stc Earnings Call Transcript

Q2, 2024

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Call Date	25th of July, 2024
Hosts	Mr. Ameen AlShiddi – stc GCFO Mr. Turki AlAshaikh – Investor Relations, VP Mr. Ali AlHarbi – Corporate Finance, VP Ms. Hend AlBassam – Investor Relations, Director

(Ms. Hend AlBassam– Investor Relations Director)

Good morning everyone, and thank you for joining stc's Q2 2024 Earnings Call, my name is Hend Albassam, Analysts & Capital Markets Director and I will be your host today. Joining us on this call are our GCFO, Mr. Ameen Alshiddi along with our Investor Relations VP, Mr. Turki AL Ashaikh and our Corporate Finance VP, Mr. Ali Alharbi. We will start with an overview of stc's financial performance and key highlights followed by Q&A session.

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

(Mr.Ameen Alsheddi – Group CFO)

Welcome and thank you everyone for joining stc's earnings call for Q2 2024. Alhamdulillah stc was able to achieve solid financial results for both the six months period and the second quarter of 2024.

Financial Performance:

- The Group's **revenue** reached **38.25 Billion** for the period, increasing by **4.79%** as compared to the same period last year. (For the second quarter, the revenue reached **19.16 Billion** an increase by **4.52%** compared to the same quarter last year).
- This growth in revenues for the period was due to an increase in **stc KSA's** revenues by **0.64%**, which was driven by the growth in:
  - The **commercial unit** revenues by **6.0%**, as **mobility segment** revenues grew by **5.62%** and the **residential segments** revenues increased by **7.86%.** In addition, both **Mobile** and **Fixed subscribers** witnessed a growth of **9.74%** and **2.54%** respectively, compared to the same period last year.
  - All in all, the growth in **commercial unit** revenues helped in offsetting the decline in **business unit** revenues which remains under pressure.
  - Furthermore, the **carrier & wholesale unit** revenue marginally increased by **0.23%** for the period supported by the growth in **national** revenues by around **7%.**
- As for the Group's **subsidiaries**, they contributed positively to the Group's consolidated financial results for the 6-months period, through an increase in their revenues by **13.41%** as a result of the Group's continued investment in diverse and promising fields.
- Moving to the **Gross Profit**, for the first half of 2024, it reached **18.96 Billion** with an increase of **3.88%** compared to the same period last year. (For the second quarter reached to **9.57 Billion** with an increase of **6.17%** compared to the corresponding quarter last year.)

- And for the **Operating Profit**, it reached **7.74 Billion** with an increase of **10.41%** for the period compared to the same period last year due to the increase of gross profit and the decline in selling and marketing expenses by 4%. (the second quarter reached to **3.89 Billion** with an increase of **18.41%** compared to the same quarter last year).
- The **EBITDA** also witnessed a healthy growth for both the period and the quarter. As for the period, it increased by **5.96%** reaching to **12.89 Billion.** (For the second quarter, it increased by **10.20%** compared to the same quarter last year to stand at **6.42 Billion**).
- The **Net Profit** for the period increased by **7.73%** compared to the same period last year standing at **6.59 Billion** on the back of a reduction in Zakat and income tax by 22% and unrealized revaluation gains of derivatives related to Telefonica investment. (the second quarter reached **3.3 Billion** with an increase of **9.84%** compared to the same quarter last year).

Cost Efficiency Program:

stc was able to improve its margins during the period. This was due to the acceleration witnessed in its cost efficiency program. As a result, during the 6M period stc was able to:

  - Improve its **Operating Profit** Margin by **5.4%**, reaching to 20.2% vs. 19.2% for the same period last year
  - As for the **EBITDA Margin**, it stood at **33.7%** for the period vs. **33.3%**, an improvement of **1.1%**.
  - Lastly, **Net Profit Margin** for the period has also improved by **2.8%** to **17.2%** as compared to **16.8%**.

This program is strategic and sponsored by the GCEO and stc's BoD, and stc will continue adopting it during the upcoming period. We believe there is still more room to improve the margins in both the short and medium term.

Receivables:

For the first six months period, the overall receivables decreased by **10.3%** standing at **23.09 Billion**, and the public sector receivables decreased by **15.5%** and stood at **18.33 Billion** as we were able to collect **4.55 Billion** from the Government in the first six months of 2024.

H1 2024 Recap:

The Group has been actively engaged in several strategic initiatives aligned with the E pillar (Expanding scale and scope) of our DARE 2.0 strategy. However, two major activities are worth highlighting.

