stc Earnings Call Transcript

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Call Date	27th of February, 2025
Hosts	Mr. Ameen AlShiddi – stc GCFO Mr. Turki Alashaikh – Investor Relations, VP Mrs. Hend AlBassam – Investor Relations, Director

(Mrs. Hend AlBassam– Investor Relations Director)

Welcome everyone, and thank you for joining stc's FY 2024 Earnings Call. My name is Hend Albassam, Analysts & Capital Markets Director and I will be your host today. Joining us in this call the Group CFO, Mr. Ameen Alshiddi and our Investor Relations VP, Mr. Turki Alashaikh. We will start with a key highlights and overview of stc's financial performance followed by the Q&A session.

Now, I will turn the call over to our GCFO Mr. Ameen Alshiddi.

(Mr. Ameen Alsheddi – stc GCFO)

Welcome and thank you everyone for joining stc's FY 2024 Earnings Call. Alhamdulillah stc was able to achieve robust financial results, with strong performance across all sectors throughout the year 2024.

Financial Performance:

- **Revenues** reached almost ⃁ **75.9 billion**, marking a **5.7%** growth YoY, driven by a **0.9%** increase in revenue from **stc KSA**, as well as a **16.4%** rise in revenue from its **subsidiaries.**
- The growth in stc KSA was primarily driven by the **Commercial Unit**, which grew by **5.4%**, offsetting the pressure on the B2B side. **Business Unit** revenue saw a decline by **7.7%**, mainly due to reduced government revenue and the optimization measures implemented by the government, which impacted our public sector revenue. However, this was counterbalanced by a notable increase in private sector revenues. The **Carrier and Wholesale Unit** experienced a decline in revenue by **4.5%**, on the back of the Group focuses on securing and delivering a higher profit margins.
- **Operating Profit** increased by nearly **9.6%**, while **Operating Profit Margin** rose by almost **3.7%**, reaching **19%** compared to **18.3%** last year.
- **EBITDA** grew by **6.6%**, with **EBITDA Margins** improving to **31.5%**, up from **31.3%** last year.
- We will continue our **Operational Efficiency Program**, which has been crucial not only in offsetting the expected decline in B2B revenue, but also in ensuring the improvement of our margins. We were able to conclude the year with strong performance and improved margins both operationally and in terms of EBITDA. This program will remain a key focus, and we are committed to executing it throughout 2025 and beyond.
- **Net Profit** recorded ⃁ **24.7 billion**, marking a growth of **86%** compared to last year, primarily driven by the capital gain realized from the sale of TAWAL.

- Following up on the **Net Profit**, In Q4, we implemented an aggressive early retirement program (ERP), ending the year with nearly ⃁ **2.6 billion** ERP, well above the typical ⃁ **400-500 million** annually. This will allow us to start 2025 with fewer employees, improving efficiency and potentially enhancing our financials without impacting performance. Additionally, we conducted our annual impairment testing for investments, specifically in Binariang Group (primarily Maxis). As a result, we decided to book ⃁ **800 million** impairment in Q4. Despite these adjustments, if we exclude the non-recurring items, our bottom line shows a **13%** YoY growth.
- We maintain a robust **cash position** and a very strong net **cash balance**. Additionally, we have significant leverage capacity, which positions us for future expansions within our core business or any potential acquisitions aligned with stc's strategy and investment objectives. Moreover, we are committed to ensuring that the necessary capital expenditures are in place to maintain the strength of our network and uphold our leadership in the industry.
- We will continue to focus on the expansion, improvement, and development of our subsidiaries and overall profitability. In the upcoming financial statements disclosures, detailed information on all of our subsidiaries will be provided. The ongoing enhancement of these businesses is expected to drive sustained growth, contributing positively to our profitability this year and in the years ahead.
- For **Dividends**, we have announced a **special cash dividend** of ⃁ **2** per share for the year 2024, in addition to our new dividend policy of ⃁ **0.55** per share per quarter. We achieved an exceptional capital gain, which brought in a significant amount of cash.

