

Call Date

4th August, 2022

Hosts

Mr. Ameen Al Shiddi – stc Group, CFO
Mr. Turki AL Ashaikh – Investor Relations, VP
Mr. Abdulaziz Abanami – Investor Relations, Director

Abdulaziz Abanami (Investor Relations, Director):

Thank you everyone for joining stc's Q2-2022 Earnings call. Today, we have Mr. Ameen Al Shiddi – stc group CFO – along with Mr. Turki A. AL Ashaikh, the Investor Relations VP

We will start with a 5-10 minutes recap of the key updates and financial performance, followed by a Q&A session, thank you.

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

Thank you all for joining the call.

The first half of 2022 has been a very busy period for stc Group, as it has undertaken several strategic developments aligned with the E pillar (Expanding scale and scope) of its DARE 2.0 strategy:

H1 2022 Recap:

- stc Group announced that it will establish a major digital hub "MENA Hub" for the Middle East and North Africa with an investment of USD 1 billion. This initiative is a confirmation of stc's leading position across the ICT sector in the region. The Hub initiative, supported by the Group's capabilities, would also contribute to the diversification and growth of the Kingdom's economy.
- Also, "Tawal" (one of the Group's subsidiaries) announced its potential acquisition of the Pakistani towers company "Awal Telecom". The acquisition, once completed, would be the first of its kind outside the Kingdom for Tawal. The acquisition is expected to contribute to strengthening Tawal's international investment map, and enhance its ability to grow and expand in the field of telecommunications and infrastructure.
- In addition, Solutions by stc announced the signing of a sale and purchase agreement to acquire 89.49% of Giza Systems Company, in addition to 34% of Giza Arabia, which represents the shares that are not owned by Giza Systems Company, for a full cash consideration for the entire acquisition. The acquisition represents a significant step in line with the company's international expansion strategy to enter new markets and expand its business lines to meet the evolving needs of customers both in public and in private sectors.
- Moreover, stc Group and PIF announced the signing of a partnership agreement to establish a new company in the field of IoT to support the adoption of these technologies within the Kingdom. The company's business is in-line with the expected growth and increasing demand for IoT services and products, stc's growth strategy and Saudi Arabia's Vision 2030 for a connected nation.
- stc Group also announced the launch of the Saudi Cloud Computing Company "SCCC" as a new joint venture formed in collaboration with Alibaba cloud, eWTP Arabia for Technical Innovation Ltd., the Saudi Company for Artificial Intelligence (SCAI) and the Saudi Information Technology Company (SITE). The new company was founded to meet the huge increase in demand for cloud computing services and solutions. It will provide advanced cloud computing services, with the highest standards of security and protection, to companies operating in the Kingdom of Saudi Arabia.

- Moreover, stc's BoDs' recommendation to increase stc's capital by 150% via granting bonus shares. The increase in stc's capital will support achieving its growth and expansion strategy along with maximizing its shareholders' return thru increasing and diversifying stc's investments and seizing the expected growth opportunities in the telecommunication & technology sector in the Kingdom of Saudi Arabia and the region. Therefore, stc amended the dividends policy to be based on committing a minimum dividend in an amount of SAR 0.40 per share per quarter, effective from Q4-2021, for 3 years.

Financial performance:

stc was able to improve its financial metrics for the 6 months period as well as the 2nd quarter 2022 compared to the same quarter last year;

- **Revenues** for the 2nd quarter reached **SR 16,939m** with an increase of **6.54%** compared to the corresponding quarter last year. For the first half of 2022, the revenues were **SR 33,930m** an increase of **7.39%**.
- **Gross Profit** for the 2nd quarter amounted to **SR 9,174m** with an increase of **9.84%** compared to the corresponding quarter last year. For the first half of 2022, the Gross Profit was **SR 18,324m** with an increase of **8.37%**.
- **Operating Profit** for the 2nd quarter totaled **SR 3,720m** with an increase of **14.46%** compared to the corresponding quarter last year. For the first half of 2022, the Operating Profit reached **SR 7,543m** with an increase of **12.05%**.
- **EBITDA** for the 2nd quarter came in at **SR 6,204m** with an increase of **10.25%** compared to the corresponding quarter last year. For the first half of 2022, EBITDA amounted to **SR 12,504m** with an increase of **9.03%**.
- **Net Profit** for the 2nd quarter was **SR 2,837m** with an increase of **0.57%** compared to the corresponding quarter last year. For the first half of 2022, the Net Profit reached **SR 5,872m** with an increase of **1.71%**.
- After adjusting for non-recurring items in the 2nd quarter, namely the **SR 298m** provisions taken against BGSM, **Net Profit** would amount to **SR 3,135m** with an increase of **11.1%** compared to the corresponding quarter last year. For the first half of 2022, net profit would reach **SR 6,409m** with an increase of **11.02%**.

