9,386</b>	<b>9,571</b>	<b>9,388</b>	<b>2.0%</b>	<b>6.2%</b>	<b>2.0%</b>	<b>37,804</b>	<b>39,267</b>	<b>3.9%</b>
Selling & overhead exp.	-1,567	-1,232	-1,517	-1,316	15.3%	-3.2%	23.1%	-5,914	-5,775	-2.4%
G&A expenses	-1,745	-1,680	-1,640	-1,781	-7.9%	-6.0%	-2.4%	-7,206	-7,084	-1.7%
<b>EBITDA</b>	<b>5,821</b>	<b>6,474</b>	<b>6,415</b>	<b>6,291</b>	<b>2.0%</b>	<b>10.2%</b>	<b>-0.9%</b>	<b>24,683</b>	<b>26,409</b>	<b>7.0%</b>
Dep & Amort	-2,540	-2,618	-2,530	-2,642	-4.2%	-0.4%	-3.4%	-10,483	-10,567	0.8%
<b>Operating profit</b>	<b>3,281</b>	<b>3,856</b>	<b>3,885</b>	<b>3,649</b>	<b>6.5%</b>	<b>18.4%</b>	<b>0.7%</b>	<b>14,200</b>	<b>15,843</b>	<b>11.6%</b>
Other income/(exp)	-37	-306	-122	-286	-57.3%	NM	-60.0%	353	-1,063	NM
Finance Income	382	442	436	387	12.6%	14.1%	-1.4%	1,513	1,745	15.4%
Financial charges	-248	-415	-505	-386	30.8%	NM	21.7%	-1,271	-1,829	43.9%
<b>Profit before zakat</b>	<b>3,379</b>	<b>3,577</b>	<b>3,694</b>	<b>3,363</b>	<b>9.8%</b>	<b>9.3%</b>	<b>3.3%</b>	<b>14,795</b>	<b>14,697</b>	<b>-0.7%</b>
Zakat	-331	-246	-307	-235	30.5%	-7.1%	24.8%	-1,375	-1,293	-6.0%
<b>Profit before NCI</b>	<b>3,048</b>	<b>3,331</b>	<b>3,386</b>	<b>3,128</b>	<b>8.3%</b>	<b>11.1%</b>	<b>1.7%</b>	<b>13,419</b>	<b>13,403</b>	<b>-0.1%</b>
NCI	39	45	82	38	NM	NM	NM	124	168	35.0%
<b>Net Profit</b>	<b>3,008</b>	<b>3,286</b>	<b>3,304</b>	<b>3,090</b>	<b>6.9%</b>	<b>9.8%</b>	<b>0.6%</b>	<b>13,295</b>	<b>13,236</b>	<b>-0.4%</b>

FABS estimate & Co Data

**STC – Margins**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Gross Profit	49.2%	49.1%	50.0%	78	82	52.3%	51.0%	-126
EBITDA	31.8%	33.9%	33.5%	173	-41	34.1%	34.3%	18
Operating Profit	17.9%	20.2%	20.3%	238	9	19.6%	20.6%	95
Net Profit	16.4%	17.2%	17.2%	84	5	18.4%	17.2%	-119

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Saudi Telecom Company. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	49.14	70.0%	34.40
Relative Valuation (RV)	38.68	30.0%	11.60
<b>Weighted Average Valuation (SAR)</b>			<b>46.00</b>
Current market price (SAR)			38.65
Upside/Downside (%)			+19%

### 1) DCF Method:

STC is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.8%. It is arrived after using cost of equity of 9.1% and after-tax cost of debt of 6.7% with debt-to-equity ratio of 12.2%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 1.00 and equity risk premium of 4.1%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. The cost of debt is calculated using the cost of 7.3% after adjusting a tax rate arriving at after-tax cost of debt of 6.7%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	59,650
Terminal value (SAR, Mn)	186,048
<b>FV to Common shareholders (SAR, Mn)</b>	<b>245,698</b>
No. of share (Mn)	5,000
Current Market Price (SAR)	38.65
<b>Fair Value per share (SAR)</b>	<b>49.14</b>

### DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	<b>15,336</b>	<b>16,053</b>	<b>16,930</b>	<b>17,905</b>	<b>18,388</b>
Depreciation and Amortization	10,567	11,261	11,687	12,197	12,920
(-) CAPEX	-13,441	-13,646	-13,701	-13,592	-13,643
(-) Change in Net Working Capital	-9,357	5,600	969	2,649	563
<b>Free Cash Flow to Equity (FCFF)</b>	<b>3,104</b>	<b>19,268</b>	<b>15,885</b>	<b>19,159</b>	<b>18,228</b>
Discounting Factor	0.96	0.88	0.81	0.74	0.68
<b>Discounted FCFF</b>	<b>2,991</b>	<b>17,038</b>	<b>12,891</b>	<b>14,270</b>	<b>12,460</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local as well as international peers to value STC and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 7.1x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Etihad Etisalat Company (Mobily)	10,830	7.0x	6.3x	17.3x	13.9x
Thaicom	362	12.9x	16.0x	40.3x	68.0x
Emirates Telecommunications Group Company	39,680	6.3x	6.0x	14.3x	13.2x
Telstra Group Ltd	29,530	7.1x	6.8x	22.0x	20.7x
Bharti Airtel	105,000	11.8x	11.3x	96.0x	40.2x
<b>Average</b>		<b>9.0x</b>	<b>9.3x</b>	<b>38.0x</b>	<b>31.2x</b>
<b>Median</b>		<b>7.1x</b>	<b>6.8x</b>	<b>22.0x</b>	<b>20.7x</b>
<b>Max</b>		<b>11.8x</b>	<b>11.3x</b>	<b>40.3x</b>	<b>40.2x</b>
<b>Min</b>		<b>7.0x</b>	<b>6.3x</b>	<b>17.3x</b>	<b>13.9x</b>

Source: FAB Securities

**Research Rating Methodology:**

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Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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