2024 Key Highlights:

- We have announced that we have received the authorizations, allowing stc to increase its voting rights to **9.97%** and the right to appoint a board member in Telefonica, and this appointment has been completed a few days ago.
- We have finalized TAWAL's deal with the PIF, resulting in capital gain of nearly ⃁ **12.8 billion**, which has been booked in Q4 2024. This will bring stc's ownership in the new entity to **43.06%**.
- STC Bank has received approval from the central bank to start the operations in the country, following the successful beta launch back in April. This marks a significant milestone in the country's digital transformation journey. Hopefully, STC Bank will start offering banking products within the second half of 2025.
- We have announced a groundbreaking contract with a government entity, valued at approximately ⃁ **32.6 billion**. This contract is for the development and provision of communication infrastructure services. Given the 18-month preparation and execution period, revenue from this project is expected to be recognized following the initial phase of operations, which is anticipated to begin in the fourth quarter of 2026, it's a major project that will span over the next 15 years.
- The board has recommended an additional cash dividend of ⃁ **2** per share, totaling approximately ⃁ **10 billion**, which is an addition to the new dividend policy.

(Mrs. Hend AlBassam – Investor Relations Director)

Thank you Abu Fahad for the insightful updates, we will now open the call for questions. If you have a question, please use "raise hand" feature. When asking your question, please state your name and the organization you are representing.

Q&A Session: (Mr. Ameen AlShiddi and Mr. Turki Alashaikh)

	Question	Answer
A	**Q1)** Could you clarify how you see the current government revenue flow, especially with the recent contract you secured? Do you expect more projects to be given to telecom companies? **Q2)** Regarding the capacity for M&A and your search for assets in Europe, are there any other regions you are exploring, or are there any assets currently under discussion? **Q3)** Could you provide a general idea of the capex envelope you foresee for the next couple of years?	**A1)** The revenue from the government sector, particularly in connectivity services (not ICT-related), has been impacted by ongoing retendering since 2023. However, we are now in a better position compared to two years ago. While future retendering is uncertain, we are well equipped to adapt to market discounts and to maintain our market share, even regaining some contracts that was previously lost. Discount levels are stabilizing, which is a positive sign. Although we are cautious and do not want to become complacent, the situation is more favorable than it was a year ago. We expect a slight decline in government connectivity revenue in 2025, but the growth in other business units and our efficiency program should help mitigate this. The ICT sector remains good with continued growth. The specific project mentioned is unrelated to the government optimization or efficiency efforts; it is a distinct contract that we have won. **A2)** Our approach to M&A is very careful and selective, on a case-by-case basis. We are focusing on solid opportunities within our region. We are also exploring opportunities in Europe, though, as always, these deals are difficult to pursue based on stc's selection criteria and value creations target. While there is nothing to announce at this moment, we are actively exploring opportunities, and any significant developments will be communicated to the market. **A3)** We anticipate a slight increase in intensity, primarily driven by the government projects we announced, in addition to the expansion of our data centers, which is a critical part of our strategy! While we are still evaluating the exact level of investment needed for data centers, we recognize the strong demand and good margins in this sector. We will continue to monitor the situation closely and adjust our investments accordingly. By mid-year, we expect to have a clearer outlook on our capital intensity, and we will provide a more detailed update during the next earnings call.

