

**Buy**

TP SR47.70

# STC

## STC releases preliminary 4Q11

STC's preliminary 4Q11 results were broadly in line with our estimates. Growth was driven by a record Hajj season, demand for fixed and wireless broadband services and revenue from international operations. We maintain our target price at SR47.70 and our Buy recommendation.

**RBS Refiner**

Price (close 18 Jan)	SR34.00
3M high/low	SR34.90/33.00
Market cap	SR68.00bn
Av (12M) turnover	SR28.57m
Freefloat	16%
Reuters	7010.SE
Bloomberg	STC AB
Net debt (cash) FY10A	SR24283.94m
3yr EPS CAGR 11-13F	(4.2)%
Income (2012F div yield)	7.4%

Source: Rasmala forecasts, Bloomberg

**RBS vs consensus (SRm)**

NPBT	Ours	Cons	%
2011	8,327	8,629	-4%
2012	9,262	9,684	-4%
2013	9,793	10,109	-3%

Source: Rasmala forecasts, Bloomberg

**Price performance**

	(1M)	(3M)	(12M)
Price (SR)	33.40	36.20	40.50
Absolute (%)	1.8	-6.1	-16.0
Rel to mkt*(%)	-0.4	-9.4	-11.6

\*Tadawul Index

Source: Bloomberg

**Key events**

Date	Event
Jan-12	Annual results announced
Apr-12	Interim results announced
Jul-12	Interim results announced

Source: Bloomberg

**Events: STC releases preliminary 4Q11 results – broadly in line with estimates**

STC's revenue rose to SR15.25bn for 4Q11 versus SR13.44bn in 4Q10, an annual increase of 13%. According to STC, growth locally was driven by a record Hajj season and the demand for fixed and wireless broadband services (revenues for the latter in 4Q11 rose by 126% over 4Q10 and grew 131% yoy at the end of 2011). Meanwhile, total revenue from international operations increased by 10% at year-end 2011 compared to 2010. Total FY11 revenue was SR56.4bn, an annual growth of 9% and slightly higher than our FY11 forecast of SR54.9bn. EBITDA for 4Q11 was SR5.02bn, a yoy decrease of 18%, and SR20.1bn for FY11, an annual growth of 3%. Our EBITDA estimate of SR20.1bn was in line with reported results. Meanwhile, 4Q11 net income came in at SR2.3bn, almost unchanged from 4Q10. However, FY11 net income declined 19% yoy to reach SR7.67bn. Reported net income for FY11 was higher than our estimate of SR7.05bn by 9% as we had predicted higher-than-reported FX losses and non-operational expenses.

According to STC, the net profit declined due to a) SR1.105bn in FX losses booked this quarter, and b) the SR728m recorded in 3QFY10, representing gains from the sale of fixed assets (towers) to AIRCEL in India.

**Forecasts: FY12 numbers unchanged**

As the 4Q11 and FY11 results have broadly performed in line with our estimates, we do not change our FY12 forecasts. We are currently 3% and 4% ahead of Bloomberg consensus estimates on NPBT.

**Valuation: We maintain our target price of SR47.70 and our Buy recommendation**

In light of the FY11 results, STC's board of directors recommended an initial dividend of SR1bn for 4Q11, equivalent to a DPS of SR0.5 per share, making total dividends for the year reach SR2.0 per share in line with our forecast. On our SOTP/DCF-based valuation, our current target price for STC remains unchanged at SR47.70 target price, implying a positive upside of 40% from the current share price of SR34.00. We reiterate our current Buy rating. The risks to our recommendation pertain to overpaying for an acquisition and increased competition in the markets under operation.

**Key forecasts**

year to Dec	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (SRm)	50,780	51,787	54,878	56,800	58,789
EBITDA (SRm)	20,612	19,625	20,195	20,732	21,164
Normalised PTP (SRm)	12,130	11,537	8,327	9,262	9,793
Norm fully diluted EPS (SR)	5.43	4.72	3.52	3.92	4.14
Normalised PE	6.26	7.20	9.65	8.68	8.20
Dividend per share (SR)	3.00	2.00	2.00	2.50	3.00
Dividend yield (%)	8.82	5.88	5.88	7.35	8.82

Accounting standard: local GAAP

Source: Company data, Rasmala forecasts

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Important disclosures can be found in the Disclosures Appendix.

