Transcription for OOREDOO

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Corporate Participants

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Conference Call Participants

Presentation

Operator
Ladies and gentlemen, welcome to Ooredoo Group Full Year 2017 Financial Results investor conference call and webcast. I now hand over to Andreas Goldau, Ooredoo Group Investor Relations. Sir, please go ahead.

Andreas Goldau
Hello and welcome to Ooredoo's financial results call. My name is Andreas Goldau, and on behalf of the investor relations team, I thank you for joining this session. As part of today's discussion, I am pleased to introduce Ajay Bahri, our Chief Financial Officer and Hans Kuropatwa, our Head of M&A. We start with an overview of the group results. The presentation is available on our website at www.ooredoo.com. Before we begin, a few necessary disclaimer points if you refer to slide number two.

[Disclaimer]

To begin, I hand over to Ajay.

Ajay Bahri
Thank you, Andreas, and thanks to everyone for joining the call today. I will start with the overview of the results and then go slide by slide into details. 2017 was another good year for Ooredoo Group with growth across the board. I am pleased to report increases in key KPIs, revenues, EBITDA, EBITDA margin, and customers. Having achieved our growth targets, the board is recommending a cash dividend payment of 3.5 riyals per share. Our business is data-centric and during 2017, we made good progress sin driving forward our digital transformation and that of the communities we serve.

In our home market in Qatar, we became one of the world's first companies to offer 5G speed experience, with download speeds of up to 1 gigabit per second in a special demonstration during Qatar's National Day in December 2017.

Across all our other operations, investment in 4G was made during the past year, which is key for us to be able to continue to deliver innovative products and services.

The highlight for the period was the launch of services in Gaza in October 2017. This is a significant market, as it constitutes 40% of the Palestinian market. We increased our growth customer numbers to 164 million, representing an 18% increase over the previous year.

Financially, we have done well increasing revenues to QAR 32.7 billion. We achieved significant savings in 2017 by continuing to streamline our operations, and as a result, we increased EBITDA by 3% to QAR 13.8 billion, and improved EBITDA margin to 42%. We are successful in monetising our data business, with QAR 15.3 billion in data revenue now accounting for 46% of our total revenues. Net profit was impacted by a number of factors and was down 10% year-on-year to QAR 2 billion. It is important to note that if we exclude the effect of provisional reversals in 2016, net profit attributable to Ooredoo shareholders increases by 1%.

Let's move to slide number five for more information about the revenues and EBITDA. We increased revenue, EBITDA and EBITDA margin and growth primarily driven by revenue increases in Indonesia, Iraq, Kuwait, Maldives, and Oman. Excluding foreign exchange translation impact, revenue increased even by 2% year-on-year and EBITDA increased 4% year-on-year. Our EBITDA margin is healthy and further improved to 42%.

Let's move to slide six. Like I just said, excluding FX impact and effect of the provision reversals in 2016, net profit attributable to Ooredoo shareholders increased by 1%. Additionally, we had an impact from introduction of higher Government taxes and royalties in Oman, and introduction of taxes in Algeria.

Slide seven, net debt. On the next slide, you will see we have a well-balanced debt profile. Net debt continues to decline down 9% to 21.14 billion at the end of 2017. Our net debt to EBITDA ratio is at 1.8 times, which is now below the midpoint of our long-term guidance of between 1.5 and 2.5 times. Our debt remains mainly at corporate level largely in Qatar, followed by Indonesia and then a smaller percentage attributed to the other OpCos.

On slide eight, let's take a look at free cash flow and CapEx. We are in a good position; CapEx continues to decline, it benefits from our global sourcing programme and growth economies of scale. We increased our free cash flow for the year to QAR 6.27 billion, supported by lower levels of CapEx. Consequently, our CapEx to revenue ratio decreased to 14% in 2017, the lowest number in recent years.

On slide nine, you can see we have been continuing to positively increase our customers, with an 18% increasing during 2017, we reached a total of 164 million customers, demonstrating the strength of the brand and increase in demand of our products and services. The main source of growth in our customer base from operations in Indonesia, Iraq, Oman, Algeria, Tunisia, Maldives, and Palestine.

