



Ooredoo Group Q2 2020 Investor Call Transcript

July 29th, 2020

Presentation

Operator

Ladies and gentlemen, welcome to Ooredoo Group's Second Quarter 2020 Financial Results Conference Call.

I'll now hand over to Mr. Andreas Goldau from Ooredoo Group. Sir, please go ahead.

Andreas Goldau

[Arabic greeting]

Hello and welcome to Ooredoo's Financial Results call. My name is Andreas Goldau from the investor relations team, and I'm happy to welcome you to our first half 2020 results call.

Let me start by introducing the speakers today. I'm going to be joined by Sheikh Mohammed Al Thani, Deputy CEO of the Ooredoo Group and CEO of Ooredoo Qatar, Ajay Bahri, our Group Chief Financial Officer, Andrew Kvålseth, our Chief Commercial Officer, Mark Dowds, our Chief Strategy Officer, and Sara Al Sayed from the investor relations team. S

Sheikh Mohammed will start the session with the results summary and give you an update of our COVID-19 initiatives. Then after this summary, Ajay Bahri, our group CFO, will provide more details on the quarter, and at the end, we will have the usual Q&A session. We will keep the presentation brief to allow enough time for your questions.

The presentation is available on our website at www.ooredoo.com as well as on the webcast. Please do note the usual disclaimer on slide number two.

So to begin, I will now hand over to Sheikh Mohammed.

Mohammed bin Abdulla Bin Mohammed Al Thani

Hi, everyone. This is Mohammed Abdulla Al Thani, Deputy Group CEO. Good afternoon everyone, and thank you for joining Ooredoo Group investor call.

First of all, we at Ooredoo, we always, thankfully, held a strong ground about transformative power of technology, and that's been seen interpreted during the tough times we have been through in COVID-19. Therefore, we have invested heavily in our digital transformation, and after this pandemic, we can see how the transformation of digital is not an option. It's something that we have and we need to accelerate more, and that's been inevitable within Ooredoo across all the markets. And we made sure in Ooredoo we hold that ground by offering working from home during the tough times and putting the safety and health of our customers and employees at the beginning. We made sure also from that time and from the service that we provided how to have uninterrupted connectivity and services, and we managed to do so.

Also with the pandemic, that we have witnessed a dramatic growth in our traffic and we managed to do optimization of our data traffic. And that's something to accommodate that growth within that tough time and that period. We have been, also across our markets, been proactive to our communities and CSR. We have launched so many CSRs that can be taken into details later on to see how Ooredoo is being responsive and proactive to the communities.

Furthermore, just touching base on some financials high-level, then can be taken with our group CFO in details. I would like to touch base that, yes, our revenue has declined 3% year-on-year due to COVID-19 and mainly affected by the handset and roaming and supported also by weakening or poor macroeconomic across our markets. However, it has been robust by other markets, and that's been visible or clear-cut seen within Indonesia and Tunisia and Myanmar.

Also, on EBITDA level we have witnessed there is a decline year-on-year by 5%, and that's also due to COVID-19. And we know there have been a lot of challenges in markets that we have been to, namely an example of Iraq, Kuwait, where the full lockdown has happened there, with some other challenging markets and macroeconomic in Algeria and Oman.

Also our group net profit has been in a decline by 3% year-on-year, and that fell down from the EBITDA drop. However, it has been offset by some favorable foreign exchange. Data revenue, which we are very proud of, our data revenue accounted for more than 50% of our total revenue, and that specifically represents our data leadership and our digital transformation across our markets.



I think with this touching base on these top headlines of our financials, I think I can conclude my introduction, and then I can hand over to our colleague, Group CFO, Ajay, to take you through the financial details and other stuff.

Thank you so much

Ajay Bahri

Thank you very much, Sheikh Mohammed. Good afternoon to everyone, for joining the call today.

I think you've got a good highlight of the financial performance from Sheikh Mohammed. You'll see on slide five and six, we give you an overview of the activities we did during the pandemic. We focused on the safety of employees and some commercial actions that we've taken. The financial details start on slide number seven, so let's move to slide number seven, group revenue and EBITDA.

