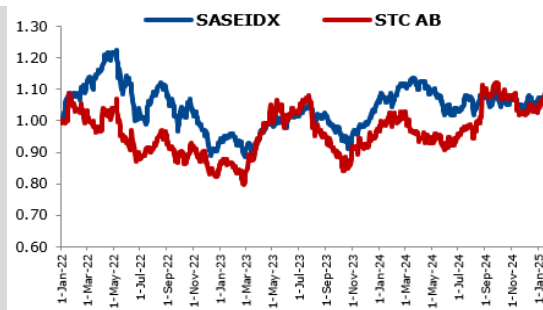


Saudi Telecom Company (STC)

One-off gain from sale of controlling stake in subsidiaries boosted profitability

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 44.00	SAR 46.00	+4.5%	HOLD

- EBITDA expanded 13.6% YOY to SAR 5,570 Mn in 4Q24. EBITDA margin of the Company expanded by 102 bps YOY to 28.9% in 4Q24.
- STC Group completed the sale of a 51% stake in TAWAL to PIF.
- Solutions segment revenue rose 30.1% YOY to SAR 3,731 Mn in 4Q24.
- The Company announced a special dividend of SAR 2 per share for FY2024, in addition to SAR 0.55 per share for 4Q24.
- STC's KSA fixed subscribers rose 2.7% YOY to 5.7 Mn, and mobile subscribers increased 7.1 % YOY to 28.3 Mn in FY2024.



Stock Information

Market Cap (SAR, Mn)	218,750.00
Paid Up Capital (Mn)	50,000.00
52 Week High	46.70
52 Week Low	35.85
3M Avg. daily value (SAR)	164,840,200

4Q24 Net Profit higher than our estimate

STC Group ("STC, "the Company") recorded a net profit of SAR 13,456 Mn in 4Q24, higher than our estimate of SAR 2,898 Mn. The increase in profit is mainly attributable to the one-off gain from sale of controlling interest in Tawal and Digital Infrastructure for Investment Company, partially offset by an increase in zakat and other expenses due to one off impact of cost of early retirement program.

P&L Highlights

STC's revenue grew 9.6% YOY to SAR 19,266 Mn in 4Q24 owing to a rise in revenue from Solutions, STC Bank, and Sirar segment. STC's KSA revenue increased 1.7% YOY to SAR 12,408 Mn in 4Q24, driven by a rise in its subscriber base. STC's KSA fixed subscribers rose 2.7% YOY to 5.7 Mn, and mobile subscribers increased 7.1 % YOY to 28.3 Mn in FY2024. STC's Channel's revenue expanded 2.5% YOY to 3,529 Mn in 4Q24. STC Kuwait's revenue increased 7.8% YOY to SAR 890 Mn in 4Q24, however, its mobile-based subscribers reduced 0.4% YOY to 2.3 Mn in 4Q24. STC's Bank revenue grew 14.6% YOY to SAR 338 Mn in 4Q24. Solutions segment revenue rose 30.1% YOY to SAR 3,731 Mn in 4Q24. STC Bahrain revenue rose marginally 0.8% YOY to SAR 484 Mn in 4Q24 weighed down by a 1.7% YOY decline in subscriber base to 866 thousand. Sirar segment revenue grew from SAR 169 Mn in 4Q23 to SAR 322 Mn in 4Q24. The Company's direct costs increased 4.5% YOY to SAR 9,850 Mn in 4Q24. Thus, gross profit increased 15.4% YOY to SAR 9,416 Mn in 4Q24. Gross profit margin rose 247 bps YOY to 48.9% in 4Q24. Operating expenses increased 18.2% YOY to SAR 3,846 Mn in 4Q24. Hence, EBITDA expanded 13.6% YOY to SAR 5,570 Mn in 4Q24. EBITDA margin of the Company expanded by STC's depreciation and amortization expenses grew 8.8% YOY to SAR 1,976 Mn in 4Q24.

4Q24 Result Review (SAR, Mn)

Total Assets	160,638
Total Liabilities	68,153
Total Equity	92,485
EBITDA	5,570
Net Profit	13,456

Dividend Yield (12m)	6.29
Dividend Pay-out (%)	102.39
Price-Earnings Ratio(x)	19.63
Price-to-Book Ratio (x)	2.44
Book Value (SAR)	17.93
Return-on Equity (%)	29.32

Stock Performance

5 Days	-1.91%
1 Months	-1.24%
3 Months	6.97%
6 Months	3.43%
1 Year	12.73%
Month to Date (MTD%)	-3.31%
Quarter to Date (QTD%)	9.38%
Year to Date (YTD%)	9.38%

Hence Company's operating profit was boosted by 17.3% YOY to SAR 2,970 Mn in 4Q24 and the operating profit margin grew 101 bps YOY to 15.4% in 4Q24.

Balance Sheet Highlights

Total borrowings declined from SAR 15.3 Bn in 3Q24 to SAR 15.1 Bn in 4Q24. The Company's cash & cash equivalent stood at SAR 30.8 Bn in 4Q24, compared to SAR 24.4 Bn in 3Q24. STC's shareholder's equity after deducting non-controlling interest stood at SAR 92.5 Bn in 4Q24. The Company incurred a capex of SAR 11.9 Bn with a capex intensity of 15.7% during FY2024. STC's total assets increased from SAR 161.9 Bn in 3Q24 to 160.6 Bn in 4Q24.

