

2023-2025 Strategy and Business Plan Review

New Markets
Portfolio Management Sector
October 2022

Confidential



stc



Executive Summary



stc Bahrain Strategic Intent



Market Outlook (Consumer, Enterprise and ICT)



Historical Performance of stc Bahrain



CSAT Research Outcomes



stc Bahrain Strategy “LEAD”



Long Range Plan (LRP) and New Markets Recommendations

New Markets Executive Summary

Strategy & Business Plan executive summary

Strategy

- stc Bahrain strategy needs to have a clear strategy on its position for the fiber
- stc Bahrain needs to focus more on People & Culture
- stc has invested and continues to invest in its network, this has to be guided by a financial mindset reflecting the returns of additional capex. Additionally, stc Bahrain should focus more on the consumer growth since such an investment is not reflected on the BP in terms of growth
- Management should focus on diversifying the ICT portfolio in order to fill full the company's ambitions toward growth. Hence, stc Bahrain Market revenue share in the ICT will be at 27% (stc Bahrain expects an ICT revenue of BD 10.3m in 2023) in 2023; While the overall ICT revenue market size is expected to be at BD 38.2m (Growing by 16% YoY in 2023)

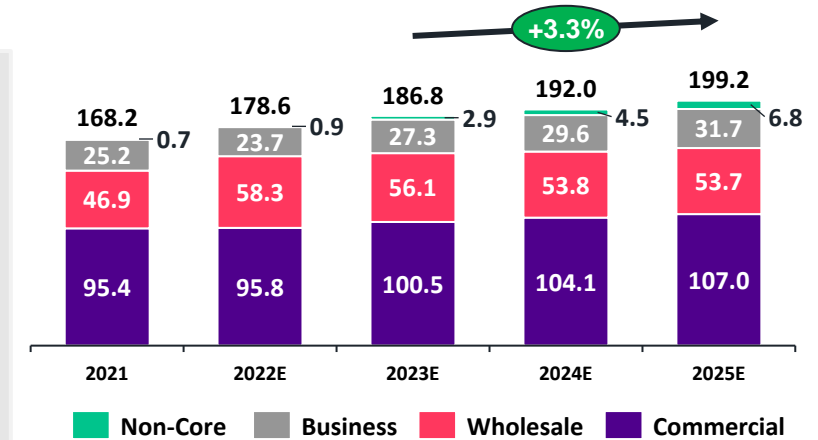
Performance

- Revenue is expected to grow by 5% compared to 2022 supported by higher B2C, B2B, adjacent services, and group synergy. However, as the one-off network investment will provide superiority in 2023 compared to other operators, we are of the view that service revenues can be enhanced consumer revenue is expected to grow by 5% in 2023
- EBITDA is forecasted to be at 4% CAGR from 2023-2025 due to cost optimizations. However, management may consider looking into optimizing the Employee costs (expected to increase YoY by 6% (BD 900K) in 2023 and it will continue increasing onwards
- Net income is expected to reach BD 8.7m in 2023 higher by 2.4% compared to 2022

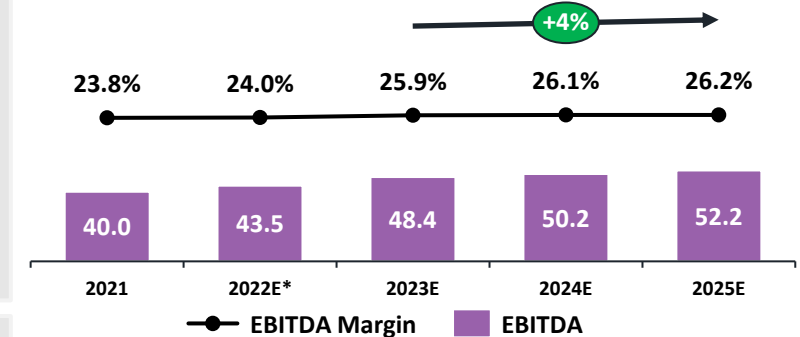
CSAT Findings

- stc Bahrain has the fastest growth in 2022 compared to 2022 among all operators and it has shown improvements in terms of Satisfactions and NPS
- Yet, stc Bahrain still the lowest Net Promoters Score of 29 vs 39 for Batelco and 43 for Zain by far even though it's the only MNO that increased this year
- Call center improved but still behind competition and has the highest dissatisfaction score
- stc Bahrain has the lowest customer satisfaction score of 74% vs 77% for Zain and 79% for Batelco, even though it improved significantly from 2021.
- stc Bahrain still isn't mentioned for its network as a strength of choosing a network provider. Hopefully, that will change soon, given the enhancements in the works.

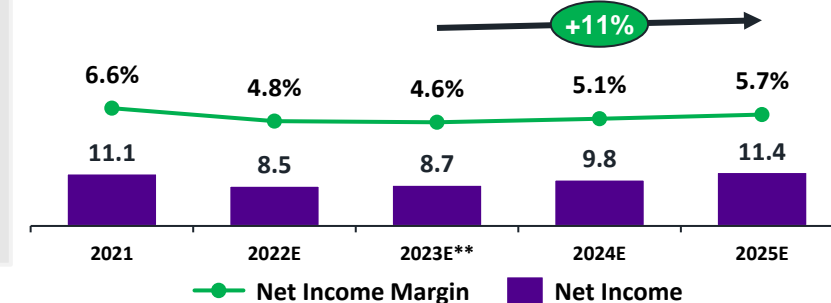
Revenues Breakdown (BD Mn)



EBITDA (BD Mn)

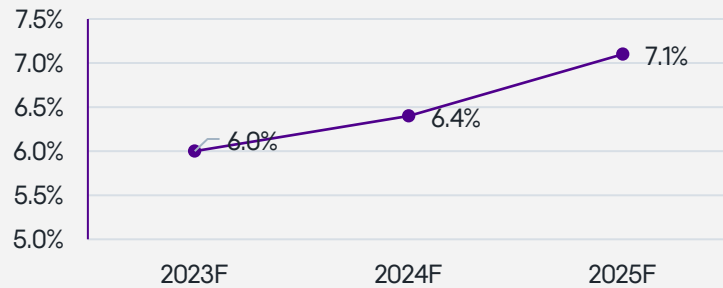


Net income (BD Mn)



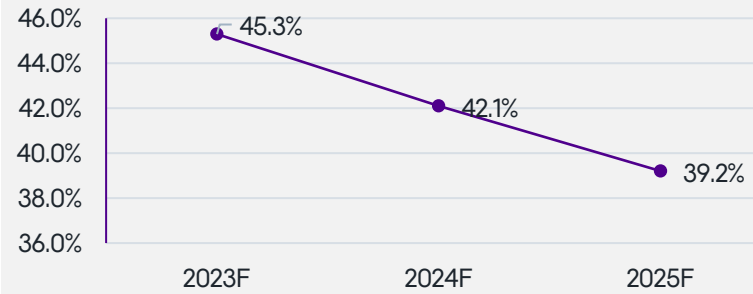
Financial ratios highlights and business impact

Return on Equity (%)



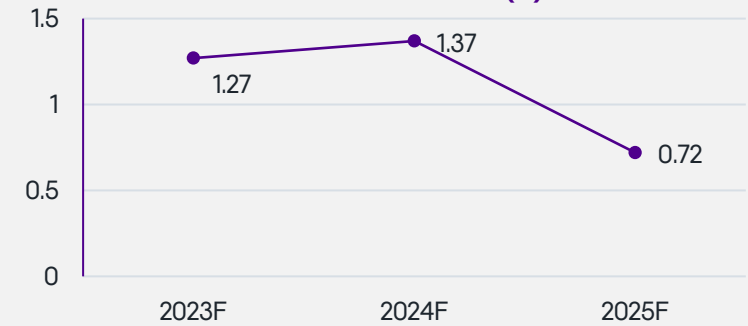
Definition	The ratio measures the company ability to turn equity investments into profits
Measure	Net income / Total Average Equity
Benchmark	TBD by subsidiary

Debt/Equity (%)



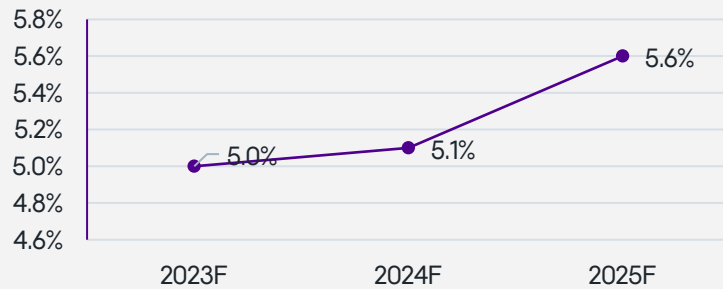
Definition	The ratio measure the size of debt against company total equity
Measure	Total net debt / Total Average Equity
Benchmark	TBD by subsidiary

Current Ratio (X)



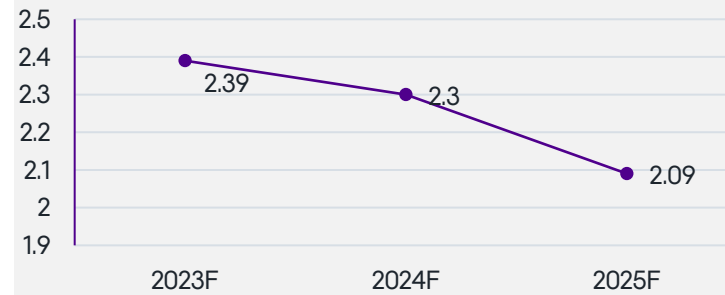
Definition	the ability of the company short term assets in covering its short term obligations
Measure	Current Assets / Current Liabilities
Benchmark	TBD by subsidiary

Return on Invested Capital (%)



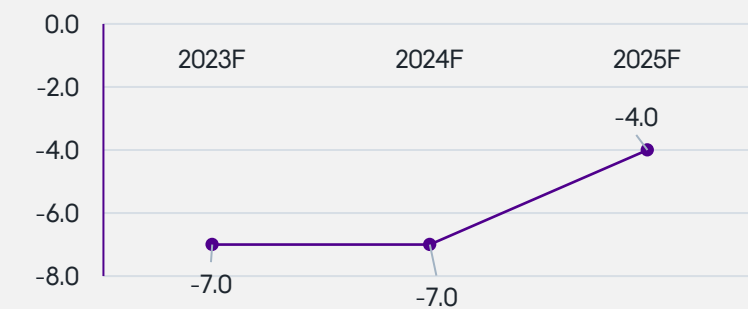
Definition	The ratio measures the profitability of company compared to the invested capital
Measure	Net Operating Profit After Tax / Invested Capital
Benchmark	TBD by subsidiary

Net Debt/EBITDA (X)



Definition	Shows the strength of EBITDA in covering net debt
Measure	(Debt – Cash) / EBITDA
Benchmark	TBD by subsidiary

Enterprise Value Addition (BHD)



Definition	The ratio measures the company's total market value
Measure	(NOPAT) - (Invested Capital * WACC)
Benchmark	TBD by subsidiary



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stc Bahrain is one the profitability engine of the group and enables scale and acts as a platform for the growth of adjacencies

Strategic intent

- **Strengthen and protect core business** by enhancing **efficiency**, reinventing experience and introducing new digital services (beyond big bets) into core offering
- **Provide access to markets and customers** for new **digital growth** vectors and regional business subsidiaries, and leverage their services to protect and **enhance core business**
- **Drive efficiency** gains through best practices and synergy realization across **connectivity operations** (e.g., shared services, etc.)
- **Enable value enhancement of Corporate Venture Funds** and new digital services by providing access to key assets – infrastructure, customers and data – to rapidly build scale

Subsidiary demarcation highlights

Adjacencies not addressed by existing / planned subsidiary falls within stc Bahrain scope (e.g., new digital services) but could be spun-off at later stage

Geographical presence and expansion



- **stc BH is to operate only in Bahrain**, however, it should **seek synergies** with other telco opcos / subsidiaries when appropriate
- **Telco expansion** opportunities will be tackled **separately**, in line with dare 2.0

Value creation

Financial	Strategic					Others		
	Customer	Ecosystem	Capabilities	Efficiencies	Diversif.	Brand value	Vision 2030	Corp. resp.
EBITDA uplift	✓	✓	✓	✓	✓	✓		

- As a telco asses, stc Bahrain's primary financial value is to **increase Group EBITDA**



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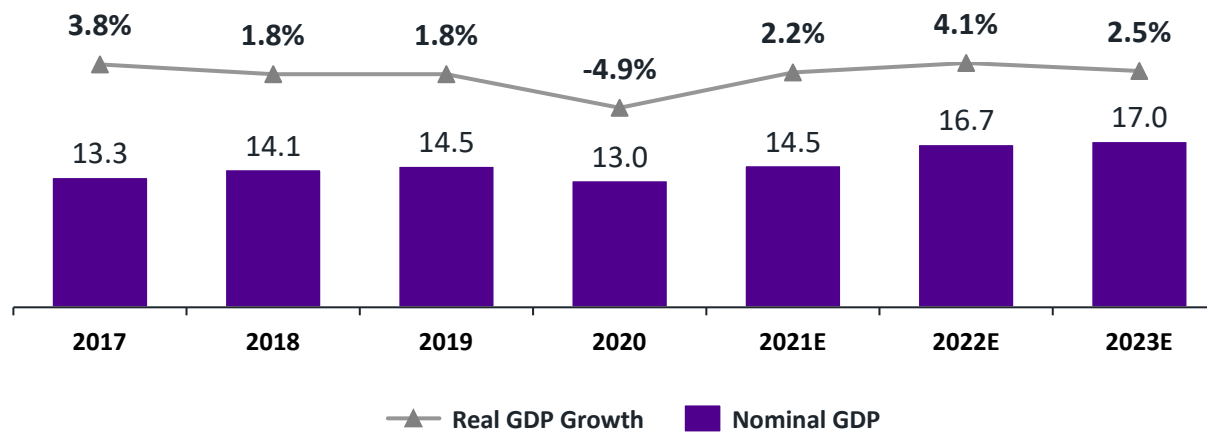
Long Range Plan (LRP) and New Markets Recommendations



Bahrain's economy is expected to continue recovering however budget deficit is expected to remain above the BHD 1 Bn mark

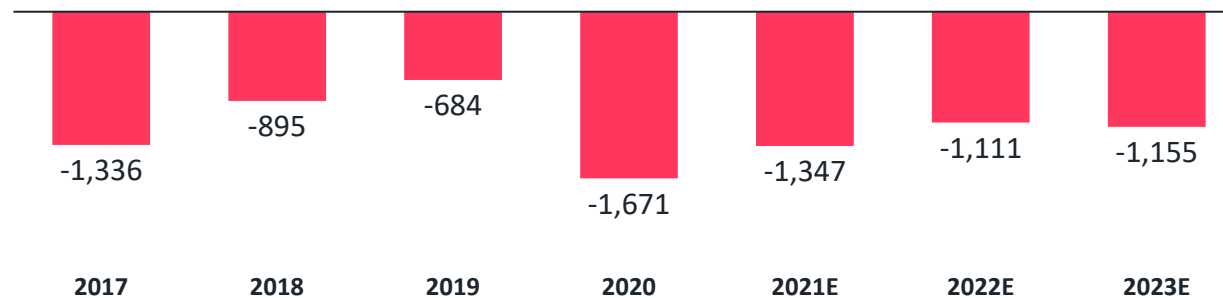
Bahrain GDP Trend

(Nominal GDP in BD Bn) (% Change Real GDP) (2017 – 2023E)



Bahrain Budget Deficit

(Million BD) (2017 – 2023E)