Although we have seen good growth in Indonesia, Tunisia and Myanmar, revenue declined 3% in H1. And the reduction is coming, like Sheikh said, from prepaid business and roaming business as a result of the pandemic. Also, some markets had macroeconomic weakness also. So as a result of this, what happens is the customer behavior is changing due to movement restrictions. Work-from-home initiatives are there, the store closures, all these have impacted the result for the quarter. The decline in revenue and challenging market conditions in Algeria, Kuwait, Iraq and Oman contributed to a 5% decline in EBITDA to 6 billion during the first half of 2020 compared to the same period last year.

We continue to focus on driving efficiency across all our markets, optimizing our cost base. We believe the acceleration of digital adoption spurred by the pandemic creates further opportunities to digitize and automate our offerings to further optimize our cost base.

If you move to the next slide, slide number eight. Group net profit attributable to Ooredoo shareholders was down 3%, reaching QAR 818 million in the first half of 2020, compared to the same period last year primarily because of lower EBITDA. This was partly offset by favorable foreign exchange environment compared to the same period last year. The positive FX impact, primarily coming from Myanmar, was almost QAR 207 million.

Moving on to the next slide, CapEx and free cash flow. You'll see that the CapEx for the period stood at QAR 2.1 billion, slightly down compared to last year, and it's in line with our strategy to optimize the CapEx by taking advantage of the group's scale at a group level. CapEx was mainly used for network upgrades and deployment of 5G in our key markets. We now offer 5G speeds in three of our markets. That is Ooredoo Oman, Ooredoo Qatar and Ooredoo Kuwait, and Ooredoo Oman being the latest to launch 5G Home Internet plans in quarter two. 5G trials are ongoing in Indonesia, Myanmar and Maldives. We continued to generate robust cash flows despite the COVID impact. Free cash flow stood at QAR 2.4 billion for the first half of 2020.

Moving on to slide number 10, total customers. Customers increased by about 2% in the first half of 2020. We believe this is a good example of how our digital readiness enabled us to capture growth during the pandemic in some of our markets. The growth was driven primarily by Myanmar and Indonesia.

Moving on to the next slide, net debt. We continue to maintain a healthy and well-balanced debt profile. Net debt decreased 9%, reaching QAR 25 billion, as we maintained our course of deleveraging. Our net debt-to-EBITDA ratio is now at 1.8 times, which is within our long-term guidance of 1.5 to 2.5 times and well below our bank covenant of 4.5 times.

Our group debt remains mainly at a corporate level, largely in Qatar, followed by Indonesia, and then a smaller percentage is allocated to the other OpCos. And as a reminder, debt at the OpCo level is kept primarily in local currency.

Moving on to the next slide, slide number 12. We are cognizant that the COVID-19 pandemic continues. Policy measures will continue to change and customer preferences will evolve. We've implemented plans to manage this uncertainty and maintain our network and service levels throughout this period. Within our home market in Qatar, we seem to have the worst part of the pandemic behind us and now in phase three of the reopening of the economy. We've seen a positive trend in June in a few markets as the economies have started to open up. This, of course, could change should conditions in our territories differ materially. We continue to monitor the situation very closely. Due to limited visibility of the future COVID-19 impact, we're not changing our guidance at this stage.

Let's go to individual operations, starting with Qatar, slide number 14.

In our home market of Qatar, we continued to deliver the latest technology as we prepare for an increasingly digital future. We achieved a new speed record of 4.2 gigabits per second in a 3.5 gigahertz spectrum [trial]. And this innovation is expected to play an important role in the build-up to achieve 90% 5G coverage throughout Qatar by end of 2020. The technology uses advanced 5G and 4G carrier aggregation functionality increasing the data rate per user by assigning multiple frequency blocks to the same user. With this breakthrough in both speed and delivery, we are enabling businesses to contribute to endeavors such as smart cities, telemedicines and logistics, while the customers will be able to maximize the benefits of streaming services, virtual learning



environments, cloud gaming and augmented and virtual reality applications. Our customer base was up 1% in H1 2020, compared to the same period last year, to 3.4 million, with strong demand for our Shary 5G and Qatana 5G plans. Our Ooredoo Fiber rollout continues and now connects over 455,000 homes across the country.

