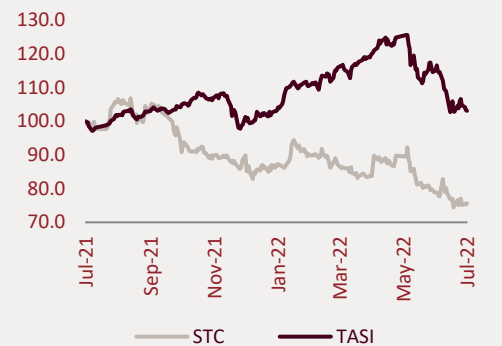


## 1Q22 Results Update

July 6, 2022

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	97.7
Target Price (SAR)	123.0
Upside/Downside (%)	25.9%
<i>As of July 5, 2022</i>	
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	195.4
52-wk High (SAR)	138.6
52-wk Low (SAR)	95.2
Total Outstanding shares (in bn)	2.0
Free Float (%)	36.0%

### STC vs. TASI (Rebased)

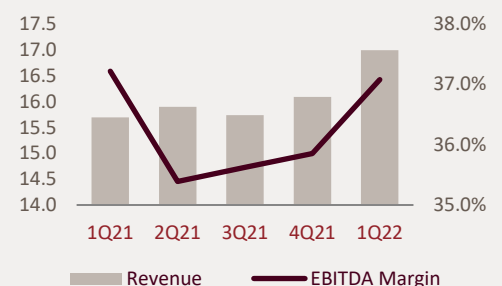


Price Performance (%)	Absolute	Relative
1m	(4.0%)	6.3%
6m	(13.4%)	(12.4%)
12m	(24.4%)	(27.5%)

### 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 July 5, 2022

### Improved performance across segments boosts topline

Saudi Telecom Co. (STC)'s revenue advanced 8.3% YoY in 1Q22 to SAR 17.0bn, attributable to strong revenue contribution from its Enterprise, Consumer, and Wholesale business units during the quarter. Gross profit rose 6.9% YoY to SAR 9.2bn in 1Q22. However, gross margin slipped 67 bps YoY to 53.9% during the quarter, owing to cost of sales increasing faster than the topline (up 9.8% YoY to SAR 7.8bn). Despite a surge in selling and marketing expenses and general and administrative expenses, operating profit soared 9.8% YoY to SAR 3.8bn in 1Q22. Consequently, operating margin advanced 32 bps YoY to 22.5% in 1Q22. Rise in commission income and lower provisions for zakat offset the rise in finance cost and losses from equity-accounted investees, leading to a 2.8% YoY increase in net profit to SAR 3.0bn during the quarter. However, net margin narrowed 95 bps YoY to 17.9% in 1Q22.

STC reported improved performance in 1Q22, as its topline and bottom-line advanced 8.3% YoY and 2.8% YoY, respectively. The growth in the topline was driven by improved performance in the Enterprise, Consumer, and Wholesale business units, which grew 16.3%, 5.9%, and 7.8% YoY, respectively. The rise in consumer business revenue was attributable to increase in FTTH subscribers, fixed wireless access subscribers, and working lines by 4.4% YoY, 8.3% YoY, and 4.6% YoY, respectively. The company's telecom revenue surged 9.2% YoY to SAR 12.3bn, that from Solutions advanced 29.6% YoY to SAR 2.4bn, and that from other operating segments rose 12.4% YoY to SAR 2.5bn during the quarter. As of 1Q22, the company deployed 6,709 5G towers across the KSA. Stringent regulation and intense competition in the telecom sector may create headwinds for the company. However, STC's board of directors recently announced its recommendation to increase the company's capital by 150% via bonus shares to achieve its expansion and growth strategies and maximize total return for shareholders. Additionally, the company's healthy balance sheet would enable it to continue investing in new growth opportunities in the domestic and international markets. Hence, we retain our "Overweight" rating on the stock.

- STC's revenue increased 8.3% YoY to SAR 17.0bn in 1Q22, driven by higher revenue contribution across segments during the quarter.
- Despite a 9.8% YoY rise in the cost of sale, the company's gross profit rose 6.9% YoY to SAR 9.2bn in 1Q22. However, gross margin contracted to 53.9% in 1Q22 from 54.5% in 1Q21.
- Operating income surged 9.8% YoY to SAR 3.8bn despite higher SG&A and G&A expenditure during the quarter. Subsequently, EBIT margin narrowed to 22.5% from 22.2% in 1Q21.
- Rise in commission income and lower provision for zakat expenses led to a 2.8% YoY rise in the company's net income to SAR 3.0bn in 1Q22. However, net margin slipped to 17.9% from 18.8% in 1Q21.
- The company reported EPS of SAR 1.52 in 1Q22 as opposed to SAR 1.48 in 1Q21.
- STC's board of directors recommended 10% cash dividend for 1Q22, at SAR 1 per share, amounting to SAR 2bn.
- On June 12, 2022, STC's board of directors recommended a 150% capital increase via bonus shares offering, capitalizing SAR 30bn of retained earnings.

**Valuation:** We revise our target price to a fair value of SAR 123.0 per share but maintain our "Overweight" rating on the stock.

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	16,991	15,695	8.3%	67,145	63,417	5.9%
Gross Profit (SAR mn)	9,150	8,557	6.9%	35,915	33,794	6.3%
EBITDA (SAR mn)	6,300	5,841	7.8%	24,519	22,841	7.3%
Net Profit (SAR mn)	3,035	2,952	2.8%	12,140	11,311	7.3%
EPS Basic (SAR)	1.52	1.48	2.8%	6.07	5.66	7.3%
Gross Margin (%)	53.9%	54.5%	(0.7%)	53.5%	53.3%	0.2%
EBITDA Margin (%)	37.1%	37.2%	(0.1%)	36.5%	36.0%	0.5%
Net Profit Margin (%)	17.9%	18.8%	(0.9%)	18.1%	17.8%	0.2%

Source: Company Financials, Yaqeen Capital

## Yaqeen Capital Rating Methodology

Yaqeen 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 Yaqeen Capital.

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