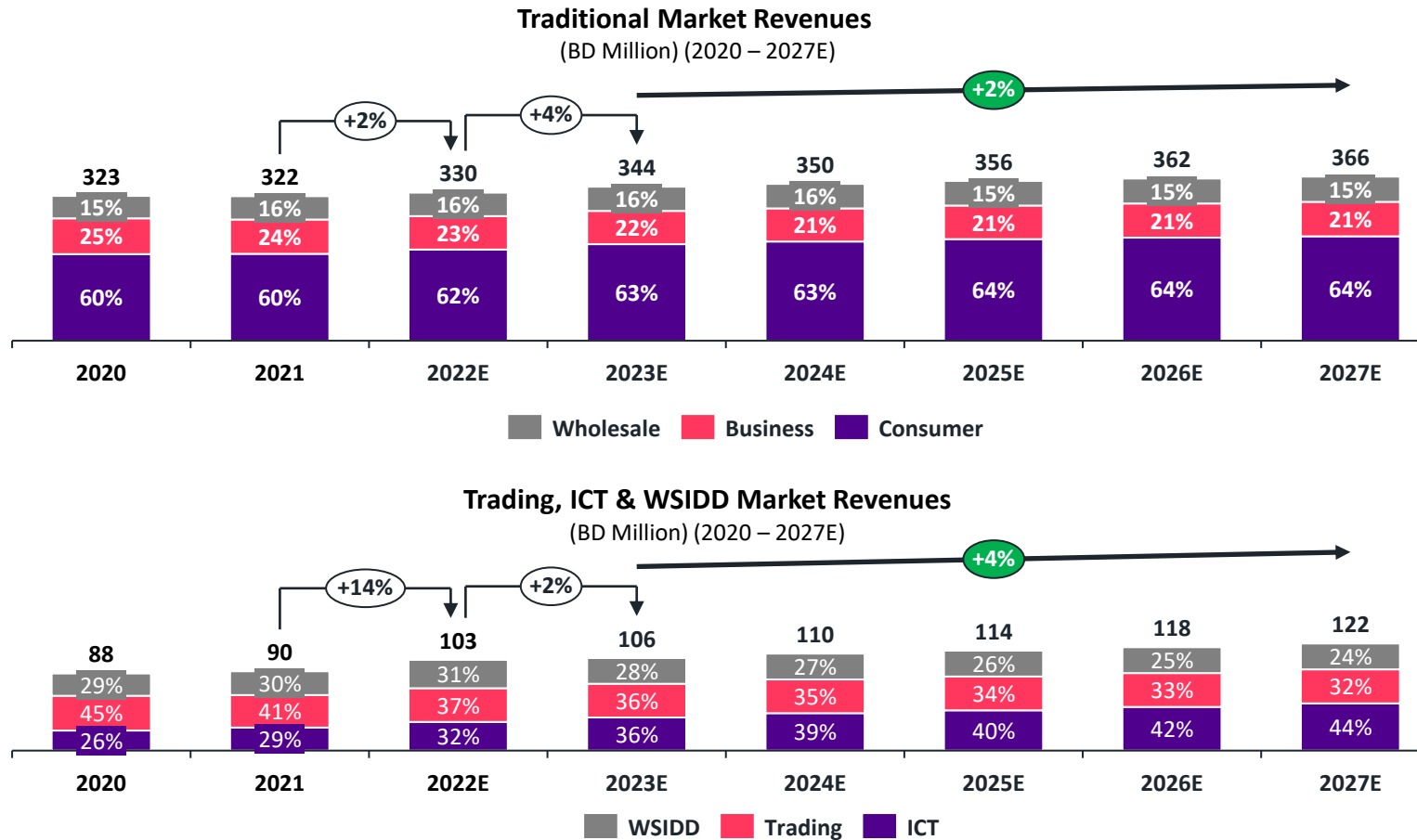
Macro-economic and industry highlights

- Economic growth is expected to improve in 2023, bolstered mainly by a strong oil-sector performance and continued recovery from 2020/21 COVID impact
- Bahrain's budget deficit is expected to improve, however, will remain sizeable (+BD 1bn)
- Government is expected to continue pushing for austerity measures (utility rate hikes, VAT increase, budget spending cuts etc.) in order to address the budget deficit
- Resultantly, consumer spending is expected to remain impacted in the next few years



The telecom market is expected to gradually recover with connectivity & ICT segments as the main growth drivers

Comments



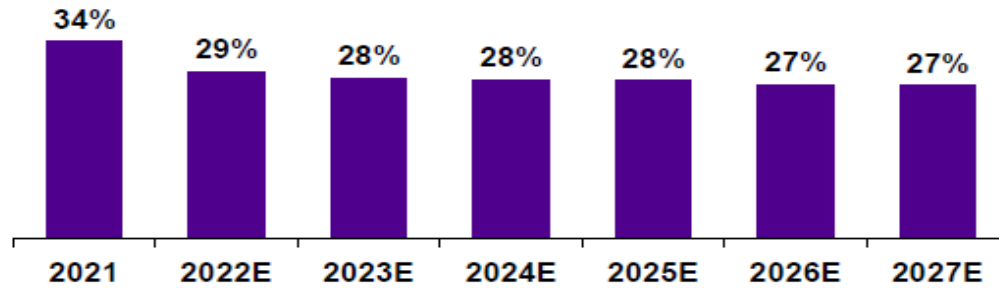
- Downturn in International connectivity & Construction sector has slowed down growth in Datacom segment
- Traditional telecom market is expected to continue recovering from 2020-21 COVID impact with increase mainly driven by growth in connectivity & voice segments. **stc Bahrain contributions from the total wholesale will be around 58% in 2023**
- **stc Bahrain is the dominator in the WSIDD with a revenue market share of 82%. This shows how heavily stc Bahrain depends on the lower margin activities**
- Non-Traditional market growth will mainly be driven by growth in ICT segment. **However, stc Bahrain revenue market share in the ICT is around 27% which includes projects and ICT services. The whole market in the ICT is expected to grow by almost 16% in 2023 compared to 2022**



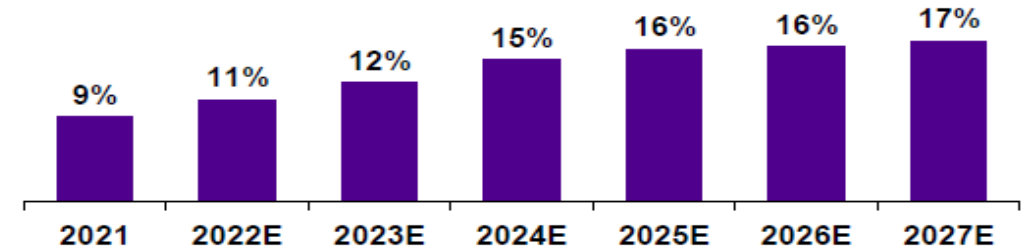
stc BH is aspiring to maintain Intl. Connectivity market share while continuing to push for market share across other segments

stc BH Business Revenue Market Share

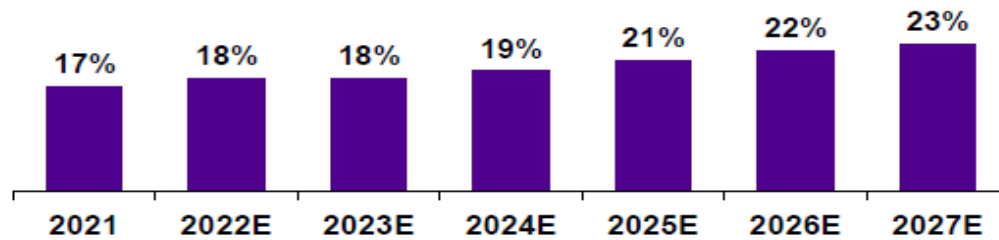
Intl. Connectivity Market Share
(%) (2021 – 2027E)



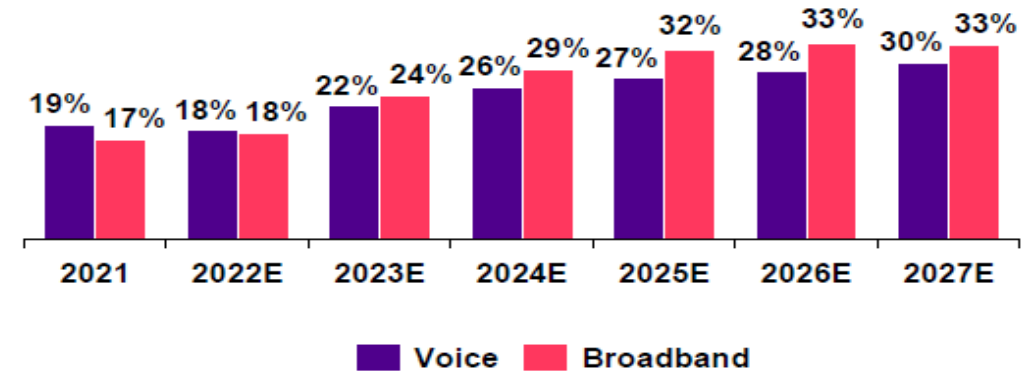
ICT Services Market Share
(%) (2021 – 2027E)



Local Connectivity Market Share
(%) (2021 – 2027E)



Voice & Broadband Market Share
(%) (2021 – 2027E)





The competitive landscape is expected to remain challenging as competition is expected to continue focus on enhancing position in Core & Non-Core

Telecom Competitive Landscape - Zain & Batelco

Batelco

Continuous focus on enhancing position across both Core & Non-Core segments

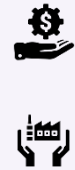
- Sizeable investments in **5G coverage and spectrum**
- Pushed aggressively its **fiber offerings** with continued focus on **predatory pricing**
- Significantly delayed **NBN asset transfer process** & maintaining its **exclusive rights/access** to dark fiber
- **Streamlined customer journey experience**



Zain

Priority on profitability with focus on investments across core telecom and digital

- Aggressive **Fiber push**
- Developed focused **offerings and aggressive pricing**
- Strong presence in **SME segment**
- Focus on customer **experience and digitization**



Core
Business

Adjacencies

- Creation of a **dedicated entity for ICT**, enabled by acquisitions and poaching of key talents
- Set-up **new cybersecurity operations center** and partnered with SonicWall to **provide a full range of network security solutions**
- Set-up **Fintech company** and acquired an **Open Banking license** (1st telecom company in the GCC)
- Ventured into **healthcare** (Doctori)



- Launched **Zain games** (e-sports)
- Joined **Global Zone and Manama-IX**, a carrier-neutral Internet Exchange for **increased peering and connectivity services**





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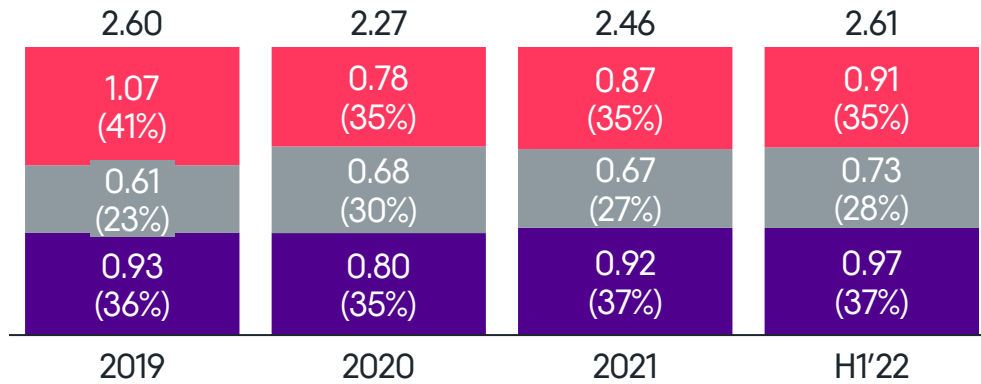
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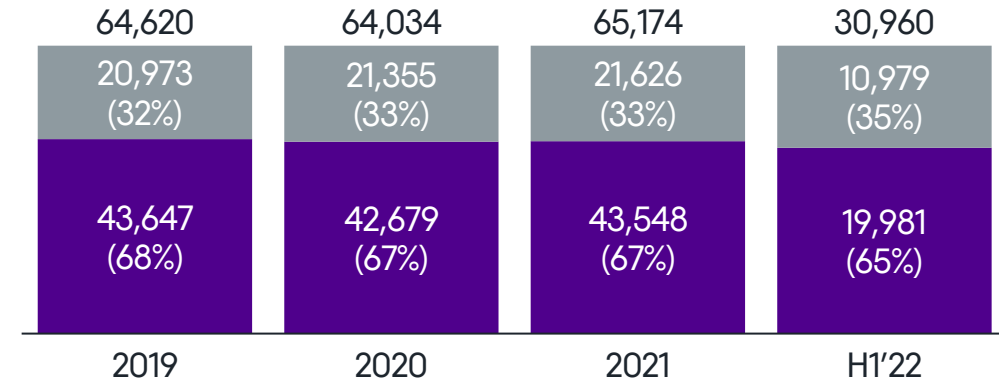
Long Range Plan (LRP) and New Markets Recommendations

stc Bahrain is the market leader in terms of subscribers' market share while it maintained the second in terms of revenue share

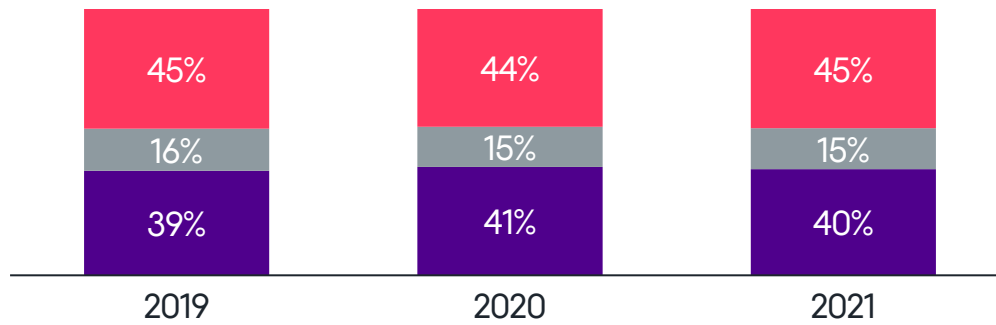
Mobile Total Subscribers "Mn"



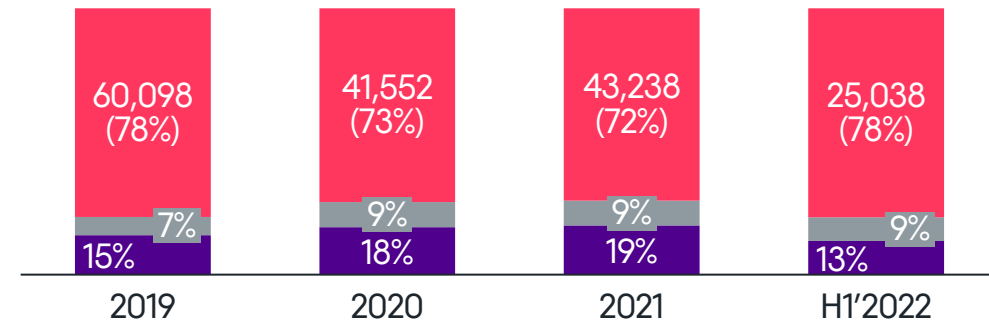
EBITDA Market Share "%"



Revenue Market Share "%"

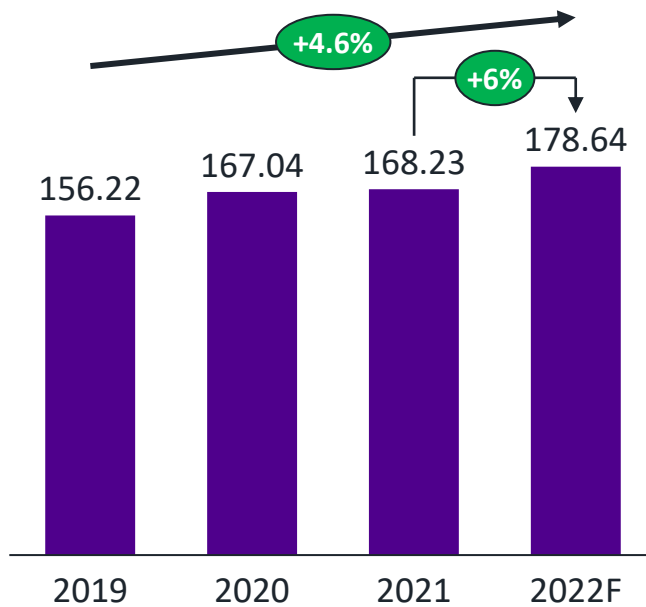


NI Market Share "%"

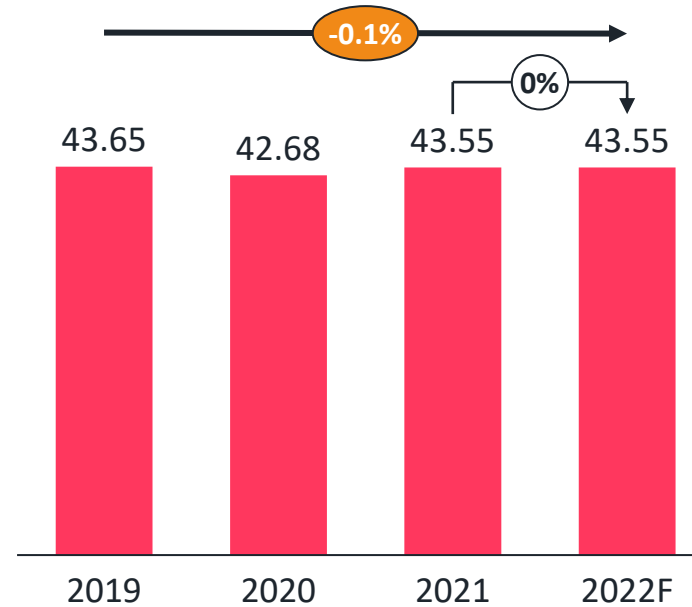


Revenues expected to grow by +6% while EBITDA decline by -7% at the end of 2022 if they are not received the credit notes from the TRA and Net Income expected to be lower than 2021 by 23% mainly due to higher depreciation by almost BD 4.3m

