

**1Q20 Results Update**

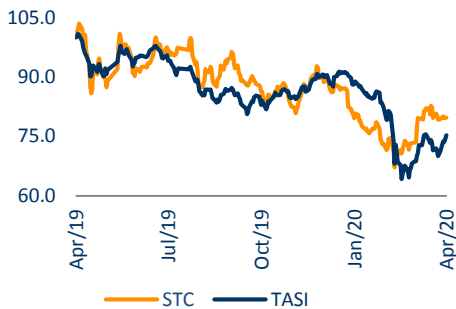
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	88.2
Target Price (SAR)	96.0
Upside/Downside (%)	8.8%

As of May 06<sup>th</sup> 2020

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	176.4
52 Wk High (SAR)	114.20
52 Wk Low (SAR)	72.3
Total Outstanding Shares (in bn)	2.0
Free Float (%)	30.0%

**STC vs. TASI (Rebased)**

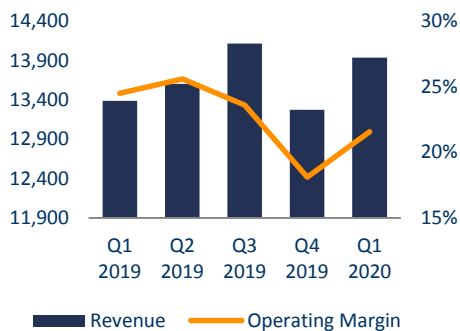


Price Performance (%)	Absolute	Relative
1m	8.4%	(1.1%)
6m	(7.7%)	1.5%
12m	(20.3%)	4.4%

**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 6<sup>th</sup> May 2020

**Realization of gains from Careem deal helps lift STC's profit in 1Q20**

Saudi Telecom Co. (STC) managed a 4.1% YoY revenue increase to SAR 13.9bn supported by growth in all its business units. Increase in cost of revenues pared gains in gross profit, which grew 3.7% YoY to SAR 8.2bn. Furthermore, operating profit declined 8.3% YoY to SAR 3.0bn due to high operating expenses. The operating margin shrank to 21.6% in 1Q20 from 24.5% in 1Q19. However, booking the gain from selling its direct share in Careem after completing Uber's acquisition boosted the company's net profit by 5.9% YoY to SAR 2.9bn on a quarterly basis.

Support from the wholesale, enterprise, and consumer business units enabled increase in STC's top line performance, while the proceeds from the Careem deal helped lift the company's bottom line performance. STC's pay service subscriber base grew to over 2 million indicating room for further potential revenue growth. In the current scenario of social distancing during the COVID-19 pandemic, telecom companies are faced with high demand for data requirements, as people are relying on technology for work and to connect with families. CITC\* has awarded additional spectrum to mobile service providers, as it recorded a 33% YoY increase in average daily consumption of data on mobile and fixed internet networks in the Kingdom in February 2020. Although telecom is a utility service and is expected to experience a lower impact from the COVID-19 crisis than other sectors, the company's expansion plans for 5G, IOT, and enterprise solutions may take a hit if the pandemic lasts long. Thus, in view of the countervailing factors, we maintain our "Neutral" rating on the company's stock.

- STC's revenues increased 4.1% YoY to SAR 13.9bn in 1Q20, aided by growth in the enterprise business and wholesale units. The consumer business unit's revenue increased owing to a 23% and 15.5% rise in fiber optic subscribers and data revenue, respectively.
- Gross profit grew 3.7% YoY to SAR 8.2bn in 1Q20, as cost of revenues increased 4.7% YoY to SAR 5.7bn during the comparable period. The gross margin for FY19 stood at 58.8% compared with 59.0% a year ago.
- Operating income declined 8.3% to SAR 3.0bn, as selling expenses increased 25.9% YoY due to an impairment charge on trade receivables, whereas depreciation charge increased SAR 216mn YoY. Consequently, the operating margin contracted to 21.6% from 24.5% a year ago.
- EBITDA shrank 1.0% to SAR 5.3bn, in line with the factors mentioned above. The EBITDA margin stood at 38.2% for the quarter compared with 40.2% a year ago.
- During the quarter, the company's booking the gain on selling its direct share in Careem after completing Uber's acquisition amounted to SAR 431mn. Thus, net income increased 5.9% YoY to SAR 2.9bn. The net margin for the quarter too was marginally up to 20.9% from 20.5% in 1Q19.
- STC extended the non-binding memorandum of understanding (MoU) to acquire 55% stake in Vodafone Group's Egyptian business by 90 days due to the logistics challenges caused by the COVID-19 pandemic.
- STC's shareholders approved buying back of 5.5 million shares at SAR 300mn during the extraordinary general assembly held on April 20. These shares will be allocated to the company's employee incentive plan and the share repurchase will be financed from the company's internal resources.

**Valuation:** We revise our target price to SAR 96.0 per share and maintain our "Neutral" rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	13,935	13,386	4.1%	55,972	54,376	2.9%
Gross Profit (SAR mn)	8,196	7,903	3.7%	33,135	32,407	2.2%
EBITDA (SAR mn)	5,330	5,386	(1.0%)	21,683	21,281	1.9%
Net Profit (SAR mn)	2,913	2,750	5.9%	11,153	10,755	3.7%
EPS basic (SAR)	1.46	1.37	5.9%	5.58	5.38	3.7%
Gross Margin (%)	58.8%	59.0%	(0.2%)	59.2%	59.6%	(0.4%)
EBITDA Margin (%)	38.2%	40.2%	(2.0%)	38.7%	39.1%	(0.4%)
Net Profit Margin (%)	20.9%	20.5%	0.4%	19.9%	19.8%	0.1%

Source: Company Financials, FALCOM Research

\*Communications and Information Technology Commission

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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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