stc's Earnings Call Transcript
FY 2021

Call Date	27th Feburary, 2022
Hosts	Mr. Ameen Al Shiddi – stc group CFO Mr. Ali Alharbi – Corporate Finance, VP Mr. Turki Alashaikh – Investor Relations, GM

Turki AL Ashaikh (IR General Manager):

Thank you everyone for joining stc's full year 2021 earnings call. Today, we have Mr. Ameen Al Shiddi – stc group CFO along with Mr. Ali Al Harbi, Corporate Finance Vice President.

We will start with a 5-10 minutes presentation followed by Q&A session, thank you.

Presentation (Mr. Ameen Al Shiddi – stc group CFO):

Good morning all and welcome to stc's full year 2021 earnings call. I hope all are in a good health and doing well.

Financial performance:

stc was able to improve its financial metrics for 2021 as compared to 2020;

- **Revenues** for the year stood at SR **63,417m**, representing an increase of 7.57% compared to 2020.
- **Operating Profit** reached to **SR 13,128m,** representing an increase of 3.12% compared to 2020.
- **EBITDA** for the year recorded at **SR 22,841m**, that depicts an increase of 3.40% compared to 2020.
- **Net Profit** for 2021 stood at SR **11,311m**, which reflects growth of 2.87% compared to 2021.

Business overview:

- **The Enterprise Business Unit** achieved a substantial growth of 20.9% in revenues for the year benefiting from the company's ability to accommodate the strong demand from the public and private sector for Enterprise Business Unit's services and products.
- **The Consumer Business Unit** was supported by the residential revenues, which increased by 10.5% driven by significant demand of fixed-wireless access and FTTH products as subscribers increased y/y by 21.7% and 10.3% respectively**.**
- **The Wholesale business unit** revenues for the year increased by 2.9%, as the company leverages upon its infrastructure investments to grow the its hubbing services.

The year 2021

- This has been a very successful year for **stc.** The Solutions by **stc** IPO was one of the largest and most successful transaction in the Saudi market, with an overall coverage of over 130 times. In addition, **stc** Group's secondary offering met with very high demand, as it is the first of its kind in the Saudi Market and one of the largest follow-on transactions in the region.
- **stc** launched the Advanced Technology and Cybersecurity Company; a new company dedicated to providing advanced cybersecurity services and solutions to the enterprise business sector.
- In addition, **stc** announced the launch of its initiative to establish a major digital hub " MENA Hub" for the MENA region with an investment of ~1 billion USD, which ensures the leading position of KSA across the ICT sector and **stc's** role as leading player in the region, and aims to enable the Kingdom's economic growth.t. As part of the initiative, **stc** announced it would be establishing a new company specializing in datacenter hosting, international and regional connectivity.
- Moreover, TAWAL, a subsidiary of **stc** group, announced its entry into the Pakistan's market via a 100% acquisition of Awal Telecom. The acquisition, which is TAWAL's first expansion outside Saudi Arabia, is an initial step in the company's international expansion road map. This acquisition comes in line with "E" (Expand scale and scope) component of our DARE strategy.
- stcpay's digital banking license enables the provision of full suite of banking services. This is in line with our DARE strategy and a continuation of stcpay's roadmap. stcpay has around 8 million registered users and the number of stcpay's cards issued are around 3 million, all in a very short time period.
- These successful transactions are largely attributed to the faith investors have in the company, and **stc**'s continuous efforts to develop its capabilities, which is enabling it to capture opportunities and translate them into value for the shareholders.

We will now start the Q&A session.

Q&A Session:

