

16 February 2004

Upside/Downside

1.1%

Target Price

SAR440.65

Current Price

SAR436.00*

Reuters Code

7010.SE

Market Cap

SAR130,800 mil.

Enterprise Value

SAR125,332 mil.

Number of Shares Outstanding

300 mil.

Average Weekly turnover

SAR2,030 mil.

52-Week high/low

SAR443.50/195.50 (14Feb04/10Mar03)

Absolute Performance

3%/7%/3% (1M /3M/YTD)

Performance Relative to TASI

1%/-4%/-1% (1M /3M/YTD)

Shareholders' Structure

70% | **Government**

20% | **Free float**

5% | **Public Pension Fund**

5% | **Gen. Org. for Social Insurance**



* Price as of 15 February 2004.

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News Brief: 2003 results

2003 results

STC released its FY03 results posting net income of SAR8,525 million (EPS of SAR28.42), compared to SAR3,546 million in 2002 (EPS of SAR11.82). The company reported total revenues of SAR27,292 million, which came in line with our projections of SAR27,035 million and compared to SAR23,547 million in 2002 (growth of 15.9%). The company has not yet disclosed subscriber figures as of the end of 2003. STC's operating income came in at SAR9,200 million, compared to SAR4,788 million in 2002. It is worth mentioning that an estimated SAR1,783 million of that increase is attributed to a drop in the rate of commercial provisioning charges: STC used to pay the government 27% of net revenues in 2002, which was reduced to 20% in 2003. Operating income was 3.4% higher than our expectations of SAR8,902 million. The company's net income before non-recurring items and zakat came in at SAR9,451 million compared to SAR4,708 million in 2002. STC has reported negative "Net other income and expense" of SAR233 million and SAR198 million in 2002 and 2001 respectively, composed mostly of losses on sale of fixed assets booked during the fourth quarter of each year. These losses came in significantly lower in 2003 (SAR25 million compared to SAR367 million in 2002), leaving net other income and expense at a positive SAR156 million. Finally, STC booked a charge of SAR700 million representing the cost of an unexpected third phase of its early retirement program.

Overall, STC results were in line with our expectations. However, if we exclude the effect of the unexpected cost of the early retirement program (net of zakat), the company's net income would amount to SAR9,207 million (EPS of SAR30.69), an impressive 6.6% higher than our expectations of SAR8,640 million (EPS of SAR28.80).

The company is proposing an interim cash dividend of SAR14/share. STC paid out a dividend of SAR8/share after the first half of 2003; thus 2003 total dividends would add up to SAR22/share. This figure is significantly higher than our expectations of SAR16/share. Additionally, the company has decided to make an early repayment of its debt: total debt should have amounted to SAR650 million as of the end of 2003 as per the company's debt repayment schedule, compared to SAR1,233 million in 2002. However, STC made an early repayment of its outstanding debt during the fourth quarter of 2003, leaving the company debt-free.

Other developments

The Communications and Information Technology Commission (CITC) has announced a Request For Pre-Qualification (RFPQ) to participate in the licensing process of a second mobile license in Saudi Arabia. CITC is currently drafting a license agreement, which shall be available to pre-qualified candidates during the second half of March 2004. The license agreement should clarify the revenue sharing arrangement to be applied to the second mobile operator, among other crucial issues including national roaming, interconnection fees, number portability ... etc. These issues will have a major impact on STC's operations and profitability. A critical issue though is the revenue sharing agreement: STC currently pays the government annual fees amounting to 20% of net revenues representing commercial provisioning charges, 1% of net revenues representing license fees, and SAR200 million representing spectrum fees. We believe it is unlikely that this high revenue sharing arrangement will be applied to the second mobile operator. We also believe that an equivalent treatment would eventually be applied to STC and the second mobile operator; accordingly, we expect a reduction in the government fees STC currently pays. If this reduction materializes, our valuation of STC will be impacted positively and significantly.

An update report will be issued incorporating 2003 results and other issues relating to the second mobile license as the CITC releases more information regarding the second license agreement.

Financial Statements

Balance Sheet

SAR000	2002a	2003a	2003-BMG estimates
Cash and cash equivalents	1,941,866	5,388,115	4,941,231
Accounts receivable, net	5,447,908	3,015,054	2,418,149
Inventories, net	410,655	303,839	352,595
Prepayments and other current assets	126,380	176,630	182,967
Total current assets	7,926,809	8,883,638	7,894,942
Property, plant and equipment, net	32,018,244	31,906,679	33,304,485
Investments in associates	769,634	799,676	817,288
Other investments	112,090	79,696	98,399
Other non-current assets	86,066	102,521	98,815
Total non-current assets	32,986,034	32,888,572	34,318,987
Accounts payable	6,932,435	2,943,362	3,046,802
Accrued expenses and other payables	4,091,111	4,997,473	4,596,899
Deferred revenue-current	1,582,984	1,481,533	1,501,956
Short-term borrowings	583,333	0	466,667
Dividends Payable	750,000	4,200,000	2,400,000
Total current liabilities	13,939,863	13,622,368	12,012,323
Deferred revenue	1,681,080	1,379,251	1,512,972
Long-term borrowings	650,000	0	183,333
Employees' end of service benefits	1,382,570	1,575,953	1,405,851
Total non-current liabilities	3,713,650	2,955,204	3,102,156
Total shareholders' equity	23,259,330	25,194,638	27,099,450

Source: STC, BMG estimates

Income Statement

SAR000's	2002a	2003a	2003-BMG estimates
Wireline revenues	10,607,248	9,548,073	9,397,972
Wireless revenues	12,939,817	17,743,945	17,637,229
Total revenues	23,547,065	27,292,018	27,035,201
Government charges	6,299,389	5,548,401	5,526,059
Access charges	1,763,532	1,823,441	1,673,018
Employee costs	3,456,375	3,673,235	3,514,576
Depreciation	3,265,293	3,812,966	3,576,671
General and administrative expense	2,569,454	1,671,981	2,352,062
Repairs and maintenance	1,405,318	1,561,982	1,491,081
Operating income	4,787,704	9,200,012	8,901,734
EBITDA	8,052,997	13,012,978	12,478,405
EBITDA margin	34.2%	47.7%	46.2%
Commission income	30,548	43,649	40,779
Earnings of Investment in Associates	123,162	51,923	54,324
Net other income and expenses	-233,330	155,839	-135,176
Income before non-recurring items &	4,708,084	9,451,423	8,861,662
Non-recurring items	-1,070,000	-700,000	0
Income before zakat	3,638,084	8,751,423	8,861,662
Zakat	92,250	226,161	221,542
Net income	3,545,834	8,525,262	8,640,120

Source: STC, BMG estimates

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