Finally, the COVID-19 pandemic impacted our results with limited retail store opening and pressure on the roaming business impacting revenues, which were 3.5 billion for the first half of 2020. Sequentially, we maintained healthy EBITDA margins of 54%, supported by strong cost efficiencies and digital initiatives. For our mobile customers, we provided double data and offered free mobile money remittances. We also supported the government's relief efforts by extending network support to quarantine centers and hubs. Sequentially, revenue in Q2 and EBITDA only marginally declined compared to Q1 levels despite the pandemic.

Let's move to slide number 15, Indonesia. Indosat Ooredoo continues to implement its three-year strategy to create a more agile business with a sharper focus on its customers. The company's improving network speed supported a 6% increase in revenues in H1 2020. In local currency terms, it was 9%, with high data consumption. ARPU has increased, our customers enjoying our services on faster 4G networks. Indosat Ooredoo maintained strict cost discipline, resulting in EBITDA growth of 16% for the period, corresponding to an EBITDA margin of 45%, up from 42% in H1 2019. Quarter-on-quarter, revenue increased by 1%, while EBITDA increased 18%. As a reminder, Q1 2020 had some one-off costs related to restructuring of the company, which of course was not repeated in Q2. Indosat Ooredoo's customer base grew 1% to 57.2 million as we maintained our focus on developing a more loyal base with lower levels of churn.

Moving to the next slide, Iraq. Efficient cost management and optimized marketing spend partially absorbed the decline in revenues and supported a healthy EBITDA margin of 43% during the first half of 2020. Revenues were down 10% in H1 2020, impacted by measures designed to limit the spread of COVID-19 pandemic. As a reminder, the curfew which was set up in Iraq continued for longer than some of our other markets. Sequentially, quarter one to quarter two revenue was down 22% as a result of this. However, through cost control, we maintained healthy EBITDA margin of 42%. Customer base was down 4% to 13.3 million by the end of H1 2020, as movement restrictions and curfews were implemented across the country. To help keep communities connected during this time, Asiacell offered its customers data bonus on recharge, doubled their quota on emergency credit and extended the validity of prepaid lines. Preparations for the launch of 4G are ongoing. The government has given the indication that LTE could be launched in early 2021. Details of 3G and 4G license extensions are also being negotiated and discussed with the government.

Moving to the next slide, Oman. Ooredoo Oman reported revenue of 1.3 billion during the first half of 2020, down slightly compared to the same period last year due to a decline in prepaid mobile and roaming revenues as well as fewer sales as a result of retail outlet closure due to COVID-19. Consequently, EBITDA declined to OMR 684 million. Our focus on optimizing costs helped maintain healthy EBITDA margin of 54% in H1 2020. Sequentially, revenues were down 2%. EBITDA margin was also down but at a healthy 52.7% in Q2. Ooredoo Oman's customer base declined to 2.6 million, mainly in the prepaid base, due to COVID-19, a slowdown of the economy as well, store closures and mobility restrictions. We have seen growth in postpaid, fixed LTE, home broadband services and FTTH customers through this period. During the quarter, Ooredoo Oman launched 5G Home Internet, which offers connectivity of up to 10 times faster than current home Internet services and brings high-speed Internet access to new areas of the country. To support the community during the pandemic, Ooredoo Oman partnered with the Ministry of Education to launch an e-learning platform for the academic year 2021. Additionally, during this period, the company offered free minutes to help connect families and communities during the pandemic. An achievement for the period, Ooredoo Oman has won two gold awards in the Stevie Awards Middle East 2020 as well as one award from the Annual Global Brands Magazine awards recognizing the company for its customer service, innovation in technology, and digital transformation.