Person/ Company	Question	Answer
Faisal Al Azmeh **Goldman Sachs**	**Q1:** can you please shed some light on the trends in revenue growth. Where do you see the growth is coming from within your business? **Q2:** regarding the special dividends, we have seen that your working capital is improving, should we expect more of these special dividends? **Q3:** On stc Bank, how do you envision stc Bank in 5 years? Will it be driven by lending activities? Or do you think remittances and fees will be the major contributor?	**A1:** A major contribution to the growth came from what we call "the non-core business" such as IT, fin-tech, cybersecurity, and the distributions related services. Going forward, the aim is to continue our healthy growth while achieving targets. **A2:** We did not distribute any special dividends for this year. Special dividends are more related to the strategy and expansion plans of the company. We want to leverage our balance sheet to have more acquisitions and to enable stc's subsidiaries to expand on their operations, which would reward the shareholders in the medium to long term. **A3:** As you are aware, stcpay has the license to operate as a full digital bank. This will enable the entry into different banking products, including lending. There is a clear internal road map on the type of lending products that will be initially offered. In conjunction to remittance fees, we anticipate that lending revenues will be a driver of growth for stcpay during the coming years.
Ziyad **Arqaam Capital**	**Q1:** looking at the cost structure, clearly there is pressure on the gross margins coming from the growth in new revenue streams that are boosting the top-line growth for the group. Yet, looking at General & Administrative expenses, the controllable costs of the business, there is strong cost optimization in which it has decreased by 6% y/y. Also, Selling & Marketing expenses are down by 10% y/y although the business is growing. How is this achievable? Are there any reclassifications or reversals in these two line items? And do you think it is sustainable? **Q2:** regarding the cost of Early Retirement Program, it was down by SAR 300 mn representing a decrease of 50% y/y. Can we take this level as an assumption going forward? **Q3:** looking at the share of results of associates & JVs, there seems to be a sizable impairment that happened in Q4, which was offset by other gains. Can you shed some light on that?	**A1:** When it comes to cost structure, we need to mention that we have lot of start-up and/or expanding businesses, this naturally puts pressure on our gross margins. Some of our businesses are experiencing negative EBITDA levels. However, we can assure you that down the line, these businesses will improve and get higher and healthier margins. Our strategy is to continue growing while ensuring healthy profitability is achieved. We are optimizing our G&A and S&M expenses to meet the targeted profitability along with fulfilling the growth requirements of our strategic expansions. Previously, our cost optimization initiatives were focused on KSA operations; however, last year, we relaunched our cost optimization plan to include stc's subsidiaries, which contributed to improving their margins, and reflected positively on the group's level. **A2:** going forward, our Early Retirement Program will continue with the same trend seen in 2021 as the cost of the early retirement program helped in optimizing the number of stc's employees. **A3:** there were some impairments in some items below the EBITDA level, which are mentioned in our financials. There are also other gains coming from stc's venture fund that we have invested in few years ago that contributed positively to our bottom-line.
Nishit **SICO**		**A1:** It is very important to keep in mind that there is a value creation journey for our subsidiaries. The timing to approach the market is a very important

	Q1: regarding stc Bahrain operations, is there any plan to IPO this company given that it is performing well in the telecom side? **Q2:** is there any more details on the recent tower acquisition in Pakistan that you can share in terms of value of acquisition, number of towers…etc.	element when it comes to creating the maximum value for these subsidiaries. However, from an IPO readiness point of view, we are working on making all of stc's subsidiaries ready, even the ones that have been recently established. **A2:** Tawal's expansion in Pakistan is not about the value of the deal, it is more about expanding its international footprint. This acquisition will be very healthy for Tawal's operations as there is a lot of potential in the Pakistani market. This deal will be the first step towards expanding the tower business in this market. Tawal is very active and aggressively seeking to expand its business both regionally and internationally.
Madhvendra SINGH **HSBC**	**Q1:** What is the reason of not distributing special dividends for the year given that stc has one of the strongest balance sheet globally? **Q2:** Regarding the recent regulatory changes where your fixed line was opened up to be shared with other operators, what type of risk that would be on your business?	**A1:** stc has a very strong balance sheet with low leverage and strong credit rating profile. However, the major reason for such decision is that we have many internal and external expansion plans on our table for 2022. The group and its subsidiaries have ambitious targets to meet, as there will be projects that will need funding requirements and will clearly help the company in terms of its topline growth and profitability. We will do another assessment towards the end of this year and assess the possibility of paying special dividends. **A2:** We think the impact will be limited on the business. We previously experienced the infrastructure open access with other operators and had the same concerns, but at the end it benefitted stc. We will continue monitoring and assessing the situation in order to mitigate any risk that may affect stc.
Abdulaziz Alhebaishi **Jadwa Investment**	**Q1:** Can you talk about the Capex intensity for the next few years, and what would be the areas of spending?	**A1:** As a group, we are not expecting much of change in stc's capital intensity, as it will be around the average of the past three years. We will continue to meet certain requirements related to 5G, data centers, submarine cables, IoT, and cloud. In addition, there will be certain expansion requirements for some subsidiaries such as Mena Hub. Worthy to mention, the Capital Expansion Efficiency Program that we have launched two years ago is helping us in accommodating any funding requirements.
Nafez Alabbas **Ajeej Capital**	**Q1:** What is the driver behind spinning off the data centers instead of having them under solutions by stc?	**A1:** solutions by stc have different businesses to expand and support the group as they have a lot on their table to focus on. We carefully did our assessments and saw that spinning off the data centers was more logical and much better in terms of value creation for the group. We expect a very promising future for the data centers as we have seen with the Cyber Security company.

Turki AL Ashaikh (IR General Manager):

Thank you all again for participating in stc's full year 2021 earnings call. If you need anything, please do not hesitate to email us at IRU@stc.com.sa

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