**Transcription for OOREDOO**

***October 30th, 2019***

**Presentation**

**Andreas Goldau:**

[Speaks in Arabic]. Hello and welcome to Ooredoo’s Financial Results Call. My name is Andreas Goldau, from the Investor Relations Team, and as part of today’s discussion, I’m pleased to introduce Ajay Bahri, our Group Chief Financial Officer and Andrew Kvålseth, our Chief Operating Officer. As always, we will start with an overview of the Group’s results, followed by a Q&A session. The presentation is available on our website, at [www.ooredoo.com](http://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 Ajay.

**Ajay Bahri:**

Thank you, Andreas, and thank you everyone for joining today’s call. The first nine months of 2019 show good overall performance with net profit growing by 16% year on year. The revenue for the period was 22 billion riyals, lower by 3% mainly due to reduction in handset sales and partly due to currency weakness in some markets. The first nine months of 2019 were characterized by network expansion, digital transformation and cost optimization across our operating companies. In Tunisia, Myanmar and Algeria, we continued to roll out our 4G network with a positive impact on customer service levels. In other more mature markets we maintained our 5G roll out with live commercial 5G available in Qatar and Kuwait, and successfully tested 5G in Oman. Our efficiency program continues to deliver good results across the group. The reported EBITDA margin increase, benefited from the implementation of the IFRS 16 accounting standard. Excluding this and certain one-off benefits last year from the results of our associates, the EBITDA margin improved by 1%. During the period, we prioritized laying the foundations for sustained long-term growth in the future, leveraging our experience in digitalization to offer our customers seamless usage experiences, whilst developing end to end enterprise solutions.

Moving on to slide number five, revenue and EBITDA. Group revenue for the first nine months of 2019 was at 22 billion riyals, a slight decrease from 22.5 billion riyals last year. Year to date, the revenue was mainly impacted by lower handset sales. and a combination of currency depreciation and price competition in some of our regions. Quarter on quarter, we saw a 1% increase in revenue, which was supported by strong performances in Indonesia, Tunisia and Kuwait. EBITDA increased 4% and 6% respectively, for both the nine month and the three-month period ended 30 September 2019, compared to the same period last year. Growth was driven by an ongoing implementation of our efficiency program, as well as the benefit from the implementation of the IFRS 16 accounting standards.

Moving on to the next slide, Net Profit. Net profit grew 16% during the first nine months of 2019 compared to the same period in 2018, to QAR 1.3 billion. Growth was driven by improvement in operation performance and a more positive foreign exchange environment in 2019 compared to last year. Net profit showed good growth after excluding the impact of foreign exchange, and certain one-off non-operational benefits last year.

Slide number seven, Capital Expenditure and Free Cash Flow. Capex grows by 18% to 3.4 billion riyals, which is in line with our annual guidance. During the period we accelerated our investments in 4G networks in our markets, supporting the recovery of performance. Capital expenditure prevails an essential part of our strategy to deliver long-term growth by deploying the latest technologies in our markets. Free cash flow for the first nine months of 2019 was lower by 14%, impacted by the increased capex, which are in line with our expectations.

Next slide, please. Our customer base at the end of Q3 2019 was 116 million, 3% lower than the same period last year. The reduction primarily a function of our renewed strategy in Indonesia as explained in earlier quarters as well, where we focused on reducing churn and attracting high-value customers.

Next slide, Net Debt. We continue to maintain a healthy and well-balanced debt profile. Net debt increased 18% to 27 billion, impacted by the implementation of IFRS 16. Excluding the impact of IFRS 16, net debt decreased 5%, maintaining our course of deleveraging. Our net debt/EBITDA ratio is at 2.1x, and 1.8x without the IFRS 16 impact, which is within our long-term guidance of being between 1.5x and 2.5x. Group debt remains primarily at corporate level in Qatar followed by Indonesia and in a smaller percentage allocated to the other OpCos. Debt at the OpCo level is kept primarily in local currency.