Let's move to slide number 10. We have done well in delivering as per our 2017 guidance, with the revenue growth in the middle of our guidance range and EBITDA at the upper end. CapEx is below guidance levels, as most of the heavy investments in our operations had been completed, and there have been some projects which were deferred to 2018. For 2018, we expect growth in local currency terms to continue across our operations. This could, however, be offset by negative FX impact when results are being converted to Qatar riyals. We are continuing to adopt a disciplined CapEx approach. We are pleased with the results of the last year and the board is recommending a final dividend amount of QAR 3.5 per share.

Moving onto group operations (slide 12) Qatar. We maintain our number one position in Qatar and are proud to provide one of the fastest fixed line and mobile networks globally. Five-speed mobile data experience is now available to selected locations in Doha. We also progressed well with our fibre rollout programme with more than 100,000 customers home staffed and an additional 55,000 connected last year. Revenue was impacted due to lower revenues in mobile voice services, mega projects, and lower roaming revenues. However, quarter-on-quarter, we have seen improvement in revenue performance due to performance in mobile services Ooredoo tv. We are focusing on operational efficiency to maintain profitability, and have also launched several new promotions to encourage subscriptions and data usage. We are the first to launch and offer VoLTE (voice over LTE) on handsets in Qatar, with 150,000 active users. Quarter three to quarter four's revenue was up 6.1%, supported by data revenue, Ooredoo TV and handsets revenue. There was a slight dip in EBITDA margin due to [airing] provisions and timing of marketing spend.

Moving onto the next slide, Indonesia. Indosat Ooredoo delivered another year of solid growth driven by the B2B segment as well as the consumer segment. Revenue was up 3%, EBITDA was up 4%, and EBITDA margin is strong at 47%. Data revenue is showing solid growth and Indosat Ooredoo is progressing well with its digital transformation strategy. A highlight for Ooredoo Indosat was its half a century anniversary in 2017, when it also reached a milestone of serving more than 110 million customers. Our 4G coverage reached 45% of the population. An important development for the year, Indosat Ooredoo was awarded 5 MHz in the 2.1 GHz spectrum band from the Government of Indonesia in Q4 2017, after winning the spectrum auction. Part of it will be used for 4G capacity. Q3 to Q4 revenue was up 1.6%, supported by high customer numbers and data revenue. EBITDA margin also improved slightly as a result of higher revenue.

Let's move to the next slide, Iraq. We made very good progress in Iraq in connected networks in the liberated areas of Mosul, Kirkuk, Saladin, which drove an increase in our customer numbers of 8% to reach 13 million customers. We maintained our number one position in terms of revenue share and data, with the revenue for the year increasing 6% and a strong EBITDA margin at 44%. We remain cautious and will be continuing to focus on exercising strict cost control. I would like to remind everyone that we continue to operate in a difficult market environment, affected by a weak banking system, VAT impact and the political situation. Q3 to Q4 revenue was down 2.5%, due to seasonality. Q3 revenues are high because of two Eids during that period. EBITDA margin, consequently, was also slightly down.

Moving onto the next slide, Oman. You can see that Ooredoo Oman increased revenue by 1% and EBITDA by 2%. Our results were impacted by increase in royalty fee and income tax. Thanks to good operational efficiency and cost control, EBITDA margin is very strong at 54%. Our revenue performance was driven by fixed and mobile data demand. The number of fixed line customers increased by one-third to reach more than 115,000 customers at the end of the year. A highlight for the year was the launch of the all-new Ooredoo Oman app, facilitating a smoother and more efficient customer interaction. Quarter three to quarter four, there was not much change in revenue, EBITDA margin was slightly down due to year-end accruals and the timing of marketing spend.

