

Sustained Growth but Shrinking Margins

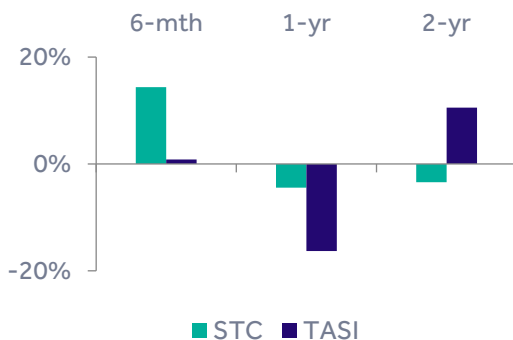
May 10, 2023

Upside to Target Price	9.6%	Rating	Neutral
Expected Dividend Yield	4.6%	Last Price	SAR 43.80
Expected Total Return	14.2%	12-mth target	SAR 48.00

Market Data	
52-week high/low	SAR 46.40/35.95
Market Cap	SAR 219,000 mln
Shares Outstanding	5,000 mln
Free-float	36.00%
12-month ADTV	4,964,876
Bloomberg Code	STC AB

STC	1Q2023	1Q2022	Y/Y	4Q2022	Q/Q	RC Estimate
Sales	18,179	16,919	7%	17,034	7%	17,246
Gross Profit	9,355	9,150	2%	9,029	4%	9,313
Gross Margins	52%	54%		53%		54%
Operating Profit	3,731	3,824	(2%)	2,969	26%	3,845
Net Profit	3,109	3,035	2%	2,757	13%	3,220

(All figures are in SAR mln)



- STC's revenues increased by +7% both on quarterly and yearly basis to SAR 18,179 mln, the highest quarterly revenues in history. Topline growth was mostly the result of its subsidiaries' robust +30% Y/Y increase. We expect STC's growth story to continue for the upcoming quarters and to be fueled by the expansion of its subsidiaries, particularly the new ones.
- Operating margin for the quarter contracted to 20.5% from 22.5% in 1Q2022 mainly due to the decline in gross margins along with higher G&A (up by SAR 244 mln) and Dep & Amor (up by SAR 137 mln). As we stated in our most recent Company report, we anticipate margin pressure in the near to medium term as a result of the Company's expansion mode, which is likely to increase revenues from lower margin areas.
- Net Income came in-line with our forecast, increasing by +2% Y/Y and +13% Q/Q to SAR 3,109 mln. Bottomline benefited from +228% Y/Y increase in finance income as well as lower impairment of investments in associate and JV of SAR 13 mln as compared to SAR (229) mln last year. However, this was partially offset by the increase in the early retirement program by SAR 187 mln.

Khalid Obaid Al-Obaid
khalid.al-obaid@riyadcapital.com
 +966-11-203-6815

■ Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors
For any feedback on our reports, please contact research@riyadcapital.com

Riyad Capital is a Saudi Closed Joint Stock Company with Paid up capital of SR 500 million, licensed by the Saudi Arabian Capital Market Authority NO.07070-37. Commercial Registration No: 1010239234. Head Office: Granada Business Park 2414 Al-Shohda Dist. – Unit No 69, Riyadh 13241 - 7279 Saudi Arabia. Ph: 920012299.

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report. Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.