Next slide: Performance Summary and 2019 Guidance. As you can see, our revenue performance for the first nine months of 2019 is on the lower end of our guidance for the period. EBITDA adjusted for IFRS16 would be down 5% and within of a full year 2019 guided range of -7% to -4%. We maintained a disciplined capex approach, a high performing efficiency program and strict cost management.

Let’s turn to slide number 12 for an operational review of our operating companies.

Qatar: in our home market, Qatar, we lead on 5G adoption and we continued to innovate in the consumer and enterprise segments. We demonstrated the power of our network in the International World Athletics Championship in Doha, offering smart stadium solutions at the event. We also premiered the world’s first virtual store, an online 360° retail experience. Financially, revenue was down slightly due to reduced handset sales. Our EBITDA margin increased to 56% in 9M 2019, up from 51% for the same period last year. EBITDA growth was supported by a favourable mix between service revenue and handset sales, as well as the IFRS 16 impact and improved efficiencies and cost optimization across the business. Sequentially, revenue in EBITDA was slightly down due to competitive dynamics and timing of certain operating expenses.

Let’s move on to slide 13. Our renewed strategy in Indonesia continues to deliver robust growth, with an 11% increase in revenues during the first nine months of 2019 compared to the same period last year, to 4.8 billion riyals. Higher revenues coupled with careful cost optimization initiative grew EBITDA for the nine-month period to 2.1 billion riyals, up 37% compared to the same period last year, including the IFRS 16 impact. Indosat Ooredoo’s customer-based group at 2 million on a quarter on quarter basis, supporting sequential growth and revenue and EBITDA. During the third quarter of the year Indosat Ooredoo successfully negotiated the sale of 3,100 towers, with a potential value of approximately 1.6 billion riyals. The assets will be leased back for a 10 year period at attractive rates.

Slide number 14, Iraq. In Iraq, despite strong price competition in the market quarter on quarter, we grew revenues and EBITDA, supported by increased data revenue. Revenue for the nine-month period was flat at 3.3 billion riyals, whilst EBITDA declined to 1.5 billion due to network expansion and lease cost to support the data traffic growth. Asiacell’s customer base increased 6% to 14 million at the end of Q3 2019 compared to the same period last year. Discussions with the regulator are underway for the launch of 4G, ushering a new period of growth for the country. No official timeline has yet been finalised.

Slide 15, Oman. On a year to date basis, Ooredoo Oman maintained the revenue whilst delivering EBITDA growth of 3% compared to the same period last year. Sequentially, we improved both revenue and EBITDA driven a strong demand of our fixed line offering, offsetting some of the weakness in the mobile market. Ooredoo Oman’s customer base increased 2% to 3 million, as a result of growth in all segments, as is focused efforts on differentiating ourselves through our digital capabilities and by offering exceptional customer service. Our efforts were recognized by the CX Middle East, which presented Ooredoo Oman the award of the best customer experience in Oman. Sequentially revenue increased, supported by fixed revenue and device sales; as a result, EBITDA also grew.

Let’s move to slide 16, Kuwait. In Kuwait we are seeing the signs of market stabilization, with the containment of value erosion in the post-paid voice segment and the improvement in the data segment. EBITDA margin for the first nine months of 2019 improved to 31% up from 20% in the same period last year, driven by a preferable product mix between handset sales and service revenues as well as improved market pricing. These factors also contributed to the 43% increase in EBITDA during the period, despite the reduction in revenue during the nine-month period. Revenue was down due to handset sales, a low margin business. Ooredoo Kuwait’s customer base increased to 2.6 million in the nine-month period, up by 13% from last year. Sequentially, quarterly revenue declined primarily due to lower handset sales, and EBITDA declined due to timing of certain operating expenses. We remain at the forefront of technological innovation in the country with the launch of 5G plans with handset bundles.

