

Saudi Telecom Co. (STC)

Recommendation	Buy
Current Market Price (SAR)	39.8
52wk High / Low (SAR)	46.5/35.8
Mkt. Cap. (USD/SAR Mn)	53,367/200,250
Shares Outstanding (mn)	5,000.0
Free Float (%)	35.7%
3m Average Vol. (000)	6,222.1
3m Avg Daily Turnover (SAR'000)	257,888
P/E'24e (x)	14.4
EV/EBITDA'24e (x)	7.5
Source: Bloomberg	

Bottom line impacted YoY amid operating expenses

- STC's net income declined by 5.3% YoY to SAR 4,643mn in 3Q2024, primarily due to higher operating expenses, reduced other income from lower asset sale gains, and increased finance costs, partially offset by higher revenues, improved gross profit, lower Zakat and tax expenses, and increased net profit from discontinued operations. On a QoQ basis, net income rose by 40.1%, supported by a significant withholding tax provision reversal, higher other income, lower finance costs, reduced Zakat and tax expenses, and increased profit from discontinued operations, despite higher operating expenses, including a rise in doubtful debt provisions. The net margin fell 2.3ppts YoY but improved 7.5ppts QoQ to 24.9%.
- Revenue grew by 3.4% YoY to SAR 18,643mn in 3Q2024, mainly due to a 0.5% increase in stc KSA revenue and a 9.7% rise in revenue from stc's subsidiaries. QoQ, revenue declined by 2.0%, with stc KSA and subsidiaries' revenues falling by 0.2% and 5.5%, respectively.
- Gross profit rose by 8.1% YoY to SAR 10,395mn in 3Q2024, supported by higher revenues. QoQ, gross profit increased by 17.8% due to a sharper decline in the cost of revenue compared to revenue. The gross margin improved by 2.4ppts YoY and 9.4ppts QoQ to 55.8%.
- Operating income increased by 8.3% YoY and 24.8% QoQ to SAR 4,410mn, driven by higher gross profit. The operating margin rose by 1.1ppts YoY and 5.1ppts QoQ to 23.7%.
- For 9M2024, net income rose 1.9% YoY to SAR 11,233mn, driven by higher revenues, a reversal of a withholding tax provision, lower Zakat and tax expenses, and higher profits from discontinued operations. This was partially offset by increased operating expenses, higher finance costs, and reduced gains from asset sales, resulting in a 0.5ppts drop in net margin to 19.7%.
- Revenue for 9M2024 increased by 3.9% to SAR 56,627mn, supported by a 0.6% rise in stc KSA revenue and an 11.0% increase in subsidiaries' revenue.

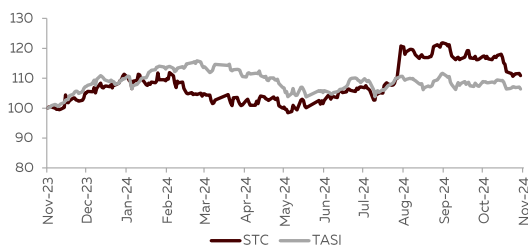
Outlook & Valuation: Saudi Arabia benefits from a favorable demographic profile with a growing, youthful population, rising local incomes, and widespread smartphone adoption. These factors drive strong demand for data services, further supported by increasing corporate digitalization, which fuels the need for advanced telecom solutions. As the market leader in KSA, STC is well positioned to capitalize on these trends over the medium to long term, supported by its strong financials and continuous network expansion. Additionally, PIF has sold a 2% stake in the company as part of its capital recycling strategy. Based on DCF valuation, we arrive at a fair value of SAR 48.0/share, offering a strong upside of 20.8% from the current level. Hence, we recommend a Buy rating on the stock.

Financial Summary

SAR (mn)	3Q2024	3Q2023	YoY	2Q2024	QoQ
Revenue	18,643	18,034	3%	19,021	-2%
Gross profit	10,395	9,620	8%	8,825	18%
Gross margin (%)	56%	53%		46%	
EBIT	4,410	4,074	8%	3,533	25%
EBIT margin (%)	24%	23%		19%	
EBITDA	6,786	6,389	6%	6,063	12%
EBITDA margin (%)	36%	35%		32%	
Net Income	4,643	4,904	-5%	3,304	41%
Net margin (%)	25%	27%		17%	
EPS (SAR)	0.93	0.98	-5%	0.66	41%

Source: Company Reports, Yaqeen Capital

Relative Price Performance



Key Indicators

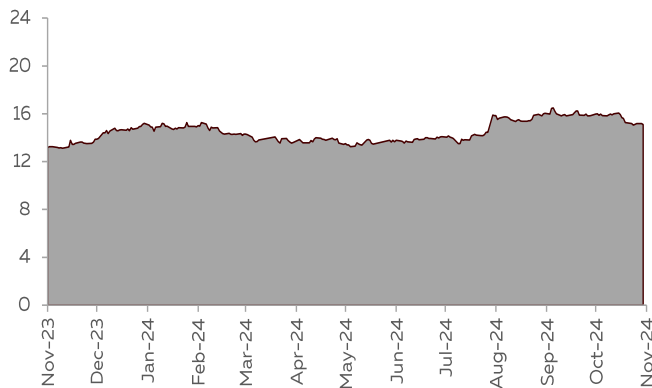
SAR (mn)	2022	2023	2024e	2025e
Revenue	67,432	72,337	78,245	82,355
Gross profit	37,393	37,804	40,766	43,072
Gross margin (%)	55%	52%	52%	52%
EBIT	15,088	14,200	16,064	17,269
EBIT margin (%)	22%	20%	21%	21%
EBITDA	25,079	24,683	26,886	28,628
EBITDA margin (%)	37%	34%	34%	35%
Net Income	12,171	13,295	13,717	15,574
Net margin (%)	18%	18%	18%	19%
EPS (SAR)	2.44	2.67	2.75	3.12
RoE (%)	16%	16%	14%	15%

Source: Company Reports, Yaqeen Capital

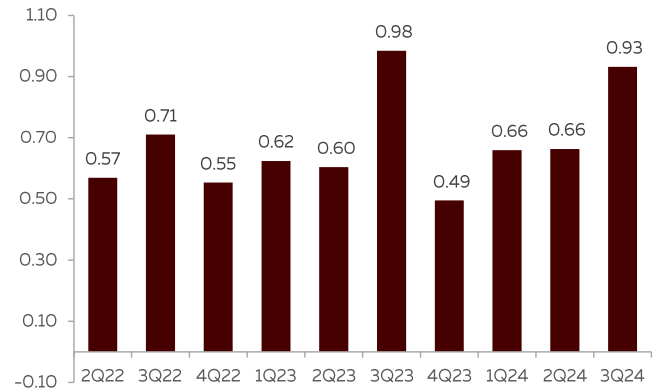
Major Shareholders (%)

Public Investment Fund	62.00%
Source: Bloomberg, 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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