

FY19 Results Update

February 13, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	87.0
Target Price (SAR)	94.0
Upside/Downside (%)	8.0%

As of February 10th, 2020

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	174.0
52 Wk High (SAR)	117.4
52 Wk Low (SAR)	84.8
Total Outstanding Shares (in bn)	2.0
Free Float (%)	30.0%

STC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(9.6%)	(9.0%)
6m	(17.7%)	(13.9%)
12m	(11.0%)	(5.4%)

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 10th February 2020

STC's net profit declines despite recording highest revenues since 2013

Despite a dip in revenues in 4Q19, overall revenues for FY19 were up 4.6% to SAR 54.4mn, its highest since 2013 for Saudi Telecom Co. However, cost of revenue was higher due to the Haj season as well as other promotional activities, following the launch of 5G at new sites. Gross profit rose 6.3% YoY to SAR 32.4mn, and the gross margin for the year stood at 59.6% in FY19 compared to 58.6% in FY18. Higher SG&A expense and depreciation charges led to an overall rise in operating expense. Operating profit for FY19 was slightly up 1.9% to SAR 12.5bn. On a quarterly basis, operating profit was down 27.8% QoQ and 30.9% YoY to SAR 2.4bn. Net profit dipped 0.2% YoY to SAR 10.8bn in FY19.

In 4Q19, CITC claimed STC to be the most improved service provider in Saudi Arabia. STC continues to focus on enabling digital transformation and invest in 5G network infrastructure, fiber optics, and software and systems related to cloud computing services, managed services, and cybersecurity. However, this is expected to lead to higher operating and capital expenditure. In addition, STC operates in an industry that faces a continued threat of heightened price competition, especially with the arrival of new players such as Zain in the 5G deployment. STC launched a new unified brand identity in KSA, Kuwait, and Bahrain and its subsidiaries to enhance the company's brand value. It also proposed to acquire a majority stake in Vodafone Egypt, which would bode well for the company. Thus, in view of the countervailing factors, we maintain our "Neutral" rating on the company's stock.

- STC's revenues increased 4.6% to SAR 54.4mn in FY19, supported by the increase in the number of mobile and fiber optics customers, and data revenue. The company also managed to expand the fiber optics customer base by 23% YoY, aided by the vast fiber optics network that reached 217,000 km by the end of 2019.
- Gross profit grew 6.3% YoY to SAR 32.4bn for FY19, although it was down 1.7% YoY to SAR 8.4bn in 4Q19. The gross margin for FY19 stood at 59.6%.
- Operating income grew 1.9% to SAR 12.5bn, even though the selling and marketing expense and depreciation charge were higher. However, the operating margin contracted to 23.0% in FY19 compared to 23.6% in FY18.
- EBITDA grew 7.3% YoY to SAR 21.3bn in FY19 owing to the implementation of the IFRS 16, resulting in a positive impact of SAR 766mn. The EBITDA margin stood at 39.1% for the year.
- Net income was marginally down 0.2% YoY to SAR 10.8bn due to higher overall expense, coupled with the rise in financial charges and reclassification of some expenditure. However, the net margin for the year stood at 19.8%, slightly behind 20.7% in FY18.
- Notably, the financial results for the current quarter and period did not include the financial impact of STC's direct ownership (8.88%) in Careem after Uber's acquisition. The financial impact of this acquisition is expected to be booked in 1Q20.
- In 4Q19, STC signed an MoU with Vodafone Egypt to acquire a 55% stake in the latter, subject to capital market law. The deal is estimated at USD 2.4bn (SAR 9bn), valuing Vodafone Egypt at USD 4.4bn (SAR 16.3bn).
- STC's board recommended a cash dividend of 10% (SAR 1 per share) for 4Q19, amounting to SAR 2bn for its 2 billion outstanding shares.

Valuation: We revise our target price to SAR 94.0 per share and maintain our "Neutral" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	13,273	13,215	0.4%	56,003	54,376	3.0%
Gross Profit (SAR mn)	8,375	8,520	(1.7%)	33,154	32,407	2.3%
EBITDA (SAR mn)	5,003	5,389	(7.2%)	21,919	21,281	3.0%
Net Profit (SAR mn)	2,411	3,106	(22.4%)	11,479	10,755	6.7%
EPS basic (SAR)	1.21	1.55	(22.4%)	5.74	5.38	6.7%
Gross Margin (%)	63.1%	64.5%	(1.4%)	59.2%	59.6%	(0.4%)
EBITDA Margin (%)	37.7%	40.8%	(3.1%)	39.1%	39.1%	0.0%
Net Profit Margin (%)	18.2%	23.5%	(5.3%)	20.5%	19.8%	0.7%

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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