B	**Q1)** Could you help us understand the accounting treatment for TAWAL in the future? How are you planning to book the lease cost? Would there be any netting or will you book the cost in full, and record it as income from associates? **Q2)** Could you provide more context on how much additional efficiency we can expect? We understand there was significant spending on the early retirement program, especially in Q4. How much savings should we anticipate from that moving forward?	**A1)** To clarify, the financials of 2023 and 2024 now reflect the deconsolidation of TAWAL. This means that the operational expenses you see in the financials, including payments to TAWAL, have already been incorporated into the 2024 figures. These payments are part of an MSA agreement, not a lease, and are classified as operational expenses that impacted our EBITDA. From 2025 onwards, any profitability and income from TAWAL, as we own 43.06%, will be accounted for using the equity method. Therefore, when forecasting or comparing performance, you are seeing an "apple-to-apple" comparison, as the deconsolidation was already applied throughout the year 2024 and 2023. **A2)** The efficiency from ERP is already being captured, with over 2,000 employees leaving the company by December 31st and their associated costs will be fully reflected starting January. The program will continue with additional initiatives that aim to bring further cost efficiencies. Although 2024 is not expected to be the peak year for efficiency, as the program spans over three years, we are optimistic about strong efficiency improvements in 2025 and 2026.
C	**Q1)** If 2,000 employees represent roughly 10% of the total workforce, would that be the impact on your employee costs?	**A1)** The cost saving will not be straightforward, especially given the complexity of the Group's structure. KSA operations might not see a clear-cut reduction of 10%, also some subsidiaries and startups are expanding, which will increase related costs.
D	**Q1)** Could you elaborate on the decision-making behind the recent special dividend? Would you say it's solely linked to TAWAL deal, or there are no significant acquisition opportunities at the moment? **Q2)** Regarding Channels revenue growth in the Q4, many companies in the region are reporting strong handset sales, why didn't Channels revenue grow significantly? **Q3)** When can we expect income from TAWAL to appear in your financials? Could you provide some indication of the size of this income or its expected profitability?	**A1)** The dividend decision is based on a comprehensive exercise that is based on our cash forecasts, capital expenditures, strategic investments, and subsidiary expansions. This analysis also takes into account our capital structure, which remains strong with a low net debt-to-EBITDA ratio and significant leverage capacity. The sale of TAWAL boosted our cash position, further supporting the decision-making process. However, the decision was not solely driven by this sale. It involved a detailed review of our leverage capacity, capital expenditures, credit rating, and our three year strategy plan. After evaluating our ability to manage capital expenditures, expansions, and potential M&A activity, we concluded that a ⃁ 2 per share dividend is feasible. This process will be conducted annually to ensure it aligns with our long-term financial objectives.

		A2) Despite the challenges, Channels achieved a solid 6% growth in top-line. In comparison, some competitors grew by 3%, Despite these factors, Channels has managed to stay ahead of the competition, and we believe this strong performance will continue moving forward. **A3)** TAWAL is no longer part of the controlled entities and, as such, will not be consolidated into our financials. Instead, it will be accounted for using the equity method starting from Q1 2025.
E	**Q1)** Regarding the project signed with a government entity, what kind of margins we might expect from this project? **Q2**) Could you comment on the trends that you are seeing on the mobile and fixed side, specifically in the Saudi market?	**A1)** This major 15-year project has been carefully assessed, with revenue expected to start impacting our financials around 18 to 21 months from now, between Q3 and Q4 of 2026. While specific margins can't be disclosed, the project is centered around connectivity and is expected to deliver a better margins likely exceeding those of the Group. **A2)** We expect healthy growth in both mobile and fixed subscribers to continue, driven by an expected 1.5% increase in the Saudi population, and 5.5% rise in foreigners joining the Saudi workforce, and the ongoing boom in the housing sector.
F	**Q1)** Regarding the early retirement program, how should we expect the quarterly rate to evolve going forward, particularly for 2025? Given the acceleration of the ERP in Q4, should we anticipate it returning to previous levels starting in Q1, or is it likely to be even lower? **Q2)** Should we view the new government project by Specialized by stc as a way to offset the decline in government connectivity revenue resulting from the retrenchment that occurred throughout last year? **Q3)** Regarding Binariang's impairment, could you explain what exactly led to the decision to take this step?	**A1)** We expect to return to the typical levels seen in previous years, ranging between ⃁ 400-600 million. While there may be a slight increase of ⃁ 50-100 million from certain subsidiaries. **A2)** I want to clarify that the project is separate from the ongoing optimization efforts and the decline in government-related business revenue. Therefore, we expect to generate the targeted margins and revenue. **A3)** BGSM's main investment is Maxis, which is publicly listed, and the movement of its share price is a key indicator along with their financial performance and business plans. Hence and based thorough assessment, there were signals that prompted us to conduct impairment testing. Now, we believe our investment in BGSM reflect the fair value.

(Mr. Ameen Alsheddi – stc GCFO)

Thank you all for participating in the FY 2024 Earnings Call. If you have any further questions, please do not hesitate to email us at IRU@stc.com.sa.

(Mrs. Hend AlBassam– Investor Relations Director)

And with that, we'll bring our earnings discussion to an end, and on behalf of stc I want to extend a sincere gratitude to everyone who joined us today, thank you for your time and engagement.

If you have any additional questions, please don’t hesitate to reach out to our Investor Relations team via email, and we’ll be happy to assist you.

Thank you once again, and I wish you all a wonderful rest of your day!.

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