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# RBS Equities Forecasts: STC

## Income statement

SRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	50780	51787	54878	56800	58789
Cost of sales	-19779	-21449	-22775	-23572	-24398
Operating costs	-10388	-10712	-11909	-12496	-13228
<b>EBITDA</b>	<b>20612</b>	<b>19625</b>	<b>20195</b>	<b>20732</b>	<b>21164</b>
DDA & Impairment (ex gw)	-7799	-8645	-9147	-9213	-9305
<b>EBITA</b>	<b>12814</b>	<b>10981</b>	<b>11048</b>	<b>11519</b>	<b>11859</b>
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
<b>EBIT</b>	<b>12814</b>	<b>10981</b>	<b>11048</b>	<b>11519</b>	<b>11859</b>
Net interest	-1023	-1497	-1421	-1063	-994.0
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	340.1	2053	-1299	-1194	-1072
<b>Reported PTP</b>	<b>12130</b>	<b>11537</b>	<b>8327</b>	<b>9262</b>	<b>9793</b>
Taxation	-976.6	-1493	-749.5	-833.6	-881.4
Minority interests	-290.5	-603.8	-530.4	-590.0	-623.8
Other post-tax items	0.00	0.00	0.00	0.00	0.00
<b>Reported net profit</b>	<b>10863</b>	<b>9440</b>	<b>7047</b>	<b>7839</b>	<b>8288</b>
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	20612	19625	20195	20732	21164
Normalised PTP	12130	11537	8327	9262	9793
<b>Normalised net profit</b>	<b>10863</b>	<b>9440</b>	<b>7047</b>	<b>7839</b>	<b>8288</b>

## Balance sheet

SRm, year ended December	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	7422	5904	14254	20849	30402
Other current assets	14918	12762	16087	17437	18121
Tangible fixed assets	53026	55135	55271	54988	54220
Intang assets (incl gw)	28916	31806	31806	31806	31806
Oth non-curr assets	4990	5101	5101	5101	5101
<b>Total assets</b>	<b>109272</b>	<b>110709</b>	<b>122519</b>	<b>130181</b>	<b>139650</b>
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	29519	26642	30662	32295	34052
Long term debt (3)	22254	21736	25849	19349	13049
Oth non-current liab	6703	8863	8963	9063	9163
<b>Total liabilities</b>	<b>58475</b>	<b>57241</b>	<b>65474</b>	<b>60707</b>	<b>56265</b>
Total equity (incl min)	50797	53468	57046	69474	83386
<b>Total liab &amp; sh equity</b>	<b>109272</b>	<b>110709</b>	<b>122519</b>	<b>130181</b>	<b>139650</b>
Net debt	23893	24284	18529	5000	-11053

## Cash flow statement

SRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	20612	19625	20195	20732	21164
Change in working capital	-2570	-110.8	2213	717.0	1274
Net interest (pd) / rec	-695.9	-1102	-1421	-1063	-994.0
Taxes paid	-832.3	-976.6	-938.8	-749.5	-833.6
Other oper cash items	-1110	203.9	-749.5	-833.6	-881.4
<b>Cash flow from ops (1)</b>	<b>15404</b>	<b>17640</b>	<b>19299</b>	<b>18803</b>	<b>19729</b>
Capex (2)	-13542	-13046	-9283	-8931	-8537
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-432.7	326.2	208.7	0.00	0.00
<b>Cash flow from invest (3)</b>	<b>-13975</b>	<b>-12720</b>	<b>-9074</b>	<b>-8931</b>	<b>-8537</b>
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	630.5	846.3	532.2
Ordinary dividend paid	-5943	-6109	-4000	-4000	-5000
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	3874	-328.8	1495	-77.2	2900
<b>Cash flow from fin (5)</b>	<b>-2069</b>	<b>-6438</b>	<b>-1874</b>	<b>-3231</b>	<b>-1568</b>
Forex & disc ops (6)	0.00	0.00	0.00	-47.4	-70.4
<b>Incr/(decr) cash (1+3+5+6)</b>	<b>-639.5</b>	<b>-1518</b>	<b>8350</b>	<b>6594</b>	<b>9553</b>
Equity FCF (1+2+4)	1862	4594	10016	9873	11192

Source: Company data, Rasmala forecasts

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

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