Let's move to slide number 16, Kuwait. The overall market condition remains difficult with intense competition and a weak macro-economic environment. Ooredoo Kuwait delivered improved financial results, despite the slight decrease in customer numbers, with revenues up 12%, EBITDA up 6%. Similar to the nine months results, growth was driven by mainly handset sales. Cost efficiency programmes are in place to support lower OpEx and maintain EBITDA margin. In addition to building new sites and expanding its existing network, Ooredoo Kuwait prepared its network for 4.5G in anticipation of further growth opportunities. Q3 to Q4 revenue was up 11.9%, supported by data revenue and handset revenue sales. EBITDA margin improved by 1% as a result of higher sales.

Moving onto the next slide, Algeria. Despite the fierce market competition, we maintained revenue market share and continued to grow our customer base in Algeria. We now cover more than a quarter of the population on 4G.

It is important to highlight the company's cost optimisation programme, despite a decrease of 8% in revenues impacted by VAT, Ooredoo Algeria increased EBITDA by 15%, EBITDA margin also improved to 44% up from 35% in 2016. Quarter three to quarter four revenue in riyal terms is down 11.2%, but local currency terms it is down about 7.3%, so FX has impacted part of the decline. In addition, there is seasonality. Q3 is generally a strong quarter. And lastly, there were changes in interconnect rates, implemented from November, which have also impacted revenue to some extent. As a result, the EBITDA margin was down 8%. Half of it is attributed to lower revenues and the other half is as a result of certain provisions, which are a catch up for the previous periods and accounted for in Quarter four.

Moving onto the next slide, Tunisia. In Tunisia, results continue to be impacted by foreign exchange depreciation. However, in local currency terms, Ooredoo Tunisia generated a 1% growth in revenue, the Tunisian dinar depreciated 11% year-on-year. In spite of this, we maintain our revenue market leadership position. Data is a key contributor to our revenue, and it is offsetting the decline in the voice segment. We are making the right investments to support this growth and in 2017, we further expanded our 4G network and fixed line business. Quarter three to quarter four, revenue was down 8% in riyal terms and 5.6% in local currency. Similar to Algeria, there is a seasonality from quarter three to quarter four, which explains part of the decline. In addition, interconnect rates went down in Tunisia as well, but in Tunisia, the decline is for the full year, there was a retrospective impact starting from January, which was booked in quarter four. As a result of the revenue decline, EBITDA margin was down 3.4%.

Moving onto the next slide, Myanmar. Ooredoo Myanmar had a good year, reporting a positive EBITDA of QAR 152 million, reversing the negative trend since the launch, mainly due to a success in driving forward its cost and efficiency programme. Data was a key growth engine for the quarter, with growth quarter-on-quarter in mobile data and fixed data. Recurring revenue showed a positive trend as well, not considering sales of handsets. Overall, customer base decreased due to an adjustment for inactive subscribers.

During the year, we continued to invest in the business in order to drive good operational performance and capture growth. In 2017, we were now offering 2G, 3G, and 4G services to the Myanmar market. Quarter three to quarter four revenue was up 7.7%, supported by data revenue growth and increasing customer numbers. EBITDA margin was, as a result, up 2.1% as well.

That concludes the presentation.

Andreas Goldau

Before we start the Q&A part. On behalf of the investor relations team, we would like to thank everyone who voted for us at the recent Qatar Exchange IR Excellence Award. Your support and feedback is always much appreciated.

Now, for the Q&A.

[Webinar instructions]

Question and Answer Session

Operator
[Operator instructions]

Our first question is from Baha Mackaren from Arqaam Capital. Please go ahead.

Baha Mackaren
First question is regarding dividends. You guys had a strong year with regards to free cash flow growth, net debt to EBITDA was towards the lower end of your target, there were no bonds or other debt repayments. So can I ask how come the dividend remains flat year-on-year? Is there a specific reason you can give us. The second question is on Indonesia, can you give us any colour on why ARPUs declined 11% quarter-on-quarter. Is this related to promotional packages, targeting customer acquisition, or is this something that will continue moving forward. Thank you.

Ajay Bahri
As far as the dividend is concerned, the dividend decision takes into account various factors, and the way to look at dividend for this year would be to see that the profits are down 10% but we maintained the same dividend amount, and taking into account the factor that you said, the decrease in leverage and free cash flows are up, so despite decreasing profits, we maintained dividends.