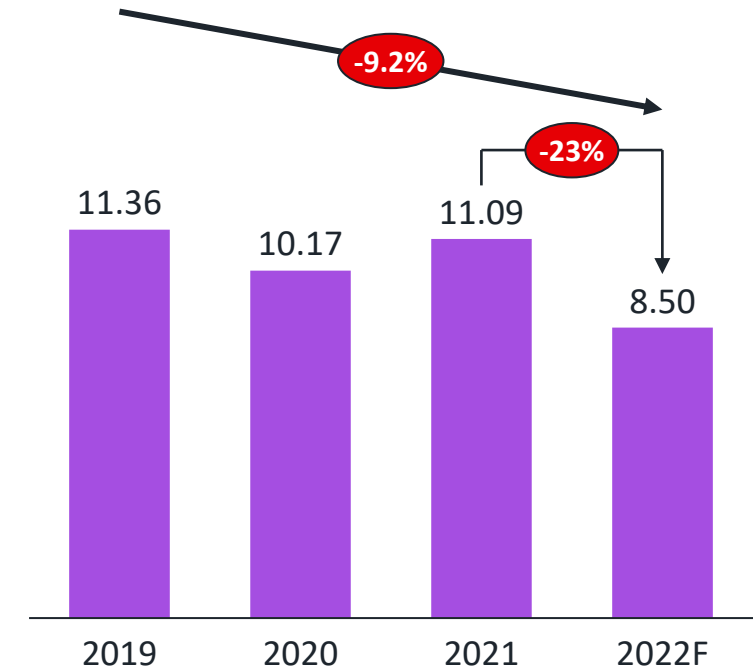
Revenues (BHD Mn)



EBITDA (BHD Mn)



Net income (BHD Mn)





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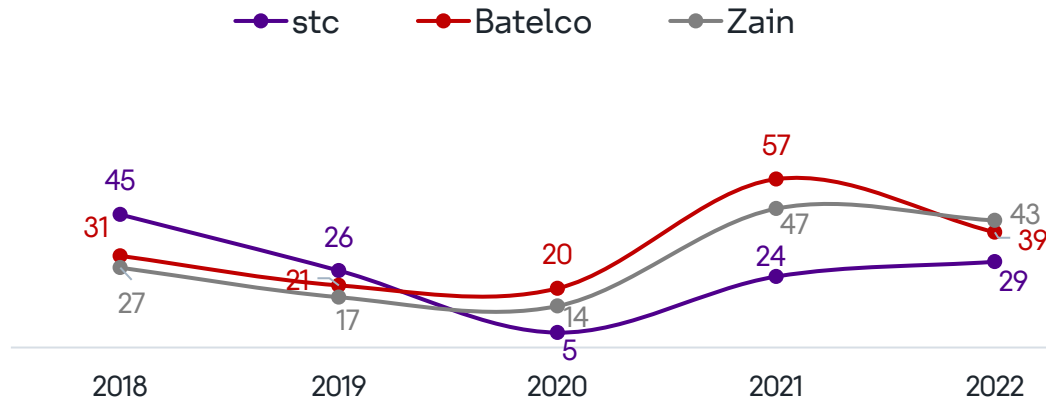
stc Bahrain Strategy “LEAD”



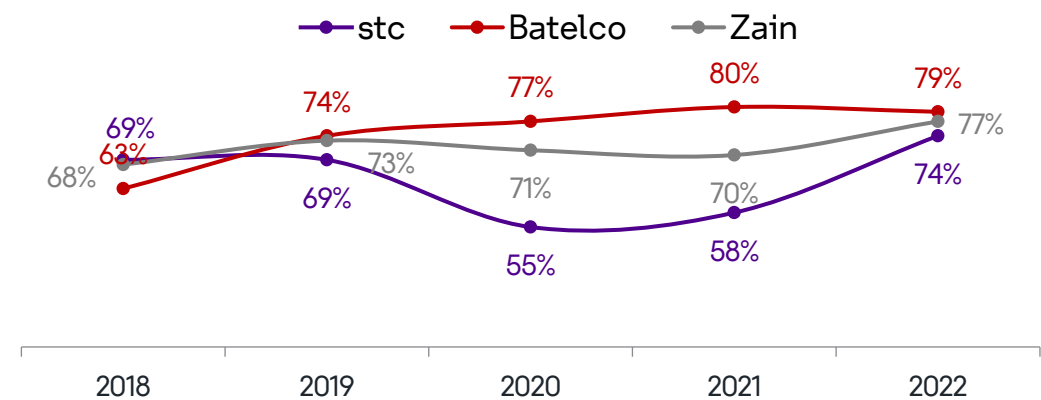
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Mobile Voice – NPS & Satisfaction

NPS



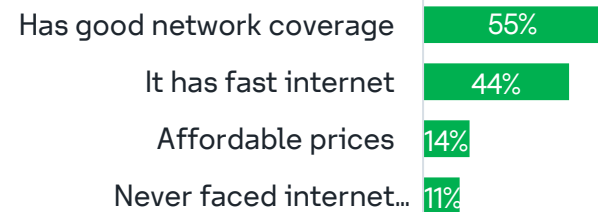
Satisfaction (T3B)



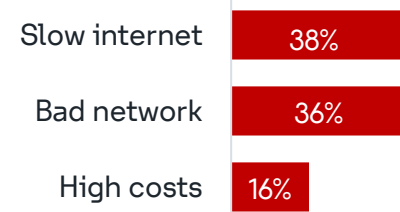
stc's satisfaction & recommendation is growing in Mobile Voice Segment

- stc has shown improvements in Mobile voice segment through improving on both NPS and Satisfaction
- **Network, Internet speed and Prices** are the top factors of promoting, detracting and mentioned as areas of improvements for stc

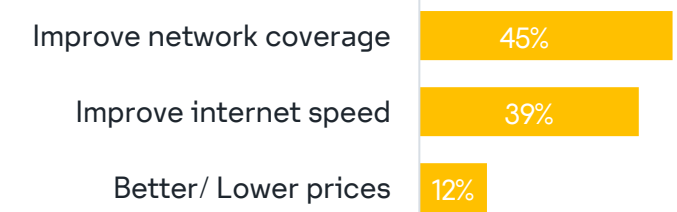
Reasons of promoting stc



Reasons of detracting stc

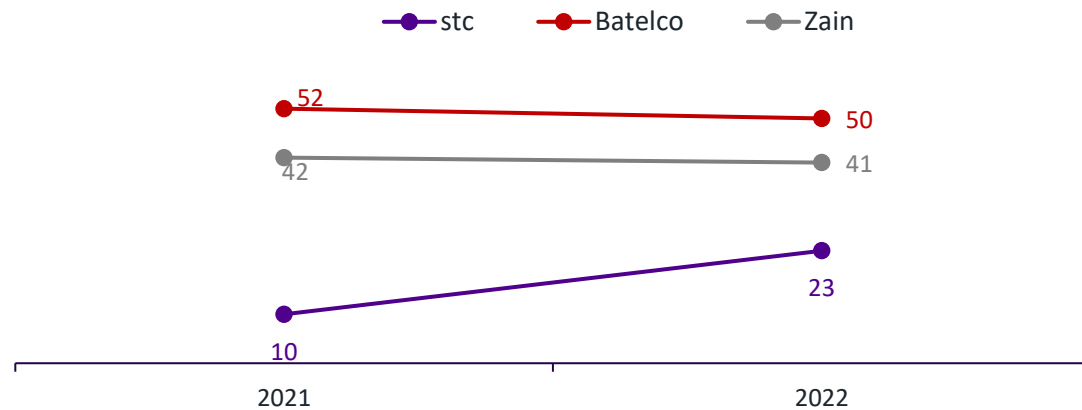


Suggestions to improve stc

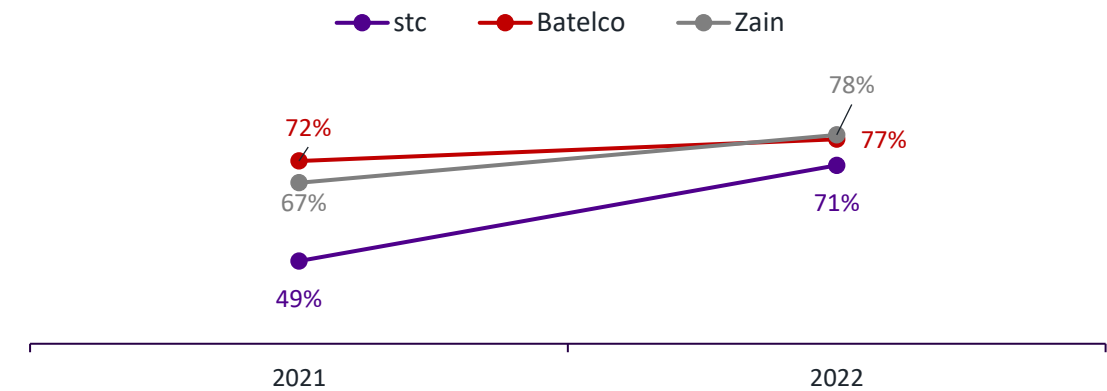


Mobile Broadband – NPS & Satisfaction

NPS



Satisfaction (T3B)



stc's satisfaction as well as NPS improved significantly in this wave

- Network, Internet speed** and **Prices** are the top factors of promoting, detracting and mentioned as areas of improvements for stc

Reasons of promoting stc

Has good network coverage	53%
It has fast internet	33%
Affordable prices	20%
Has good services	16%

Reasons of detracting stc

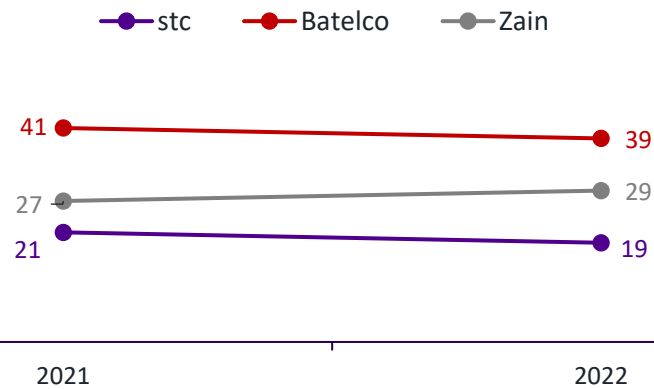
Bad coverage/ No coverage	53%
Slow internet	31%
Charges high costs	17%

Suggestions to improve stc

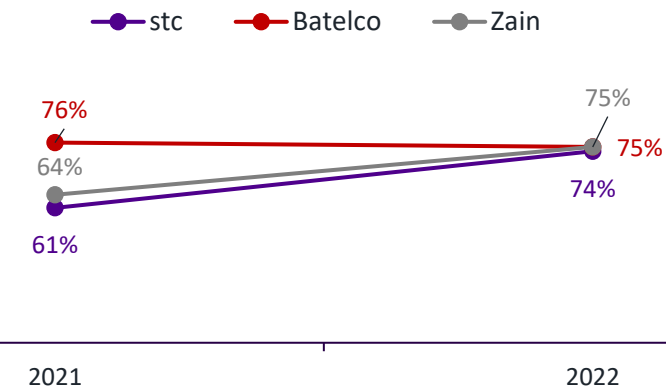
Improve network coverage	49%
Improve internet speed	42%
Lower prices	13%

Home Broadband – NPS & Satisfaction

NPS



Satisfaction (T3B)



stc satisfaction improved, NPS remained largely stable

- stc has shown improvements in terms of Satisfactions, however NPS remained largely stable
- **Network, Internet speed** and **Prices** are the top factors of promoting, detracting and mentioned as areas of improvements for stc

Reasons of promoting stc

Has good network coverage	42%
It has fast internet	38%
Has good services	16%
Affordable prices	15%

Reasons of detracting stc

Bad internet connection	54%
Bad network coverage	42%
Charges high costs	16%

Suggestions to improve stc

To improve internet speed	40%
To improve network coverage	32%
Lower prices	10%



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2023 SWOT

Strengths



- Strong appeal amongst youth and expats
- Above fair-share mobile voice market share with significant leadership on postpaid voice
- Strong position on the wireless Broadband segment with highest market share
- Range of innovative products (stc Pay, stc Protect, Tajer etc.)
- Good leadership with high aspirations and strong employee value proposition
- Leading position on wholesale, with strong presence on inbound roaming
- Part of a strong group with growing focus on digitization and new growth
- Superior Network

Weaknesses



- Relatively lower appeal amongst Bahrainis
- Limited fair access to Fiber
- Less dense 4G / 5G network as well as less allocated spectrum compared to competition
- After-sales capabilities on B2B and Home
- Improvement potential on overall profitability
- **Needs for People and capability**

Opportunities



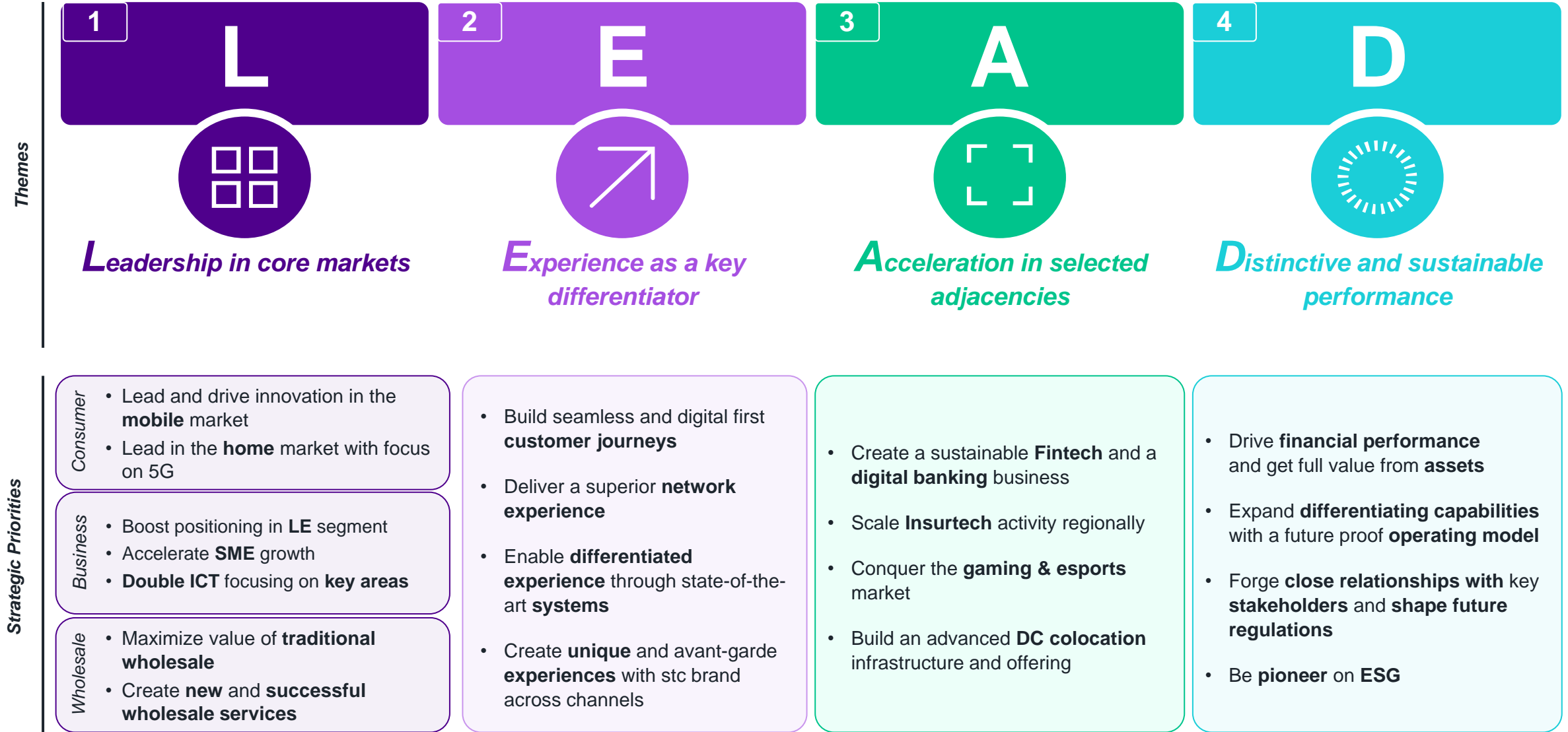
- Positive macro-economic conditions and outlook after a hit due to COVID 19
- Growing momentum on 5G roll-out and innovative bundles to leverage 5G capabilities
- Creating market differentiation based on experience both in terms of network and overall customer experience
- Fast growing ICT segment, with opportunity for stc BH to grow market share
- Growing regional demand for connectivity
- Potential for digital disruption across new verticals
- Growing demand for converged value propositions across Core + Non-Core

