stc Earnings Call Transcript

Q2, 2025

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Call Date	29th of July, 2025
Hosts	Mr. Ameen AlShiddi – stc GCFO Mr. Turki AlAshaikh – Investor Relations, VP Mr. Ali AlHarbi – Corporate Finance, VP Mr. Madhvendra Singh – HSBC

(Mr. Madhvendra Singh – HSBC)

Welcome everyone to stc's Q2 2025 Earnings Call. I am Madhvendra Singh, Head of EEMEA and LatAm TMT Research at HSBC. It is my great pleasure to welcome senior management team of stc. Today we are joined by the GCFO Mr. Ameen AlShiddi and VP of Investor Relations Mr. Turki AlAshaikh. We will have a short presentation followed by a Q&A session.

Now, I will turn the call over to stc's GCFO Mr. Ameen AlShiddi.

(Mr. Ameen AlShiddi – stc GCFO)

Welcome and thank you everyone for joining stc's Q2 2025 Earnings Call. First, I would like to express our appreciation to HSBC for organizing and hosting today's call. I'm pleased to share that stc has delivered a strong performance for both the second quarter and the first half of 2025. This reflects the continued momentum of our strategy, our focus on operational efficiency, and our commitment to value creation. We've seen an improvements across stc's business units and subsidiaries, which have enabled us to achieve the **highest six-month revenue** in stc's history.

Financial Performance:

- We continue to maintain a strong **Balance Sheet** and **Cash Position** reaching ⃁ **15.69 Billion,** supported by positive **Cash Flow** generation on the back of improved receivables collections compared to the last year.
- For the **CAPEX** it remains on track, the **CAPEX** intensity is around **10%** YTD. We are expecting it to be accelerated in the second half of the year.
- stc Group's **Revenues** for the period reached almost ⃁ **38.66 Billion** increasing by **2.1%** compared to the same period in 2024. stc was able to achieve a healthy growth in **Commercial Unit** by **2.8%**, **Business Unit** by **2.8%** and stc **Subsidiaries has also grown** by more than **2%**. Generally, the **revenue growth** is coming from almost all the units and subsidiaries.
- **Gross profit,** for the first half reached ⃁ **18.66 Billion,** increasing by **6.6%** compared to the same period last year. We don't have any one-off, or any recurring items for the six months period.

- → The **Net Profit** has increased by **13.4%** compared to last year, there are so many reasons that will be disclosed in the financials. Even after normalizing for all one-off items — both positive and negative — we still achieved a healthy growth in the bottom line, and this is mainly coming from the growth of the **EBITDA** for the six months period.

Furthermore, the improvement witnessed by the cost efficiency program is a testament of stc's ability to grow profitably without compromising its growth trajectory. As a result, during the **6M period** stc was able to:

- → Improve its **Gross Profit Margin** for the period by **4.42%** to reach **48.26%** vs **46.22%** for the same period last year (For the 2nd quarter, it grew by **5.50%** to reach **49.15%** vs **46.58%**).
- → Improve the **Operating Profit Margin** by **0.19%,** reaching to **18.64%** vs. **18.61%** for the same period last year (For the 2nd quarter, it remained approximately the same).
- → Lastly, **EBITDA Margin** for the period it increased by **3.92%** to **31.79%** as compared to **30.59%**. (For the 2nd quarter, it witnessed an increase by **4.34%** reaching to **31.71%** up from **30.39%**)**.**

The Group will continue to adopt the program as part of its culture, and will continue to prioritize its implementation in the coming years as we believe there is still potential to further improve our margins in the short and medium term.

Operational Highlights:

- → We continue to expand our customer base in **KSA**. Our **mobile subscribers** increased by **5.7%,** this is supported by the prepaid, postpaid and M2M. Additionally, the fixed subscribers' numbers have shown improvement, as it grew by **5.6%.** For **stc Kuwait,** there is a decline which was by design to have a better credit policy and customer onboarding. Whereas for **stc Bahrain,** the base has declined for Q4 2024, yet we started to see an improvement in Q2 2025, and we are more focused on the postpaid and improving our **ARPU**.

- → stc continues to maintain the **leadership position** in ICT, consumer and business segments, this is mainly due to the digital infrastructure investment that we have been committed to during the last year.

