



EVENT FLASH

In-line net profit on lower non-operating expense

STC reported a net income of SR2,150mn in 4Q16, increasing +10.2% YoY. This is in-line with NCBC estimate. Although revenue came below our expectations, improvement in gross margin and lower non-operating expense offset this weakness. Gross margins stood at 61.7% vs. 60.5% in 4Q15, the highest gross margin since 3Q14. STC trades at a 2017E P/E of 13.5x, higher than the regional peers average of 10.3x.

- STC reported a net profit of SR2,150mn in 4Q16, increasing +10.2% YoY. This is in-line with NCBC estimates but higher than consensus estimates of SR2,063mn. Although top-line was 13.8% below estimates, the improvement in gross margins and lower non-operating expenses offset this weakness.
- Revenue came in at SR12.0bn, down -9.3% YoY and -11% QoQ. Top-line came-in 13.8% below the NCBC estimates of SR13.9bn. We believe the weakness in sales is attributed mainly to the suspension of unregistered SIMs, following the finger print verification campaign. However, this impact was limited by 1) +19% YoY increase in bundled service subscriber base, 2) +19% YoY growth in the Enterprise business segment and 3) +16% YoY growth Business services.
- Gross margin came-in at 61.7%, compared to our estimates of 54.7% and 4Q15 of 60.5%. This is the highest margin since 3Q14. We believe this was largely due to the growth in the high margin data segment. EBITDA declined -3.5% YoY to SR4,302mn in 4Q16, 7.3% below our estimates. This reflects an EBITDA margin of 35.8%, increasing from 32.2% in 3Q16 and 33.7% in 4Q15. The YoY improvement is mainly attributed to lower Opex.
- Non-operating expenses declined -86.6% YoY to SR81mn from SR604mn in 4Q15. It is lower than NCBC estimates of SR497mn. This decline is attributed mainly to the gain of SR76mn from international operations, compares to a loss of SR24mn in 4Q15 and NCBC estimates of a loss of SR78mn. Moreover, financing expenses and other income declined -22.3% YoY to SR95m, contributing to the YoY decline in non-operating expenses.
- We remain Overweight on STC with a PT of SR68.9. The stock is trading at 2017E P/E of 13.5x, higher than regional peers average of 10.3x which we believe is justified, given the attractive sustainable dividend yield of 6.0%. STC announced a DPS of SR1 for 4Q16, in-line with our expectations. This takes total 2016 DPS to SR4.0.

4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	%Var [^]
Sales	12,012	13,246	(9.3)	13,932	(13.8)
Gross income	7,417	8,011	(7.4)	7,623	(2.7)
Operating income	2,231	2,554	(12.7)	2,646	(15.7)
Reported net income	2,150	1,950	10.2	2,149	0.0
EPS (SR)	1.08	0.98	10.2	1.07	0.0

Source: Company, NCBC Research, [^]% Var indicates variance from NCBC forecasts;

OVERWEIGHT

Target price (SR) 68.9

Current price (SR) 66.3

STOCK DETAILS

M52-week range H/L (SR)	73/53
Market cap (\$mn)	35,413
Shares outstanding (mn)	2,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(8.7)	24.0	9.7
Rel. to market	(5.8)	(0.5)	(10.0)

Avg daily turnover (mn)	SR	US\$
3M	64.5	17.2
12M	41.3	11.0

Reuters code	7010.SE
Bloomberg code	STC AB
	www.stc.com.sa

VALUATION MULTIPLES

	15A	16A	17E
Reported P/E (x)	14.3	15.5	13.5
Adjusted P/E (x)	14.3	15.5	13.5
P/B (x)	2.2	2.2	2.1
EV/EBITDA (x)	6.9	7.4*	6.9
Div Yield (%)	6.0	6.0	6.0

Source: NCBC Research estimates; *estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam +966 2 690 7811
i.ghulam@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

- OVERWEIGHT:** Target price represents an increase in the share price in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents a change in the share price between -10% and +15% in the next 12 months
- UNDERWEIGHT:** Target price represents a fall in share price exceeding 10% in the next 12 months
- PRICE TARGET:** Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

- NR:** Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
- CS:** Coverage Suspended. NCBC has suspended coverage of this company
- NC:** Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under license number 37-06046. The registered office of which is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.