Call Date	1st August, 2023
Hosts	Mr. Ali Alharbi - Corporate Finance, VP Mr. Turki AL Ashaikh – Investor Relations, VP Mr. Abdulaziz Alnasser - Investor Relations Director

(Mr. Abdulaziz Alnasser – Investor Relations, Director):

Welcome everyone and thank you for joining stc's Q2-2023 Earnings call. We will start with a 5-10 minutes recap of the key updates and financial performance, followed by Q&A session.

Presentation (Mr. Ali Alharbi – Corporate Finance, VP):

H1 2023 Recap: During the first half of 2023, stc Group has been actively engaged in numerous strategic initiatives that are in line with the E pillar (Expanding scale and scope) of its DARE 2.0 strategy, making it a busy period for the Group.

- In line with the E pillar (Expanding scale and scope) of our DARE 2.0 strategy, stc Group announced that its ICT infrastructure subsidiary, TAWAL, has signed an agreement to acquire United Group's telecommunications tower assets. The agreement, valued at EUR 1.220 bn (around SAR 5 billion), supports stc Group's ambitious strategy to expand its international footprint in key markets with significant growth potential.

- stc Group had also announced the completion of "solutions" acquisition for all the shares of "CCC", including stc's 49% entire stake. The acquisition amount was based on Enterprise value of SAR 450 million and it has been funded through "solutions" own resources, and the transaction was made in cash for the entire deal value

- "solutions" also announced the signing of a binding offer to acquire 40% of "Devoteam Middle East" (a leading IT consulting company in the region). This expansion is expected to enhance the Group's capabilities in the IT sector and enable digital transformation through an integrated system of subsidiaries specialized in digital infrastructure, Internet of Things, cloud computing, cybersecurity, digital financial services and business outsourcing services.

- Moreover, "center3" (the Group's digital regional center for the Middle East and North Africa) have announced the landing of the longest subsea cable in the world "2Africa" at 2 of the planned 4 locations: Jeddah and Yanbu. This record-breaking cable system will connect 33 countries by the completion of the project in 2024, delivering connectivity and internet services across 3 continents Asia, Africa and Europe. The 2Africa subsea cable is expected to land in Duba later this year, and in AlKhobar in 2024.

- In addition, "center3" announced the signing of a strategic commercial deal with Huawei. Through this deal, "center3" will provide data and hosting services to Huawei to help it in expanding its cloud footprint in the region and meet the growing demand for cloud services.

- stc Group has succeeded in maintaining the first rank as the most valuable brand in the Middle East in the telecommunication sector, for the third year in a row, according to Brand Finance's global 500 2023 report. Thanks to the Group's success, continuous expansion, and growth since the "Dare" strategy launch in 2017. Over the last five years, the brand's value has increased by almost 100%, from SAR 23.3 billion in 2017 to SAR 46.1 billion in 2022. This achievement results from the brand's outstanding performance in maintaining its leadership position and enhancing its commercial strength in KSA and the region. In addition to being the most valuable brand, stc Group ranked among the fastest-growing brands in the region with a growth rate of 16.7%.

- During the Hajj season 1444AH, stc achieved remarkable growth in network traffic and data in Makkah, as it recorded an increase in international users of its network by 39% compared to the number of international users in the previous year. The 5G network recorded an increase in the volume of usage by 196% compared to the Hajj season last year. In addition to a jump in international roaming customers on the stc network, which exceeded 121% over the previous year.

Financial performance:

- **Revenues** for the 2nd quarter reached **SR 18,327m** (highest revenue ever recoded) with an increase of 8.89% compared to the corresponding quarter last year. For the first half of 2023, the revenues reached **SR 36,506m** (highest revenue ever recoded) an increase of 8.17%.
- **Gross Profit** for the 2nd quarter reached to **SR 9,133m** with a decrease of (0.45%) compared to the corresponding quarter last year. For the first half of 2023, the Gross Profit reached **SR 18,488m** with an increase of 0.90%.
- **Operating Profit** for the 2nd quarter reached to **SR 3,281m** with a decrease of (11.80%) compared to the corresponding quarter last year. For the first half of 2023, the Operating Profit reached **SR 7,011m** with a decrease of (7.05%).
- **EBITDA** for the 2nd quarter reached to **SR 5,821m** with a decrease of (6.17%) compared to the corresponding quarter last year. For the first half of 2023, EBITDA reached **SR 12,164m** with a decrease of (2.72%).
- **Net Profit** for the 2nd quarter reached to **SR 3,008m** with an increase of 6.03% compared to the corresponding quarter last year. For the first half of 2023, the Net Profit reached **SR 6,117m** with an increase of 4.17%.

