



Rating Rationale

**Saudi Telecom Company
(Joint Stock Company)**

September 2021

1.1 TASSNIEF Opinion:

<i>Saudi Telecom Company – Entity Rating</i>	
<i>Domicile</i>	<i>Saudi Arabia</i>
<i>Long-Term Rating</i>	<i>AAA</i>
<i>Outlook</i>	<i>Stable</i>
<i>Short-Term Rating</i>	<i>T-1</i>
<i>Rating Watch</i>	<i>NA</i>
<i>Action Type</i>	<i>Reaffirmed</i>
<i>Type of Relationship</i>	<i>Solicited</i>

Tassnief has reaffirmed long-term entity rating of “**(AAA)**” and short-term entity rating of “**T-1**” assigned to **Saudi Telecom Company**. The outlook on the rating is “Stable”. Long term rating of ‘AAA’ denotes highest creditworthiness and minimal credit risk relative to other issuers or obligations in the Kingdom of Saudi Arabia. The short-term rating of T-1 indicates the strongest capacity for timely payment of financial commitments relative to other issuers or obligations. Outlook on the assigned rating is ‘Stable’.

1.2 Rating Rationale:

The assigned ratings reflect stc’s leading market position & strong brand, extensive network infrastructure and the Company being an integrated Information Communication Technology (ICT) conglomerate with a diversified product portfolio and presence across almost all facets of ICT industry. Over the years, the Company has significantly evolved from a conventional telecom player to an ICT conglomerate. Tassnief expects parallel focus on core telecom business and adjacencies to continue to support growth. Ratings also take into account stc’s low business risk profile, strong balance sheet and abundant liquidity, elements that provide the company with financial flexibility and are key rating drivers. stc’s sovereign ownership and systemic importance in the local context also support its rating. Performance of the Company in 2020 and in the ongoing year remained robust while Tassnief expects growth momentum to accelerate going forward.

Industry and business risk profile of the telecom sector incorporates low cyclicality in revenues (stable utility like demand characteristics), favorable demographics (young population with high smartphone and social media penetration) and high competitive intensity given saturated mobile penetration. Aggregate revenues of the 3 telecom operators have grown at a CAGR of 5.3% over the last 3 years. Tassnief considers the telecom industry defensive in nature although growth momentum has accelerated in recent years facilitated by increased digitalization drive and focus on higher value-added services and post-paid customers. Continued roll out of 5G and development of use cases for smart city applications, industrial automation, smart logistics, public services, and smart home applications will also support increase in revenues. Additionally, predictability and stability of the regulatory environment should support new investments. Overall given the ongoing economic recovery, continued expansion of 5G infrastructure, and a greater push towards digitalization bode well for the telecom sector.

1.3 Rating Triggers

Ratings remain dependent on maintaining leading market position, low business risk and strong financial profile. Maintaining conservative financial policy and low leverage capital structure is considered important from a rating perspective. Decline in EBITDA margins or increase in leverage indicators translating into significant increase in debt to EBITDA from current very low levels will remain key rating sensitivities. Given the expected financial profile over the rating horizon, Tassnief does not anticipate any downward pressure on ratings of stc over the rating horizon.

1.4 About the Company

Saudi Telecom Company (stc) is the largest telecom operator in KSA and also has international footprint in Kuwait, Bahrain and Malaysia. Through its subsidiaries in KSA, stc offers a comprehensive product portfolio of ICT services to its customers including IT solutions, IT infrastructure, digital payments (Finance Ministry has been authorized to issue license to stc Bank) and media services. stc also has a wholly owned real estate management subsidiary in addition to investments in a host of different Companies. During the last quarter of 2020, a separate cybersecurity services company was also established.

RELATED CRITERIA AND METHODOLOGY

Rating Methodology for Corporate (v.2. 2019) can be found on the website:

www.tassnief.com

DISCLAIMER:

- TASSNIEF has conducted the exercise based on its approved Rating Methodologies and Policies in order to derive the credit rating opinion on Saudi Telecom Company. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold or sell any securities or make any other investment decisions.
- All analyses related to the rating report are merely opinions of TASSNIEF on the rating date.
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- This rating has not been amended following disclosure to the rated entity or its related party(ies). The rating scale can be found in the link above. The rated entity has not conducted any rating activity with regards to its rating. No parts of the rating activities were outsourced.
- The analyses and forecasts in this rating report are inherently forward-looking and cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

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