We will now start the Q&A session

Q&A Session: (Mr. Ameen Al Shiddi & Mr. Turki Alashaikh)

Person/ Company	Question	Answer
Cesar Tiron BofA	<p>Q1: Can you please elaborate more on the impairment charges?</p> <p>Q2: Regarding expanding in Pakistan, please explain your ambitions in that market</p> <p>Q3: I have noticed that you have increased your disclosure on top-line. Do you think you can provide us with additional KPIs in future as well?</p>	<p>A1: The impairment was related to our investment in Binariang group, which owns a stake in Maxis (a listed company). Although there was an improvement in Maxis's revenue, yet their operational performance was less than expected along with the potential merger between the 2nd and 3rd operators in Malaysian market that collectively impacted the share price. Further, global economic factors such as the increase of interest rates, has led us to conduct a re-evaluation exercise of this investment in order to reflect the fair value of BGSM investment in Malaysia.</p> <p>A2: As for Tawal's expansion strategy, we have highlighted before that our vision for Tawal is to expand both globally and locally. We are considering every opportunity in the region and we see Pakistan as one of the attractive markets. Locally, we are eyeing the progress of the tower deal as announced with one of the main operators in KSA, and once there is a clarity, we will be looking at the potential consolidation, if any!</p> <p>A3: We regularly review our disclosure policy and currently we are working on further improving our disclosure for the annual financials to provide more disclosure in terms of revenue and capex breakdown.</p>
Ashar Saleem Yaqeen Capital	<p>Q1: Can you comment on the performance of stc pay this quarter, and if there are any plans for listing?</p> <p>Q2: In regards to your agreement with Alibaba, are you going to be the GP, or an authorized distributor of Alibaba services within Saudi Arabia?</p> <p>Q3: What is the potential of the business with Alibaba cloud in terms of the size?</p>	<p>A1: Their topline performance is great as they are increasing their customer base and active users QoQ. However, as you may expect the business is going through a massive transformation from being a digital wallet to a digital bank that would require more investment to be injected. Although these investments in stc bank infrastructure may put some pressure on the company's profitability, yet upon the official launch of the digital bank we will start to see an improvement in stc bank's overall financial performance. We are still working on launching the banking products and focusing on the expansion of the company, however, we do not have plans for listing the company soon.</p> <p>A2: We will provide the services for the public and private sectors using Alibaba cloud technology that will be supported by stc's infrastructure. Alibaba technology/software is the main component we use to offer advanced services and products.</p> <p>A3: We are expecting huge growth in that business. According to external report, data centers and cloud services together is expected to grow at a CAGR of 20% from 2018 to 2025, from SAR 1.9 billion to SAR 6.9 billion by the end of 2025. This shows the potential of this market and we believe stc is well positioned to take advantage of such market given its capability and partnership with well-known international companies that would help to pave the way for stc to be the preferred services provider in this domain.</p>