Threats



- Stagnating core telecom market, with continued OTT cannibalization
- **Disruption of visitor growth trajectory due to COVID-19 affecting Core/Non-Core**
- Entry of hyperscalers into Bahrain including global internet and content providers bulking up ME presence
- **Unstable economic position with 2022 budget deficit expected to remain above BHD 1bn**
- Solid Batelco relationships with key enterprise and government accounts
- Intensified competition in telecom market with MNO's making significant investments across Core & Non-Core

stc Bahrain's LEAD CS forms the basis for the business plan



1

Leadership in core markets



1.1

Lead & drive innovation in the mobile market

Reinvent stc BH's value proposition and bundles on mobile

Ensure competitive-ness and enrich packages on mobile services

Develop new products by adopting latest technologies & defining relevant use cases

Increase value capture by stepping-up digital & physical sales and leveraging CVM analytics

Pursue aggressive win-back campaigns & recapture diverse market segments lost due to COVID

1.2

Lead in the home market with focus on 5G

Expand stc BH's value proposition on home

Build partnerships for differentiated content (community-specific TV, streaming & sports)

Incentivize customers to adopt 5G FWA while maintaining competitive-ness on fiber

Develop new home products by leveraging on latest technologies (VR, AR, cloud gaming)

Adopt a household approach (Home & Mobile) to support cross-selling, with analytics and AI

Smartly boost 5G for Home & fiber as a second option through sales channels & marketing campaigns

Define how to manage legacy 4G clients and migrate them to 5G

Plan for the run-off of MENA telecom

1.3

Boost positioning in LE segment

Reinforce offering to have a unique value prop. for B2B with better SLA and ICT bundles

Strengthen technical requirements for superior Datacom products and better experience

Reinforce LE relationship building, account management and sales operating model

Strengthen sales team B2B expertise and knowledge for better impact and experience

Relaunch an aggressive GTM on existing and new solutions with a verticalized approach

Enhance the Enterprise customer journey, leveraging when relevant on digital

Strengthen after-sales efficiency

Develop thought leadership programs to improve client stickiness

1.4

Accelerate SME growth

Enrich connectivity offering, with addition of 5G FWA, while increasing competitiveness

Structure simple / mobile digital pack. & consider pushing 3rd party offering

Build innovative fintech services for SMEs

Better address SMEs through existing channels

Develop new sales channels by considering alternative ones

Improve SME digital marketing (SEO, referral) and sales

Better address SME clients within customer base and enable simpler acquisition of new ones

Digitize customer journey and optimize support services activity

Develop loyalty programs for SMEs

Enhance the overall CEX and adopt a transversal customer centric approach

Build up an API platform to seamlessly onboard partners & third parties

1.5

Double down on ICT focusing on key areas

Pursue development of network project and managed services by enabling new use cases

Acquire an end-to-end ICT service provider with Cloud capabilities

Expand and reinforce teams' skills and capabilities in ICT

Develop stronger synergies with stc Solutions and other group entities

Develop partnerships to fill the gap and to build alliances with large solution providers

Reinforce stc offering on cybersecurity

Pursue sale of a standard IoT offering for B2B clients, including logistic players, and consider smart city in the mid term

1.6

Maximize value of traditional wholesale

Maintain dominant position on domestic wholesale

Pursue regional int'l data connectivity

Augment current offering with standardized & converged wholesale solutions

1.7

Create new & successful wholesale services

Enable fast-growing use cases requiring high quality of service (content, gaming, etc.)

Explore blockchain use cases

2 Experience as a key differentiator

2.1

Build seamless and digital first customer journeys

Build a coordinated approach to make CEX a common goal with shared KPIs

Implement an intelligent & customer centric approach to improve and measure CEX

Improve customer retention and loyalty, incl. to maintain leadership on postpaid

Aim for seamless customer journeys by re-assessing and simplifying current journeys, starting with billing and network issues

Keep reinventing distribution channels in a context of increased demand for omnichannel and digitalization

Innovate to offer a memorable moments and a unique interaction with the brand as well as to have an outstanding digital reputation

Create an outstanding and unique shop experience

2.2

Deliver a superior network experience

Increase the number of 4G and 5G sites and enhance to access equipment to increase

Evolution of stc's spectrum to increase capacity in top technologies

Migration of existing customers still using old technologies

Improve network performance to support traffic growth (transmission)

Ensure Tier 1 ISP readiness

Support Core evolution & monitor CEX improvements

2.3

Enable differentiated experience through state-of-the-art systems

Build holistic tech architecture and data standards

Elevate ways of working towards more efficient business-IT alignment

Setup digital & analytics delivery factory

Revamp and modernize CRM system

Bring infrastructure platform to the next level

Deliver the digital projects regarding customer journeys and workforce enablement

2.4

Create unique & avant-garde experiences with stc brand across channels

Further digitize interactions & customer journeys and simplify experience with automation (RPA, AI), in particular regarding customer care

Strengthen digital sales & significantly increase share in revenue generated (new clients or upsell)

3 Acceleration in selected adjacencies

3.1

Create a sustainable Fintech and a digital banking business

Build internal payment capabilities and reduce dependency on existing partners

Differentiate through open banking offering

Become a neo bank through partnership

3.2

Scale Insurtech activity regionally

Finalize offering and associated operating model **locally** and regionally

Build the Insurtech platform

Scale the platform regionally

3.3

Conquer the gaming & esports market

Conquer gaming market through add-ons, game distribution and community management

Explore eSports through events and sponsoring

3.4

Build an advanced DC colocation infrastructure and offering

Validate the DC business case with the Board, detail required investments and monitor ROI

Set up a partnership and align with partner on design principles, operating model and shared business plan

Design and build the DC facility

Develop the DC business and value proposition, bring services to the market and establish required capabilities for a seamless sales & operations

4 Distinctive & sustainable performance

4.1

**Drive financial performance
and get full value from assets**

Increase EBITDA margin

Get full value of assets

Control financing costs

Elevate the finance function

4.2

**Expand differentiating
capabilities with a future proof
operating model**

Elevate operating model

Acquire and develop capabilities

*Retain key talents by differentiating
attractiveness vs. competitors*

*Enhance digital culture across the
organization to accelerate delivery of the
new corporate strategy*

4.3

**Forge close relationships
with key stakeholders & shape
future regulations**

*Build strong relationship with all
stakeholders*

*Ensure fair conditions and treatment on
core and adjacent markets*

*Proactively influence regulations in
Bahrain to open new opportunities*

4.4

Be pioneer on ESG

*Reduce negative impact on the
environment*

Contribute to digital inclusion in society

Accelerate BH development



Executive Summary



stc Bahrain Strategic Intent



Market Outlook (Consumer, Enterprise and ICT)



Historical Performance of stc Bahrain



CSAT Research Outcomes



stc Bahrain Strategy “LEAD”



Long Range Plan (LRP) and New Markets Recommendations



Despite all external challenges, our plan sets aggressive targets with strong focus on Revenue, Profitability & Economic Value growth

Business Plan Summary

2023F Revenues (BD)

103.5M
Consumer

+6.8M
+7%

Pre. Voice MS: **36%**
Post. Voice MS: **43%**
Broadband MS: **41%**

27.3M
Business

+3.6M
+15%

Mobility Rev MS: **23%**
Conn. Rev MS: **24%**
ICT Rev MS: **27%**

31.8M
Wholesale
(Excl. WSIDD)

+0.8M
+3%

W/S Rev MS: **67%**

186.8M
Total

+8.1M
+5%

Total Rev MS: **42%**

2023F Costs & Profitability (BD)

95.2M (51.0%)
Gross Profit (Margin)

+11%
+3pp

13.6M
Rev. Related OPEX

+2%

33.2M
Other OPEX

+3%

48.4M (25.9%)
EBITDA (Margin)

+19%
+3pp

35.5M
D&A expense

+6%

12.9M (6.9%)
EBIT (Margin)

+84%
+3pp

4.2M
Financing Cost

2.8X

8.7M (4.6%)
Net Income (Margin)

+2%

ROCE (%)

6.2%

6.3%

9.9%

EVA (BD Mil)

0.0

0.1

1.4

2023F

2024F

2025F

- ROCE above WACC 2025 onwards
- BD 1.5M of total EVA over 2023-25

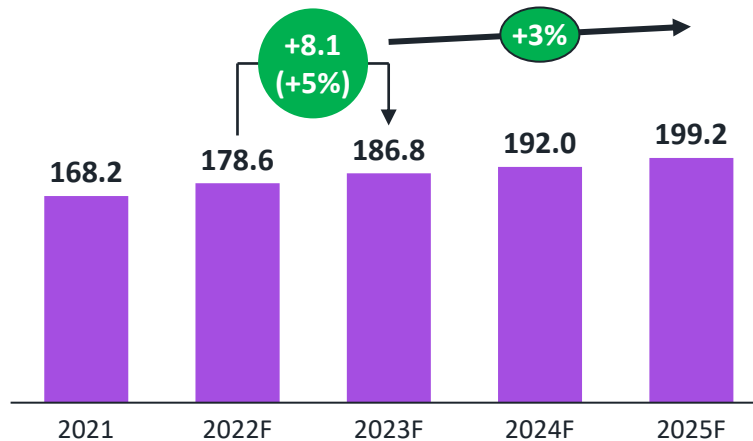
ROCE & EVA calculation excludes balance sheet impact of stc BH's telecom license cost

Revenues are forecasted to grow at 3% CAGR with significant growth coming from Adjacent Services*

Financial performance summary

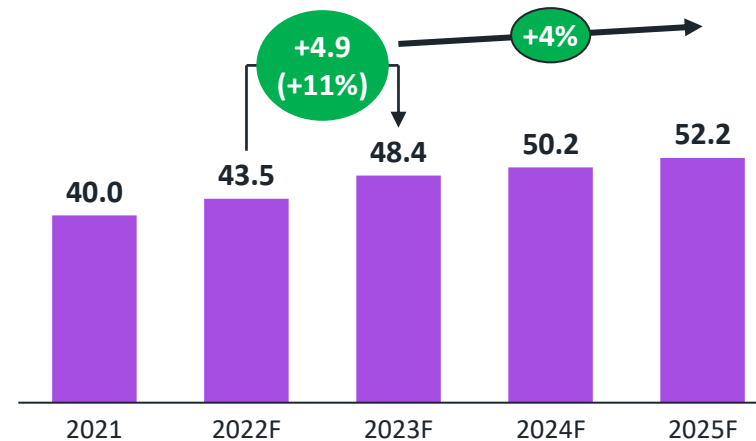
Revenues (BHD Bn)

stc BH Share of Market Revenues



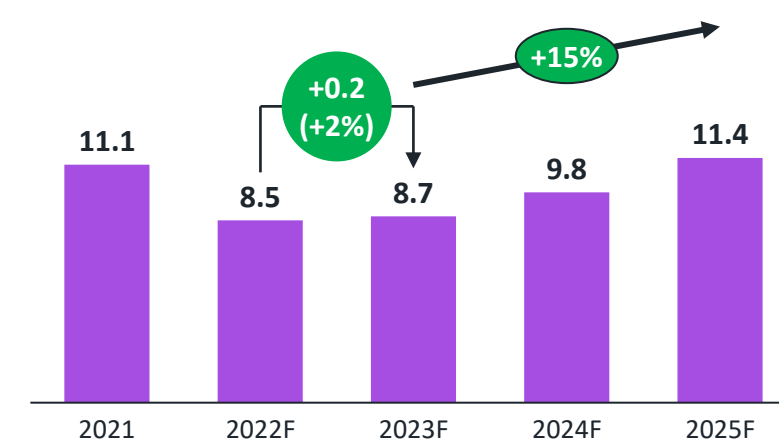
- stc BH total revenues are expected to increase to BD 187M in 2023 with a revenue share of 42%. Revenues are expected to grow at a CAGR of 3% from 2023-2025

EBITDA (BHD Bn)



- EBITDA is expected to increase by 11% in 2023 compared to 2022 and forecasted to be at 4% CAGR driven by cost optimizations and higher revenues

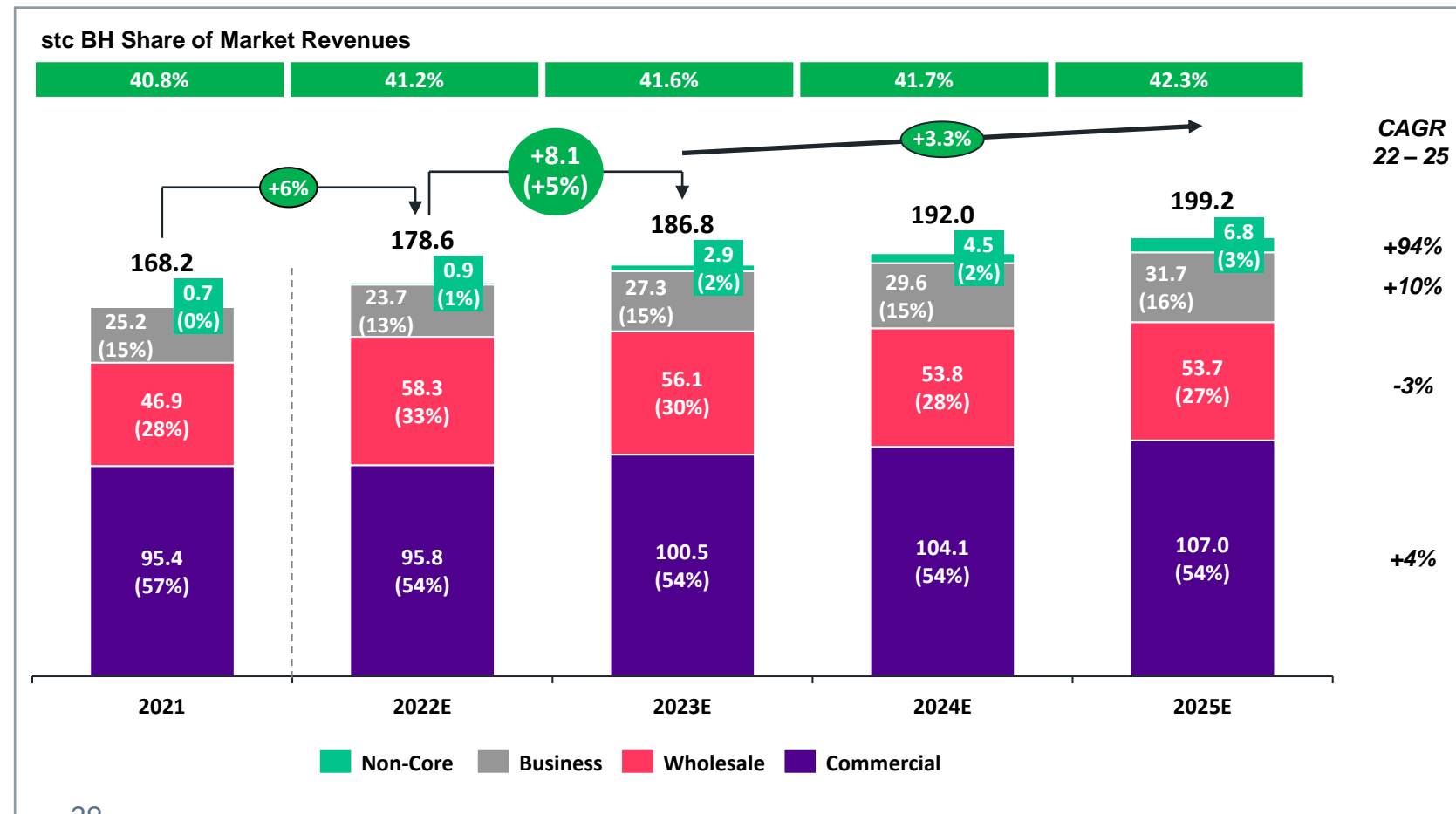
Net income (BHD Bn)



- stc BH's Net Income is expected to increase by 2% to reach BD 8.7M in 2023 and forecasted to be at 15% CAGR from 2023-2025 driven by higher EBITDA

stc BH total revenues are expected to increase to BD 187M in 2023 with a revenue share of 42%

stc BH Revenue Projections (BHD Mn)