Business overview:

- Furthermore**, the Commercial business unit** achieved a 3.7% growth in revenues for the period, due to the increase in mobility revenues by 3.3%, whereas the residential segment registered a top-line growth of 5.6%.
- In addition, **the Carrier & Wholesale business unit** witnessed a revenue growth of 4.0% for the period, supported by the increase in national revenues.
- Lastly, revenues of **stc Group's subsidiaries** increased by 28.6% compared to the same period last year.

We will now start the Q&A session

Q&A Session: (Mr. Ali Alharbi & Mr. Turki Alashaikh)

#	Question	Answer
A	**Q1)** The company has a very strong balance sheet, how do you think the management will take use of this capital in the next couple of years, will it channel a significant portion of it to be used for M&A, or will it might use some of it to be distributed to shareholders? **Q2)** Regarding accelerated investments with relation to subsidiaries, would you expect this to continue at the same pace in the current quarters? or in Q3, Q4 and next year, these investments will put less pressure on the EBITDA margin?	**A1)** stc has a very strong financial position and is considered one of the highest credit rated companies globally. We have an ambitious plan to expand as we are exploring some M&A transactions in which some cash will be used for! Regarding the dividends, we have a clear dividends policy in place with the possibility to pay a special dividends as what we had done before. Such special dividends decision will be assessed at the right time after reviewing the performance of the whole year as well as the company's CAPX and investments requirements. **A2)** The company was expecting a margin pressure since last year, therefore we have taken some strategic efficiency program initiatives to reduce such impact on the margin without compromising stc's investments ability! Those initiatives will help - to some extent – to mitigate the pressure on margins. Furthermore, the pressure on margin might continue in H2 2023 as well! Hopefully, once we implement all these initiatives by the Group and its subsidiaries - especially the newly established – along with the progress of KSA mega projects, we believe the Group will be a able to maintain a healthy profitability and margins.
B	**Q1)** There is high jump in the OPEX, what specific subsidiary is causing this? In addition, what are the latest updates on (stc) getting the regulatory license to launch microfinancing products, could you please provide more details on this? **Q2)** Following up on the deal with United Group, will this have any impact on the value signed with PIF with regards to Tawal, and when do you expect this deal to conclude? **Q3)** Could you talk briefly about your view or strategy about Artificial Intelligence, and if you are planning to grow AI under which subsidiary or umbrella is it going to be, or will it be a green field investment?	**A1)** The increase in OPEX came mostly from the new subsidiaries, including stc pay, cloud, iot squared and etc. for example, stc pay is currently spending like a bank with no revenue generated from the digital bank yet as we are still completing the regulator's requirement to launch the digital bank. stc pay is investing heavily in infrastructure and the increase in general administration expenses was expected in preparation of launching the digital bank. Hopefully before the end of the year we will be able to launch the digital bank. **A2)** Regarding the deal of United Group's we are expecting to close it very soon. On the same side, the discussion with PIF is progressing and hopefully we will be able to close it ASAP. Regarding the valuation, there will be no impact on the valuation of PIF deal since the entire transaction of United Group will be financed thru debt. **A3)** AI is definitely one of our targeted services that we are planning to explore, and this could be through either M&A, building our own capability or a combination of both.
C	**Q1)** Coming back on OPEX, can we expect what we have seen in the quarter to be as a base for the next few quarters? **Q2)** Regarding enterprise business, how much of impact you are seeing in the EBU because of competitive pressure with other telecom companies who are seeking growth, can you comment on that please? In addition, on the prepaid side on the mobile, how do you see the market from MVNO in terms of competitive environment? **Q3)** Are there any possible IPOs for any of the subsidiaries in 2024?	**A1)** We are expecting the pressure in the second half to continue like what we have seen in H1 this year, but it is very important to emphasize again that the company has taken initiatives as part of the efficiency programs that will help to reduce the pressure on margins. **A2)** The EBU witnessed a decline in revenue by a mid-single digit mainly driven by a decrease in the demand by the public segment as well opening up the bidding for some products and services for other competitors. However, we still believe that the EBU is in a good position to capture the market again and play a crucial role in the upcoming mega projects.

