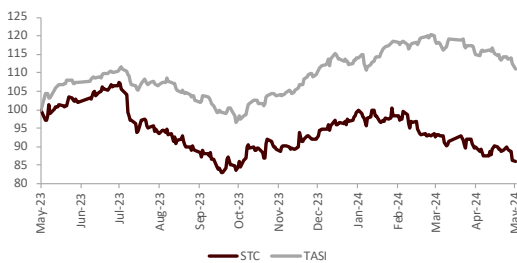


Saudi Telecom Co. (STC)

Recommendation	Buy
Current Market Price (SAR)	36.7
52wk High / Low (SAR)	44.7/34.1
Mkt. Cap. (USD/SAR Mn)	48,836/183,250
Shares Outstanding (mn)	5,000.0
Free Float (%)	35.7%
3m Average Vol. (000)	3,537.4
3m Avg Daily Turnover (SAR'000)	138,337
P/E'24e (x)	10.8
EV/EBITDA'24e (x)	6.2

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2022	2023	2024e	2025e
Revenue	67,432	72,337	88,589	93,288
Gross profit	37,393	37,804	45,943	48,193
Gross margin (%)	55%	52%	52%	52%
EBIT	15,088	14,200	19,141	20,108
EBIT margin (%)	22%	20%	22%	22%
EBITDA	25,079	24,683	30,052	31,646
EBITDA margin (%)	37%	34%	34%	34%
Net Income	12,171	13,544	17,183	18,751
Net margin (%)	18%	19%	19%	20%
EPS (SAR)	2.44	2.72	3.45	3.76
RoE (%)	16%	17%	17%	17%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Public Investment Fund	64.00%
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Source: Bloomberg, Yaqeen Capital

Earnings surged on higher revenues

- STC's net income rose by 5.7% YoY and 44.5% QoQ to SAR 3,286mn in 1Q2024, primarily driven by increased revenues and operating profits. The net margin improved to 17.2%, up 0.1ppts YoY and 4.4ppts QoQ in 1Q2024.
- Revenue increased by 5.1% YoY and 7.8% QoQ, reaching SAR 19,100mn in 1Q2024. This growth was mainly due to a 1.2% YoY and 1.1% QoQ rise in stc KSA's revenues, driven by a 6.7% YoY and 2.2% QoQ increase in commercial unit revenues, and a 5.7% YoY and 34.6% QoQ increase in carriers and wholesale unit revenues, which offset a decline in business unit revenues. Additionally, stc's subsidiaries' revenues grew by 13.0% YoY and 22.4% QoQ.
- Gross profit reached SAR 9,386mn, marking a 1.6% YoY and 5.1% QoQ increase in 1Q2024. However, the gross margin declined to 49.1%, down 1.7ppts YoY and 1.9ppts QoQ.
- Operating income increased by 3.4% YoY and 35.2% QoQ to SAR 3,856mn due to higher gross profit and lower SG&A expenses in 1Q2024. The operating margin, however, decreased by 0.3ppts YoY but rose by 4.1ppts QoQ to 20.2%.
- EBITDA in 1Q2024 reached SAR 6,474mn, reflecting a 2.1% YoY and 16.3% QoQ increase, with a corresponding margin of 33.9%, down 1.0ppts YoY but up 2.5ppts QoQ.
- Finance costs surged by 74.1% YoY but decreased by 13.6% QoQ to SAR 415mn in 1Q2024.

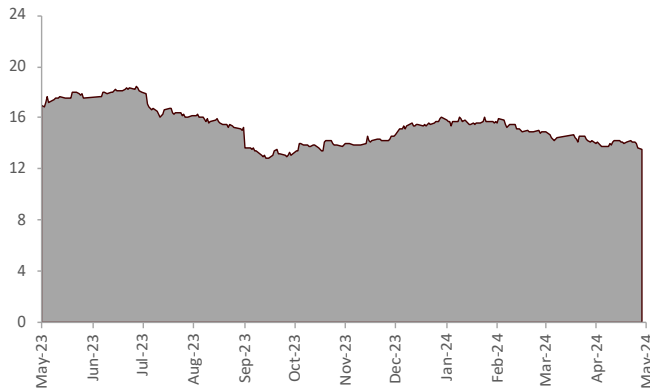
Outlook & Valuation: Saudi Arabia enjoys a favorable demographic profile, marked by a growing and youthful population, rising income levels among locals, and widespread smartphone usage. These factors drive strong demand for data services, further enhanced by the increasing corporate focus on digitalization, which boosts the need for advanced telecom solutions. As the market leader in KSA, STC is well-positioned to capitalize on these enduring trends over the medium to long term, thanks to its solid financial standing and ongoing network expansion. Additionally, the company's strategic investments, including an SAR 8.5bn investment in the Telefonica group and the acquisition of tower operations in Europe, are expected to support incremental growth in the coming years. Based on DCF valuation, we arrive at a fair value of SAR 48.0/share, offering a strong upside of 31.0% from the current level. Hence, we recommend a Buy rating on the stock.

Financial Summary

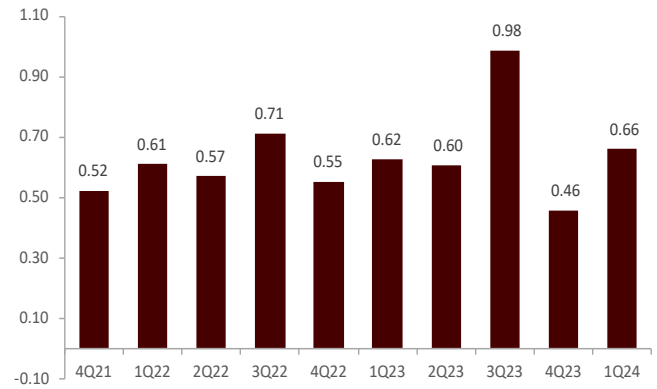
SAR (mn)	1Q2024	1Q2023	YoY	4Q2023	QoQ
Revenue	19,100	18,179	5%	17,724	8%
Gross profit	9,386	9,234	2%	9,049	4%
Gross margin (%)	49%	51%		51%	
EBIT	3,856	3,731	3%	2,851	35%
EBIT margin (%)	20%	21%		16%	
EBITDA	6,474	6,343	2%	5,567	16%
EBITDA margin (%)	34%	35%		31%	
Net Income	3,286	3,109	6%	2,274	44%
Net margin (%)	17%	17%		13%	
EPS (SAR)	0.66	0.62	6%	0.46	44%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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