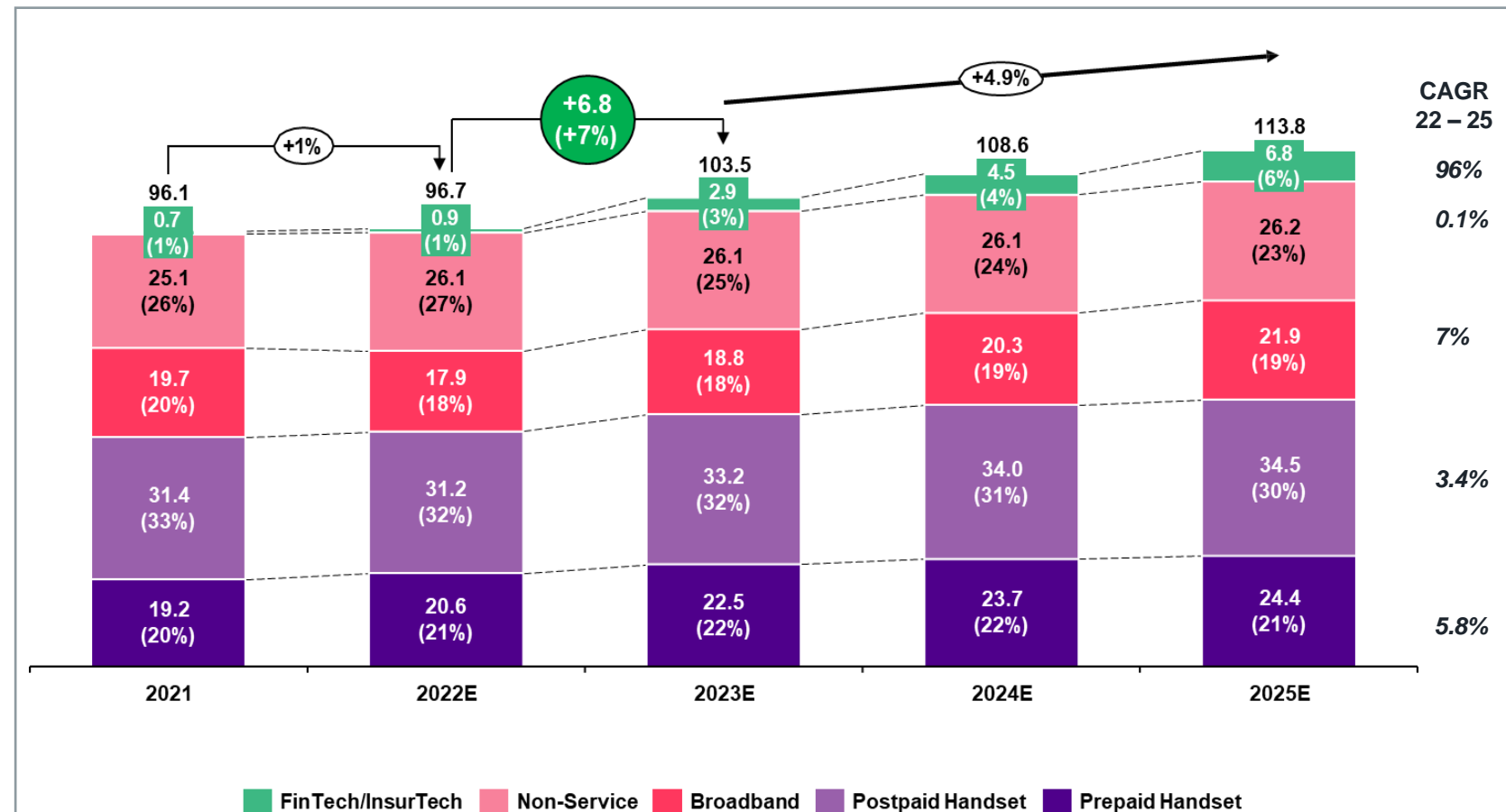


Comments & Highlights

- stc BH total revenues are expected to increase to BD 187M in 2023 with a revenue share of 42% and a CAGR of 3.3% from 2022 – 2025:
 - 2023 consumer revenues** are expected to increase by 5% YoY driven by increase in consumer (Driving by prepaid from strong focus on customer acquisition & retention, postpaid from focusing on high ARPU subs). **However, postpaid revenue will have a minimal growth from 2024 onwards**
 - No-Core Revenues** are expected to have the highest growth from 2022-2025 with a CAGR of 94% mainly from **stc Pay growth (BD 1.4m in 2023 compared to BD 400K in 2022) as a result of 100% revenues to stc Bahrain and new products to be launched in 2023**
 - 2023 business revenues** are expected to increase by 15% due to strong push across mobility and ICT streams
 - 2023 total wholesale revenues** declining by 4% mainly due lower WSIDD revenue and Mena Hub impact

Overall, stc BH's total consumer revenues are expected to increase by 7% in 2023 and increase at a CAGR of 5% thereafter

stc BH Total Consumer Revenues



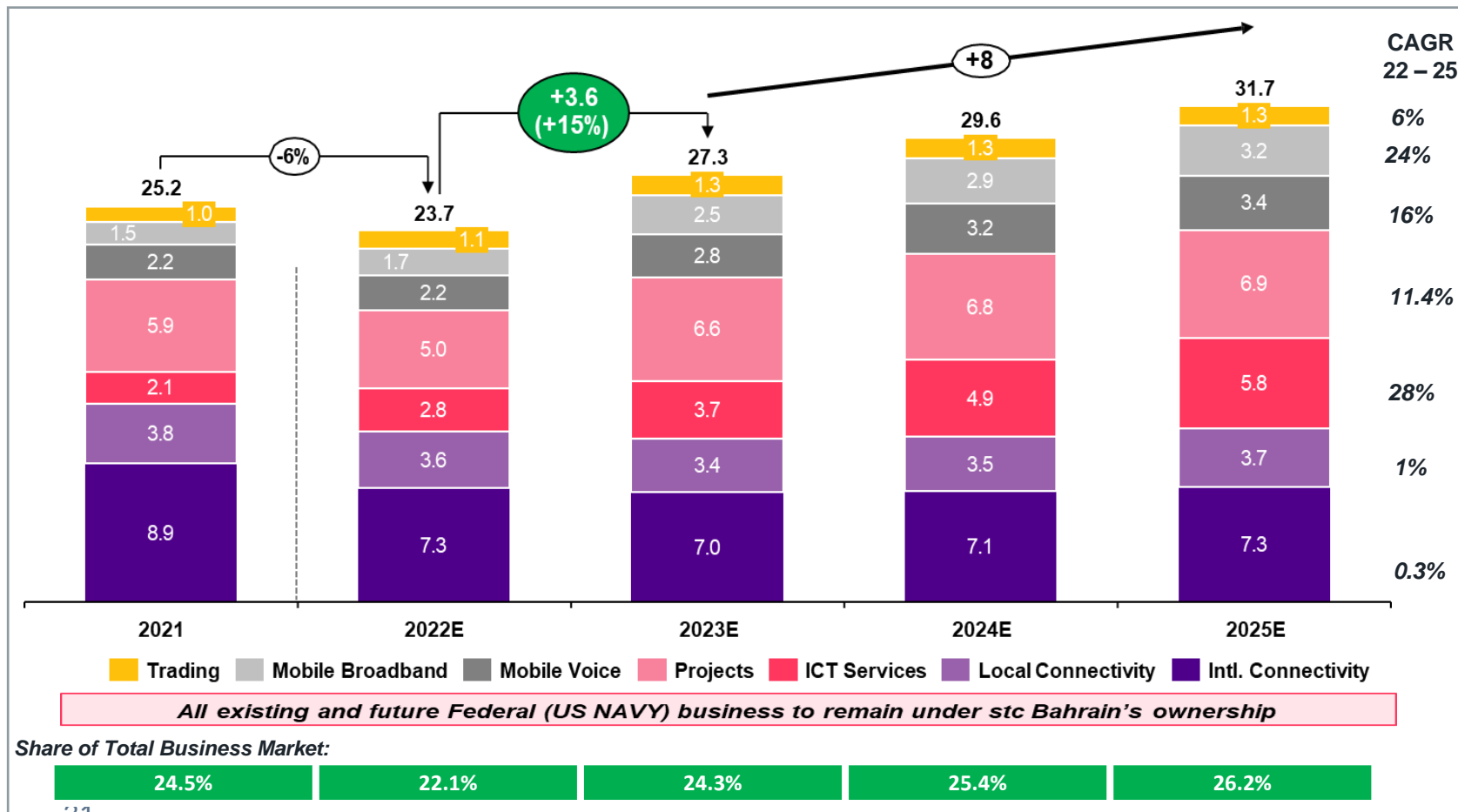
Comments & Highlights

- stc BH total revenues are expected to increase to BD 113.8m mainly driven by higher prepaid, MBB and significantly higher FinTech/InsureTech:
 - 2023 consumer revenues are expected to increase by 7% YoY driven by increase in service & non-core revenues
 - Broadband revenue is expected to increase by 8% YoY compared to 2023 mainly from growth in Subs by 5% YoY in 2023 compared to 2022. In addition to stc BH push to grow market share through utilizing both 5G and fiber
 - Prepaid revenue is expected to increase by 9% YoY in 2023 compared to 2022 and a CAGR by 5.8% from 2022 to 2025 mainly from higher subs and slightly higher ARPU
 - Postpaid revenue is expected to grow 6% YoY compared to 2023 while it will grow by 3.4% CAGR from 2022-2025 (mainly from slightly higher ARPU)



Business revenues are expected to increase to BD 27M in 2023 (15% growth YoY) and continue growing onwards

stc BH Business Revenues



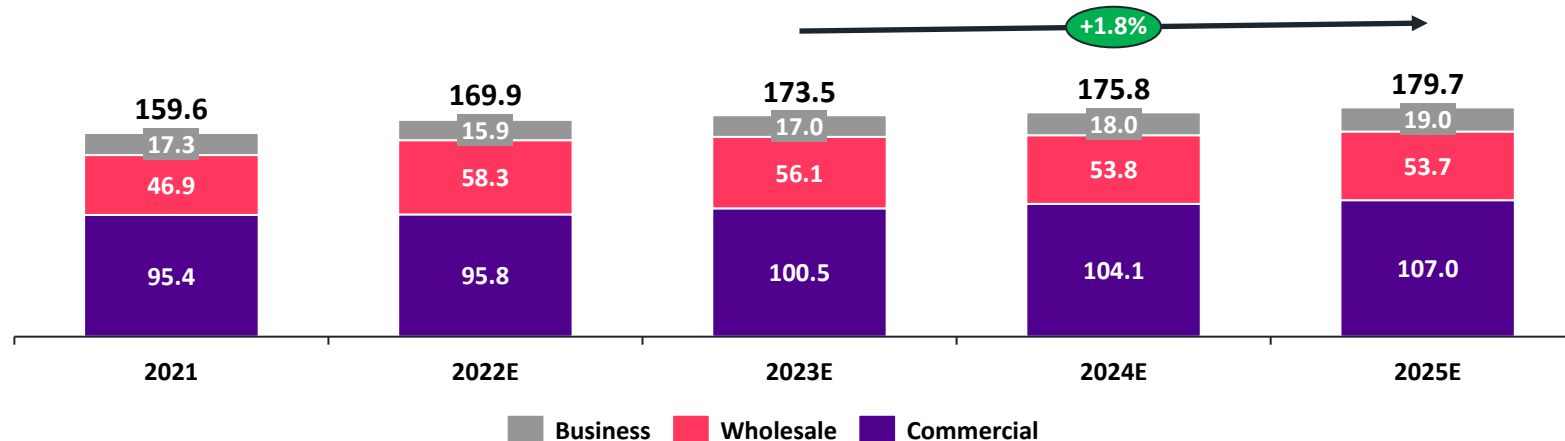
Comments & Highlights

- stc BH Business revenues are expected to increase to BD 27.3M in 2023 and a CAGR of 8% from 2023-2025
 - 2023 business revenues are expected to increase by 15% due to strong push across mobility and ICT streams
 - Intl and local connectivity estimated to be lower in 2023 compared to 2022
 - Stc Bahrain revenue market share of the **ICT is expected to be at 27% (more room for improvement)**. **ICT services and Projects** are expected to grow by 32% in 2023 compared to 2022

Core revenues are forecasted to be at 1.8% CAGR mainly driven by higher commercial revenues; While, Non-core is forecasted to be at 21.4% CAGR mainly driven by stc pay

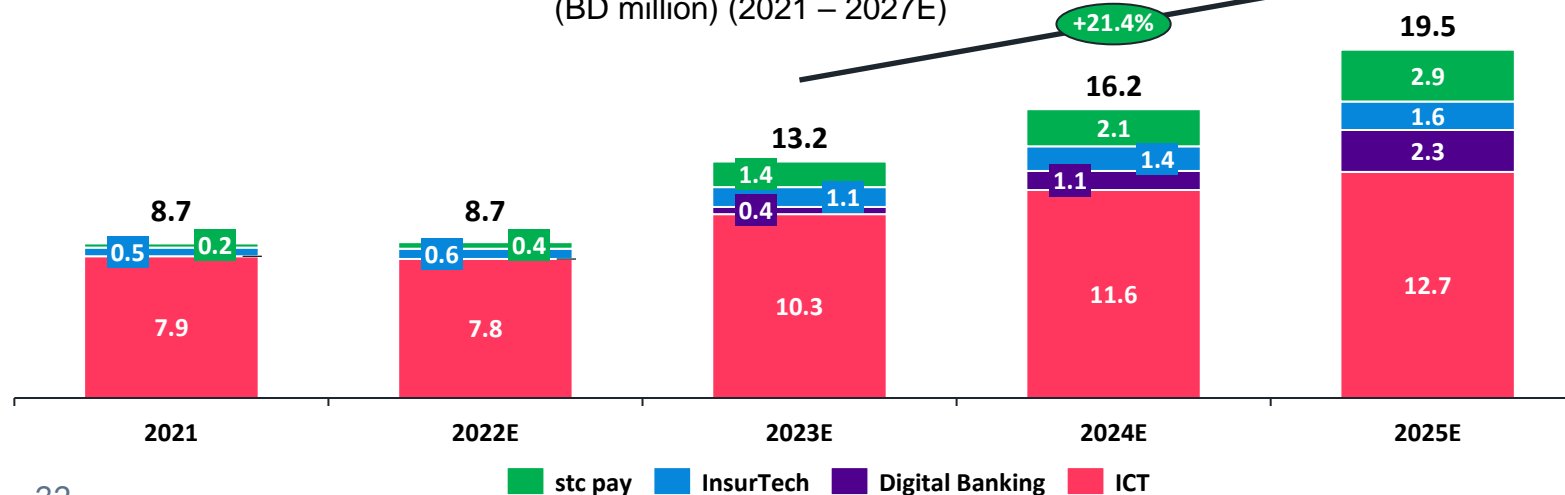
stc BH Core Revenues

(BD million) (2021 – 2027E)



stc BH Non-Core Revenues

(BD million) (2021 – 2027E)



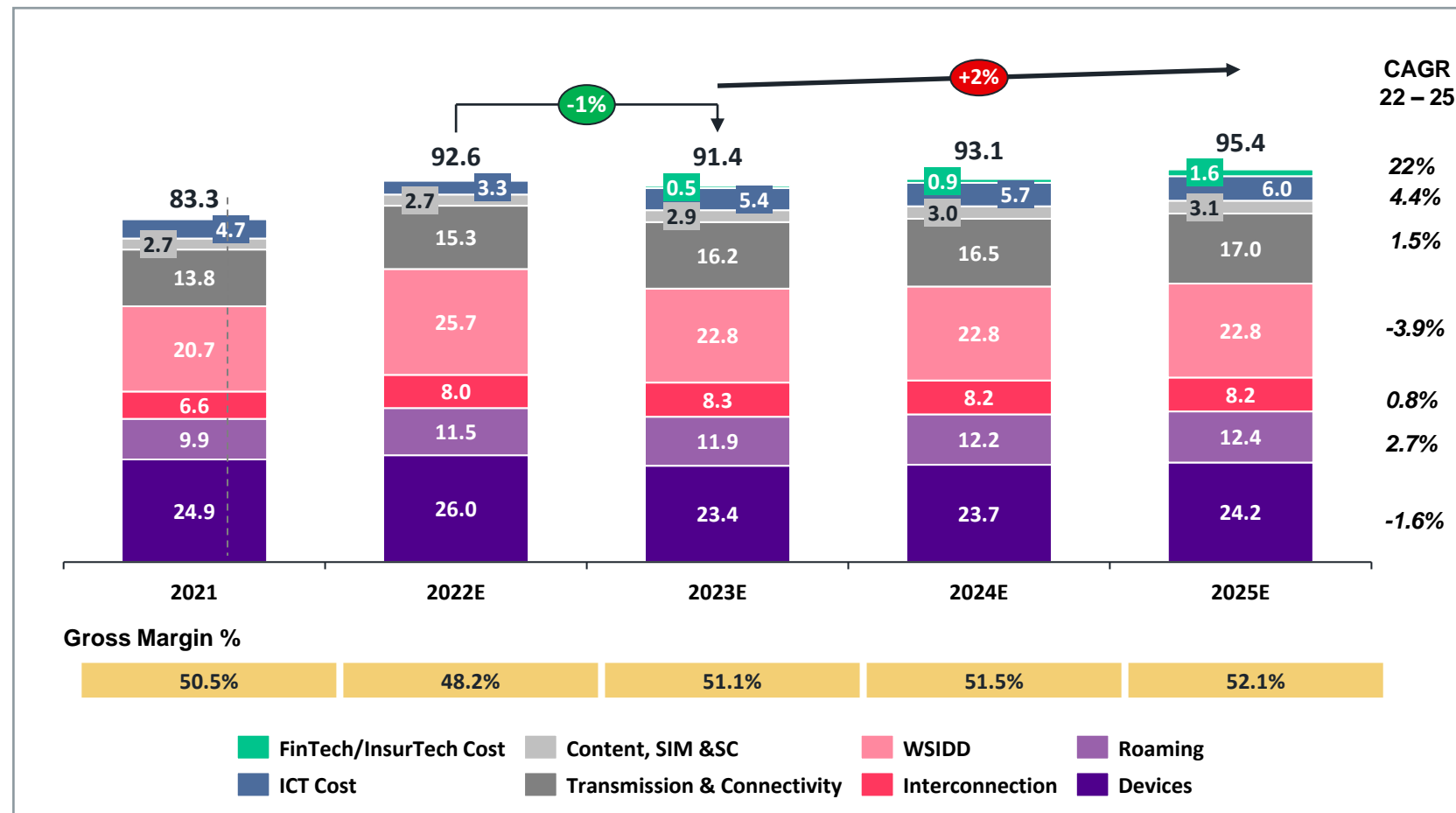
Comments & Highlights

- 2023 core consumer revenue growth driven by strong focus on consolidating market share position on Voice & continuing to grow in Home BB segment
- 2023 core business revenues growing due to push across SME mobility segment
- 2023 wholesale revenues declining due lower WSIDD revenue target and Center3 impact
- 2023 Non-Core revenue growth enabled by:
 - Digital banking launch
 - Acquisition of own stc pay license to accelerate stc pay adoption. stc pay revenue is expected to increase in 2023 by 250% compared to 2022
 - Local InsurTech P&S expansion and regional expansion into Kuwait



