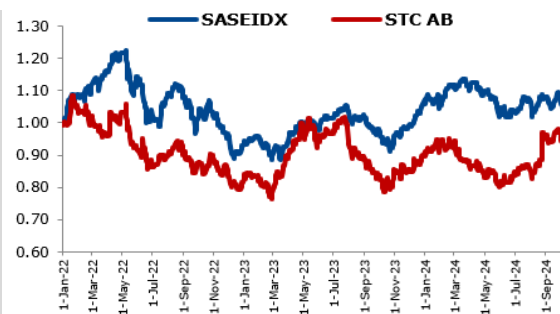


Saudi Telecom Company (STC)

Higher operating expenses and a decline in other income impacted the bottom line

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 39.70	SAR 46.00	+16%	BUY

- STC's KSA Mobile subscribers rose 7.9% YOY to 27.6 Mn in 3Q24. While fixed subscribers marginally increased 2.3% YOY to 5.7 Mn in 3Q24.
- STC Group entered into an agreement with Saudi PIF for the sale of a 51% stake in Tawal, tower owning and operating entity of STC, which is expected to operate a portfolio of more than 30K towers.
- The Company operates 8.8K+ 5G towers with 50.0% coverage of populated and residential areas in KSA.
- STC announced a new dividend policy for three years starting from 4Q24 to distribute a dividend of SAR 0.55 per share per quarter till 3Q27.



3Q24 Net Profit higher than our estimate

STC Group ("STC, "the Company") recorded a 5.3% YOY decline in net profit to SAR 4,643 Mn in 3Q24, higher than our estimate of SAR 3,809 Mn. The decline in profit is mainly attributable to the increase in operating expenses coupled with a decline in other income partially offset by an increase in revenue, a decrease in direct costs, an increase in finance income, a decline in zakat expenses cost, and an increase in profit from the discontinued operation.

P&L Highlights

STC's revenue grew 3.4% YOY to SAR 18,643 Mn in 3Q24 owing to a rise in revenue from STC's KSA and its subsidiaries. STC's KSA revenue increased 0.5% YOY to SAR 12,442 Mn in 3Q24, driven by a rise in its subscriber base. STC KSA's fixed subscribers base grew 2.3% YOY to 5.8 Mn in 3Q24, while the mobile subscriber base boosted 7.9% YOY to 27.6 Mn in 3Q24. STC's Channel's revenue expanded 11.4% YOY to 3,583 Mn in 3Q24. STC Kuwait's revenue increased 3.9% YOY to SAR 1,070 Mn in 3Q24, however, its mobile-based subscribers reduced 4.2% YOY to 2.3 Mn in 3Q24. STC's Bank revenue grew 6.8% YOY to SAR 320 Mn in 3Q24, coupled with a significant increase in other operating segments by 38.9% YOY to SAR 616 Mn in 3Q24. The Company's direct costs declined 2.0% YOY to SAR 8,247 Mn in 3Q24 attributed to a reversal of a withholding tax provision of SAR 1,500 Mn in 3Q24 compared to a reversal of a provision of non-recurring item of SAR 641 Mn in 3Q24. Thus, gross profit increased 8.1% YOY to SAR 10,395 Mn in 3Q24. Selling & overhead expenses increased 18.2% YOY to SAR 1,937 Mn in 3Q24 due to the booking of doubtful debt provision amounting to SAR 554 Mn, coupled with an increase in G&A expenses by 5.1% YOY to SAR 1,672 Mn in 3Q24. Hence, EBITDA expanded 6.2% YOY to SAR 6,786 Mn in 3Q24. Moreover, EBITDA margin of the Company expanded by

Stock Information

Market Cap (SAR, Mn)	199,250.00
Paid Up Capital (Mn)	50,000.00
52 Week High	46.50
52 Week Low	35.85
3M Avg. daily value(SAR)	258,490,900

3Q24 Result Review (SAR, Mn)

Total Assets	161,852
Total Liabilities	79,909
Total Equity	81,944
EBITDA	6,786
Net Profit	4,643

Dividend Yield (12m)	6.52
Dividend Pay-out (%)	59.98
Price-Earnings Ratio(x)	15.13
Price-to-Book Ratio (x)	2.51
Book Value (SAR)	15.90
Return-on Equity (%)	17.08

Stock Performance

5 Days	-0.87%
1 Months	-6.12%
3 Months	0.25%
6 Months	4.87%
1 Year	6.83%
Month to Date (MTD%)	-5.46%
Quarter to Date (QTD%)	-8.81%
Year to Date (YTD%)	1.28%