As far as the ARPU for Indonesia is concerned, you will see that revenue has grown in quarter four compared to quarter three by about 1.6%. There was a large increase in customer numbers during the quarter, so what happens is when the customers come for part of the quarter, then the ARPU decline looks higher in the quarter when you acquire a lot of customers. At the same time, a lot of promotional activity was also done during the period for acquiring the customers.

But overall, revenue is on the uptrend, which is a positive sign for us.

Operator
Our next question is from Abdulrahman Aljarbu from Olayan Saudi Investment Company. Please go ahead.

Abdulrahman Aljarbu
My question is why there has been a provision revision for 2016. That is it.

Ajay Bahri
I think we did our results of 2016 last year, we had highlighted the fact that certain liabilities in certain operations were reversed, when it was clear that those were not required, so it is more of a 2016 impact which we benefitted from last year, the one-off item. So when we compare 2016 to 2017, we take that one-off item out to see the real operational impact on performance.

Operator
Our next question is from Jonathan Milan from Waha Capital. Please go ahead.

Jonathan Milan
Basically, my question has already been asked, but I just wanted to follow-up on the dividend question. You have one of the lowest payout ratios in the industry despite having a very healthy net debt position and a healthy free cash flow generation. Going forward, could we expect the payout ratio to increase, for example, in 2018 given that you're well ahead in the CapEx cycle in Qatar, and several other countries, in Kuwait for example as well.

Ajay Bahri
We normally don't give guidance on dividend, but I think one can see that the trend of decreasing leverage is there, and the increasing payout is there as well. Like I said, the profits were down 10%, but we maintained the dividend so the payout ratio is higher than what it was last year, and if performance continues to trend as it has done, operational performance has done, so I think one can expect similar trends in future as well.

Operator

Our next question is from Dilya Ibragimova from Citigroup. Please go ahead.

Dilya Ibragimova
Just had a couple of questions please. Could you clarify whether the guidance has built in any impact on IFRS 15, and whether maybe if you could clarify whether you expect any material impact from the implementation of the new standard, so IFRS 15, so that is my first question and maybe I will just wait for the answer before I ask my second one. Thank you.

Ajay Bahri
Well, we have taken account of IFRS 15 in our guidance, and there has not been any material impact on the group total revenue from IFRS 15 analysis that we have done.

Dilya Ibragimova
Can I just ask on data, the income tax that you have reported for the year, are there any one-offs in the number, and if not, what are the main drivers for the increase. Is this royalties and new tax… sorry, is it new tax rate in Oman, is it improving profitability in Indonesia and Algeria. If you could give us some colour on the drivers of the increase. Also, maybe on the tax question, what is the effective tax rate in Iraq please?

Ajay Bahri
If you look at the overall performance, I think what you obviously see is a balance of all the operations put together, but if you talk about growth of net profits compared to last year or the EBITDA growth from last year, you can see a big increase coming from Algeria, so the performance in terms of EBITDA improvement, a big piece comes from Algeria, which is getting offset at a net profit level, as taxation started in Algeria in 2017. We had a tax holiday until 2016, so that is getting offset by taxes.

On the other hand, in the case of Oman, because of additional royalty and taxes, the net profit is on a lower trajectory compared to previous period. Positive results coming in terms of EBITDA growth from Indonesia, Maldives, and some other operations. I would say, in local currencies, even in Tunisia, to some extent, although flattish, I would say.

So I would say, Indonesia is also contributing to EBITDA growth and net of tax, that is also positive to income level there.

On a big picture basis, I think this would probably explain the big variance we have.

FX impact, as we have explained in 2016, we had FX losses of significant number, close to I think QAR 200 million, that is offset of about foreign exchange gains of about 80 million this year. So you have to take these two numbers out to understand the operational performance.

Dilya Ibragimova
Can I just maybe… just the final question if possible. Just on the Qatar performance, what are you seeing in the fourth quarter in terms of consumption? Maybe if you could comment a bit on competition, the pricing trends. Are you able to adjust prices upwards to compensate for the loss of international revenue or roaming revenue as the number of visitors has come down year-on-year. Are you seeing a number of visitors improving quarter-on-quarter, third quarter versus fourth quarter, any colour on what you are seeing and maybe even month on month, December versus November whether trends are improving or they are stable. I would really appreciate it. Thank you.

