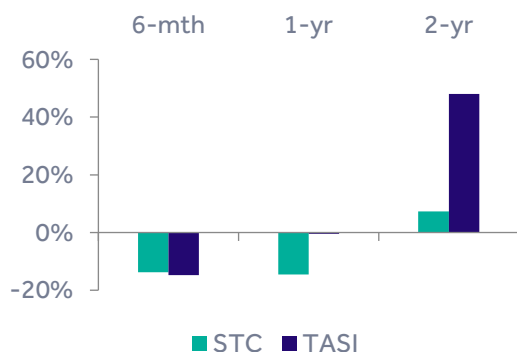


Market Data	
52-week high/low	SAR 48.88/37.10
Market Cap	SAR 201,250 mln
Shares Outstanding	5,000 mln
Free-float	36.00%
12-month ADTV	3,192,658
Bloomberg Code	STC AB



Reversal of Provisions Supports Bottom-line

October 31, 2022

Upside to Target Price	24.2%	Rating	Buy
Expected Dividend Yield	4.5%	Last Price	SAR 40.25
Expected Total Return	28.7%	12-mth target	SAR 50.00

STC	3Q2022	3Q2021	Y/Y	2Q2022	Q/Q	RC Estimate
Sales	16,468	15,735	5%	16,939	(3%)	16,997
Gross Profit	10,040	8,369	20%	9,174	9%	9,246
Gross Margins	61%	53%		54%		54%
Operating Profit	4,576	3,192	43%	3,720	23%	3,730
Net Profit	3,541	2,924	21%	2,837	25%	2,929

(All figures are in SAR mln)

- STC reported revenues of SAR 16.5 bln, an increase by +5% Y/Y but a decrease of -3% Q/Q. On a yearly basis, the cost of revenues decreased by SAR 939 mln (SAR 1,337 mln Q/Q) mainly due to reversal of contingent liability provision of SAR 1,079 mln which led to an increase in Gross Profit by +20% Y/Y and +9% Q/Q to reach SAR 10,040 mln, and Gross Margin to expand to 61% from 53% in 3Q2021 and 54% in 2Q2022.
- Operating profit climbed by +43% Y/Y and +23% Q/Q to reach SAR 4,576 mln. This increase in EBIT came as a result of the increase in Gross Profit despite the increase in Opex which increased by SAR 286 mln Y/Y (SAR 9 mln Q/Q), mainly due to the increase in G&A by SAR 176 mln, S&M by SAR 28 mln and Dep & Amor by SAR 82 mln.
- STC registered a Net Income of SAR 3,541 mln (+21% Y/Y, +25% Q/Q), mainly as a result of the reversal of provisions despite the increase in other expenses by SAR 653 mln Y/Y and SAR 157 mln Q/Q on the back of booking net share in results & impairment of investments in associate and JV for an amount of SAR (776 mln) compared to SAR 21 mln in 3Q2021 and SAR (283 mln) in the preceding quarter, mainly as a result of recording an impairment provision related to BGSM investment due to decline in fair value as a result of the market conditions in the Malaysian market.
- STC announced the distribution of SAR 0.40 per share (equivalent to SAR 1.00 per share before the capital increase) for 3Q2022. However, we still believe that the Company is going to distribute a premium dividend for 2023, especially after the non-binding offer received from PIF to acquire 51% of the shares of STC's subsidiary (Tawal).

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■ 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

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