

Q4, 2020 Earnings Call Transcript

Call Date	24 th January, 2021
stc's Attendees	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 Q4 earning call. Today, we will have Mr. Ameen Al Shiddi – stc group CFO – along with Mr. Ali Al Harbi the 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):

Welcome to stc's Q4 2020 financial performance conference call. I hope that everyone is safe and in good health.

In spite of the challenges caused by the COVID-19 outbreak, a new transformational shift in the market was witnessed from both enterprises and individuals on all levels towards more digital environment. Hence, the company was able to accommodate the demand and maintain its leadership position in the market thanks to its "dare" strategy where digitization is one of the key pillars that was first adopted by stc when the strategy was formulated.

- During the 2nd half of 2020 stc was able to achieve major milestones, an example of some would be the signing a non-binding MoU with eWTP Arabia Capital and Alibaba Cloud to invest around **\$500 Million** in cloud services. Also, the launch of three mega data centers in Riyadh, Jeddah and Madinah for phase one, and the second phase will witness four additional new data.
- Along with our milestones, our subsidiaries have been accomplishing similar strides, this is evident with stcPay's agreement with Western Union to sell an equity stake of **15%** with a value of **SR 750m (USD 200m)**, where the proceeds will be used to develop the company and pursue its expansion plans.

stc was able to improve all its financial metrics for 12 months period as well as the 4th quarter as compared to the corresponding quarter last year. stc has achieved the highest yearly revenues in the past **8** years and the highest quarterly revenues in the past **9** years.

- All stc's business units achieved an increase in revenue compared to 2019.
- Revenues grew by **8.43%** in the 12M period and it has also grown by **14.69%** in the 4th quarter as compared to the same period of the previous year
- EBITDA grew by **4.28%** in the 12M period (reaching to **SR 22,175m** – Margin **37.6%** Vs. **39.1%**) and it has grown by **14.62%** in the 4th quarter as compared to the same period of the previous year (reaching to **SR 5,716m** – Margin **37.6%** Vs. **37.6%**).
- Further, gross profit, operating profit, and net profit have shown a growth in the 12 months period as well as Q4 as compared the corresponding period.
- The Enterprise Business unit achieved a remarkable growth in revenue this year, where it grew by **24.6%** supported by the increased demand of the company's products for example, Communication and Internet, Outsourcing, System Integration, Cloud Services, Managed Services, Cyber Security, Digital Services, and Management Consulting.
- On the other side, Consumer business unit revenues witnessed a growth this year due to the improvement in FTTH & Broadband subscribers thru 5G, data consumption, prepaid, and Jawway TV.

- lastly, Wholesale business is doing well in terms of revenue despite the decline in international roaming due to the travel ban! However, we expect some pressure in 2021 on international revenue especially if the ban on travel continues!

We will now start the Q&A session.

Q&A Session:

Person/ Company	Question	Answer
<p>Cesar Tiron BofA</p>	<p>Q1: In terms of your financial disclosure, and potential guidance, are your planning to increase your disclosure and provide some guidance to the market on your expected performance?</p> <p>Q2: Why is the Gross Profit growing at a lower pace compared to EBITDA?</p> <p>Q3: What is your strategy in terms of your tower portfolio? And are you planning on monetizing these towers through an IPO, or welcoming a partner in Tawal?</p>	<p>A1: We are continuously reviewing our disclosure policy, and we are currently discussing with management the possibility to increase current level of disclosure, to reach to a suitable level that will satisfy the market, without compromising the business.</p> <p>A2: There are some efficiencies that have been achieved as a result of some initiatives that have been implemented in the past 2 to 3 years where their impact can be seen in terms of EBITDA. Further, some of the expenses related to selling and marketing have decreased compared to previous periods, which helped to increase EBITDA. In addition, we are trying to balance between maintaining healthy margins without affecting the execution of our strategy and expansions. As for Gross profit, the increase in cost of revenues due to government and access charges as well as devices sale cost impacted the gross profit to some extent.</p> <p>A3: Our vision has not changed, as we have stated clearly in the past that we are looking to expand locally and regionally. In regards to the monetization of these assets, we are open to all options, as long as they create the value we are looking for!</p>
<p>Abdulaziz Alfozan Alistithmar capital</p>	<p>Q1: On customer acquisition, how much did stc gain in terms of 5G customers vs. customers who switched from 4G service to 5G service?</p> <p>Q2: On stc channels, we have noticed a decline on Q3 results, what drove the decline in Q3?</p>	<p>A1: Unfortunately, I do not have the exact number for 4G vs 5G customers. However, what is important to us is retention and monetization. Overall, our Consumer business is growing in terms of revenue and our market share is on the high side</p> <p>A2: Mainly it is devices related business. There were huge demand and sales for the devices in Q2. However, It is a fluctuating market and that drove the decline compared to previous quarters.</p>
<p>Nishit Lakhotia SICO</p>	<p>Q1: Concerning stc pay & Western union deal, should we expect any revaluation gain coming from this unit into stc group financials? Also, can you comment on solution IPO?</p> <p>Q2: on the spike of cost of revenue, what caused the spike in Q4 that effected your gross margins?</p> <p>Q3: regarding data, it is only growing in a single digit in 2020, should we expect a better growth in 2021 in terms of data revenue?</p>	<p>A1: stc Pay transaction is already done and the IFRS standards does not allow us to recognize any gain out of this transaction in the income statement. As for solutions, we are still evaluating the options available to us and any decision related to it will be announced thru official channels in due course.</p> <p>A2: The cost of revenue spike was due to the increase in royalties, in addition to the change in revenues mix that has led to overall increase in cost.</p> <p>A3: Although data is one of the key drivers for the Enterprise business, yet it is not the sole focus! As ICT related revenues are key to our overall revenue growth too. However, on the Consumer business side, we expect it to remain stable.</p>

