

May 18, 2021

1Q21 Results Update

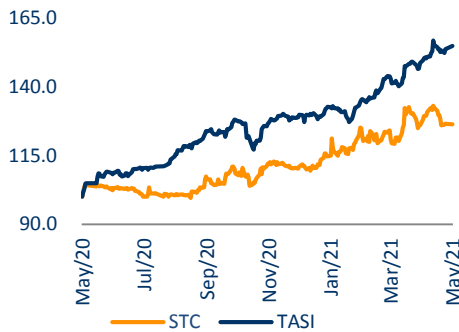
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	121.2
Target Price (SAR)	130.0
Upside/Downside (%)	7.3%

As of May 17, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	242.4
52-Wk High (SAR)	129.0
52-Wk Low (SAR)	94.0
Total Outstanding Shares (in bn)	2.0
Free Float (%)	30.0%

STC vs. TASI (Rebased)

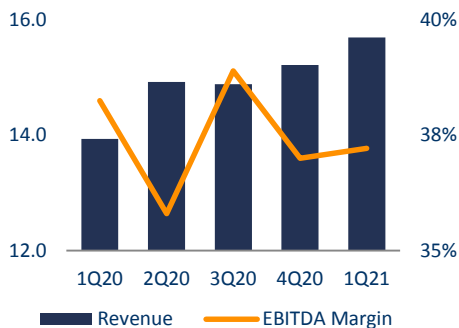


Price Performance (%)	Absolute	Relative
1m	0.3%	(3.8%)
6m	12.8%	(9.1%)
12m	26.4%	(28.4%)

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 May 17, 2021

Steady growth in top line in 1Q21 on higher revenue from Consumer and Enterprise segments

Saudi Telecom Co. (STC) reported a 12.6% YoY and 3.1% QoQ rise in revenue in 1Q21 to SAR 15.7bn. The growth in top line was driven by the robust performance of the Enterprise and Consumer segments as well as moderate growth in revenue in the Wholesale segment. Gross profit inched up 4.4% YoY to SAR 8.6bn, but gross margin narrowed 430 bps YoY to 54.5%. Operating profit soared 15.9% YoY to SAR 3.5bn, while operating margin expanded 62 bps YoY to 22.2%. Lower finance costs and higher profit share from associate companies resulted in a 1.4% YoY growth in net income to SAR 3.0bn. However, net margin contracted 209 bps YoY to 18.8% in 1Q21.

STC recorded its highest quarterly revenue in 1Q21, owing to strong growth in revenue in the Enterprise and Consumer segments. Revenue in the Consumer segment was supported by the 26.0% YoY and 10.1% YoY increase in FTTH and broadband subscribers, respectively, and 4.5% YoY rise in data revenue. Enterprise segment's revenue soared 33.4% YoY owing to strong demand for the company's products and services. Telecom revenue grew 9.0% YoY to SAR 11.3bn, while revenue from the Channels by STC segment was up 14.8% YoY to SAR 4.9bn in 1Q21. Revenue contribution from subsidiaries surged 23.2% YoY in 1Q21, providing further support to top line. Recently, STC announced plans to spin off its Solutions by STC segment through an IPO and has completed a feasibility study on the same. This could boost the company's liquidity and support long-term expansion plans in the FTTH and 5G space in KSA. Recent investments in KSA's cloud service space as well as the agreement with NEOM Co. to establish 5G network infrastructure for developing smart cities are also likely to boost STC's long-term prospects. However, increased competition in the telecom sector and stringent regulations may create headwinds and hurt the company's profitability. Thus, we maintain our "Neutral" rating on the stock.

- STC's revenues rose 12.6% YoY to SAR 15.7bn in 1Q21. Top line growth is attributed to higher revenues from the Consumer, Enterprise, and Wholesale business segments during the period.
- Gross profit (up 4.4% YoY to SAR 8.6bn) grew slower than the top line due to the 24.4% YoY rise in cost of sales to SAR 7.1bn. As a result, gross margin shrank to 54.5% from 58.8% in 1Q20.
- Operating income rose 15.9% YoY to SAR 3.5bn as the drop in total SG&A expense offset the rise in depreciation expense. Consequently, EBIT margin widened to 22.2% from 21.6% in 1Q20.
- Lower finance costs and higher profit contribution from associate companies offset the rise in zakat expense and led to a 1.4% YoY growth in net income to SAR 3.0bn. However, net margin narrowed to 18.8% from 20.9% in 1Q20.
- The company reported an EPS of SAR 1.48 in 1Q21 as against an EPS of SAR 1.46 in 1Q20.
- On March 10, STC announced that it is nearing the IPO of its Solutions by STC subsidiary and has completed the feasibility study on the same. It is likely to put forth an application for registration with the CMA as well as an application for listing its shares with Tadawul.
- On April 22, STC's Board recommended a cash dividend of SAR 1 per share for 1Q21, equivalent to SAR 2bn or 10% of the company's share capital.
- On April 26, STC's shareholders approved the Board's recommendation of an additional cash dividend of SAR 1 per share for FY20, equivalent to SAR 2bn (10% of STC's share capital).
- On April 29, STC reappointed Prince Mohammed bin Khalid Al-Faisal as the Chairman of the Board, whereas it appointed Yazeed bin Abdulrahman Al Humied as Vice-Chairman of the Board.

Valuation: We revise our target price upward to a fair value of SAR 130.0 per share and maintain our "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	15,695	13,935	12.6%	62,685	58,953	6.3%
Gross Profit (SAR mn)	8,557	8,196	4.4%	34,477	33,954	1.5%
EBITDA (SAR mn)	5,841	5,330	9.6%	23,194	22,090	5.0%
Net Profit (SAR mn)	2,952	2,913	1.4%	11,990	10,995	9.1%
EPS Basic (SAR)	1.48	1.46	1.4%	6.00	5.50	9.1%
Gross Margin (%)	54.5%	58.8%	(4.3%)	55.0%	57.6%	(2.6%)
EBITDA Margin (%)	37.2%	38.2%	(1.0%)	37.0%	37.5%	(0.5%)
Net Profit Margin (%)	18.8%	20.9%	(2.1%)	19.1%	18.7%	0.5%

Source: Company Financials, FALCOM Research

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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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