Few major highlights that outline the efforts that stc put to maintain its digital infrastructure leadership position:

- → Increase **5G** towers from **8.7K to 9.2K**, which resulted in the 5G coverage increasing from **49.7% to 59.4%.**
- → Grow **FTTX** connection reaching **3.68 Mn** up from **3.51 Mn**.
- → Improve **Loyalty Program** user base to **18.43 Mn** compared to **16.04 Mn** in the same period last year.
- → Expand **stc TV subscribers** base to **5.39 Mn** from **4.45 Mn** registered subscribers last year.
- → Last but not least and since the beginning of the year, **STC bank** was able to attract more than **3 Mn customers**. Overall, STC bank is progressing well and we are witnessing a strong customer traction.

In conclusion, our cost-efficiency program at the Group level and the transformations we started last year have helped us become more efficient and profitable. We saw these improvements over the past six months, and we expect this positive trend to continue. These efforts should also improve our profit margins and put stc in a stronger position from both profitability and balance sheet perspectives. It's been a strong period, and we're optimistic about the future and we hope to have a very successful year in 2025. Let me wrap up here so we can dive into your questions.

(Mr. Madhvendra Singh – HSBC)

Thank you Mr. Ameen, we will start the Q&A session.

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

	Question	Answer
A	**Q1)** On the operational efficiencies program that you have started a couple of years ago, do you think that this is almost reaching an end now, or do you think that there are more efficiencies, or cost savings that you can realize in the next couple of quarters? **Q2)** Can you please update us on STC Bank business and how big is it going to be in the next couple of years?	**A1)** The efficiency program is a three-year plan that started in 2024 as a continuation of earlier initiatives. We're now starting to see the results of it. We expect the program and its sub-initiatives to continue delivering, with new transformational efforts underway. These are expected to bring further benefits throughout the rest of the year and into 2026. The efficiency unit is now part of our structure and DNA and will remain a key part of stc's operating model. **A2)** STC Bank is doing very well, hopefully we will be able to break-even soon. There are certain products that have been launched in the market. We are expecting the launch of lending products during the second half of this year, but we are waiting for certain approvals to be secured. So, the growth is continuing, and hopefully in a year or two we'll have an accelerated growth for the bank and very positive results that will improve stc Group's financials.
B	**Q1)** How do you expect enterprise revenue growth to perform for the remainder of 2026, considering the reduction in government spending? Specifically, government project spending in the first six months has been noticeably lower compared to last year — can you provide some insight or context on this trend? **Q2)** Can you give any color around the data center capabilities, and what kind of investment you're expecting in the next couple of quarters on that side?	**A1)** Yes, you're right — if you compare second quarter enterprise revenue to the first quarter, there was a decline. However, the six-month period is still higher than last year. Some non-recurring projects booked in Q1 affected the revenue trend, so looking at the full six months gives a better measurement. Honestly, before the year started, we expected challenges in growing enterprise revenue due to the government efficiency program, yet we were able to grow the business over the six months, exceeding our budget expectations. Further, the private sector continues to register a double-digit growth that supported the EBU business. So, I believe the six-month period is a better indicator of what we have achieved, and we remain positive about the outlook for the next six months. **A2)** Regarding the data centers, yes there is a plan to grow and we have mentioned we're expecting an increase in our capital intensity in the next two to three years. The main reason for that will be related to the data centers we're planning to build. We believe there's a major market and demand and the margins once we reach the expected utilizations will be better which eventually would support the Group margins.

