

2Q22 Results Update

September 20, 2022

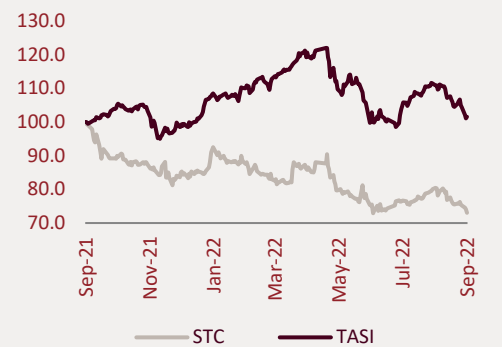
Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	38.5*
Target Price (SAR)	46.1*
Upside/Downside (%)	19.9%

As of September 20, 2022

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	192.5
52-wk High (SAR)	52.7*
52-wk Low (SAR)	38.1*
Total Outstanding shares (in bn)	5.0*
Free Float (%)	36.0%

STC vs. TASI (Rebased)

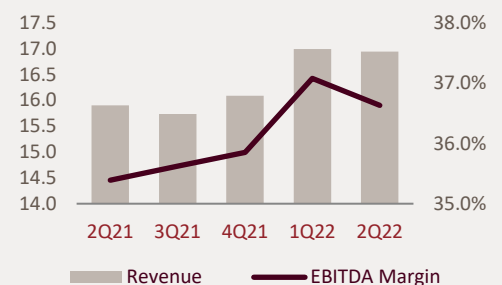


Price Performance (%)	Absolute	Relative
1m	(8.9%)	0.0%
6m	(11.5%)	(0.9%)
12m	(27.0%)	(28.5%)

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 September 20, 2022

Top line improvement driven by growth in Enterprise, Consumer, and Wholesale business units

Saudi Telecom Co. (STC)'s revenue increased 6.5% YoY to SAR 16.9bn in 2Q22 on improved revenue contribution from its Enterprise, Consumer, and Wholesale business units during the quarter. Despite a 2.9% YoY rise in cost of sales, gross profit rose 9.8% YoY to SAR 9.2bn in 2Q22. Consequently, gross margin advanced 163 bps YoY to 54.2% during the quarter. A decline in selling and marketing expense offset the rise in general and administrative expense and led to a 14.4% YoY surge in operating profit to SAR 3.7bn in 2Q22. Consequently, operating margin widened 152 bps YoY to 22.0% in 2Q22. A rise in commission income slightly offset the increase in provisions for zakat, finance cost, and losses from equity-accounted investees, leading to a marginal 0.6% YoY increase in net profit to SAR 2.8bn during the quarter. However, net margin narrowed 99 bps YoY to 16.8% in 2Q22.

STC reported improved performance in 2Q22 as its top line advanced 6.5% YoY, while its bottom line rose only marginally 0.6% YoY. Top-line growth was driven by improved performance in Enterprise, Consumer, and Wholesale business units, which advanced 15.9%, 6.1%, and 6.1% YoY, respectively. Expansion in the Enterprise segment was attributed to increased demand for the company's services owing to significant growth recorded in the Saudi digital economy sector. The rise in Consumer revenue was supported by an increase in FTTH subscribers, fixed wireless access subscribers, and working lines by 3.4% YoY, 13.5% YoY, and 5.9% YoY, respectively. The company's telecom revenue surged 8.9% YoY to SAR 12.2bn, that from Solutions advanced 16.4% YoY to SAR 2.3bn, and that from other operating segments rose 13.5% YoY to SAR 2.7bn during the quarter. As of 2Q22, the company deployed 7,000 5G towers across KSA. The company faces certain headwinds in the form of stringent regulation and intense competition in the telecom sector. However, STC continues to maintain its network leadership and remain focused on enhancing operational performance. Additionally, the company's healthy balance sheet, supported by a low leverage level, would help to invest in new growth opportunities. Hence, we retain our "Overweight" rating on the stock.

- STC's revenue surged 6.5% YoY to SAR 16.9bn in 2Q22, led by higher revenue contribution across business segments, except Channels by STC, during the quarter.
- Gross profit climbed 9.8% YoY to SAR 9.2bn, despite a 2.9% YoY increase in cost of sale in 2Q22. Consequently, gross margin expanded to 54.2% in 2Q22 from 52.5% in 2Q21.
- Operating income soared 14.4% YoY to SAR 3.7bn as lower selling and marketing expense offset the rise in general and administrative expense during the quarter. Subsequently, EBIT margin expanded to 22.0% from 20.4% in 2Q21.
- The rise in finance cost, losses from equity-accounted investees, and increase in early retirement cost was slightly offset by a rise in commission income and led to 0.6% YoY growth in net income to SAR 2.8bn in 2Q22. However, net margin slipped to 16.8% from 17.7% in 2Q21.
- STC's Board of Directors recommended 10% cash dividend for 2Q22 at SAR 1 per share amounting to SAR 2bn.

**Valuation:** We revise our target price to a fair value of SAR 46.1 per share but maintain our "Overweight" rating on the stock.

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	16,939	15,899	6.5%	67,363	63,417	6.2%
Gross Profit (SAR mn)	9,174	8,352	9.8%	36,368	33,794	7.6%
EBITDA (SAR mn)	6,204	5,627	10.3%	24,935	22,841	9.2%
Net Profit (SAR mn)	2,837	2,821	0.6%	12,362	11,311	9.3%
EPS Basic (SAR)*	0.57	0.56	0.6%	2.47	2.26	9.3%
Gross Margin (%)	54.2%	52.5%	1.6%	54.0%	53.3%	0.7%
EBITDA Margin (%)	36.6%	35.4%	1.2%	37.0%	36.0%	1.0%
Net Profit Margin (%)	16.8%	17.7%	(1.0%)	18.4%	17.8%	0.5%

Source: Company Financials, Yaqeen Capital. \*Post bonus shares issue

## 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.

## Yaqeen Capital

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@yaqeen.sa](mailto:addingvalue@yaqeen.sa)

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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