

1Q19 Results Update

May 13, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	112.0
Target Price (SAR)	110.2
Upside/Downside (%)	(1.6%)

As of May 7th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	224.0
52 Wk High (SAR)	117.4
52 Wk Low (SAR)	74.5
Total Outstanding shares (in bn)	2.0
Free Float (%)	16.2%

STC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.3%	1.5%
6m	34.5%	18.8%
12m	35.4%	24.0%

Major Shareholders (%)

Public Investment Fund	70.0%
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Quarterly Revenue (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 7th May 2019

STC 1Q19 profit grows on higher revenues, beats street expectations

Saudi Telecom Co. (STC)'s net income increased 6.3% YoY to SAR 2.8bn in 1Q19, mainly due to 8.4% YoY increase in revenue. For 1Q19, operating income expanded 24.4% YoY, driven by a fall in selling and marketing expenses that limited the impact of a rise in general administrative expenses and depreciation. However, growth in operating profit was partially offset by higher finance costs and early retirement costs. Compared with the previous quarter, STC's net income declined 11.5% QoQ due to a sharp rise in the cost of sales ascribed to the impact of the reversal of SAR 579mn under the cost of revenue with respect to an amendment in the mechanism for calculating the processing fees. EPS came in at SAR 1.37 for 1Q19, beating consensus estimate.

STC's commitment to provide innovative services and the cost optimization initiatives yielded strong operating results. Besides, the company remained focus on investing in new and diverse domains that would support its digital transformation. We believe STC's strategy of growth and digital transformation is in-line with the Kingdom's 'Vision 2030', and supports our positive view on the stock. However, an industry-wide decline in mobile subscriber base and the heightened competition in the telecom industry in the kingdom could pose a challenge to the upside potential in its top line. Given these countervailing factors, we maintain our 'Neutral' rating on the stock.

- STC's net revenue grew 8.4% YoY and %2.2 QoQ to SAR 13.4bn in 1Q19 largely supported by growth in data revenue.
- Gross profit grew 14.0% YoY to SAR 7.9bn for 1Q19, in line with higher revenue. Consequently, gross margin for 1Q19 improved to 59.0% as against 56.2% in 1Q18.
- Operating income grew 24.4% YoY to SAR 3.3bn as operating expenses rose only SAR 326mn compared with a revenue expansion of more than SAR 1bn. The company's selling and marketing expenses declined 10.8% YoY to SAR 1.1bn whereas general and administrative expenses rose 21.2% YoY to SAR 1.4bn. Both these expenses fell 21.1% QoQ each in comparison with that in 4Q18.
- Net income grew 6.3% YoY to SAR 2.8bn in 1Q19, led by 8.4% YoY growth in revenue. A rise in the early retirement, finance and other costs, however, pared some of the gains.
- STC's board recommended a cash dividend of 10% (SAR 1 per share) for 1Q19, amounting to SAR 2bn for its 2bn outstanding shares.
- In March 2019, Careem (in which STC holds a stake of 8.8%) reached an agreement with Uber for acquisition through a cash and convertible notes offer for USD 3.1bn, subject to regulatory approvals. STC is expected to receive USD 274mn partly in cash and convertible notes after the transaction.
- To further its digital transformation cause, STC signed three strategic agreements with international companies as part of its "5G Aspiration Project" to deploy the 5G network and develop innovative services and solutions related to the latest generation of network and communication technologies. This is likely to enable the company to launch one of the fastest networks in the world.

Valuation: We revise our target price upward to SAR 110.2 per share, factoring in the strong 1Q19 performance. We maintain our "Neutral" rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	13,386	12,349	8.4%	54,088	52,068	3.9%
Gross Profit (SAR mn)	7,903	6,935	14.0%	32,201	30,565	5.4%
EBITDA (SAR mn)	5,386	4,527	19.0%	21,377	19,857	7.7%
Net Profit (SAR mn)	2,750	2,588	6.3%	11,451	10,790	6.1%
EPS basic (SAR)	1.37	1.29	6.3%	5.73	5.40	6.0%
Gross Margin (%)	59.0%	56.2%	2.9%	59.5%	58.7%	0.8%
EBITDA Margin (%)	40.2%	36.7%	3.6%	39.5%	38.1%	1.4%
Net Profit Margin (%)	20.5%	21.0%	-0.4%	21.2%	20.7%	0.5%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services 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 FALCOM Financial Services.

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