C	**Q1)** I want to get a sense of the growth opportunities you are seeing in iot[2], SCCC and specialized. By comparing your Q1 negative growth to your Q2 positive growth, were there any one-off projects that have been pulled into the second quarter and what are your expectations for the full year?	**A1)** We are expecting growth for the full year. There are certain challenges in the market for some of these subsidiaries, but I believe this should be viewed more from a long-term perspective rather than a short- or medium-term one. specialized, with the recent mega project secured — is expected to drive revenue growth. However, specialized will be focused on deployments over the next 12 months, and we expect to start capturing the revenue by the end of 2026. In general, on the revenue side, we anticipate stronger growth starting in 2027 and beyond, driven by our related subsidiaries such as specialized, iot[2], SCCC, and STC Bank. What's important to highlight here is the improvement in margins we're already seeing, and that growth is occurring as we continue expanding in these strategic initiatives and verticals.
	Q2) Regarding your fixed telephone lines subscribers, where are you seeing this growth coming from? And if you're able to talk about the FTTH subscribers that you have currently and what are you seeing in terms of the competitive environment there?	**A2)** For the fixed, we are doubling down as you're aware when it comes to the fiber optics, so we are deploying the fiber optics especially into well selected areas. Additionally, the government of Saudi Arabia is supporting the housing projects in which all of those projects would require FTTH connection. As a result of that, basically stc is taking the advantage of those, and we started to deploy the fiber optics into those houses, so we believe this would be supportive to the overall fixed business. On top of that, fixed wireless access has a very decent demand, as you can see from the release that we have published along with the announcement.
D	**Q1)** Regarding TAWAL, the income from JVs was nearly flat year-over-year. Could you clarify TAWAL's specific contribution within the ⃁ 81 million reported in Q2? Additionally, could you provide some insight into TAWAL's profitability, which appears to be declining following the separation? Have there been any additional charges impacting its P&L? Lastly, could you share your expectations for TAWAL for this year?	**A1)** As you know, TAWAL's transaction has been completed and PIF now owns almost 54% of the company, and stc keeps a major stake of around 43%. In terms of the performance, TAWAL is now in the process of consolidation of Lattice and KSA towers with TAWAL. So, the new TAWAL will now have stc and Zain consolidated towers, as well as the international expansion of TAWAL in Europe that was announced in the past. In terms of the performance, we have seen good performance of the company that consolidated the revenue, it's above last year, and the same continues with the profitability and all financial measures. What matters also is the future of TAWAL, we believe the company will continue its strategy to expand and grow, and also to enhance the profitability, because efficiency and synergy are critical parts of TAWAL's strategy.
	Q2) Regarding your M&A strategy, are you currently exploring any international opportunities? Specifically, in the case of Telefónica — there have been discussions around a potential capital increase to support its growth in Europe, as an alternative to asset sales. If the opportunity arises, would you consider increasing your investment in Telefónica?	**A2)** Regarding the M&A and the expansions in Europe or even within the MENA region, as we discussed before, there are opportunities we're looking at across these different areas, however nothing really right now worth announcing to the market, there are a lot of discussions, but it's at a very early stage. Regarding Telefónica, we have completed the acquisition of 10% ownership and our plan to maintain it as of now. Overall, we're not looking at Telefónica specifically, but more at certain targets in Europe, and we'll see if there's anything to update the market with. But it is very important

		to highlight — and make it very clear, as we have announced many times — that anything we are targeting must truly bring value and improve the profitability and margins for the Group.
E	**Q1)** We've seen improvement in the gross margins, and you've cited efficiencies as one of the reasons for the year-on-year improvement. However, the EBITDA margin, with SG&A in between, seems to be elevated on a year-on-year basis. So, how should we look at this SG&A? **Q2)** Regarding the reversals, there have been zakat and tax reversals in the second quarter, how should we look at this? Is this now behind us, or should we expect something coming in the third quarter as well?	**A1)** The profit margin improvement is very much operational, coming from the Group's efficiency programs. We were able to grow our revenue and work on the cost side. Also, the early retirement program last year with a budget of SAR 2 billion has helped in improving the margins. We will continue making sure that cost control will remain a priority for the rest of the year. **A2)** Yes, there is a reversal that positively impacted our net income. However, there were also some one-off negative impacts when looking at the full six months period. Still, we were able to achieve a strong growth for the first half of the year. As for the zakat reversal, this was because we were able to close the zakat filing for the years 2019–2020. Based on that, we conducted a full assessment of the provisions we had taken for these years, which resulted in the reversal of certain items that we now believe will no longer be disputed. Going forward, we are planning and hopefully will be able to close the zakat filings for 2021–2022 with the regulator. If that happens, it may also result in a positive outcome, but we don't know yet, it depends on the finalizations and which items remain undisputed.
F	**Q1)** Can you talk about the channels business? There has been some decline in revenues, but margins have been improving. Could you explain the drivers behind this margin improvement and whether it is sustainable? Additionally, what is the outlook for the channels business going forward? Do you expect further margin improvement in the second half? **Q2)** If you could talk about the revenue outlook for channels, do you think that it can go back to revenue growth?	**A1)** The focus for channels is not about the revenue only, as we are focusing on improving the margins, which you have already seen. The gross profit margin has improved from around 20% to 25%. We still believe that there is more room to improve the margins going forward, especially in the years 2026 and 2027. So, this is the strategy when it comes to the channels. **A2)** We will not overlook the revenue as long as we maintain the margins. The story of the whole Group, not only related to channels but also other subsidiaries, is that we will make sure we get the revenue that really generates margins. Low-margin revenue areas are not welcomed anymore. So yes, there is revenue growth we are expecting, but what is more important to highlight here in channels, is that the level they have reached in margin we are expecting it to improve year after year.

