

FY21 Results Update

March 31, 2022

Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	107.8
Target Price (SAR)	130.0
Upside/Downside (%)	20.6%
As of March 31, 2022	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	215.6
52-wk High (SAR)	139.8
52-wk Low (SAR)	103.2
Total Outstanding shares (in bn)	2.0
Free Float (%)	23.8%

STC vs. TASI (Rebased)

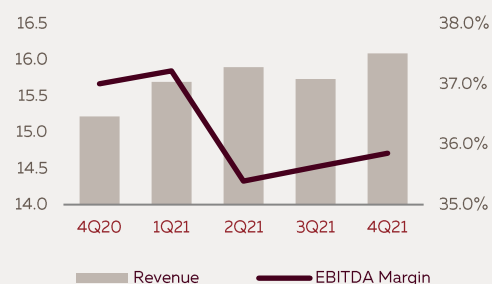


Price Performance (%)	Absolute	Relative
1m	(5.4%)	(9.4%)
6m	(15.1%)	(29.0%)
12m	(15.0%)	(47.1%)

Major Shareholders (%)

Public Investment Fund	64.0%
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Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of March 31, 2022

STC posts highest revenue in eight years on improved performance across all business segments

Saudi Telecom Co. (STC)'s revenue increased 7.6% YoY in FY21 to SAR 63.4bn, driven by constant improvement in its Enterprise Business Unit, Consumer Business Unit, and Wholesale Business Unit. In 4Q21, revenue rose 5.7% YoY and 2.2% QoQ to SAR 16.1bn. Cost of sales grew 18.5% YoY in FY21, which led to 0.5% YoY decline in gross profit to SAR 33.8bn during the year. Consequently, gross profit margin narrowed 431 bps YoY to 53.3% in FY21. Decline in selling and marketing expenses, and general and administrative expenses offset the rise in depreciation cost; this resulted in 3.1% YoY increase in operating profit to SAR 13.1bn in FY21. However, operating margin contracted 89 bps YoY to 20.7% in FY21. The company's net other gains rose 86.0% YoY to SAR 789.6mn in FY21, which led to 2.9% YoY increase in the net profit to SAR 11.3bn during the year. However, net margin narrowed 81 bps YoY to 17.8% in FY21.

STC exhibited strong performance in FY21, reporting the highest revenue in the last nine years. The growth in topline was supported by improved performance from the enterprise, consumer, and wholesale segments. Enterprise Business Unit, Consumer Business Unit, and Wholesale Business Unit grew 20.9%, 10.5% and 2.9% YoY, respectively. The rise in consumer business revenue was ascribed to increase in FTTH and fixed wireless access subscribers by 10.3% YoY and 21.7% YoY, respectively. The company's telecom revenue grew 5.9% YoY to SAR 45.4bn, while revenue from the channels by STC increased 17.7% YoY to SAR 20.6bn in FY21. As of 2021, the company deployed 6,500 5G towers across the KSA. Intense competition in the telecom sector and stringent regulations may create headwinds and limit the company's growth and profitability. However, the company's healthy balance sheet would enable it to continue investing in new growth opportunities in the domestic and international markets. Hence, we revise our rating to "Overweight" on the stock.

- STC's revenue increased by 7.6% YoY to SAR 63.4bn in FY21, driven by higher revenue contribution across all segments during the period.
- Company's gross profit marginally declined by 0.5% YoY to SAR 33.8bn in FY21, mainly due to 18.5% YoY rise in cost of sale to SAR 29.6bn. As a result, gross margin contracted to 53.3% from 57.6% in FY20.
- Operating income increased by 3.1% YoY to SAR 13.1bn, as higher depreciation and amortization expense was offset by a fall in SG&A expenditure during the year. However, EBIT margin narrowed to 20.7% from 21.6% in FY20.
- The company's net other gains improved 86.0% YoY to SAR 789.6mn in FY21, which led to 2.9% YoY growth in net income to SAR 11.3bn. However, net margin slipped 81 bps YoY to 17.8% in FY21.
- The company reported EPS of SAR 5.66 in FY21 as opposed to SAR 5.50 in FY20.
- STC's board of directors recommended 10% cash dividend for 4Q21, at SAR 1 per share, amounting to SAR 2bn.
- In December 2021, Solutions signed number of contracts with STC worth SAR 156.18mn to implement a centralized storage server and Internet gateway through IP multi-protocol label switching in addition to network expansion.

Valuation: We maintain our target price at SAR 130.0 per share but revise our "Overweight" rating on the stock.

	4Q21	4Q20	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	16,087	15,217	5.7%	66,628	63,417	5.1%
Gross Profit (SAR mn)	8,516	8,447	0.8%	35,372	33,794	4.7%
EBITDA (SAR mn)	5,767	5,630	2.4%	23,731	22,841	3.9%
Net Profit (SAR mn)	2,614	2,592	0.8%	12,343	11,311	9.1%
EPS Basic (SAR)	1.31	1.30	0.8%	6.17	5.66	9.1%
Gross Margin (%)	52.9%	55.5%	(2.6%)	53.1%	53.3%	(0.2%)
EBITDA Margin (%)	35.9%	37.0%	(1.2%)	35.6%	36.0%	(0.4%)
Net Profit Margin (%)	16.2%	17.0%	(0.8%)	18.5%	17.8%	0.7%

Source: Company Financials, Yaqeen Capital

Yaqaen Capital Rating Methodology

Yaqaen Capital 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 Yaqaen Capital.

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