<p>Ziad Itani Arqaam Capital</p>	<p>Q1: We were expecting to see some pressure on the gross margins, but we are seeing a growth! Are there any one-offs involved in the gross margins?</p> <p>Q2: Are you more open to enter markets where there is currency volatility such as entering Pakistan through Tawal, and Egypt through Giza?</p>	<p>A1: The improvement in gross margins were mainly driven by KSA, stc Bahrain & stc Kuwait efficiencies. There are no significant one-offs in our results other than the BGSM impairment related issue which had no impact on the group's gross profit.</p> <p>A2: We are assessing all factors associated with any expansions and are trying to mitigate any potential risks that may arise, however, Pakistani market is strong and Tawal will surely focus on balancing their expansions in different countries. This also applies for the announced acquisition of Giza by Solutions. Rest assured that we are looking at all risk factors related to expansions.</p>
<p>Jonathan Kennedy Good JP Morgan</p>	<p>Q1: Can you describe how the subscribers' growth is driving mobility revenues, and are you able to control prices to offset cost inflation?</p>	<p>A1: The local market achieved great performance for the first half of the year; in fact, we have achieved great performance in revenues in all segments including residential and FTTH subscribers. In addition, there are no changes or noticeable pressure in prices and we are seeing price stability for all operators, and hopefully this will continue going forward.</p>
<p>Madhvendra SINGH HSBC</p>	<p>Q1: Is there any progress in the government receivables?</p> <p>Q2: What is the rationale behind the recent capital increase?</p> <p>Q3: Given the receivable situation from government and capital restructuring, would those impact your ability to pay special dividends?</p>	<p>A1: There was no major progress regarding government receivables in the first half of the year. We have collected some amounts but the accumulated dues from government is much higher than what have been collected. The receivables is a challenging and important issue for us that we are continuously monitoring.</p> <p>A2: The capital increase will support achieving stc's growth and expansion strategy along with maximizing its shareholders' return through increasing and diversifying stc's investments and seizing the expected growth opportunities in the telecommunication & technology sector in the Kingdom of Saudi Arabia and the region..</p> <p>A3: Currently, there is no discussions on additional dividends and we are still committed to our dividend policy, which is paying SAR 1 per share per quarter (SAR 0.4 per share per quarter after the increase in capital).</p>
<p>Henrik Herbst Morgan Stanley</p>	<p>Q1: What are your investments needs and where are you planning to invest going forward?</p> <p>Q2: Are you planning to consolidate your towers or sell some of them?</p> <p>Q3: What type of customers you are targeting and where does the growth in mobility is coming from?</p>	<p>A1: We are looking for many opportunities for both the group and our subsidiaries. For example, 5G and 5G upgrade, data center, submarine cables, and the new companies established will also require more investment in place such as IoT, Cloud, stc bank, cybersecurity and etc.</p> <p>A2: We are looking carefully on Tawal's position in regards to acquiring or selling towers. The scenarios are not clear yet as there are a lot of potential ideas that we are exploring! We believe that there will be some consolidations in the market, and our aim for Tawal is to be well-positioned in order to keep expanding and continue executing their strategy.</p> <p>A3: We are an agile company and we keep adopting different strategies for our consumer business unit and especially mobility. For example, we have been focusing on the postpaid</p>

		customer acquisitions, as it is more profitable in terms of ARPU. Also, we believe there is an opportunity for us to capture more customers based on the Vision 2030 which aims to double the population of Riyadh and KSA. Furthermore, we are focusing on the FTTH especially after the open-access agreement that has been signed by all operators in Saudi Arabia. Additionally, we have deployed 7,000 5G towers and we are planning to add 200 to 300 additional towers, in addition to our plan of increasing the capacity of 1,000 5G towers to capture the demand from this important segment.
Omar Maher EFG Hermes	Q1: Is there any plan for potential listing of any of your subsidiaries?	A1: We have plans for listing our subsidiaries and we believe some of them are ready to be IPO'ed, however, the market condition, the timing of listing, and the value creation journey for the subsidiary are all important factors that we consider prior to any decision of listing. We are currently targeting one or two subsidiaries. That being said, we anticipate there will be no listings until 2024. We will keep you up-to-date in case of any new developments on that front.
Abdulaziz Alhebaishi Jadwa Investment	Q1: What is the spending needs and time frame of completing the EMC Project? Q2: How much of the improvement in gross margin was driven by seasonality such as Ramadhan and Hajj seasons?	A1: EMC project is part of MENA Hub, and the execution will take two to three years. The project is positive as it will open different routes for us. The demand in cables is huge and we have been continuously seeing that positive demand. A2: The Hajj season affect is minor. Gross margin improvement is mainly coming from efficiencies and market recovery after Covid-19.

Abdulaziz Abanami (Investor Relations, Director):

Thank you all again for participating in stc's Q2, 2022 conference call. If you need anything, please do not hesitate to email us at IRU@stc.com.sa,

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