		For the prepaid revenue, we have seen a growth in the prepaid segment driven by the expats inflow as they are coming back to Saudi, Hajj & Umrah visitors and international roaming. In addition, the overall KSA population is growing, and this has contributed positively to the prepaid segment growth. The current competitive environment is normal and within the acceptable level. **A3)** Any subsidiary is targeted for IPO once its ready, but we do not expect any IPOs for any of our subsidiaries in the near future. However, there is always an annual review for all subsidiaries to assess their IPO readiness.
D	**Q1)** Following up on the enterprise side, can you confirm if you are seeing any margin pressure on the EBU segment, you mentioned last quarter that there has been price/cost rationalization by the public sector, so is that creating some pressure on the margins? **Q2)** Do you have any aspirations in Africa? **Q3)** When you talk about M&As, either towers or any other M&As, does that mean you seek control of that asset or it could be just a minority stake?	**A1)** For the first half of the year we have seen pressure on the EBU due to what we have explained before. However, the public sector spending rationalization has not come to full effect yet! Therefore, we are expecting the impact of such rationalization to gradually be seen in the 2nd half of this year and years after. We have been preparing ourselves for such move, and the EBU is ready to take an advantage of its position in the market to capture the expected demand from the mega project in the kingdom. **A2)** At the moment, we are not considering any opportunities in Africa. **A3)** We aim to have control over an assets, but this could not happen to all cases. For example, solutions acquired only 40% of Devoteam. In general, our plan is to have the majority but this could change based on the targeted assets.
E	**Q1)** Following up on the EBU, you mentioned that there was a decline in the demand by the government due to high spending in the previous years, can you talk about the products where there was a lower demand? **Q2)** Regarding the submarine cable, can you talk about the economics of that submarine, when is it expected to become operational, and how much revenue contribution the margin profile of such a business?	**A1)** Regarding the EBU segment, it is mainly the connectivity part. **A2)** Regarding the subsea cable which was recently landed by the wholesale business, it will be fully operational by next year, as we have mentioned there are 2 cities left where the cable will be landed in (AlKhobar and Duba). Lastly, submarine cables generate good revenue yet it is low in margin.
F	**Q1)** Regarding the tower M&A, can you explain the structure? You acquired towers in Pakistan, United towers, as well the deal with PIF. Is the deal with PIF for domestic towers or that includes Tawal as a whole, and whether the United towers and Pakistan towers are under Tawal or are they separate? **Q2)** About cash flows and receivables from the government, you are getting regular cash flows from the governments, are there any issues regarding that?	**A1)** Pakistan and United towers are under Tawal. Once PIF transaction is completed, PIF will acquire 51% of Tawal Group (including its international subsidiaries). **A2)** The collection process has been improved thanks to the Ministry of Finance and the improvement in government procedures. Etimad Platform helped us to have better visibility, and to use the platform to manage stc's receivables. Last year we collected SAR 17 billion, and this year we collected SAR 5 billion, which is higher compared to the same period last year. We are working closely with the government entities and the Ministry of Finance to clear out all the receivables through Etimad.

G	**Q1)** When do you expect your new investment to break-even?	**A1)** It depends on the subsidiaries, some subsidiaries are expected to break-even this year, and others are expected in the next 1 or 2 years. In general, this takes time since they are a long-term investments, as some subsidiaries need time to build and develop their own capabilities and penetrate the market.
H	**Q1)** How do you see expansion on Tower business to impact margins?	**A1)** Tower businesses have a very straight forward operating models and very stable cash flows as well as very good profitability margins, and we expect it to help in maintaining the group's profitability. In terms of net income and EBITDA, usually tower businesses have high EBITDA margin as compared to stc's other business.

(Mr. Abdulaziz Alnasser – Investor Relations, Director):

Thank you all again for participating in stc's Q2-2023 Earnings call. If you need anything, please do not hesitate to email us at IRU@stc.com.sa,

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