

3Q21 Results Update

November 11, 2021

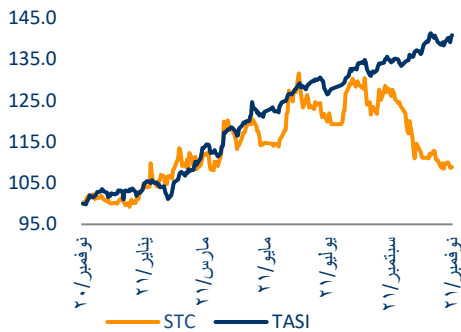
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	115.2
Target Price (SAR)	125.0
Upside/Downside (%)	8.5%

As of November 11, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	230.4
52-Wk High (SAR)	139.8
52-Wk Low (SAR)	104.8
Total Outstanding Shares (in bn)	2.0
Free Float (%)	23.8%

STC vs. TASI (Rebased)

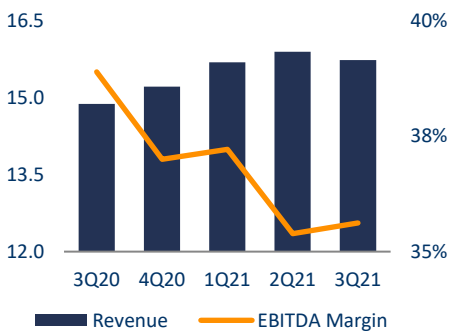


Price Performance (%)	Absolute	Relative
1m	(3.2%)	(6.6%)
6m	(5.1%)	(20.4%)
12m	8.9%	(31.9%)

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 November 11, 2021

Strong performance in enterprise segment boosts company's top line in 3Q21

Saudi Telecom Co. (STC)'s revenue increased 5.7% YoY in 3Q21 to SAR 15.7bn, driven by robust performance of its enterprise segment, where the company holds a dominant position in the market with approximately 90% of the market share in public sector. On QoQ basis, revenue marginally dropped 1.0% from SAR 15.9bn in 2Q21. Cost of sales rose 24.6% YoY, causing gross profit to fall 6.7% YoY to SAR 8.4bn in 3Q21. Consequently, gross profit margin narrowed 710 bps YoY to 53.2% in the quarter. Operating profit dipped 7.7% YoY to SAR 3.2bn due to higher depreciation and amortization charges, offset by a decline in selling and marketing expense. Operating margin contracted 296 bps YoY to 20.3% in 3Q21. The company reported net other gains of SAR 194.6mn in 3Q21 as against net other loss of SAR 70.3mn in 3Q20, which led to net profit rising 5.7% YoY and 3.7% QoQ to SAR 2.9bn. However, net margin remained flat YoY at 18.6% in 3Q21.

STC reported strong performance in 3Q21, driven by growth in revenue from the enterprise, consumer, and wholesale segments. The rise in consumer business revenue was ascribed to the increase in FTTH and fixed wireless access subscribers by 15% and 27%, respectively, while wholesale managed to increase its revenue for the period by 3.5% on higher international revenue. Its telecom revenue grew 3.9% YoY to SAR 11.5bn, while revenue from the channels by STC was up 28.0% YoY to SAR 4.7bn in 3Q21. In the 5G space, STC increased the number of towers deployed from 4,000 in 2020 to 6,000 currently. The company's healthy balance sheet would enable it to continue investing in new growth opportunities in domestic and international markets. However, intense competition in the telecom sector due to the government awarding licenses to four mobile virtual network operators (MVNOs) and stringent regulations may create headwinds and limit the company's growth and profitability. Hence, we maintain our "Neutral" rating on the stock.

- STC's revenue rose by 5.7% YoY to SAR 15.7bn in 3Q21, due to higher revenue from the consumer, enterprise, and wholesale business segments during the period.
- Cost of sale rose 24.6% YoY to SAR 7.4bn, resulting in a decline in gross profit by 6.7% YoY to SAR 8.4bn in 3Q21. As a result, gross margin contracted to 53.2% from 60.3% in 3Q20.
- Operating income dropped 7.7% YoY to SAR 3.2bn, led by higher depreciation and amortization expense, offset by lower SG&A expenditure. Consequently, EBIT margin narrowed to 20.3% from 23.2% in 3Q20.
- The company reported net other gain of SAR 194.6mn in 3Q21 as against net other loss in 3Q20, which led to 5.7% YoY growth in net income to SAR 2.9bn. However, net margin remained flat YoY at 18.6% in 3Q21.
- The company reported EPS of SAR 1.46 in 3Q21 as opposed to SAR 1.38 in 3Q20.
- The company will distribute cash dividends to shareholders for 3Q21 at a rate of SAR 1 per share, totaling SAR 2bn.
- In September 2021, the Board of Directors approved a new dividend policy to pay a fixed dividend of SAR 1 per share every quarter for the next three years, starting Q4 2021.
- In September 2021, Solutions by STC started trading on the Saudi Exchange (Tadawul).

**Valuation:** We revise our target price downward to SAR 125.0 per share but maintain our "Neutral" rating on the stock.

	3Q'21	3Q'20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	15,735	14,881	5.7%	63,210	58,953	7.2%
Gross Profit (SAR mn)	8,369	8,971	(6.7%)	33,817	33,954	(0.4%)
EBITDA (SAR mn)	5,606	5,788	(3.2%)	22,787	22,090	3.2%
Net Profit (SAR mn)	2,924	2,766	5.7%	11,512	10,995	4.7%
EPS Basic (SAR)	1.46	1.38	5.7%	5.76	5.50	4.7%
Gross Margin (%)	53.2%	60.3%	(7.1%)	53.5%	57.6%	(4.1%)
EBITDA Margin (%)	35.6%	38.9%	(3.3%)	36.1%	37.5%	(1.4%)
Net Profit Margin (%)	18.6%	18.6%	0.0%	18.2%	18.7%	(0.4%)

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, FALCOM Research.

## 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

## Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.