Moving on to slide 18, Kuwait. Ooredoo Kuwait reported a decrease of 10% in revenues compared to the same period last year on the back of lower service revenue and equipment revenues as movement restrictions were imposed across the country. The decline in revenue impacted EBITDA, which was QAR 316 million in H1 2020. We continue to refine our cost optimization initiatives to manage competitive market dynamics and the erosion of our top line. Sequentially, the revenues declined 12%, while the EBITDA margin showed improving trend to reach 26.1% as a result of the efficiency measures. As we look for innovative ways to improve and support the community through this crisis, Ooredoo Kuwait became the first telecoms company in Kuwait to launch an e-learning solution as it sought to support schools across the country in the provision of uninterrupted education throughout the COVID-19 pandemic. We also offered all workers in the ministries and governmental organizations 5 GB of free data a day and unlimited local calls in support of their efforts to contain the spread of COVID-19.

Moving to slide 18, Algeria. A generally challenging economic environment exasperated by the measures taken to curtail the spread of the pandemic weighed on the performance in Algeria. Ooredoo Algeria reported revenues of 1.1 billion during the first half, down 11% year-on-year. Low revenues led to lower EBITDA as well, and EBITDA margin was at 33%. Ooredoo Algeria's results were also impacted by the 3% year-on-year depreciation of the Algerian dinar. Sequentially, quarter one to quarter two, revenues were down 12% due to the impacts of pandemic. EBITDA margins were reasonably stable, moving from 33.7% to 32.8%. Ooredoo Algeria



has launched Dima Ooredoo, a new digital portfolio, through an innovative interactive campaign featuring sitcom actors. They launched Yara, a video-on-demand platform that attracted 350,000 daily active users, as it continues to develop its digital ecosystem across 48 wilayas to better serve its almost 13 million-strong customer base. The company continues to maintain its leadership in both 3G and 4G network quality, based on independent third-party tests.

Let's move to slide 20, Tunisia. Ooredoo Tunisia reported a strong set of results, as it continued to implement its value creation plans. Revenue increased 6%, supported by currency appreciation of 5% year-on-year, despite deteriorating economic conditions following the implementation of the government measures to control the pandemic. EBITDA was down 2% to 314 million during this period, primarily resulting from provisions for receivables, resulting from the slowed economy. Quarter-on-quarter revenue decline was 9% with a full quarter impact of the pandemic. EBITDA margin stood healthy at 42.1%, slightly down compared to Q2. Ooredoo Tunisia's customer base remains stable at 8.8 million, reaffirming its position, as the number one telecom player by customer market share. The company supported hospitals and confinement centers with data access throughout the pandemic and extended its free Mobicash card promotion until the end of July. The company continues to implement its digital transformation strategy, driving an increase in adoption of digital care channels and digital sales.

Moving onto the next slide, Myanmar. Ooredoo Myanmar maintained its leadership position, with its 3G and 4G networks ranked as the fastest in the country. As a result, revenues increased 8% during the first half of 2020 compared to 2019, supported by currency appreciation and a healthy growth in data consumption, which offsets declining voice revenues. However, increased customer acquisition costs contributed to margin compression and decline in EBITDA to 124 million, with an EBITDA margin of 21%. Quarter-on-quarter, revenue increased 4% and EBITDA reached 25.2%, showing positive momentum. Ooredoo Myanmar's strong digital capabilities supported the growth of its customer base, which reached 14.8 million in H1 2020 compared to the same period last year, with My Ooredoo App supporting digital sales.

This was the last operation, and as you will notice, that quarter two was the quarter with full impact of COVID-19, which has obviously impacted the revenues that the OpCos have generated because of obvious reasons of the COVID, but I've also highlighted what support Ooredoo Group has done in each of its markets to support the communities as well as the governments to combat this difficult time, which does have impact on some performance but this is part of the values of the company to support the communities where we work.

This concludes the presentation. I will now hand back to the IR team.

Andreas Goldau

Great. Thank you very much, Ajay.

Before we go into the Q&A session, we would like to share with you our planning for the second half. Due to the current travel restrictions, all the conferences are virtual at the moment, but you see that we are planning on events with our banking partners with EFG, with J.P. Morgan, with Qatar exchange, Goldman Sachs, Bank of America and Arqaam. We are still planning to hold our Capital Markets Day on the 21st September, and we will announce our Q3 results sometime at the end of October. Details to be confirmed, depending on the travel situation, pandemic recovery speed and so on, so keep an eye on the events schedule on the IR website.

And now we are ready to start the Q&A part, if the operator could please explain how to ask questions over the phone or on the webcast. Thank you.