Despite increase in Revenues, COGS are expected to decline due to strong focus on improving Gross profit margins

stc BH Cost of Sales Projections (BHD Mn)



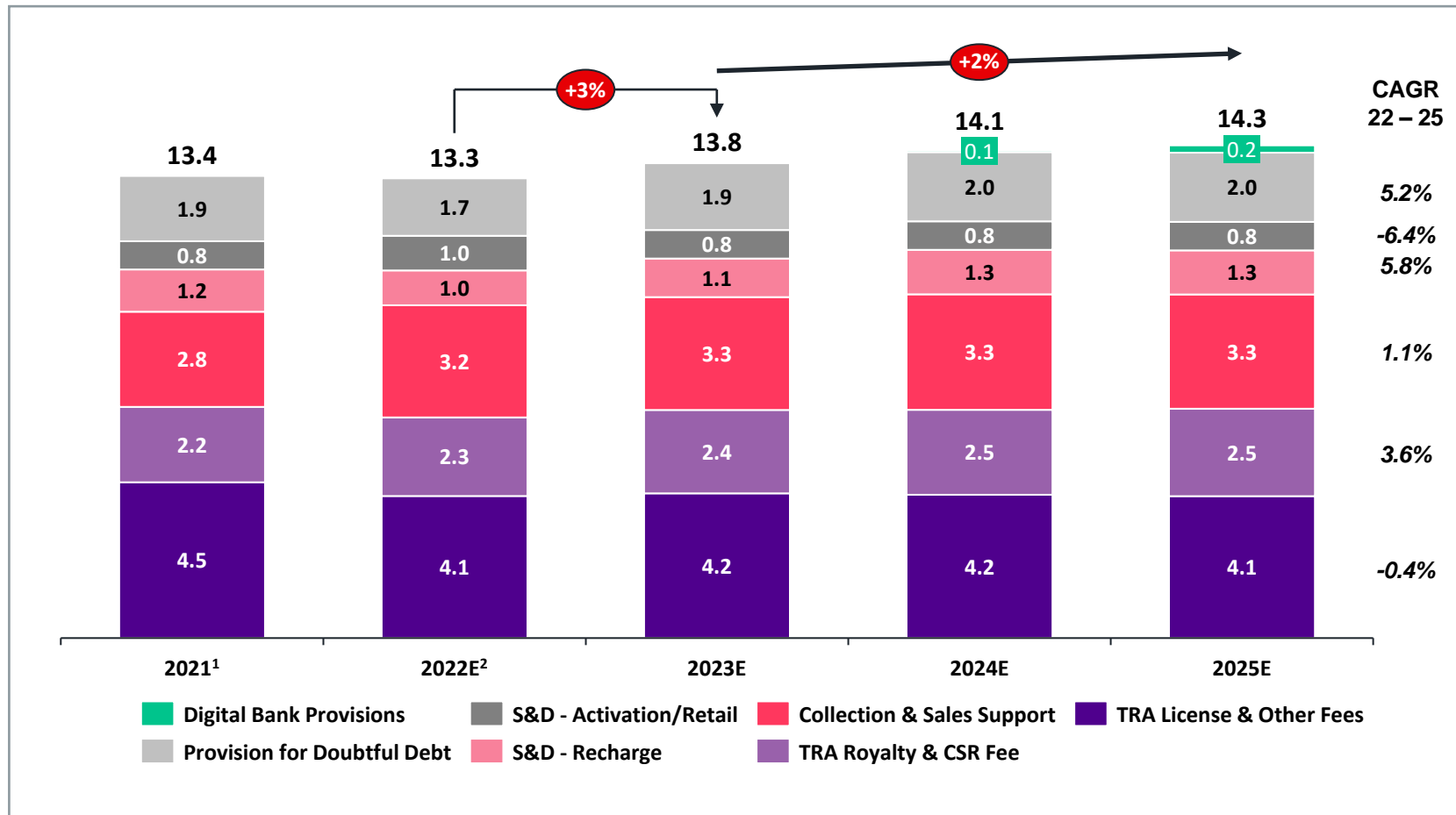
Comments & Highlights

- Total direct costs are expected** to grow at 2% CAGR from 2023 – 2027 mainly from higher FinTech/InsurTech cost. However, CoS is forecasted to decrease YoY in 2023 by -1% mainly from significantly lower WSIDD cost.
- Devices:**
 - Handset margin **assumed at 8%**
- Interconnection & Roaming:**
 - Local & Intl. off-net marginally increasing due to higher subs/traffic
 - Roaming costs increasing due to revised roaming agreement with stc KSA (Roaming margin increasing from 38% in 2022 to 39% in 2023)
- WSIDD**
 - Margin assumed at **6.0% (5.6% in 2022)**
- Transmission & Connectivity:**
 - Increasing due to higher WBS (Fiber acquisition) costs driven by strong push on increasing Home BB market share
- Content, SIM & SC:**
 - Cost per SIM expected to remain stable
 - Content costs increase driven by increase in related revenues and to support Voice / Home revenue uplift
- ICT:**
 - ICT margin assumed at 48%



Revenue related OPEX is expected to increase by 3% to support growth in Core and Non-Core revenues

stc BH Revenue Related OPEX Projections (BHD Mn)



Comments & Highlights

- Revenue related Opex is expected to reach a CAGR of 2% from 2023 onwards mainly from higher provision of DD and S&D recharge:
- TRA License Fee:**
 - Expected to increase marginally
- TRA Royalty & CSR Fee:**
 - 1.0% of total licensed revenues each
- Sales & Distribution:**
 - Activation commission expected to decline as per planned cost optimization efforts
 - Recharge commission increasing due to higher revenues (Voice and BB)
- Provision For Bad Debt**
 - Bad debt is expected to increase due to aggressive market share push
- Collections & Sales Support:**
 - Increasing due to continued focus on capability building and investment in digital channels, home fulfillment, direct sales, outbound etc.

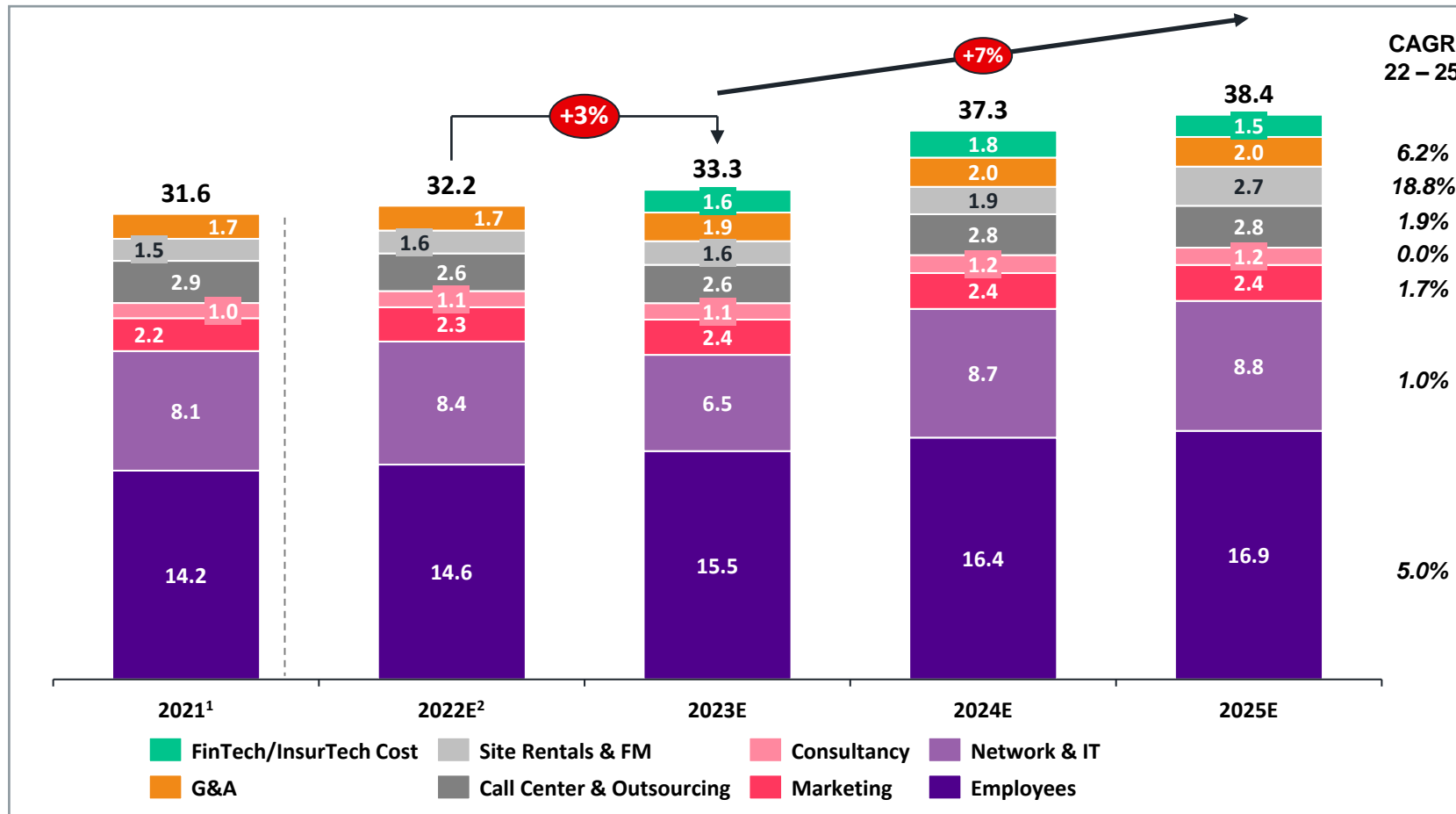
¹ BD 2.6M TRA license fee related once-off adjustment removed

² BD 1.6M TRA license fee, BD 0.6M S&D – Activation/Retail and BD 0.5M Bad debt related once-off adjustment removed



Other OPEX is expected to increase driven by increase in Employee, Marketing and new adjacencies related costs

stc BH Other OPEX Projections (BHD Mn)



Comments & Highlights

Employees:

- Employee cost as % of revenues is 8.3% below stc subsidiaries aggregated total of ~16% & international benchmark of ~10% (Batelco: 13.6%, Zain Bahrain: 11.4%)
- Increase driven by additional FTEs in line with ExCom approved manpower plan and planned EVP enhancements

Network & IT:

- Increasing to enable network enhancement (4G/5G expansions, re-farming etc.) and IT platform modernization plan aimed at improving experience

Consulting:

- Increasing marginally to support FinTech/InsurTech expansion

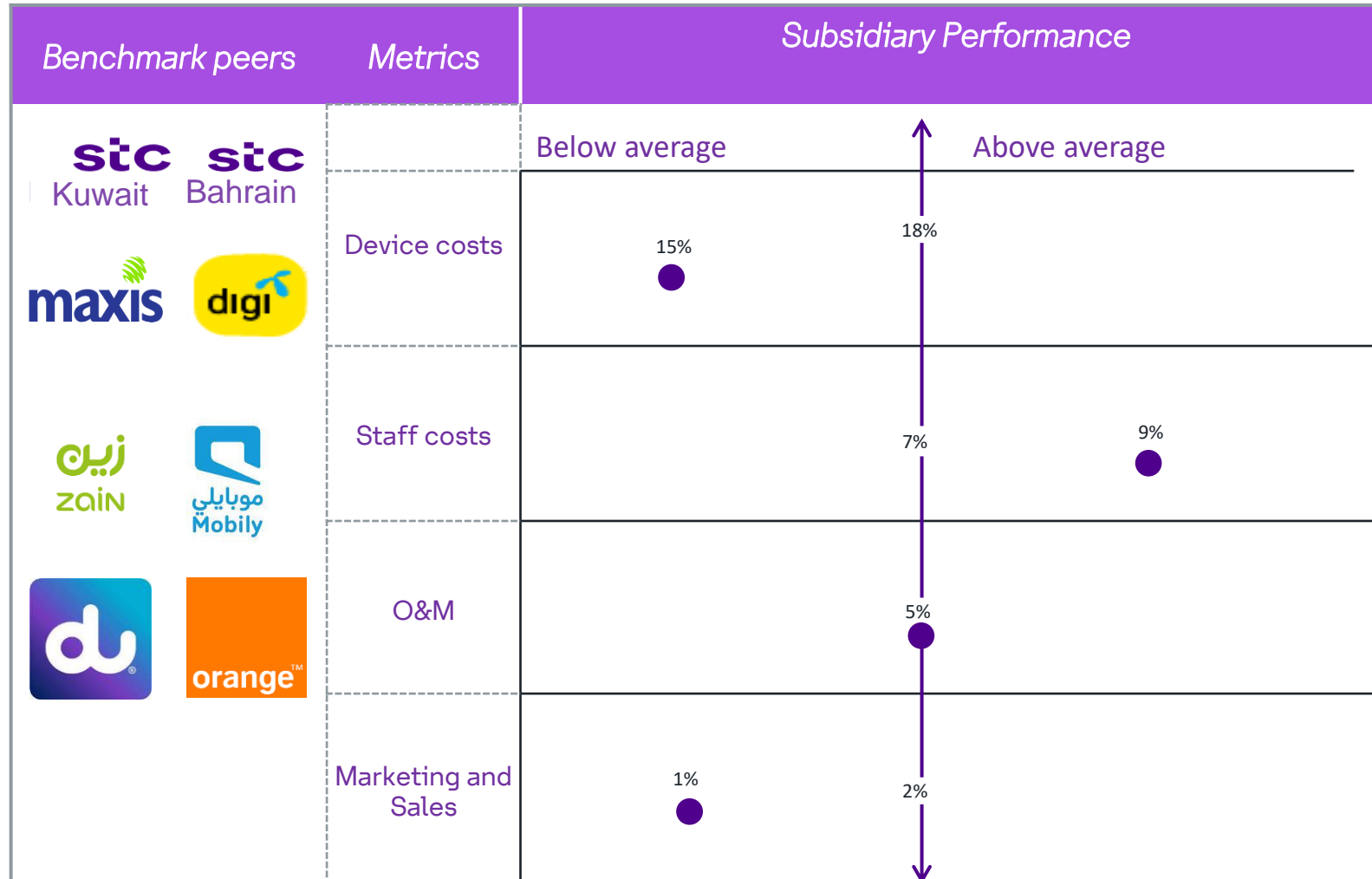
Marketing:

- Increase in 2023 related to focus on enhancing Voice & BB market position

Call Center & Outsourcing:

- Increasing marginally to continue focus on CEX enhancement

Other OPEX is expected to increase driven by increase in Employee, Marketing and new adjacencies related costs