97 bps YOY and 291 bps QOQ to 36.4% in 3Q24. STC's depreciation expenses grew 2.6% YOY to SAR 2,376 Mn in 3Q24. Hence Company's operating profit was boosted by 8.3% YOY to SAR 4,410 Mn in 3Q24 and the operating profit margin grew 107 bps YOY to 23.7% in 3Q24. STC finance income increased 26.4% YOY to 417 Mn in 3Q24, partially offset by growth in financial charges by 15.9% YOY to SAR 276 Mn in 3Q24. However, the Company recorded other expenses of SAR 47 Mn in 3Q24 against other income of SAR 963 Mn in 3Q23 due to recording a gain from the land sold in Alkhobar City amounting to SAR 1,296 Mn. Thus, profit before zakat declined 12.2% YOY to SAR 4,504 Mn in 3Q24. STC's Zakat expenses declined 48.6% YOY to SAR 177 Mn in 3Q24. Profit before NCI fell 9.6% YOY to SAR 4,327 Mn in 3Q24. The Company's profit from discontinued operations boosted significantly by 101.6% to SAR 385 Mn in 3Q24.

Balance Sheet Highlights

Total borrowings declined significantly from SAR 23.8 Bn in 2Q24 to SAR 15.3 Bn in 3Q24. The Company's cash & cash equivalent stood at SAR 24.4 Bn in 3Q24. Thus, net cash increased from SAR 2.5 Bn in 2Q24 to SAR 9.1 Bn in 3Q24. STC's shareholder's equity after deducting non-controlling interest stood at SAR 79.3 Bn in 3Q24. The Company incurred a capex of SAR 7.24 Bn during 9M24. STC's total assets increased from AED 160.0 Bn in 2Q24 to 161.9 Bn in 3Q24.

Target Price and Rating

We maintain our BUY rating on Saudi Telecom Company with an unchanged target price of SAR 46.00. STC experienced revenue growth from both its KSA and its subsidiaries. In 3Q24, STC's KSA fixed subscribers rose 2.3% YOY to 5.7 Mn, and mobile subscribers increased 7.9% YOY to 27.6 Mn. The Company's borrowing declined substantially from 23.9 Bn in 2Q24 to 15.3 Bn in 3Q24, reflecting effective debt management by the Company. STC's EBITDA margin was boosted by 97 bps YOY in 3Q24 due to its prudent approach to cost management. STC has taken multiple steps to enhance communication and technology to increase its customer base and product range. The Company collaborated with China Mobile International Limited to boost the development of IoT connectivity services in multiple industries across the region. The Company established a strategic partnership with its subsidiaries, Sirar and Saudi Railway Company to transform the field of information technology and innovation. The Company also signed a triparty MoU with Flynas Airlines and Sky Five Arabia to accelerate the inflight connective experience. STC's Solution segment along with US-based Nile entered a strategic joint venture to boost the network solution in Saudi Arabia. Further, STC signed a strategic agreement with PLDT, an integrated Telecom company in the Philippines to execute international voice service for Filipinos abroad. Additionally, the Company has launched a network for the development of digital infrastructure for seamless sharing infrastructure for various significant projects in the Kingdom. The Company has deployed more than 8.8K 5G towers, with 49.95% coverage in the Saudi region. STC also has more than 21K towers under management across five countries. The Company also entered into a sales agreement with PIF of Saudi Arabia for Tawal, a tower management entity of STC, whereby, PIF will acquire 51% stakes in the Tawal and joint entity plans to own and manage a portfolio of around 30,000 towers across 5 countries. STC has also signed a strategic partnership with New Murabba to build advanced communications and information technologies at New Murabba. The STC Bank also became the founding partner of Saudi Arabia's new fintech program, 24 Fintech which hosted finance, policy, technology, and investment leaders in Riyadh. The Company announced a new dividend policy for the next three years starting from 4Q24 to pay a dividend of SAR 0.55 per share compared to the previous SAR 0.4 every quarter till 3Q27. 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	18.8	18.2	17.7	16.4	15.0	13.3
PB	3.2	3.1	2.9	2.7	2.5	2.5
EV/EBITDA	9.4	8.6	8.5	7.5	8.0	7.5
Dividend yield	4.0%	5.0%	4.0%	4.0%	6.5%	4.4%