  - First, as you are all aware, **stc** Group and **PIF** has signed definitive agreements whereby PIF will acquire a **51%** stake in (**TAWAL**) with an enterprise value of **SAR 21.94 billion ($5.85 billion)**. And agreed to merge **TAWAL** and **(GLIC)** into a new entity in which PIF will hold **54% and stc Group will hold 43.06%.**
  - Also, in the banking side, **stc pay** has announced the **beta** launch of **stc Bank** after gaining the approval from the Saudi Central Bank (SAMA). We expect the full launch of the bank to all customers to be **this year**.

(Ms. Hend AlBassam– Investor Relations Director)

"Thank you abu Fahad, we will now open the call for questions. If you have a question, please raise your hand. When asking your question, please state your name and the organization you're representing."

Q&A Session: (Mr. Ameen AlShiddi , Mr. Turki AlAshaikh & Mr. Ali AlHarbi)

	Question	Answer
A	**Q1)** Regarding Telefonica Acquisition, how long will it take to get the regulatory permission to acquire the remaining stake? **Q2)** Given that stc was involved in discussion with Altice Portugal, what is the strategy in terms of European expansion? Will stc be actively looking at more transactions in the European telecom space? **Q3)** How do you see the "machinestalk" acquisition in terms of growth? Going forward, will we see this reflected in the other operating segment or the iot squared numbers?	**A1)** The remaining 5% have not yet been transferred to stc and we are in the approval process. We hope to announce the approval of the 5% very soon and acquire the whole 9.9%. **A2)** Yes, we are actively pursuing expansion both within Europe and beyond, and there are a lot of discussions and opportunities but we are very selective in making sure that anything we acquire has to add value in term of margins and FCF. We want to ensure that we bring opportunities that will achieve the goals and objectives of stc based on its "DARE 2.0" strategy. **A3)** "machinestalk" is one of the few companies that operates in the IoT space in the Kingdom of Saudi Arabia. If you look at the IoT from overall basis, it's expected to grow at a CAGR of around 14.5%. From our side, we believe that in terms of CAGR, we will be able to grow within the market, and hopefully that "machinestalk" contribution to iot squared's financials as well as stc Group will be positive during the coming period.
B	**Q1)** Could you provide some details on the revenue declined in the B2B business and do you see it stabilizing now or do you expect more pressure into that segment? **Q2)** Regarding Telefonica, should we expect further Capex or cash outflow to acquire the remaining 5%?	**A1)** We are experiencing the same pressure in our B2B business, similar to what we saw last year. The situation is well-managed, with our market share and winning ratio remaining healthy. While there is a pressure, the growth in other business areas, including consumer, wholesale, and other B2B segments, is compensating for it. We anticipate this trend to continue, and we are optimistic about our future performance. **A2)** We are not expecting any Capex from our side and there is no additional cash outflow beyond what we have already invested.

C	**Q1)** Has the European regulator's lack of support for your acquisitions affected your appetite for such deals, or do you still find European expansion attractive? **Q2)** Will the new dividend policy include conditions for special dividend distribution after significant asset divestments like the tower transaction, or will it remain a standalone policy as in the past?	**A1)** Regarding European expansions, stc remains committed to acquisitions that add value to its portfolio based on strict criteria for margins, profitability, and FCF. If an acquisition does not meet these standards, we will walk away. Our strategy, guided by management and the Board of Director, prioritizes value creation, and we remain selective in our approach. In addition, there are many transactions across MENA and Europe that simply we did not agree on and the transaction did not really get closed. **A2)** We will have a new dividend policy for the next three years, which is currently under discussion. Once finalized and approved by the Board of Director, it will be announced. The new policy will consider various factors, including cash flow, expansions, our capital expenditure requirements and our strategy, rather than focusing solely on deals like the TAWAL transaction. We have consulted with investors and conducted a full assessment and study for the new dividend policy to ensure that we are doing it fairly and rightly for the market, investors and the company itself. The new policy is expected to be announced either by the end of this quarter or the beginning of Q4.
D	**Q1)** Can you outline your plan for stc Bank? Help us understand the potential impact for stc and how much capital you plan to commit to the bank? **Q2)** Have we already seen the full impact of the ongoing efficiency program, or will its effects be greater in the coming quarters?	**A1)** stc Bank is a long-term investment. Initially, it may not significantly impact profitability, but as the bank launches its products and services, we expect to see increasing revenue and profitability from the financial services. Our go-to-market strategy is in place, and we are finalizing details with the central bank for the launch. We are assessing the capital structure requirements to ensure the bank has adequate funding. While the capital commitment may not be substantial for the group, it will be significant for the bank and crucial for its growth. **A2)** The efficiency program is an ongoing process and has already started showing positive results. However, the full impact will be more obvious in the coming quarters. The program is a 3-year initiative involving deep expenses analysis within the group and its subsidiaries. While some contributions are already visible, others will become more apparent in the second half of the year and beyond. The program aims to enhance profitability and it remains a critical component for improving efficiency and profitability at stc.