Q&A

Operator

[Operator instructions]

Our first question comes from Nishit Lakhotia from SICO.

Nishit Lakhotia

I have two questions. First, on the ARPU in the Qatar operations. I'm seeing that the ARPU trend is falling in terms of the blended ARPU over the last several quarters. So any reason why this is a consistent trend? Is there more competition you're looking at the

market? Or is it something different that you want to share on the trend of the ARPUs? And the second question is overall on the cost optimization. It looks like a very good quarter on cost optimization both at the operating level, also at the selling and general level for this quarter. So could this become like a way forward in terms of—

[Technical difficulty]

Operator

Dear speakers, the participant has dropped.

Mohammed bin Abdulla Bin Mohammed Al Thani

Yes. I can answer that question. I think the ARPU decline is because of the competitive environment recently. And also there are summer promotions, seasonality and timing that that affected the ARPU. So it's competitive and summer promotional in our product lines. And specifically for the last two quarters and the partial promotion happened in quarter one, when the COVID-19 started, and then you can see the full impact of these promotions happened in quarter two, and that reflected in ARPU, let's say, decline.

Jumping to second question of the cost optimization, always, we have our cost optimization. That's a program running over years. That we do and we follow that optimization operationally and also financially. And that's something, with the period of COVID-19, it put more, let's say, expectation or ambition to achieve more cost optimization. And that's something ongoing or running program that we always have over years.

Operator

[Operator instructions]

We have no other audio questions. Dear speakers, back to you for the written questions.

Andreas Goldau

Do we have any webcast questions?

Operator

[Operator instructions]

Sara Al Sayed

So we have a question from Will. Can you give some color on any M&A opportunities you are looking at?

Mohammed bin Abdulla Bin Mohammed Al Thani

Thanks for that question. Today, we are reviewing our strategy and portfolio. And that's something still, let's say, in a process of reviewing our portfolio strategy.

Sara Al Sayed

There is another question, from Ziad. What is the outlook on the operational recovery in Kuwait in second half? Why did margins decline so much in first half, even in Q1, when the impacts from COVID-19 support "5 G a day" and free calls was rather limited to few days? What is the reason behind the losses in that market?

Mohammed bin Abdulla Bin Mohammed Al Thani

It's premature to see the outlook or we can comment on any outlook of numbers going forward. However, what I can tell you, since COVID-19 started, the Kuwait market or Kuwait as a country has been in a lockdown, and it has been for many months. And since that COVID-19 started, the operators start offering the free data and voice. And then unfortunately also recently, there has been a very aggressive move from the competition on the 5G prices matching the 4G prices. And that's really affecting the operator

financials, and that's seen in operator financial statements. Kuwait, Ooredoo Kuwait, is one of these operators that have been affected, but the COVID-19 really affected big time the market and Ooredoo Kuwait specifically.

Sara Al Sayed

Question from Omar Maher, views on a third player in Oman.

Mohammed bin Abdulla Bin Mohammed Al Thani

I think still we don't have full detail on the third player, but that's something we can maybe touch with or highlight in the upcoming calls.

Sara Al Sayed

Another question. Could you please tell us, to what level of net debt-to-EBITDA would you like to deliver to?

Mohammed bin Abdulla Bin Mohammed Al Thani

Maybe that's our group CFO, Ajay, can take it.

Ajay Bahri

See, the net debt-to-EBITDA lower-end target is 1.5. Higher-end target is 2.5. We're at 1.8 times, so we are supposed to be within this range. So we are within the range or the lower end of the range right now. And there is no one number as a target. The target we have is the range as I said.

Sara Al Sayed

Another question from [Anastasia]. Could you please confirm if the covenants for the net debt-to-EBITDA includes the cash outside of Qatar?

Ajay Bahri

The group net debt-to-EBITDA looks at overall group leverage, less any cash which is not restricted. So there are definitions in bank covenants which are applied on both debt as well as the cash. So based on that, the leverage is calculated, and that's what we report as well.

Sara Al Sayed

A question from [Will]. Are there any plans to come to the bond markets in the remainder of the year?

