



**US\$20.96bn** Market cap  
**16.4%** Free float  
**US\$6.06mn** Avg. daily volume

Target price **43.10** 9.7% over current  
Consensus price **47.40** 20.6% over current  
Current price **39.30** as at 18/10/2010

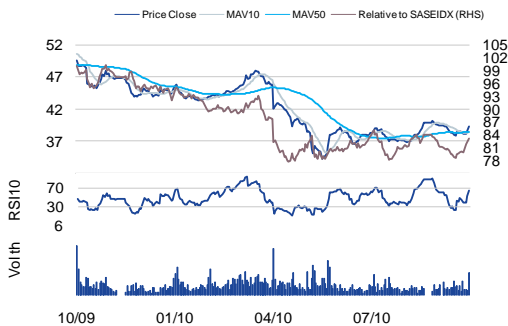
Existing rating

Underweight **Neutral** Overweight

**Flash view**

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

**Performance**

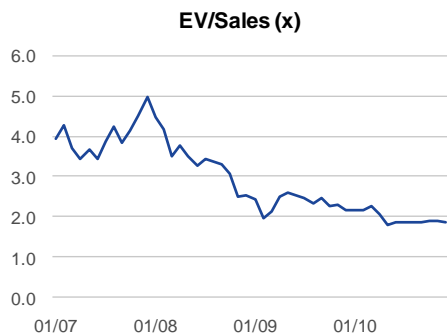


**Earnings**

Period End (SAR)	12/09A	12/10A	12/11A	12/12A
Revenue (mn)	50,780	53,212	56,290	59,578
Revenue Growth	7.0%	4.8%	5.8%	5.8%
EBITDA (mn)	20,612	19,916	22,049	24,129
EBITDA Growth	-5.2%	-3.4%	10.7%	9.4%
EPS	5.43	4.58	5.39	5.43
EPS Growth	-1.6%	-15.6%	17.6%	0.6%

EFATableCorpFP  
Source: Company data, Al Rajhi Capital

**Valuation**



EFACHartCorpVal  
Source: Company data, Al Rajhi Capital

**STC**  
**Results past the bottom**

STC's Q3 results are slightly better than we had predicted. However, they seem largely to support our view that STC is gradually recovering from a very weak period; we would need substantially more evidence to turn significantly more positive about the company. On this basis STC's main attraction remains its 7.7% dividend yield. We retain our Neutral rating and target price of SAR43.1.

Earnings vs our forecast	Above	In Line	Below
<b>Likely impact:</b>			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long-term view	Stronger	Confirmed	Weaker

- Revenues:** We have not yet seen any details of STC's results for Q3 2010 beyond the headline figures in the company's press release. Unfortunately, the press release contains no comment on revenues, which we regard as the single most important piece of information regarding STC. We suspect that revenue growth remains dull for STC after several weak quarters.
- EBITDA and operating profit:** As we have not seen figures for depreciation, we cannot yet calculate or comment on EBITDA. Operating profit of SAR3,255mn rose by 4% year-on-year, and was about 4% above the reported Bloomberg consensus forecast for Q3 and 10% above our own estimate (see table overleaf). Perhaps more importantly, operating profit rose by 39% from the very depressed level of Q2. As explained in our recent update report *Saudi Telecoms Sector: Mobily still our favourite* (13th October), we think that STC's results bottomed in H1 2010 but expect only a gradual improvement from now on.
- Net profit:** As reported, net profit of SAR3,317mn rose by 38% year-on-year and by 61% quarter-on-quarter. However, net profit was boosted by a large capital gain of SAR728mn resulting from the sales of mobile towers by Aircel in India. Excluding this capital gain, we calculate that net profit would have been SAR2,589mn, representing an increase of 8% year-on-year and of 26% quarter-on-quarter. This underlying figure for net profit is again about 10% above our estimate. (SAR2,589mn is 34% above the reported Bloomberg consensus forecast for net profit of SAR1,936mn; however, we are dubious about this number, which we regard as unrealistically low.)
- Conclusion:** STC's headline results are slightly better than we had predicted. However, they largely appear to support our view that STC is gradually recovering from a very weak period, and that new initiatives at home and expansion abroad will take time to boost the company's growth rates. Certainly, we require substantially more evidence to turn significantly more positive about the company. On this basis STC's main attraction remains its solid balance sheet and dividend yield of 7.7%. For the moment we retain our Neutral rating and target price of SAR43.1.

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### Corporate summary

STC is the largest telecoms operator in the GCC region, with a market value of US\$21bn. STC completely dominates the Saudi fixed-line telecoms market and retains the highest share of the mobile market by revenues. STC is committed to expansion by investment abroad and acquisition, and has made major investments in Turkey, Malaysia, South Africa and elsewhere. These investments account for around one-quarter of its value.

### Share information

Market cap (SAR/US\$) 78.60bn / 20.96bn  
52-week range 34.30 - 52.00  
Daily avg volume (US\$) 6.06mn  
Shares outstanding 2,000mn  
Free float (est) 16.4%

Performance: 1M 3M 12M  
Absolute -1% 3.1% -21.8%  
Relative to index 0.2% 0.4% -20.1%

Major Shareholder:  
Public Investment Fund 70%  
Gen. Organisation for Social Insc. 7%

Source: Bloomberg, Al Rajhi Capital

### Valuation

Period End	12/09A	12/10A	12/11A	12/12A
Revenue (SARmn)	50,780	53,212	56,290	59,578
EBITDA (SARmn)	20,612	19,916	22,049	24,129
Net Profit (SARmn)	10,176	9,167	10,782	10,851
EPS (SAR)	5.43	4.58	5.39	5.43
DPS (SAR)	3.00	3.00	3.09	3.15
EPS Growth	-1.6%	-15.6%	17.6%	0.6%
EV/EBITDA (x)	4.8	5.0	4.5	4.1
P/E (x)	7.2	8.6	7.3	7.2
P/B (x)	1.9	1.7	1.6	1.4
Dividend Yield	7.6%	7.6%	7.9%	8.0%

Source: Company data, Al Rajhi Capital

Figure 1. STC: Q3 2010 initial results

(SAR mn)	Q3 2009	Q2 2010	Q3 2010	% chg y-o-y	% chg q-o-q	ARC est	Bloomberg consensus
STC							
Revenues	12,934	12,591	n/a	n/a	n/a	13,010	13,118
EBITDA	5,092	4,504	n/a	n/a	n/a	5,009	5,185
EBITDA margin (%)	39.4%	35.8%	n/a	n/a	n/a	-1.4pp	-0.1pp
Operating profit	3,112	2,345	3,255	4.6%	38.8%	2,952	3,129
Net profit	2,403	2,062	3,317	38.0%	60.9%	2,355	1,936

Source: Company data, Bloomberg, Al Rajhi Capital



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### Additional disclosures

#### 1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"**Overweight**": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"**Neutral**": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"**Underweight**": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

#### 2. Definitions

"**Time horizon**": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"**Fair value**": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"**Target price**": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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