Ajay Bahri
Maybe I can cover this on a more high-level perspective. If you look at Q3, of course, there was an impact and we did talk about the impact on the roaming revenues, which is obvious. When there is less movement of people across different geographies, the roaming revenues are impacted. But beyond that, Q4 has become more like business as usual in Qatar, so it is like normal business trends. We see a revenue increase of about 6% supported to some extent by handset sales and data growth. We also see an increase in population. In January, the numbers released show that the population grew 2.5% year-on-year, which is a good trend as far as telecom business is concerned.

So I would say one should look at business as usual expectations now in Qatar, starting from Q4 itself.

As far as price competition is concerned, I think it is at a similar level as we have seen in previous periods. There has been no increase of prices on the ground, but competition is at similar levels, no change in competition. But since the business is back to business as usual, we would expect a similar trend going forward as well.

Operator
Our next question is from Ziad Itani from Arqaam Capital. Please go ahead.

Ziad Itani
Just two questions. First of all, any updates on third operator entering the Omani market, some sort of local partnership basically, and do you think that the competitive landscape will change with Omantel acquiring Zain. Second question is on commercial 5G, basically, mainstream commercial 5G launch in Qatar. When can we expect this? Any visibility on associated CapEx?

Ajay Bahri
As far as the third operator is concerned in Oman, we don't have any further information, other than that is in the public domain, so we are awaiting ourselves to get some more detail of that, and the Omantel and Zain acquisition of ownership, also again, no information, everything is in the public domain, so we have no other insights whether that will have any impact or not. We have to wait and see how the third operator ownership and structure comes out. We are sure we'll read it in public domain in due course and we will all see it at that time.

The 5G launch which was done in Qatar was more as a restricted area right now, and we haven't given details of targets of when 5G will be commercially fully rolled out, but as we progress on that side, we will be sharing more details. As of now, we haven't given any target dates for that.

Ziad Itani
Just one follow-up question please on the Kuwaiti market, it seems that the prepaid market had a spike in Q4 of ARPUs, any specific reason on that.

Ajay Bahri
Kuwaiti market is very dynamic in every quarter, the dynamics are different. In quarter four, there was price rationalisation, less promotional activity on the prepaid side, which has helped grow the revenues, but some of these things get reversed quite swiftly as well, so I wouldn't say these are sustainable increases.

Ziad Itani
Are there any negotiations on-going with the recently established – not recently, in February 2016 – with the TRA and what are we seeing? Because data monetisation is very weak in Kuwait for all operators, so where do you see growth coming in from that market?

Ajay Bahri
I think it is a difficult market, it is a very competitive market and the regulator is getting established there. And we have to wait and see how regulation unfolds in Kuwait. But to talk about things like price flows and all, there is nothing which is on the cards right now, is our understanding. But we have to wait and see how that unfolds, but as far as competition is concerned and data monetisation, we haven't seen abatement of competition, so we are expecting business as usual competition in Kuwait so far.

Operator
Our next question is from Dilya Ibragimova from Citigroup. Please go ahead.

Dilya Ibragimova
I just had a couple of follow-up questions please. First is on CapEx. You are guiding 5-6 billion, can I just ask which markets do you expect the most of the spend to be in, whether you are investing in Indonesia, Myanmar or Middle Eastern markets will be. Also, requiring investments, even though your network is quite advanced there. Second question is, you have mentioned there have been a couple of one-offs in Tunisia and Indonesia and Algeria books. Could you please just quantify those one-offs? Thank you.

Ajay Bahri
As far as CapEx is concerned, CapEx spend is being done across all the markets, and markets where we have recently rolled out 4G, then of course it is expanding the coverage, so markets like Myanmar is where we are expanding 4G coverage, in the case of Indosat as well, expanding 4G coverage in markets like Qatar and Kuwait and Oman as well, where 4G is well covered and we are identifying and improving quality. So I would say there is no one specific market. Each market is in a different stage of evolution of technologies and CapEx spend, I would say, is across all the markets.

