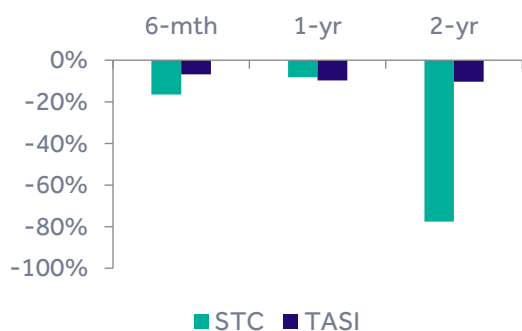


Market Data	
52-week high/low	SAR 46.00/35.95
Market Cap	SAR 185,500 mln
Shares Outstanding	5,000 mln
Free-float	36.00%
12-month ADTV	3,674,924
Bloomberg Code	STC AB



Gross Margins Swell in 3Q

Upside to Target Price	26.7%
Expected Dividend Yield	4.3%
Expected Total Return	31.0%

October 31, 2023

Rating	Buy
Last Price	SAR 37.10
12-mth target	SAR 47.00

STC	3Q2023	3Q2022	Y/Y	2Q2022	Q/Q	RC Estimate
Sales	18,106	16,308	11%	18,327	(1%)	18,235
Gross Profit	10,388	10,040	3%	9,133	14%	9,264
Gross Margins	57%	61%		50%		51%
Operating Profit	4,338	4,576	(5%)	3,281	32%	3,427
Net Profit	4,904	3,541	38%	3,008	63%	4,084

(All figures are in SAR mln)

- STC's topline grew by +11% Y/Y but was slightly lower by -1% Q/Q to SAR 18.1 bln, in-line with our forecast of SAR 18.2 bln. Growth was witnessed across all the segments as well as at its subsidiaries. The number of mobile subscribers as of September-end have grown by +9.1% Y/Y to 25.6 mln although fixed subscribers are almost flat at 5.55 mln. The rising number of international users as well as higher international roaming customers on STC network is helping.
- Gross margin at 57.4% came in much higher than expected, 7.5% higher than 49.8% recorded in 2Q2023. Last years (3Q2022) gross margin of 61% resulted from a reversal of contingent liability provisions, we were expecting normalized margins for this quarter. Operating expenses surged by SAR 586 mln Y/Y due to stc's continued investments in new areas. Operating profit declined -5% Y/Y but was up +32% Q/Q to SAR 4.3 bln.
- Net Income was recorded at SAR 4.9 bln (+38% Y/Y, +63% Q/Q), beating both our forecast of SAR 4.1 bln and market consensus of SAR 4.0 bln. The rise in bottomline was led by the one-off gain on the sale of land amounting to SAR 1.3 bln, as expected. The deviation of net income resulted from stellar gross margins. We await full financials and management commentary for further details. The Company is in the midst of organic and inorganic expansions and it remains to be seen how this impacts margins going forward. Usual quarterly dividends of SAR 0.40 per share were announced.
- In the outgoing quarter, the Company acquired a 9.9% stake in Telefonica Group, a global telecom company with presence in Spain, Germany, Britain and Brazil for SAR 8.5 bln, in line with its growth strategy. We maintain our target price of SAR 47.00 per share but upgrade our recommendation to a Buy.

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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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