<p>Adnan Farooq Jadwa Investment</p>	<p>Q1: Can you please give us an update on the government receivables. Were you able to collect any amount from the government, given that in the first 9 months we saw a substantial increase in government receivables?</p> <p>Q2: What would be the expected Capex for the year 2021 and 2022 or in the medium guidance?</p>	<p>A1: We were able to collect government receivables for 2017, 2018 and part of 2019. Nothing is now outstanding with the government for more than 2 years. The receivables has declined sharply in the 4th quarter financials given the collection that took place in the same quarter.</p> <p>A2: As for Capex, we are expecting a slight decline. However, we still do not know how the year would end with respect to stc’s Capex plans! Our plan for the time being is to invest heavily in the 5G expansion and it will continue in 2021. We will monitor the market to see if there would be a need for any additional Capex. We might have an update by mid-year to see where we could land by year-end in terms of Capex. Our investment in Capex is highly driven by a commercial business case and we do not want to spend money if we know it will not create value for the group and investors.</p>
<p>Abdulaziz Alhubaishi Jadwa Investment</p>	<p>Q1: Can you elaborate on the segmentation figures mentioned in the CEO commentary, as there was a 13% growth in subsidiaries and 24% growth in Enterprise business. We would like to understand the flow of revenue as the Enterprise segment is related to the ICT services and it yielded a higher revenue compared to the subsidiaries.</p>	<p>A1: Some of stc’s subsidiaries have grown during the period, yet this year was exceptional for the Enterprise segment mainly due to the Covid-19 situation, where we witnessed a good demand on different services and products such as system integration, cloud, cyber security and digital services that had higher demand from all Enterprise customer segments (large entities, key accounts and SME’s). In addition, there was a high demand from the government too related to some projects like the G20 summit NEOM and etc.</p>
<p>Ziad Itani Arqaam Capital</p>	<p>Q1: In regards to revenue streams and especially the government related entities. Can you shed some color on the size of ICT infrastructure projects you are building, especially mega projects such as “Neom & the Line”?</p> <p>Q2: The depreciation and amortization in Q4 grew more than 4%. Is this mostly to 5G associated capex? Or is because legacy network like 2G or 3G networks?</p>	<p>A1: stc’s customers - whether government or private - are looking for stc because of its ability to deliver and meet their requirements compared to others. We position stc to be the immediate choice from overall digital services such as data centers to infrastructure a good example of which is Aramco deal that was recently announced. As part of our strategy, we will become an ICT leader not only locally but also regionally. That being said, we are in a very good position to capture any opportunities in the market in which their size will depend on customer and their plans during the year.</p> <p>A2: Both 4G and 3G are still not fully depreciated. We have heavily invested in 4G in the last 2-3 years. Moreover, we have highlighted the national broadband project which depreciation impact will continue. The increasing in depreciation and amortization is expected to happen in the next 3 years. We are focusing on EBITDA but also we want to insure that our bottom line is healthy in terms of margins. These investments are very much needed and we will not be able to capture the market opportunities if we have not done those investments.</p>

<p>Amir Badran Quencia</p>	<p>Q1: You previously mentioned the collection of government receivables during the previous quarters. Will this result in additional special dividends to be paid by the end of the year?</p> <p>Q2: Regarding the IPO of Solutions by stc, do you plan to re-invest the proceeds in the company?</p>	<p>A1: I cannot comment on the dividends, as this is subject to board of directors' assessment & approval.</p> <p>A2: No, solutions by stc has a very good capital structure to start and grow their business. However, we have many requirements related to other subsidiaries within the group. In addition, part of the DARE strategy is expansions and acquisitions, so it will fund the strategy itself for the whole group.</p>
<p>Alowi Alimirah Morgan Stanley</p>	<p>Q1: In terms of banking license, can you please elaborate on the strategy behind it and what services will be included?</p>	<p>A1: The timing of license is not yet clear because it is subject to the regulator. However, we are ready and have many products with stcpay current license. Our strategy is to expand and deliver different products within stc Pay such as tapping the credit market digitally. In addition, we are building the platform, capabilities and we have invested a lot in stc pay in the last two years, and we will continue to do so.</p>

Turki AL Ashaikh (IR General Manager):

Thank you all again for participating in stc's Q4, 2020 conference call. If you need anything, please do not hesitate to email us at IRU@stc.com.sa,

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