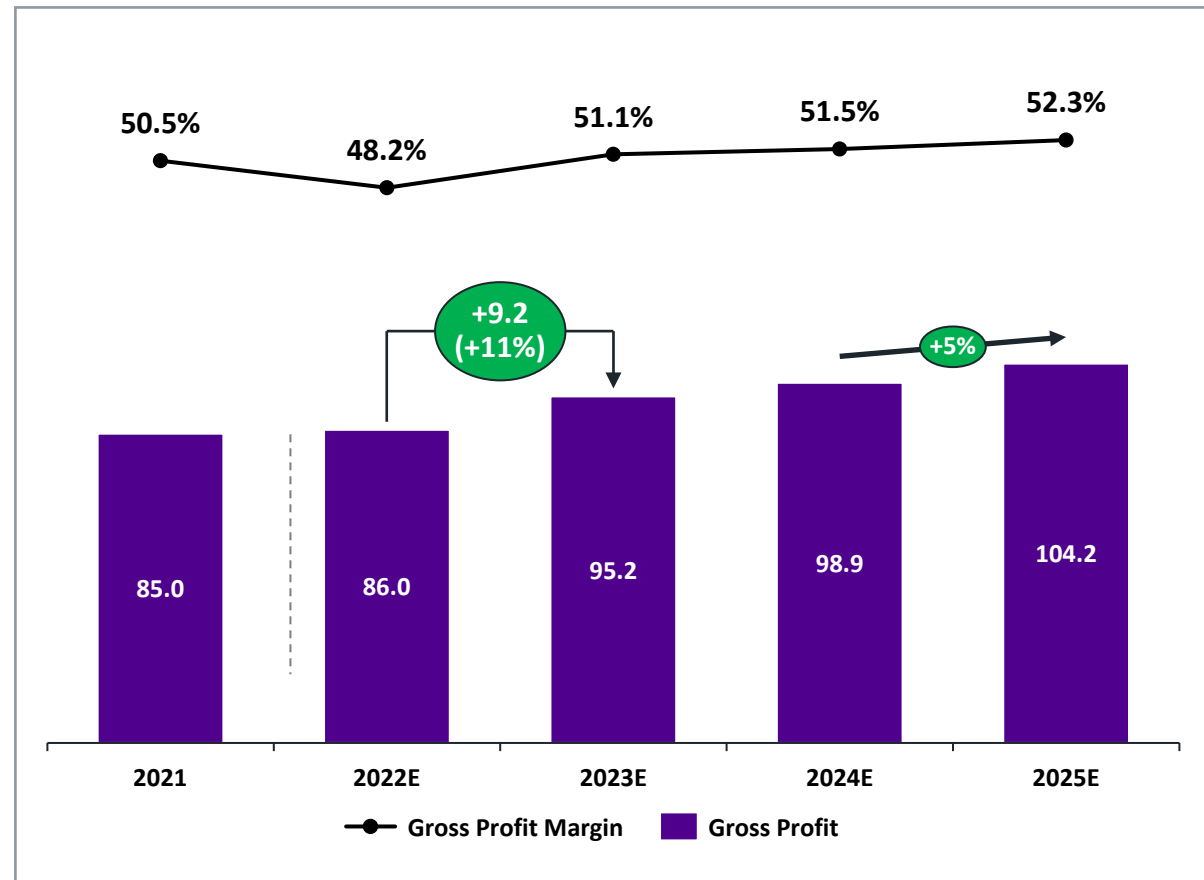
Comments & Highlights

- stc BH Device cost & Marketing and sales are below the benchmark
- Average device cost only contains stc kw, Bahrain Maxis and digi. stc Bahrain device costs show lower cost compared to the benchmark
- stc BH staff cost is above the benchmark and expected to increase YoY by 6% (BD 900K) in 2023 and it will continue increasing onwards
- stc BH O&M cost is inline the benchmark
- stc BH Marketing and sales are below the benchmark. Marketing is the driver of the revenues and stc Bahrain needs to ensure that its underspending in Marketing doesn't impact its overall revenues

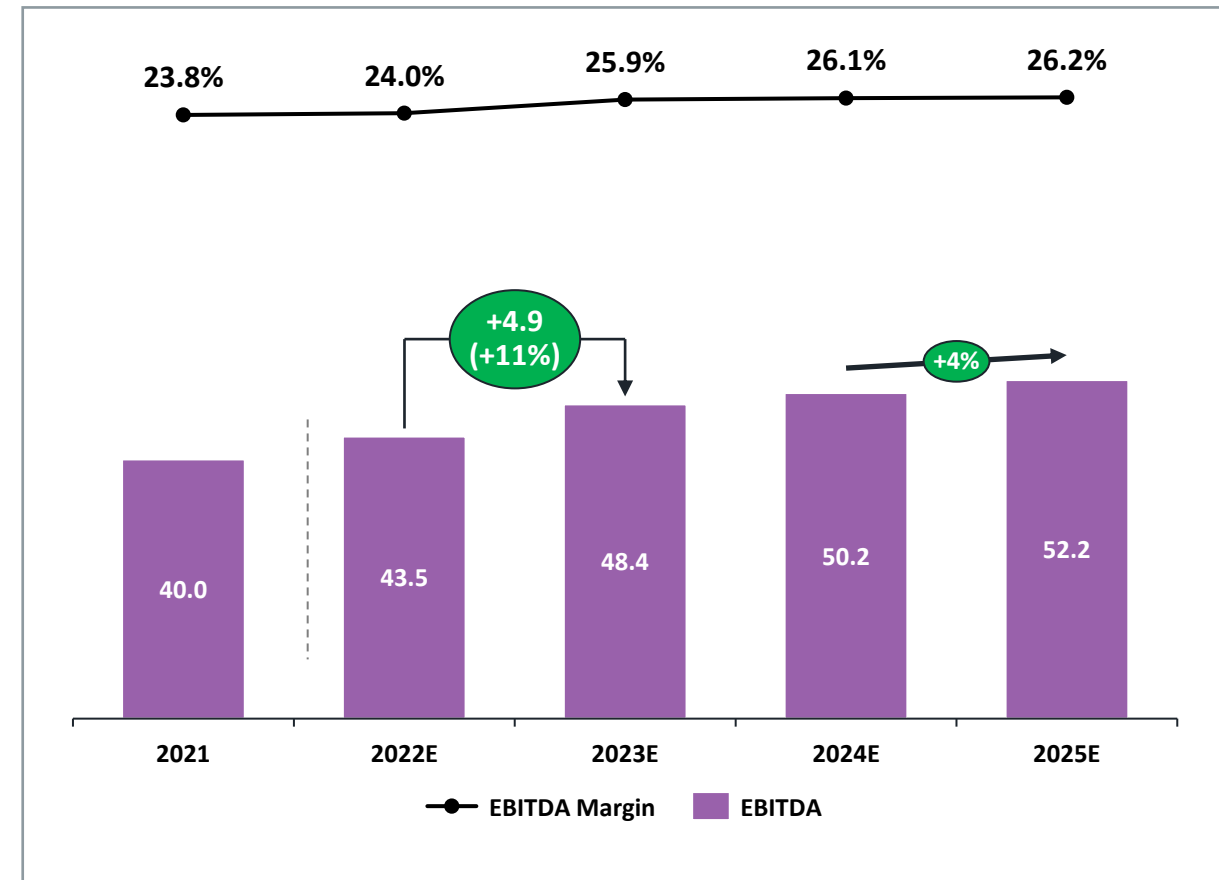


Gross Profit is expected to increase by 11% while EBITDA is expected to increase by 19% in 2023

stc BH Gross Profit Projections (BHD Mn)



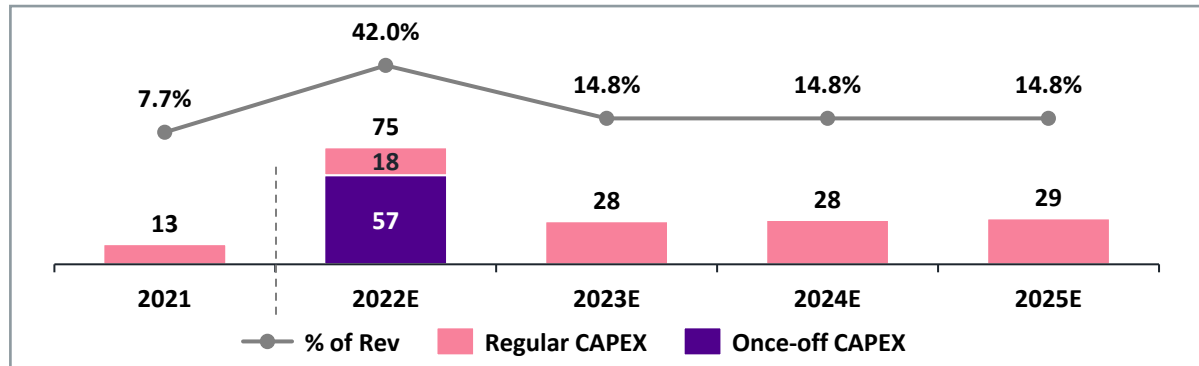
stc BH EBITDA Projections (Cleaned) (BHD Mn)





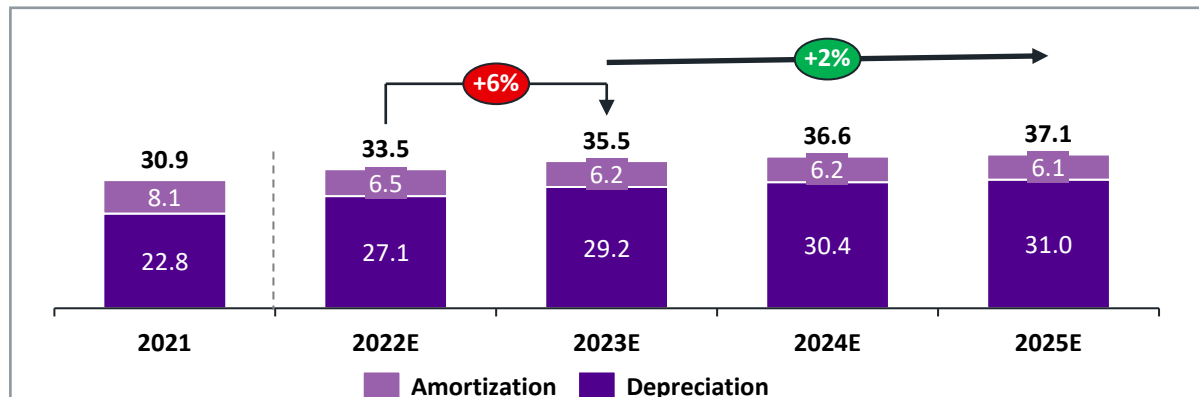
After 2022's corrective investment, Capex intensity will stabilize at ~15% - 2023 EBIT is expected to increase to BD 12.8M

stc BH CAPEX Projections (BHD Mn)

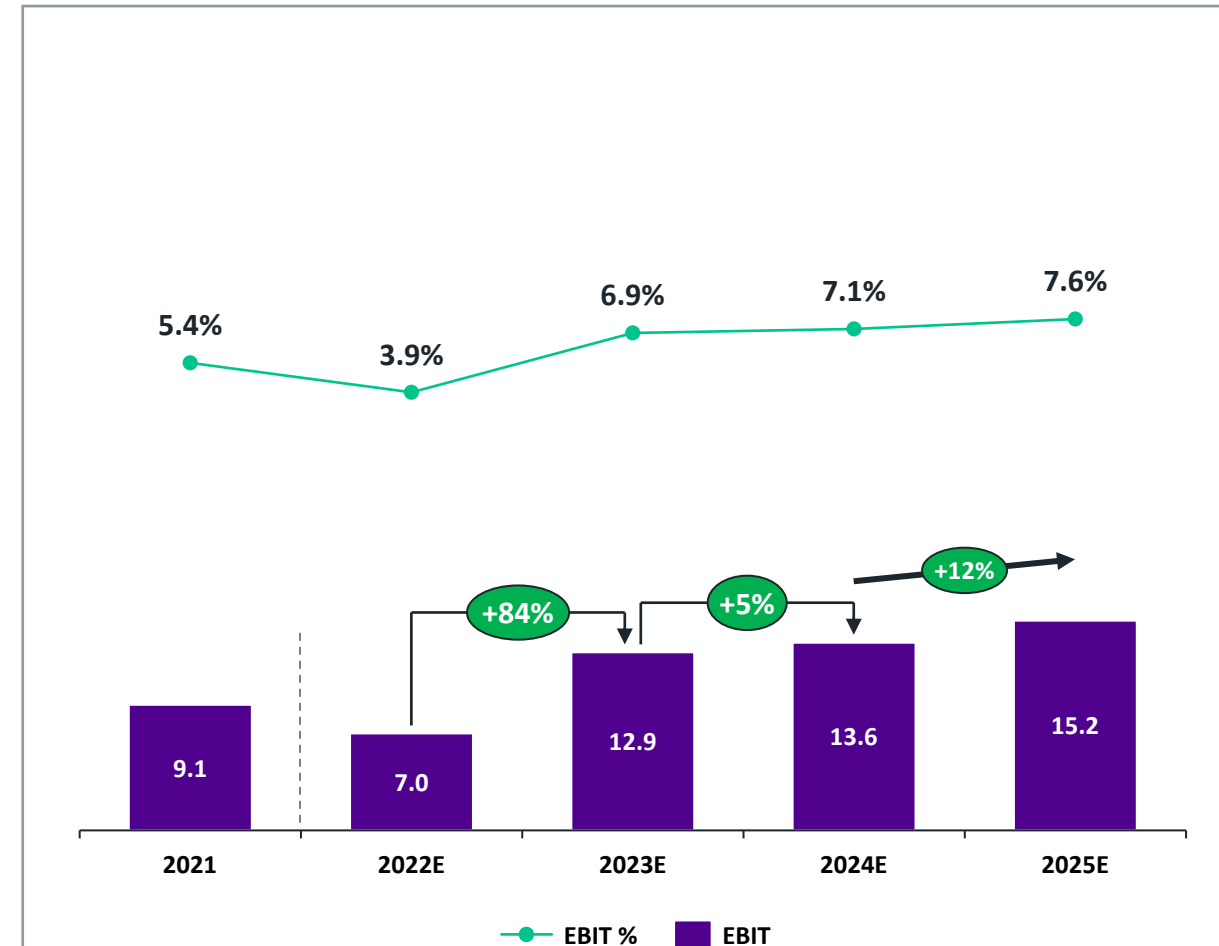


- stc Bahrain CAPEX will continue to be at 14.8% given the huge investment done in 2022. Moreover, WSIDD does not require CAPEX and if WSIDD revenue is excluded from the calculation then CAPEX would be at 17% in 2023

stc BH D&A Projections (BHD Mn)

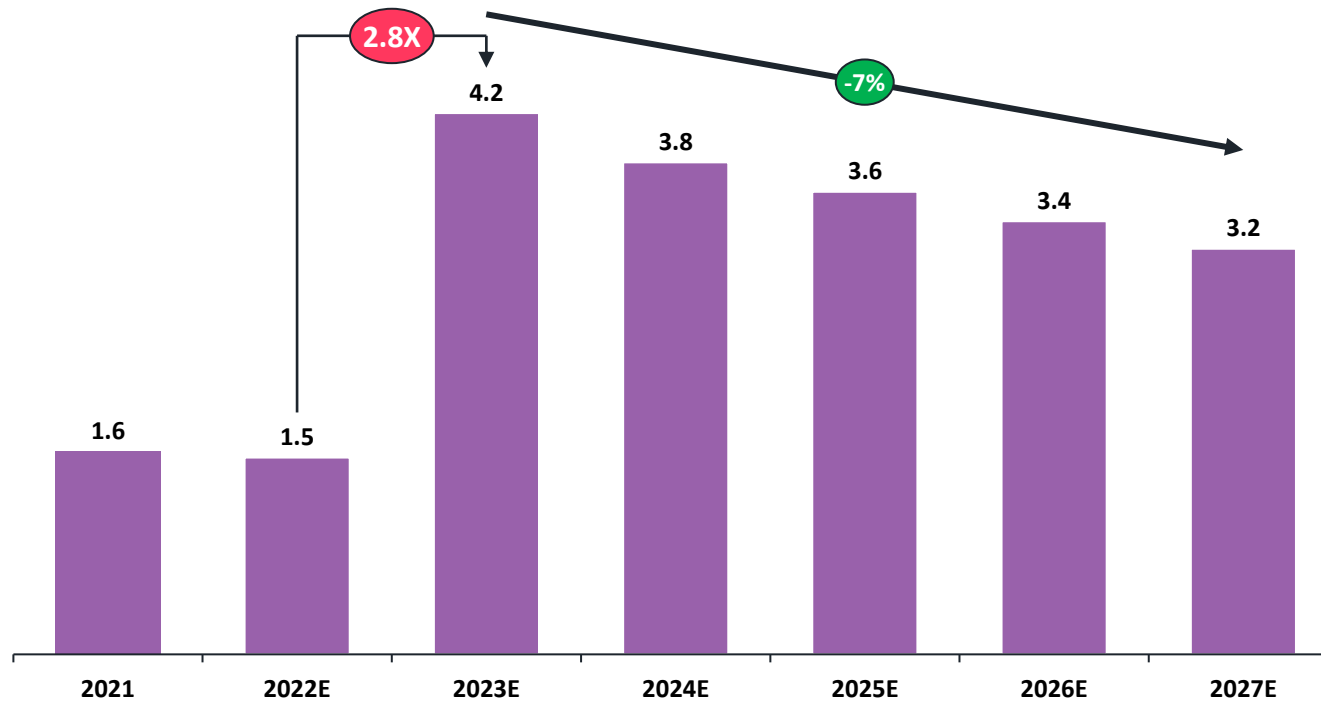


stc BH EBIT (Cleaned) (BHD Mn)