We had intensity in Myanmar in the previous couple of years when we did the Greenfield rollout. Again, that is also mostly behind us. We are still doing increased coverage in Myanmar, so I reckon Myanmar is probably the only exception where CapEx to revenue ratio would be on the higher end. But the other markets, all of them have similar need for business as usual CapEx requirements, but in different technologies and for different reasons.

I did mention for both Algeria and Tunisia the interconnect rate changes, so if you talk about Algeria, the interconnect rates were changed from November onwards, so you see part of the impact coming in quarter four, but also you see some provisions… the decline in EBITDA margin is about 8% in Algeria from quarter three to quarter four, so I would say half of that is related to the seasonality of lower revenues and interconnect rates, and the other half is related to certain provisions, which are not just for Q4, but for certain previous periods. So that will give you an indication of what are the one-off levels over there.

In the case of Tunisia, there are no real provisions. What has happened is the interconnect rates were changed by the regulator retrospectively starting from January of the year. So in quarter four, you see a net settlement on the interconnect rates. Again, the decrease there of EBITDA margin is about 3.5%, so I would say half of that could be attributed to one-offs and the other half could be attributed to the revenue decline which is linked to seasonality.

Dilya Ibragimova
Can I just – maybe a final question from my side on Iraq license renewal. It is not coming up in the short-term, but what is your thinking or maybe is there any discussion that may have commenced on the 2G, 3G licenses. What would you like to see as the cost, obviously, probably no cost is the best case, but what do you think is realistic?

Ajay Bahri
I think, of course, like you said, we would like to see extension without any cost, but I think it is too early to get into discussions for that. There is still time to go for license renewal, and as, again, these things progress, of course, if there is any clarity in decisions on this, we will definitely be having it in the public domain at the right time.

Dilya Ibragimova
Are there any discussions about 4G license?

Ajay Bahri
Not as yet, Hans, anything you have heard of? No, we have not heard of any discussions on 4G as yet.

Operator
We have no further audio questions. We now switch over to the written Q&A.

Andreas Goldau
We got a question from [Karoon Kumar] from BNP. He is asking, "Can you explain the hedging strategy in light of FX losses?"

Ajay Bahri
I think the hedging strategy we have not discussed in recent times, because this year we didn't have much movement on FX. So the big picture what we do is we hedge our certain transaction losses, so in operations where hedging instruments are available, the likes of that will be Indonesia, there is a clear hedging strategy, what percentage of your transaction losses would be hedged looking at the value-add risk. But in countries where you don't have hedging instruments, Myanmar being one, a good example of that, Algeria, Tunisia other examples, of course, there is no possibility of hedging.

On the other side, the translation losses or the translation gain or loss of the investment itself is not hedged as per policy. We have gone into these countries knowing that this risk is there, and the return expectation is linked to that risk. So hedging policy is there for transaction related risks, but not for translation related risk.

Andreas Goldau
We have one more question from Omar Maher from EFG Hermes. He is asking about margin pressure in the fourth quarter. Is this seasonal or what is driving it?

Ajay Bahri
I tried to cover each OpCo quarter-on-quarter when I was giving my presentation, so big picture, there is seasonality in quarter four, if you look at Iraq, Tunisia and Algeria for sure, you see a big seasonality impact there. There is also a foreign exchange impact in terms of translation which is coming from Algeria and Tunisia, but some of the other operations, the impact of seasonality is not as much. But on the other hand, very often quarter four is a quarter when true-up is done for some provisions and accruals, so historically, 1% decline or 1.5% decline comes from certain catch up provisions as well.

Andreas Goldau
I don't think we have any more questions, so then I would like to thank you all for joining today's call. Please refer to the Ooredoo investor relations website for additional updates and follow us on Twitter at Ooredoo IR or feel free to contact the investor relations team for further information.

We look forward to your future participation in our next update with the Q1 results probably on the 25th April. Thank you again for your continued interest in Ooredoo.