

FY20 Results Update

February 18, 2021

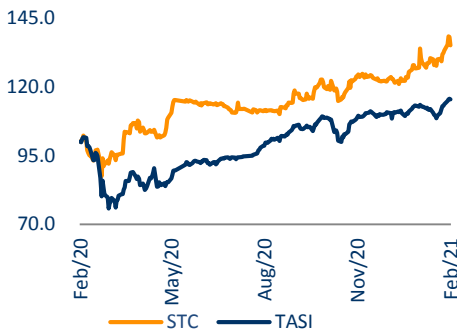
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	117.2
Target Price (SAR)	110.0
Upside/Downside (%)	(6.1%)

As of February 17, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	234.4
52-Wk High (SAR)	120.0
52-Wk Low (SAR)	72.3
Total Outstanding Shares (in bn)	2.0
Free Float (%)	30.0%

STC vs. TASI (Rebased)

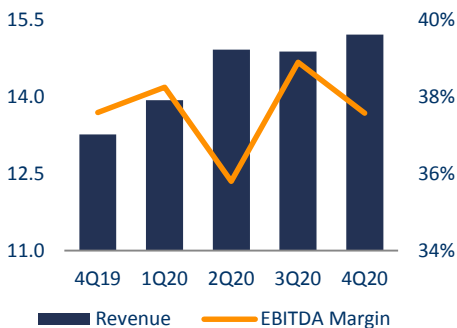


Price Performance (%)	Absolute	Relative
1m	6.4%	4.0%
6m	21.2%	4.1%
12m	35.0%	19.6%

Major Shareholders (%)

Public Investment Fund	70.0%
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Revenue (SAR bn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of February 17, 2021

Steady growth in top line and bottom line in FY20, but contraction in margins

Saudi Telecom Co. (STC) reported an 8.4% YoY rise in revenue in FY20 to SAR 58.9bn and 14.7% YoY growth in 4Q20 revenue to SAR 15.2bn. The growth in FY20 revenue was driven by steady performance in the Enterprise and Consumer segments. Higher top line counterbalanced the increase in SG&A expense and resulted in a 2.7% YoY surge in operating profit to SAR 12.8bn. Lower finance charges offset a higher zakat expense and led to a 3.9% YoY increase in net profit to SAR 11.1bn. However, net margin for the year shrank 81.1 bps YoY to 18.8% in FY20.

Despite COVID-induced challenges, STC reported higher revenue and bottom line in FY20 due to stable growth in the Enterprise and Consumer segments. Consumer revenue was supported by the 27.5% YoY and 10.6% YoY increase in FTTH and broadband subscribers, respectively, and the 9.0% YoY rise in data revenue. The 24.6% YoY surge in Enterprise revenues and 13.8% YoY growth in revenue contribution from subsidiaries also aided FY20 top line. Currently, STC is seeking an IPO of its Solutions by STC segment and has recently sold a 15% stake in STC Pay for SAR 750mn to Western Union. This is expected to boost liquidity and support STC's long-term expansion plans in the FTTH and 5G space in KSA. Recent developments, namely the SAR 1bn investment in three mega data centers in the Kingdom and the USD 500mn investment in KSA's cloud service space are likely to help STC benefit in the long term. However, increased competition in the telecom sector due to the government's plans to award two MVNO licenses to foreign operators may hurt the company's profitability in the coming years. Declining margins also remain a concern for the company in the near term. Thus, we maintain our "Neutral" rating on its stock.

- STC's revenues rose 8.4% YoY to SAR 58.9bn in FY20. Top line growth is attributed to higher revenues from the Consumer, Enterprise, and Wholesale segments in the year.
- Gross profit (up 5.0% YoY to SAR 34.0bn) grew slower than the top line due to the 13.5% YoY rise in cost of sales to SAR 25.0bn. As a result, gross margin shrank to 57.7% from 59.6% in FY19.
- Operating income rose 2.7% YoY to SAR 12.8bn as the increase in total SG&A expense was offset by the growth in top line. However, EBIT margin narrowed to 21.7% in FY20 from 23.0% in FY19.
- Lower finance costs counterbalanced the rise in zakat expense, resulting in 3.9% YoY growth in net income to SAR 11.1bn. However, net margin narrowed to 18.8% from 19.6% in FY19.
- On November 21, STC sold a 15% stake in STC Pay for SAR 750mn to Western Union. The proceeds would be used to finance STC Pay's capital and support long-term expansion plans. On November 23, STC stated it will spin off its Solutions by STC segment through an IPO in 2021.
- On November 26, STC completed the buyback of 2.98mn shares, worth SAR 300mn or SAR 100.58 per share, under its employees' stock incentive plan.
- On December 28, STC announced plans to invest USD 500mn in cloud services, alongside VC fund eWTP Arabia and Alibaba Cloud, in the course of the next five years. On December 29, STC launched three mega data centers in Riyadh, Jeddah, and Madinah worth SAR 1bn. These centers will enable efficiency and provide high speeds for digital solutions to customers.
- On January 12, STC announced the appointment of Olayan Alwetait as group CEO, following Nasser Al Nasser's resignation. He will commence his new role at STC from March 28.
- On January 21, STC's Board recommended a cash dividend of SAR 1 per share for 4Q20, equivalent to SAR 2bn or 10% of the company's share capital.

Valuation: We revise our target price upward to a fair value of SAR 110.0 per share and maintain our "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	15,213	13,265	14.7%	60,901	58,949	3.3%
Gross Profit (SAR mn)	8,489	8,360	1.5%	35,657	33,997	4.9%
EBITDA (SAR mn)	5,716	4,987	14.6%	22,564	22,175	1.8%
Net Profit (SAR mn)	2,683	2,321	15.6%	11,263	11,085	1.6%
EPS Basic (SAR)	1.34	1.16	15.6%	5.63	5.54	1.6%
Gross Margin (%)	55.8%	63.0%	(7.2%)	58.6%	57.7%	0.9%
EBITDA Margin (%)	37.6%	37.6%	(0.0%)	37.1%	37.6%	(0.6%)
Net Profit Margin (%)	17.6%	17.5%	0.1%	18.5%	18.8%	(0.3%)

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

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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