FABS Estimates & Co Data

STC – P&L

SAR Mn	3Q23	2Q24	3Q24	3Q24F	Var(%)	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Sales	18,034	19,155	18,643	19,019	-2.0%	3.4%	-2.7%	72,337	74,828	3.4%
Cost of Sales	-8,415	-9,584	-8,247	-8,368	-1.4%	-2.0%	-13.9%	-34,533	-36,441	5.5%
Gross profit	9,620	9,571	10,395	10,650	-2.4%	8.1%	8.6%	37,804	38,387	1.5%
Selling & overhead exp.	-1,640	-1,517	-1,937	-1,712	13.2%	18.2%	27.7%	-5,914	-5,986	1.2%
G&A expenses	-1,591	-1,639	-1,672	-1,807	-7.4%	5.1%	2.0%	-7,206	-6,547	-9.1%
EBITDA	6,389	6,415	6,786	7,132	-4.9%	6.2%	5.8%	24,683	25,853	4.7%
Dep & Amort	-2,316	-2,530	-2,376	-2,597	-8.5%	2.6%	-6.1%	-10,483	-10,098	-3.7%
Operating profit	4,074	3,885	4,410	4,535	-2.8%	8.3%	13.5%	14,200	15,755	10.9%
Other income/(exp)	963	-121	-47	-314	-85.1%	NM	-61.3%	353	-935	NM
Finance Income	330	436	417	456	-8.7%	26.4%	-4.3%	1,513	1,745	15.4%
Financial charges	-238	-505	-276	-454	-39.2%	15.9%	-45.4%	-1,271	-1,481	16.5%
Profit before zakat	5,128	3,694	4,504	4,224	6.6%	-12.2%	21.9%	14,795	15,085	2.0%
Zakat	-343	-307	-177	-338	-47.7%	-48.6%	-42.5%	-1,375	-905	-34.2%
Profit before NCI	4,785	3,387	4,327	3,886	11.3%	-9.6%	27.8%	13,419	14,179	5.7%
Profit from Disc. Oper	191	0	385	0	NM	101.6%	NM	0	1,066	NM
NCI	72	82	70	78	-10.4%	-2.8%	-15.6%	124	255	105.7%
Net Profit	4,904	3,304	4,643	3,809	21.9%	-5.3%	40.5%	13,295	14,990	12.7%

FABS estimate & Co Data

STC – Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Gross Profit	53.3%	50.0%	55.8%	242	579	52.3%	51.3%	-96
EBITDA	35.4%	33.5%	36.4%	97	291	34.1%	34.6%	43
Operating Profit	22.6%	20.3%	23.7%	107	337	19.6%	21.1%	142
Net Profit	27.2%	17.3%	24.9%	-229	765	18.4%	20.0%	165

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	48.24	70.0%	33.77
Relative Valuation (RV)	40.78	30.0%	12.23
Weighted Average Valuation (SAR)			46.00
Current market price (SAR)			39.70
Upside/Downside (%)			+15.0%

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 8.7%. It is arrived after using a cost of equity of 9.0% and after-tax cost of debt of 6.6% with a debt-to-equity ratio of 10.7%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, 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 7.0% after adjusting a tax rate arriving at after-tax cost of debt of 6.6%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	53,157
Terminal value (SAR, Mn)	181,600
FV to Common shareholders (SAR, Mn)	234,757
No. of share (Mn)	5,000
Current Market Price (SAR)	39.70
Fair Value per share (SAR)	48.24

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	15,251	14,947	15,814	16,756	17,217
Depreciation and Amortization	10,098	11,226	11,624	12,114	12,818
(-) CAPEX	-13,333	-13,477	-13,531	-13,417	-13,465
(-) Change in Net Working Capital	-9,164	3,132	844	2,453	453
Free Cash Flow to Equity (FCFF)	2,853	15,828	14,751	17,906	17,022
Discounting Factor	0.99	0.91	0.84	0.77	0.70
Discounted FCFF	706¹	14,395	12,322	13,738	11,996

Source: FAB Securities, ¹Adjusted for Partial Year

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 7.4x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Etihad Etisalat Company (Mobily)	10,824	7.0x	6.6x	15.3x	13.6x
Thaicom	397	11.8x	13.5x	66.3x	68.7x
Emirates Telecommunications Group Company	41,198	7.0x	6.3x	13.0x	12.3x
Telstra Group Ltd	29,167	7.4x	7.1x	20.2x	18.4x
Bharti Airtel	109,776	13.0x	11.2x	47.0x	32.5x
Average		9.2x	8.9x	32.4x	29.1x
Median		7.4x	7.1x	20.2x	18.4x
Max		11.8x	11.2x	47.0x	32.5x
Min		7.0x	6.6x	15.3x	13.6x

Source: FAB Securities

