



Rating Rationale

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

October 2022

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 the long-term entity rating of **"(AAA)"** and the short-term entity rating of **"T-1"** assigned to **Saudi Telecom Company**. The outlook on the rating is "Stable." The long-term rating of 'AAA' denotes the 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. The outlook on the assigned rating is 'Stable.'

1.2 Rating Rationale:

The ratings reflect STC's leading market position & strong franchise, extensive network infrastructure, and the company is an integrated Information Communication Technology (ICT) conglomerate with a diversified product portfolio and presence across almost all facets of the ICT industry. Over the years, the company has significantly evolved and diversified operations from a conventional telecom player to an ICT conglomerate with a presence in Financial Services, telecom distribution, Information Technology, Media, Real Estate, Telecom Infrastructure (towers & connectivity), Business Process Outsourcing, Venture Capital, Cybersecurity & Internet of Things, gaming/ eSports and cloud services. Growing presence across these adjacencies (non-telecom business) will further diversify the revenue stream and facilitate revenue and EBITDA growth. As per Tassnief estimates, the adjacencies segment now represents around one-third of total revenues (without consolidation) and will continue to contribute an increasing share in the company's overall EBITDA. Ratings also take into account STC's low business risk profile, strong balance sheet, and abundant liquidity (both in terms of cash and cash equivalents and financial facilities), elements that provide the company with financial flexibility and are key rating drivers. The performance of the company in 2021 and the ongoing year remained robust, while Tassnief expects growth momentum to accelerate going forward.

The telecom sector's industry and business risk profile are characterized by low revenue cyclicality (stable utility-like demand characteristics), favorable demographics (young population with high smartphone and social media penetration), and high competitive intensity, given saturated mobile penetration. However, the mobile subscriber base is likely to grow at a healthy pace over the rating horizon, driven by population growth to over 50 million by 2030 due to the development of new cities; (the first phase of NEOM has started and will be completed by 2030), shifting of regional head offices to KSA, and targeted increase in the number of pilgrims to 30 million by 2030. In addition, the regulator, the Communication and Information Technology Commission (CITC), strongly emphasizes enabling the regulatory environment, as reflected in stability, predictability, and maturity in regulatory policies supporting sustained growth and investment in the telecom sector. Overall, given the ongoing economic recovery, continued expansion of 5G infrastructure, and a greater push towards digitalization, the telecom sector is well-positioned to continue its growth momentum going forward.

1.3 Rating Triggers

Ratings remain dependent on maintaining a 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. The decline in EBITDA margins or increase in leverage indicators translating into a 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 the ratings of STC over the rating horizon.

1.4 About the Company

Saudi Telecom Company (STC) is the largest telecom operator in KSA and has an international footprint in Kuwait and Bahrain. STC's KSA subsidiaries offer a comprehensive ICT and financial services product portfolio. Some of the most recent initiatives by STC in 2022 include the creation of MENA Hub, a \$1 billion investment in regional connectivity, including data centers, subsea cable, and related infrastructure. Also, a joint venture for the Internet of things and cloud services has been established. In contrast, Tawal has entered into an initial agreement to acquire a 100% equity shareholding of AWAL Telecom Company, registered in the Republic of Pakistan. Solutions by STC also signed a binding agreement to acquire an 89.5% stake in Egypt-based Giza Systems Co., a systems integrator in the Middle East and Africa region, and a 34% stake in Giza Arabia, a subsidiary of Giza Systems Co.

RELATED CRITERIA AND METHODOLOGY

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

www.tassnief.com

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- 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.
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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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