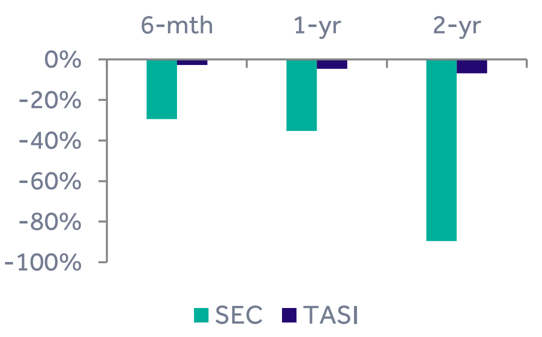
Higher Finance Costs Persist

November 08, 2023

Upside to Target Price	21.5%	Rating	Buy
Expected Dividend Yield	4.1%	Last Price	SAR 17.28
Expected Total Return	25.6%	12-mth target	SAR 21.00

Market Data	
52-week high/low	SAR 26.70/16.92
Market Cap	SAR 71,999 mln
Shares Outstanding	4,167 mln
Free-float	18.76%
12-month ADTV	881,795
Bloomberg Code	SECO AB



SEC	3Q2023	3Q2022	Y/Y	2Q2023	Q/Q	RC Estimate
Operating Revenue	23,799	22,750	5%	19,718	21%	23,432
Gross Profit	7,744	7,496	3%	6,055	28%	7,264
Gross Margins	33%	33%		31%		31%
Operating Profit	7,185	7,192	(0%)	5,834	23%	7,084
Net Profit*	5,844	6,375	(8%)	4,017	45%	5,172

(All figures are in SAR mln)
* Before deducting Mudaraba Instrument.

- Revenues witnessed an impressive +5% Y/Y growth to SAR 23.8 bln, in-line with our estimates. Increase in the topline comes on the back of +10% Y/Y higher power demand in the outgoing summer season, a rise in the subscriber base (+0.9% Y/Y growth to 10.9 mln in 9M 2023) and higher TUoS revenues. Double digit growth in fiber optic lease revenue from Dawiyat on growing utilization of FTTH connections has also helped.
- Gross profit is up +3% Y/Y to SAR 7.7 bln, although cost of sales increased by +5% Y/Y primarily on higher O&M costs due to intensive operation and maintenance in the summer season. Gross margin contracted by 40 bps Y/Y to 32.5% largely due to higher costs this quarter on higher demand.
- Despite an increase in gross profit Y/Y, operating profit is flat at SAR 7.2 bln, reflecting higher operating costs. Finance costs are up +53% Y/Y to SAR 1.2 bln. This is a combination of higher interest rates as well as additional funding accumulated in the period. We believe higher finance expense will continue to put pressure on net margin going forward.
- Net Income came in at SAR 5.8 bln, down -8% Y/Y but better than our expectations of SAR 5.2 bln. Y/Y decline in net profits is a result of higher financing costs and booking of Zakat provisions on a quarterly basis from 2023. Although there are challenges, mainly higher financing costs, we notice a continued operational improvement. While we reduce our target price to SAR 21.00 per share, we keep our Buy recommendation as the stock continues to underperform.

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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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