E	**Q1)** Regarding the monetization of your subsidiaries through IPOs, should we expect something in the next 12 months?	**A1)** We have plans for monetizing subsidiaries through IPOs, but it is uncertain if any will occur within the next twelve months. There are at least three or four subsidiaries that are ready, but timing is crucial to ensure value creation for investors and the company. We will reassess our IPO strategy by year-end and provide further updates on our plans.
F	**Q1)** Regarding the consumer segment, can you comment on the competitiveness of the consumer market?	**A1)** The commercial units in both the mobility and fixed sides are performing very well and have exceeded our expectations. This strong performance has helped compensate for declines in other areas of the business i.e. B2G. Moreover, the market is very competitive but stc's position and its ability from distribution, customer experience and outreach is helping stc to continue growing its revenue especially when it comes to the fixed side, which has a very healthy growth, good margins and less competition. For the mobility segment, the growth of subscribers is almost 10% and there is a very healthy revenue growth of almost 6%. Overall, the economic activities that is happening in the country are helping this growth and we are expecting this to continue for the remaining of this year.
G	**Q1)** Regarding collection of receivables, you mentioned good collection in Q2 from the government. Is it now a new pattern, so we can see more collections throughout the year or will it be in Q4 same as before? **Q2)** Regarding the tower deal, do you have clarity if TAWAL's cost will be classified as a sale and leaseback agreement? So mainly through D&A and interest or it can be directly through EBITDA?	**A1)** The collection of government receivables has improved in the last two years. The Etimad platform and the clear process with the government entities and the Ministry of Finance that we are complying with helped in enhancing the collection process and we expect the improvement to continue, and more collection in Q3 and Q4 are expected based on the current process. **A2)** We are still in discussions with different parties to identify the accounting treatment for the entire transaction. You might see an impact on the EBITDA because of this transaction, as it will not be consolidated anymore and all the expenses that we paid for TAWAL will be classified as operational expenses. Moreover, we will make an announcement to the market once the deal is finalized and we will make it clear in our financials.

H	**Q1)** Regarding TAWAL, the general assembly has approved the tower transaction, what are the next steps and when can we expect closure? **Q2**) Can you comment on the increase of the costs related to the early retirement program and what does this relate to specifically and how should we think about it moving forward? **Q3)** What is the reason behind the increase in finance costs?	**A1)** We are now waiting for CST approval, which we hope to receive very soon. Once we have that approval, there will be some finalizations, closing procedures, and documentation that should not take much time. Therefore, we expect to complete the transaction by Q3. However, due to involvement of outside parties beyond our control, there is a possibility that it might extend to Q4. **A2)** For the ERP, this is mainly coming from stc KSA and channels. The ERP is part of the efficiency program and we believe that it is very important even from a financial return point of view, because it will help us be more efficient and reduce our expenses. Moving forward, we will invest more in this, especially after the TAWAL deal, we might go very aggressive in this program just to make sure that we push for more efficiencies going forward. **A3)** Firstly, stc's strategy is to use debt to finance any strategic investments or long-term investment. So, the increase in debt was due to our investment in Telefonica and TAWAL's acquisition of European towers, which increased our debt by almost more than 10 billion and increased financing cost as well. Secondly, current high interest rates have led to higher financing costs, as some subsidiaries have debt with floating mechanism.
I	**Q1)** Regarding the cost efficiency program, where are you seeing the most gains and are you facing any challenges? **Q2)** Regarding the small businesses that were making losses. Are they now at breakeven, if not, when can we expect them to start being more profitable?	**A1)** For the cost efficiency program we are not leaving anything, either from COGS side, administrative, HR related or sales and marketing. Moreover, we are not allowing for any challenges, as we are going very aggressively and comprehensively within the subsidiaries and the group itself. The cost efficiency program is a major program with major initiatives, and we are not seeing any difficulties at the moment. In addition, the momentum is excellent and the culture around the whole group and the subsidiaries is very good and welcoming to this program. **A2)** There is an improvement in all our subsidiaries either from a margin increase point of view or from lowering the negative contribution around it. In addition, all the subsidiaries are on track, even the ones that are not yet at the breakeven point, they are exceeding the business plan such as iot squared & SCCC. Overall, the subsidiaries are performing very well and hopefully we will see EBITDA improvements as well as improvements in margins and positive contributions to the group by next year.

(Mr.Ameen Alsheddi – Group CFO)

Thank you all again for participating in the Q2 2024 Earnings Call. If you need anything, please do not hesitate to email us at IRU@stc.com.sa.

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