

## Saudi Telecom Co. (STC)

Target Price: SAR 46.0/share

Upside: 22.7%

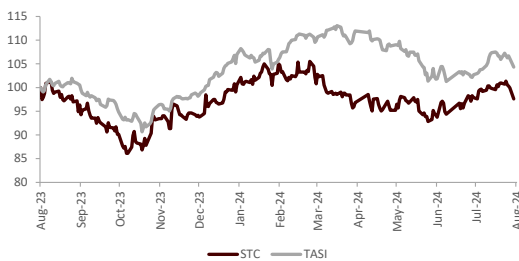
## Recommendation

Buy

Current Market Price (SAR)	37.5
52wk High / Low (SAR)	42.1/34.1
Mkt. Cap. (USD/SAR Mn)	49,969/187,500
Shares Outstanding (mn)	5,000.0
Free Float (%)	35.7%
3m Average Vol. (000)	3,697.1
3m Avg Daily Turnover (SAR'000)	138,875
P/E'24e (x)	14.4
EV/EBITDA'24e (x)	7.4

Source: Bloomberg

## Relative Price Performance



## Key Indicators

SAR (mn)	2022	2023	2024e	2025e
Revenue	67,432	72,337	78,245	82,355
Gross profit	37,393	37,804	39,953	42,216
Gross margin (%)	55%	52%	51%	51%
EBIT	15,088	14,200	15,251	16,413
EBIT margin (%)	22%	20%	19%	20%
EBITDA	25,079	24,683	26,073	27,772
EBITDA margin (%)	37%	34%	33%	34%
Net Income	12,171	13,295	12,976	14,788
Net margin (%)	18%	18%	17%	18%
EPS (SAR)	2.44	2.67	2.60	2.97
RoE (%)	16%	16%	14%	15%

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 and lower operating expenses

- STC's net income increased by 9.8% YoY and 0.6% QoQ to SAR 3,304mn in 2Q2024, mainly due to higher revenues and lower operating costs. The net margin rose to 17.3%, up 0.8ppts YoY and stable QoQ.
- Revenue grew by 4.5% YoY to SAR 19,155mn in 2Q2024, driven by a 0.1% rise in STC KSA's revenues, with a 5.3% increase in commercial unit revenues offsetting a decline in business unit revenues. Revenues from STC's subsidiaries rose by 13.9%. On a QoQ basis, revenue increased by 0.3%, with STC KSA's revenues up by 1.0%, commercial unit revenues by 2.0%, and business unit revenues by 4.0%. However, revenues from STC's subsidiaries declined due to a decrease in channels revenues, particularly from device sales.
- Gross profit reached SAR 9,571mn, marking a 6.2% YoY and 2.0% QoQ increase in 2Q2024, primarily due to higher revenue and lower growth in the cost of sales compared to sales on a YoY basis, and a decrease in the cost of sales on a QoQ basis. Consequently, the gross margin improved to 50.0%, up 0.8ppts YoY and QoQ.
- Operating income increased by 18.4% YoY and 0.7% QoQ to SAR 3,885mn, driven by higher gross profit and lower general and administrative expenses in 2Q2024. The operating margin improved by 2.4 ppts YoY and 0.1 ppts QoQ to 20.3%.
- For 1H2024, net income rose by 7.7% YoY to SAR 6,590mn due to higher gross profit, lower operating expenses, and reduced zakat and income tax expenses. The net income margin improved by 0.5ppts to 17.2%.
- For 1H2024, revenue increased by 4.8% to SAR 38,255mn, driven by a 0.6% rise in STC KSA's revenues, including a 6.0% increase in commercial unit revenues and a 0.2% rise in carriers and wholesale unit revenues, offsetting a decline in business unit revenues. Revenues from STC's subsidiaries grew by 13.4%.

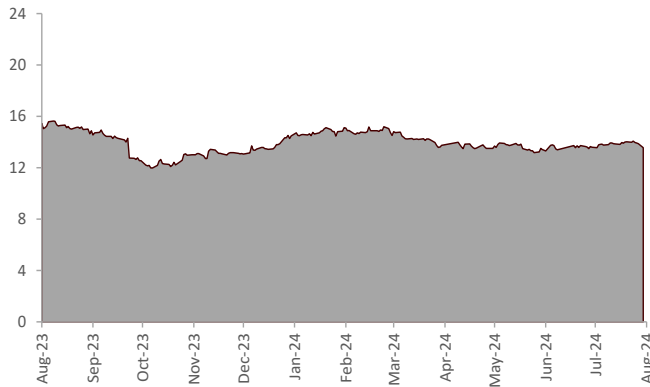
**Outlook & Valuation:** Saudi Arabia boasts a favorable demographic profile with a growing, youthful population, rising local incomes, and widespread smartphone usage. These factors drive strong demand for data services, further boosted by the increasing corporate focus on digitalization, which enhances the need for advanced telecom solutions. As the market leader in KSA, STC is well positioned to leverage these trends over the medium to long term, thanks to its robust financial standing and ongoing network expansion. Based on DCF valuation, we arrive at a fair value of SAR 46.0/share, offering a strong upside of 22.7% from the current level. Hence, we recommend a Buy rating on the stock.

## Financial Summary

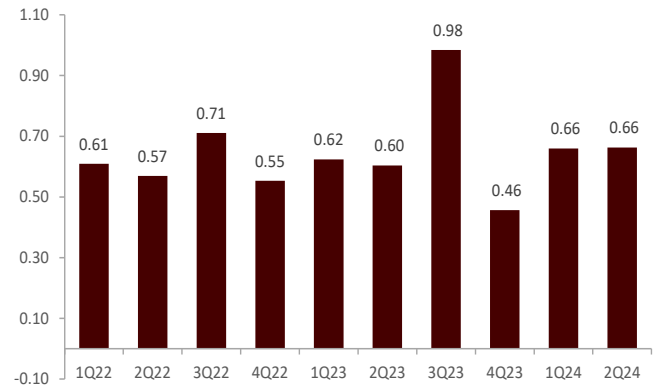
SAR (mn)	2Q2024	2Q2023	YoY	1Q2024	QoQ
Revenue	19,155	18,327	5%	19,100	0%
Gross profit	9,571	9,015	6%	9,386	2%
Gross margin (%)	50%	49%		49%	
EBIT	3,885	3,281	18%	3,856	1%
EBIT margin (%)	20%	18%		20%	
EBITDA	6,415	5,821	10%	6,474	-1%
EBITDA margin (%)	33%	32%		34%	
Net Income	3,304	3,008	10%	3,286	1%
Net margin (%)	17%	16%		17%	
EPS (SAR)	0.66	0.60	10%	0.66	1%

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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