Target Price and Rating

We maintain our HOLD rating on Saudi Telecom Company with an unchanged target price of SAR 46.00. STC witnessed robust financial performance in FY2024. In 4Q24, STC's KSA fixed subscribers rose 2.7% YOY to 5.7 Mn, and mobile subscribers increased 7.1 % YOY to 28.3 Mn. The mobile subscriber base in Kuwait and Bahrain stood at 2.3 Mn and 866 thousand respectively as of 4Q24. The Company secured a landmark contract with a government entity for developing and providing communication infrastructure services. The project will span 15 years, with an 18-month preparation and execution period. The revenue will be recognized after the initial operations phase, starting in 4Q26. STC Group partnered with Cohere to enhance AI-driven operations and customer engagement in the Middle East. The collaboration will focus on AI-powered solutions like a customized language model and virtual assistants to boost productivity. This partnership reinforces stc's commitment to driving innovation and digital transformation. STC Group is expanding its data center and submarine cable development. The key projects include the development of a cutting-edge Data Center Park in Bahrain, as part of the "Africa 2 Pearls" submarine cable system. The project, spanning across 45,000 kilometers, is a USD 300 Mn investment. The Company anticipates a modest increase in the capex owing to the recently announced government projects and data center expansion. STC Group acquired a 9.9% stake in Telefónica, valued at EUR 2.1 Bn (SAR 8.5 Bn). On December 31st, 2024, STC Group completed the sale of a 51% stake in TAWAL to PIF, following all necessary approvals. The transfer of Golden Lattice Investment Company (GLIC) to a new entity was also finalized. This collaboration consolidates TAWAL and GLIC, making PIF the majority shareholder with 54.38%, while stc retains 43.06%. The acquisition, partnerships, and government contract are poised to benefit the topline. The Company announced a special dividend of SAR 2 per share for FY2024, in addition to SAR 0.55 per share cash dividends for 4Q24. Thus, based on our analysis, we assign a HOLD rating on the stock.

STC - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	19.96	19.41	18.04	16.51	8.89	16.4
PB	3.43	3.17	2.99	2.78	2.45	2.7
EV/EBITDA	9.52	9.40	8.24	9.62	8.90	8.2
Dividend yield	4.6%	3.6%	3.6%	5.9%	4.0%	5.0%

FABS Estimates & Co Data

STC – P&L

SAR Mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	YOY Ch
Revenue	17,580	18,643	19,266	18,433	4.5%	9.6%	3.3%	71,777	75,893	5.7%
Direct costs	-9,422	-8,248	-9,850	-9,141	7.8%	4.5%	19.4%	-37,037	-38,593	4.2%
Gross profit	8,158	10,395	9,416	9,292	1.3%	15.4%	-9.4%	34,740	37,300	7.4%
Operating expenses	-3,254	-3,609	-3,846	-3,655	5.2%	18.2%	6.6%	-12,295	-13,375	8.8%
EBITDA	4,904	6,786	5,570	5,636	-1.2%	13.6%	-17.9%	22,445	23,926	6.6%
Depreciation & amort	-1,816	-2,376	-1,976	-2,576	-23.3%	8.8%	-16.8%	-9,284	-9,500	2.3%
Operating profit	2,532	4,410	2,970	3,061	-3.0%	17.3%	-32.7%	13,161	14,426	9.6%
Profit attributable	2,275	4,643	13,456	2,898	NM	NM	NM	13,295	24,689	85.7%

FABS estimate & Co Data

STC – Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	YOY Ch
Gross Profit	46.4%	55.8%	48.9%	247	-688	48.4%	49.1%	75
EBITDA	27.9%	36.4%	28.9%	102	-749	31.3%	31.5%	25
Operating Profit	14.4%	23.7%	15.4%	101	-824	18.3%	19.0%	67
Net Profit	12.9%	24.9%	69.8%	5690	4494	18.5%	32.5%	1401

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	47.09	70.0%	32.96
Relative Valuation (RV)	43.45	30.0%	13.04
Weighted Average Valuation (SAR)			46.00
Current market price (SAR)			44.00
Upside/Downside (%)			+4.5%

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 9.1%. It is arrived after using a cost of equity of 9.3% and after-tax cost of debt of 6.0% with a debt-to-equity ratio of 6.9%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 1.00 and equity risk premium of 4.0%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. The cost of debt is after adjusting a tax rate arriving at after-tax cost of debt of 6.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	52,243
Terminal value (SAR, Mn)	1,53,139
FV to Common shareholders (SAR, Mn)	2,05,383
No. of share (Mn)	5,000
Current Market Price (SAR)	44.00
Fair Value per share (SAR)	47.09

DCF Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	15,116	15,618	15,938	16,179	16,377
Depreciation and Amortization	9,564	10,278	10,889	11,411	11,845
(-) CAPEX	-12,037	-12,099	-12,215	-12,230	-12,167
(-) Change in Net Working Capital	-4,356	-212	-435	19	54
Free Cash Flow to Equity (FCFF)	8,287	13,585	14,177	15,379	16,108
Discounting Factor	0.93	0.86	0.79	0.72	0.66
Discounted FCFF	7,729	11,629	11,138	11,088	10,659

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)	
		2025F	2026F	2025F	2026F
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