G	**Q1)** Can you explain what drove the gross margin improvement this quarter? Was it mostly from the efficiency program or from subsidiaries getting closer to breakeven?	**A1)** It is mainly from the Group efficiency program.
H	**Q1)** Can you please share any KPIs on STC bank, e.g. revenues from customer, cost base, timeline for breakeven, etc…	**A1)** We are not able to share all of these data. However, the customer base is increasing, and their KPIs from a profitability and revenue point of view are also improving.
I	**Q1)** What's the status of the ⃁ 33 Billion contract signed with the ministry of defense?	**A1)** It is progressing very well. This project will be managed by specialized, and deployment has already started. It's on track, and we expect to begin booking revenue by the end of next year, however the full-year impact is expected in 2027, 2028 and beyond.
J	**Q1)** What is the target capital structure (net debt to EBITDA, which is currently almost zero)? And are there any plans for a special dividend this year, or is it dependent on one-off sale or divestment?	**A1)** There is a targeted capital structure in place, which we update quarterly and present to the board at year-end. This includes reviewing capital structure, potential acquisitions or internal investments, cash position, and dividends — including any special dividends if needed. However, acquisitions and expansions are hard to predict, so the timing and materialization remain uncertain. For the dividends and as of now, there are no discussions beyond what's already defined in the policy. We'll reassess over the next six months and update the market accordingly.

K	**Q1)** Is there an ambition to look beyond current geographies for expansion of the tower portfolio? **Q2)** Regarding data centers, what kind of investments are you expecting over the upcoming years?	**A1)** TAWAL expansion is ongoing, similar to what we're doing at the Group level. They've already targeted certain tower-related companies and operators in Europe, some acquisitions have been completed, while others are still in progress. Now that TAWAL is a separate company with its own board, they have their own expansion strategy, and I'm confident they have defined plans in place. **A2)** As for data centers, we are expecting significant activity. As mentioned, capital intensity at the Group level may increase due to data center expansion. We have several plans and scenarios depending on expected market demand. However, we don't anticipate more than a 1% to 1.5% increase in capital intensity over the next 2 to 3 years, and it may start with less than 1% in the following year. So, at a Group level, the impact is manageable. We'll continue supporting center3 in their expansion, but our approach is measured, we aim to meet demand without overinvesting and to time our investments to ensure optimal utilization. Overall, we expect to invest a few billions over the next three years in data center infrastructure, given its strong business potential and healthy margins.
L	**Q1)** Regarding government receivables, are payments now being received on a regular basis, or are there still delays, and have they normalized? **Q2)** Are there any asset monetization plans and timelines you can share? Which assets are closest to being ready for a potential IPO?	**A1)** What we collected in the first half of this year is even higher than what we collected in the first half of 2024. The Etimad platform has been functioning very well, and we haven't faced any issues. Things are improving, and the progress we've made over the past two years is being maintained. **A2)** Regarding monetization and potential IPOs of subsidiaries, we have clear targets and plans, but the exact timing is not yet determined. As we've mentioned before, any potential IPOs or monetization events will be clearly communicated and formally announced to the market. On the real estate monetization side, activity is already underway. There were a few land sales completed in the first six months, and we plan to continue with similar transactions. In the second quarter alone, we recorded a capital gain of around ⃁ 50 million from the sale of a few smaller land assets. This is part of a broader real estate monetization strategy that started this year, and we expect it to continue over the next two to three years.

(Mr. Ameen Alsheddi – stc GCFO)

Thank you all for attending the Q2 2025 Earnings Call. We hope we've addressed all your questions.

The full financials will be released soon, and we'll be happy to respond to any further inquiries. I look forward to participating in future conferences and continuing the discussion.

If you have any further questions, please do not hesitate to contact our Investor Relations team.

(Mr. Madhvendra Singh – HSBC)

Thank you all very much for attending, thank you stc management team for taking the time and answering all the questions.

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stc Investor Relations

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