However, following this year's unprecedented FED rate hikes, financing cost is expected to significantly increase in 2023

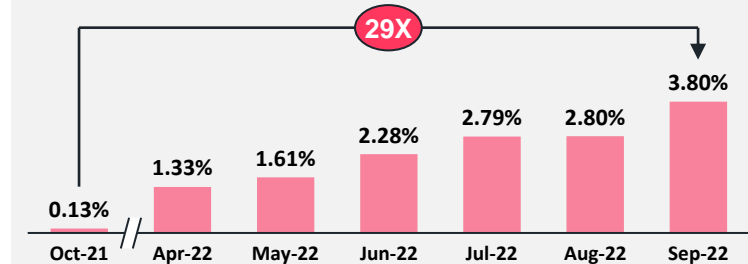
stc BH Net Financing Cost Projections (BHD Mn)



Comments

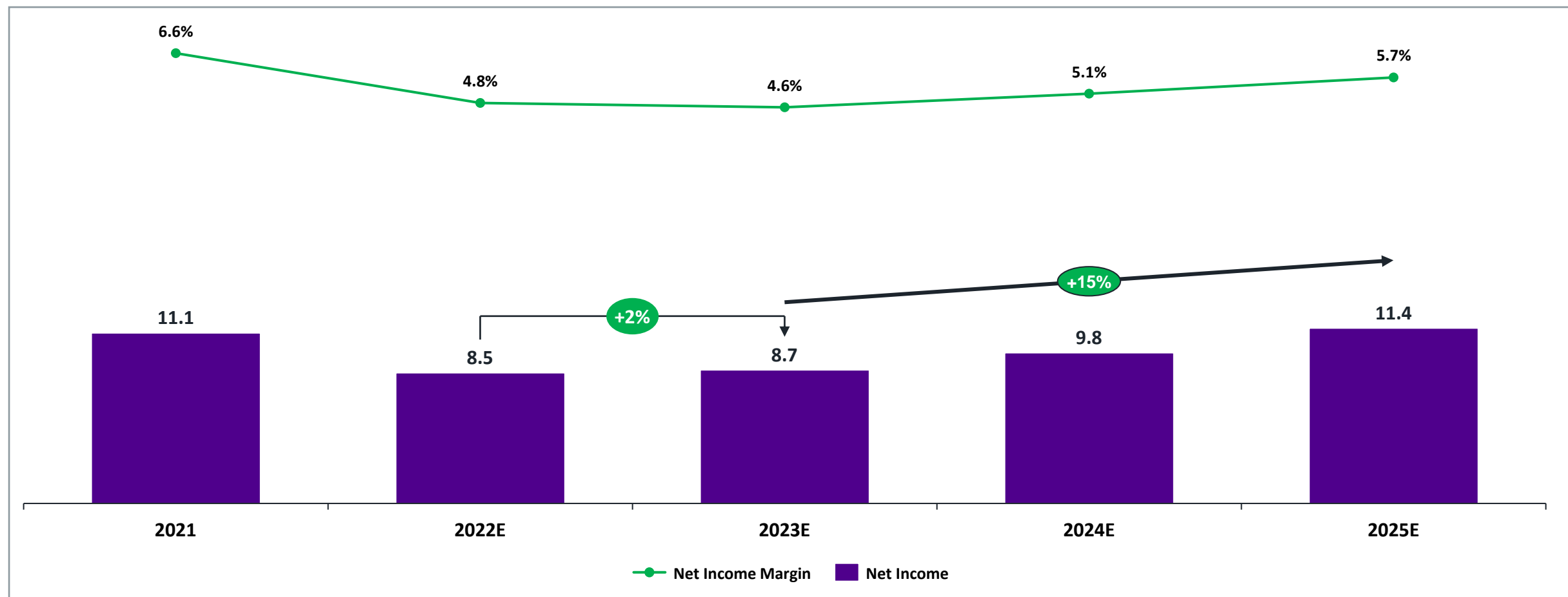
- Given the unprecedented economic situation, interest rates have been increasing drastically & rapidly
- The back-to-back 50+ basis points increases in June & July and the 100 basis points increase in Sep were the biggest increases since early 1980s
- stc BH's 2023 financing cost will be impacted by the drastic increase in interest rates

3-Month Libor Rate in USD (%) (Oct '21 – Sep '22)



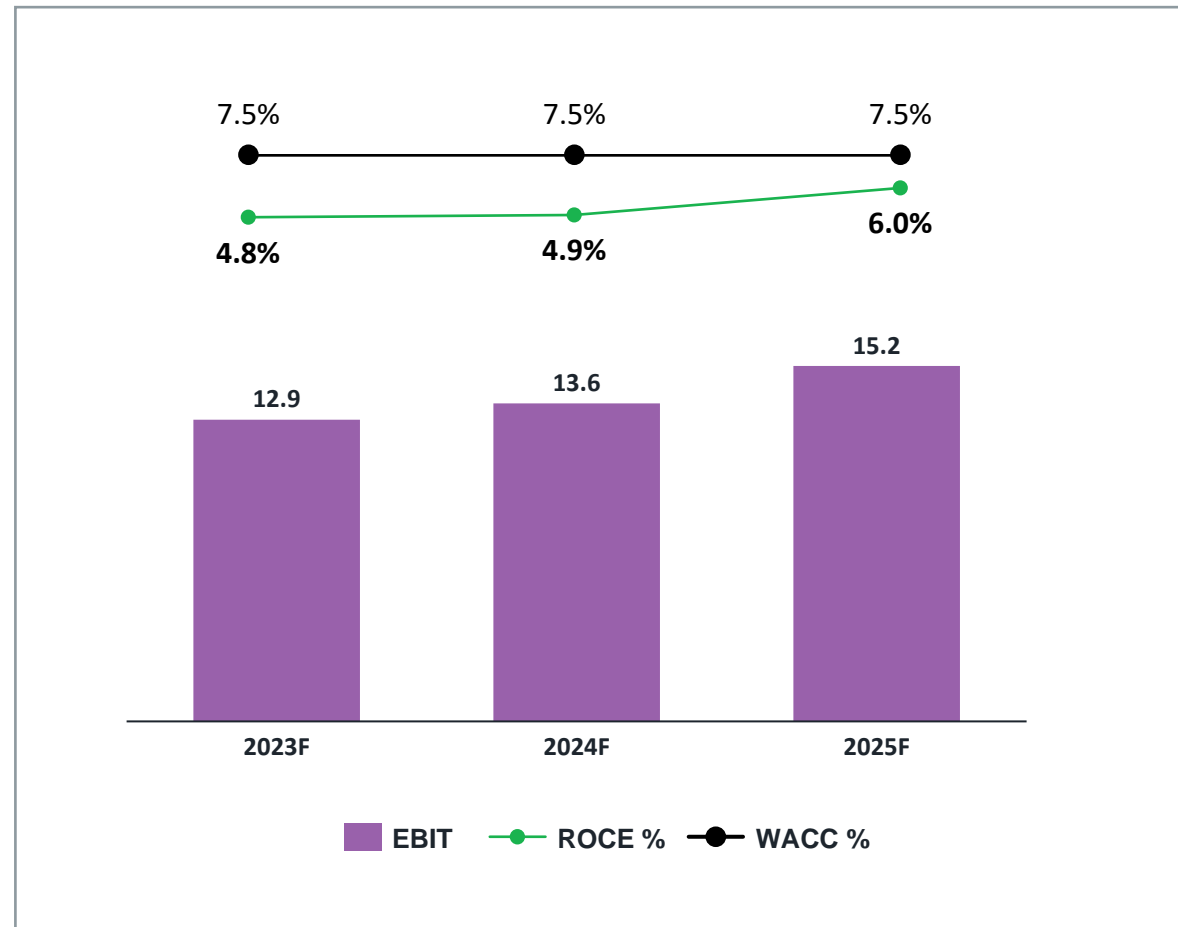
Resultantly, stc BH's Net Income is expected to decline to BD 8.7M in 2023 higher than 2022 by +2%

stc BH Net Income Projections (BHD Mn)

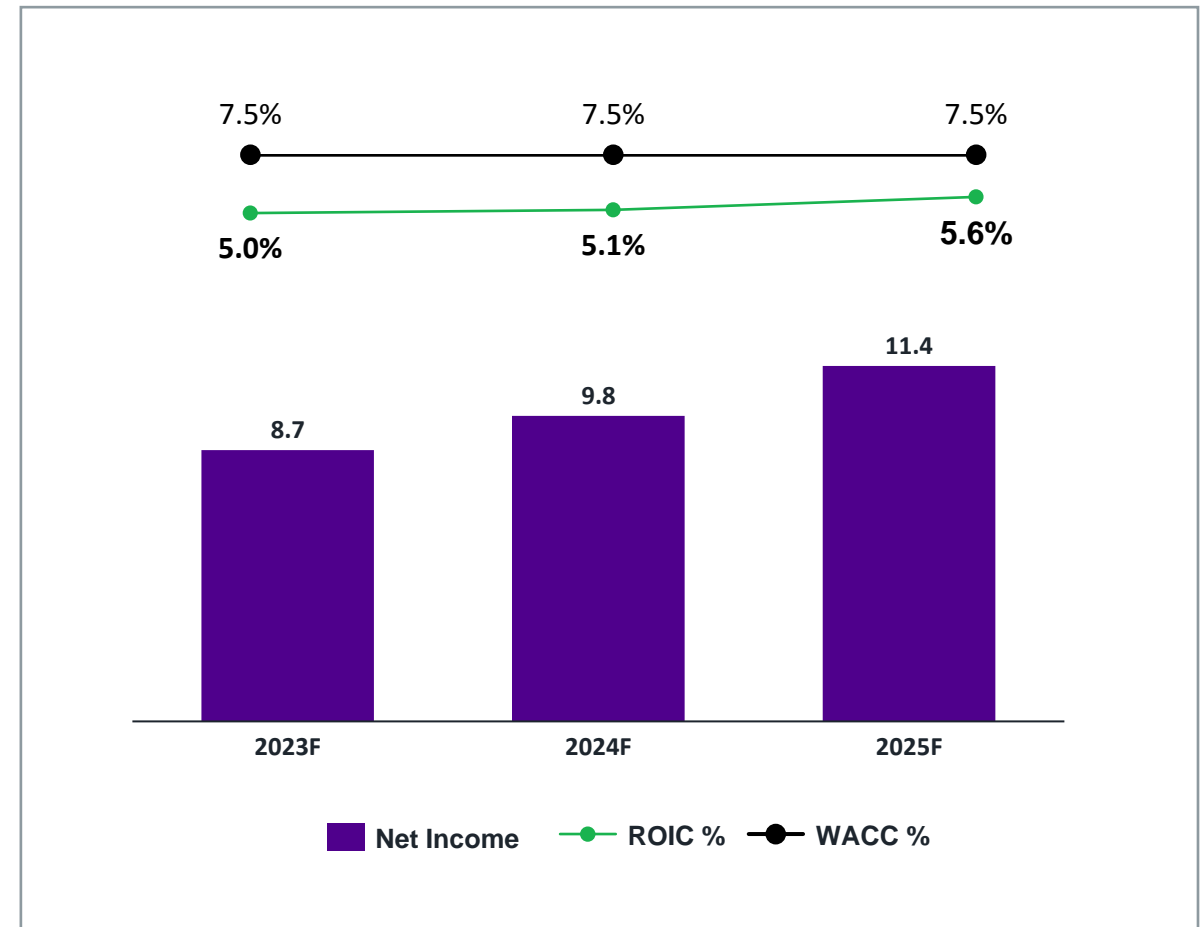


Accordingly, stc BH's ROCE and ROIC remained behind stc Bahrain's WACC

stc BH ROCE & EBIT¹ (%) (BHD Mn)



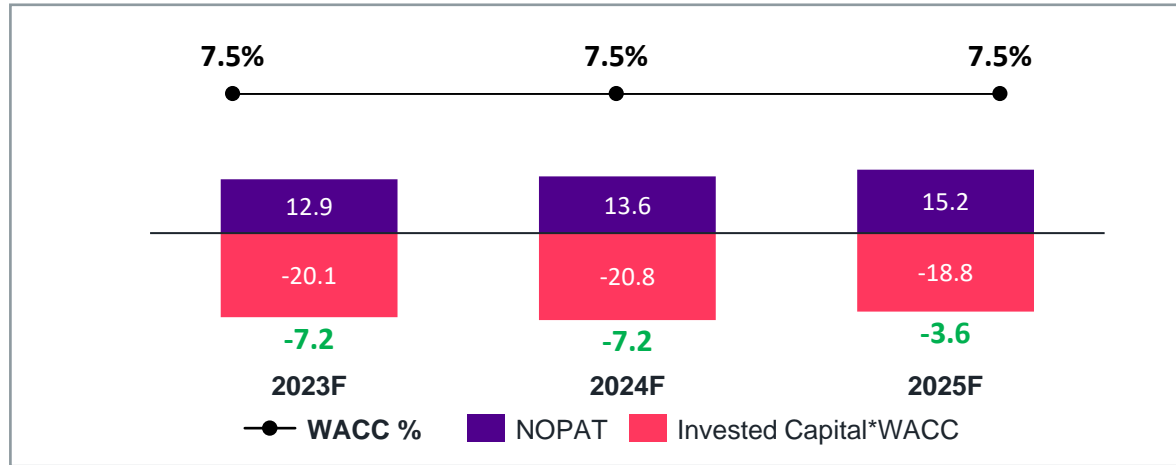
stc BH ROIC & Net Income (%) (BHD Mn)



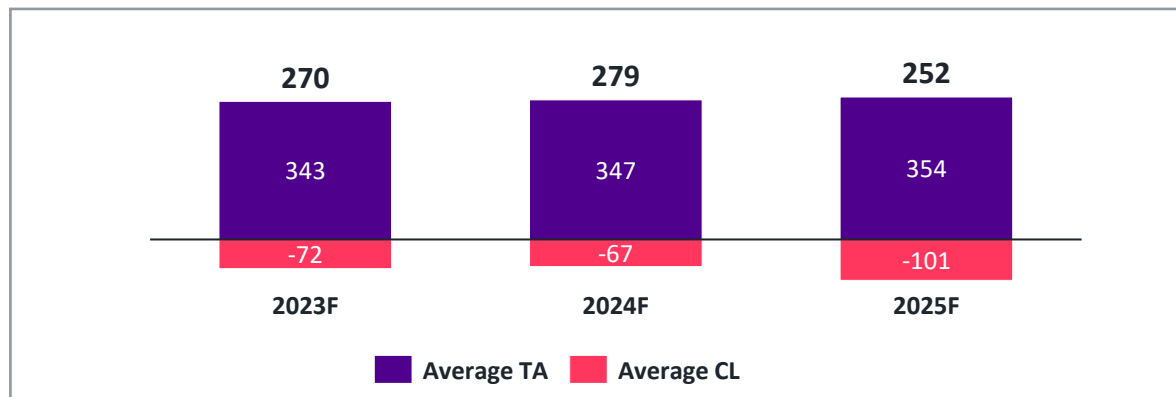
¹ EBIT inclusive of passive asset carve out earning / gain

Similarly, EVA is expected to remain in negative trajectory requires balance sheet restructuring

stc BH WACC & EVA (%) (BHD Mn)



stc BH Invested Capital (BHD Mn)



- EVA remained in the negative territory during 2023 to 2025; Company has to restructure the balance sheet



New Market Portfolio Management Comments on 2023 strategy and LRP

1

Right strategic positioning in the fixed market

- stc Bahrain should continue focusing on growing its fiber market shares in terms of value and volume.

2

Investing in the right place for sustainable growth and market success

- stc has invested and continues to invest in its network, this has to be guided by a financial mindset reflecting the returns of additional capex

3

Achieving attractive returns for the shareholders

- On the long term, a key metric for stc would be to test how well it is performing on its financial ratios and Economic Value Add

4

Capturing all opportunities for business growth and expansion

- Stc is to play its part in the growth story of the group and seek new opportunities for growth while also benefiting from group support

Thank you