

2Q21 Results Update

August 26, 2021

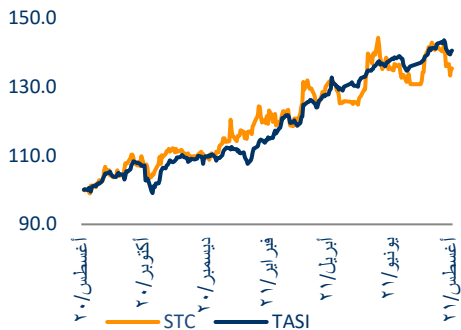
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	129.0
Target Price (SAR)	130.0
Upside/Downside (%)	0.5%

As of August 26, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	258.8
52-Wk High (SAR)	139.8
52-Wk Low (SAR)	95.4
Total Outstanding Shares (in bn)	2.0
Free Float (%)	30.0%

STC vs. TASI (Rebased)

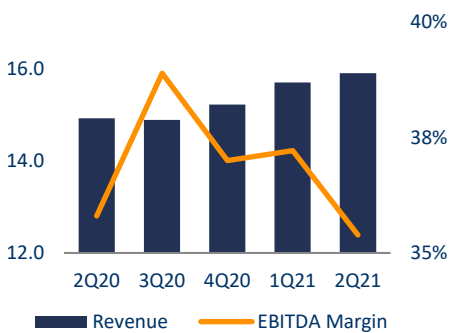


Price Performance (%)	Absolute	Relative
1m	3.5%	0.9%
6m	9.9%	(12.4%)
12m	35.3%	(5.2%)

Major Shareholders (%)

Public Investment Fund	70.0%
General Organization for Social Insurance	6.16%

Revenue (SAR bn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 26, 2021

Higher expenses weigh on margins

Saudi Telecom Co. (STC)'s revenue rose by 6.6% YoY and 1.3% QoQ in 2Q21 to SAR 15.9bn, driven by the robust performance of its enterprise segment, followed by moderate growth in revenue in the wholesale and consumer segments. Higher costs of sales led to gross profit margin narrowing by 337 bps to 52.5%, with gross profit inching up 0.1% YoY to SAR 8.4bn. Operating profit surged by 6.1% YoY to SAR 3.3bn, due to a dip in general and administration expenses. However, its operating margin narrowed marginally by 8 bps YoY to 20.4%. Lower finance costs and higher profit share from associate companies led to 3.6% YoY growth in net income to SAR 2.8bn. However, net margin contracted by 51 bps YoY to 17.7% in 2Q21.

Driven by growth in revenue from the enterprise and consumer segments, STC recorded its highest quarterly revenue in 2Q21. Its consumer business unit witnessed a 3.4% YoY increase, due to a 6.1% YoY rise in wireless subscribers, supported by a jump in demand for fiber optic service, which led to an increase in its subscriber base by 20.8% YoY. The enterprise segment's revenue soared by 29.3% YoY, owing to strong demand for the company's products and services. Its telecom revenue grew by 9.1% YoY to SAR 11.2bn, while revenue from the channels by STC was up 7.3% YoY to SAR 5.3bn in 2Q21. STC obtained the digital payment company license for STC Pay, which would become one of the country's first digital banks. In June 2021, the Capital Market Authority Board had approved Solutions by STC's application for offering 24,000,000 shares, representing 20% of the company's share capital. The share issue could boost the company's liquidity and support long-term expansion plans in the FTTH and 5G space in KSA. However, stringent regulations and increased competition in the telecom sector due to the government awarding licenses to four mobile virtual network operators (MVNO) may create headwinds and limit the company's growth and profitability. Hence, we maintain our "Neutral" rating on the stock.

- STC's revenue increased by 6.6% YoY to SAR 15.9bn in 2Q21, due to higher revenue from the consumer, enterprise, and wholesale business segments during the period.
- Gross profit (up 0.1% YoY to SAR 8.4bn) grew slower than the top line, due to a 14.7% YoY rise in cost of sales to SAR 7.5bn. As a result, gross margin shrank to 52.5% from 55.9% in 2Q20.
- Operating income rose by 6.1% YoY to SAR 3.3bn as the drop in total SG&A expense offset the rise in depreciation expense. However, EBIT margin narrowed slightly to 20.4% from 20.5% in 2Q20.
- Lower finance costs and higher profit contribution from associate companies led to 3.6% YoY growth in net income to SAR 2.8bn. However, net margin fell to 17.7% from 18.3% in 2Q20.
- The company reported an EPS of SAR 1.41 in 2Q21 as against SAR 1.36 in 2Q20.
- In June 2021, the Capital Market Authority Board approved Solutions by STC's application for offering 24,000,000 shares, representing 20% of the company's share capital.
- The company will distribute cash dividends to its shareholders for 2Q21 at a rate of SR 1 per share, totaling SAR 2 billion.
- On June 22, the Saudi Cabinet approved the license of STC Pay to become a digital bank with a paid-up capital of SAR 2.5 billion. STC will inject SAR 802 million to retain 85% of STC Pay's share capital.

Valuation: We maintain our target price of SAR 130.0 per share and our "Neutral" rating on the stock.

	2Q'21	2Q'20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	15,899	14,920	6.6%	63,048	58,953	6.9%
Gross Profit (SAR mn)	8,352	8,341	0.1%	34,361	33,954	1.2%
EBITDA (SAR mn)	5,627	5,342	5.3%	23,328	22,090	5.6%
Net Profit (SAR mn)	2,821	2,724	3.6%	11,722	10,995	6.6%
EPS basic (SAR)	1.41	1.36	3.6%	5.86	5.50	6.6%
Gross Margin (%)	52.5%	55.9%	(3.4%)	54.5%	57.6%	(3.1%)
EBITDA Margin (%)	35.4%	35.8%	(0.4%)	37.0%	37.5%	(0.5%)
Net Profit Margin (%)	17.7%	18.3%	(0.5%)	18.6%	18.7%	(0.1%)

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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