Ajay Bahri

We have not announced any plans of coming to the bond market. However, I think one has to be cognizant that we have a bond due in February of next year, \$1 billion. We are reasonably well placed right now in terms of our plan for refinancing that. However, if there is any plan to come to the market, we will definitely... it will be in public domain at that time.

Sara Al Sayed

Question from Omar Maher. Will you be able to maintain your dividend strategy this year based on first half 2020 performance?

Ajay Bahri

Yes, dividend is based on normal times. It's a progressive dividend policy with a payout ratio indication. So the COVID pandemic is really unusual times, so we have to wait and see how the impact of COVID is reflected in annual results. And then of course, we will be having this discussion with the board... OK, there is some interruption. So the short answer is there is a dividend policy. We intend to stay with it, but it does give flexibility in unusual times.

Sara Al Sayed

Another question from Will. Are there plans to deliver further, or are you comfortable with credit levels? I guess it's referring to the bond market.

Ajay Bahri

The EBITDA... because the leverage. I think overall leverage is on the lower end, so it's definitely in a comfortable level. If you'll recall, about three, four years back, we were at the higher end of our leverage, more towards 2.3-2.4 times. And we had clearly stated our policy for deleveraging, and I think we've been successful to deleverage the company to a reasonable level now.

Sara Al Sayed

Last question from Ziad. Why did CapEx in Indonesia jump so much in quarter two, 43% intensity, even post tower sale? Guidance on target in terms of in that market. How much did the early employee retirement restructuring since Q1 produce in cost savings?

Ajay Bahri

So as far as CapEx is concerned, CapEx, as you know, in the industry is pretty lumpy in nature, so the timing of that can sometimes be depending on when projects are completed. So as a percentage, it will be good to see the annual CapEx level, which will be a better indication of the CapEx intensity. The sale of the tower business, in fact, in a way, was strategic to make sure we invest more in the network by monetizing our non-core assets. The restructuring which was done in Q1 of staff, has a payback period of about one year. So the benefits, although on financial you'll start seeing them now, but the payback is almost one year.

Sara Al Sayed

Thank you, Ajay. No further questions

Andreas Goldau

Actually, I think there are still a few more questions. There was a question from Ziad with regards to the potential license extension in Iraq, eight-year license extension renewal. When will this be paid? And what's the status?

Ajay Bahri

There is some informal information regarding the license extension. The actual discussions are still ongoing. I think in the next quarterly call we'll have better visibility of where those discussions reach, so I think we'll have to wait for that before we can give you more concrete information.

Andreas Goldau

Thanks, Ajay. And then I see one more question from Omar Maher from EFG. Since your leverage is at a good level now and interest rates are going down, would you consider using some of your cash or borrowing additional funds to consolidate minority stakes, especially Ooredoo Kuwait group, given how attractive valuations are at the moment?

Ajay Bahri

Like Sheikh Mohammed has said, we have no active M&A strategy being discussed right now. We are looking at our overall portfolio. We do our annual planning process. And if you recall, in Kuwait, when we'd increased our stake, we'd done a tender offer for all these shares. So it's not that we didn't try it at that time also. And it didn't really work out at that stage. So I think it's a small percentage, not core or something which is a focus for us as we speak. The big opportunities, in terms of consolidation in market, if you talk about [really] Indonesia, which has been known for the past so many years. And that's something I think all operators actively look at.

Andreas Goldau

Thank you. I don't see any further questions. Oh, there's another one coming in from SICO. There was a legal case win in Kuwait regarding the previous excess SIM charges. Will you be recording the gain from the case win?

Ajay Bahri

Normally, things like this are finally accounted for if the decision is final in all its possibilities and there is no possibility of any appeal. So when that legal certainty is available to us from our legal teams, then we can review that.

Conclusion

Andreas Goldau

All right, I don't see any more questions, neither audio or webcast. So if that's the case, I would like to thank you all for joining today's call. Please refer to the Ooredoo investor relations website for additional updates. Follow us on Twitter, @OoredooIR, or feel free to contact the investor relations team if you need further information. We look forward to your future participation in our next update, probably around end of October. Thanks again for your continued interest in Ooredoo, and Eid Mubarak, everyone.