On slide 17, for Algeria, you will see that the situation in Algeria continues to be challenging, with difficult economic conditions and political instability, as well as the devaluation of the Algerian dinar, a persisting price war and an overall shrinkage in the market. As a result, Ooredoo Algeria’s revenue declined 10% during the first nine months of 2019 compared to the same period last year. Sequentially however, we grew both revenue and EBITDA in Q3 2019 compared to Q2 2019. Operationally we maintained our mobile data leadership by providing the greatest 4G coverage in the country.

Next slide please, Tunisia. Tunisia delivered another robust set of results despite challenging market conditions and currency depreciation. We grew EBITDA by 10% to 523 million during the first nine months of 2019 compared to the same period last year due to improved operational efficiencies, careful cost management and digitisation. Revenues increased 10% in local currency terms, supported by strong performance in data and fixed revenues, as well as increase in contributions from digital service revenues. In Qatari riyal terms, revenues decreased 5% due to the 15% year on year depreciation of the Tunisian dinar. Our customer base grew 3% to 9 million, affirming our position as number one telecom player by customer market share, supported by our excellent support and service. Sequentially, both revenue and EBITDA increased in Tunisia.

Slide 25, Myanmar. In Myanmar we focused on a digital distribution strategy, growing our customer base 6% to 10 million at the end of 9M 2019 compared to the same period last year. Our digital initiatives continued to gain traction with the ‘My Ooredoo’ application. Revenues were down for the nine-month period due to the increased competition from the entry of the fourth operator in the market and the 9% depreciation in the Myanmar kyat. EBITDA increased 30%, mainly due to the positive impact from the implementation of the new accounting standard IFRS 16. Customer numbers stood at 10 million, 1 million lowers than Q2, that is due to our focus on acquiring high-quality customers rather than lower quality with high churn rate. Sequentially, revenue was stable and EBITDA improved due to cost efficiencies.

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

Andreas Goldau:

Thank you very much, Ajay. And now we are coming to the Q&A part. Questions can be asked over the phone or on the webcast. If you type your question on the webcast, my colleague Sara Al Sayed, who also happens to celebrate her birthday today, will read out the question.

Dilya Ibragimova:

Thank you for the opportunity. I have a couple of questions, please. One is on Qatar. I’m just looking at the service revenue performance and it seems like the decline has accelerated in the third quarter, driven by what seems to be by mobile, especially prepaid. If you could comment on what is happening on the market? Is it just a seasonality, maybe Q3 was particularly weak with higher outflow of people, like macro level, or is it the price competition that is driving pressure on service revenue? And also what your expectations are going forward and also it seems that the negative impact on revenue had also had negative impact on underlying pre-IFRS 16 EBITDA, which declined around 5% year on year despite low device sales this quarter, so it seems like the service revenue pressure is presently being recycled into EBITDA. If you could comment on the Qatar performance, that would be great. And the second question is on Myanmar. It is of course important to see the slight improvement in on EBITDA line in a quarter. How do you see yourself on this market going forward, like in the longer term? What will drive the OpCo onto the path to free cash flow break even at some point? If you have visibility when that’s likely, maybe you could offer a comment as well or maybe there are other routes that the company may consider, for example, in market consolidation or maybe even exit. If you could comment on what’s your long-term vision or what options are considered or available for this specific operation, that’d be great.

Ajay Bahri:

Great, thanks for the questions. As far as customers are concerned, the number of customers are down in quarter three. Seasonally what happens is a lot of people go on leave during this period and as a result to that, from the prepaid customer, lines get dormant and not counted as customers. Similarly, some usage, especially in domestic side and international calls goes down as a result of that. No other real dynamics, I would say, because you see a similar trend in overall markets as well, where the revenue is gone down. Outlook for mobile, I think is similar, nothing new in terms of competitive dynamics there. You did talk about the EBITDA margin there and as some revenue growth comes back, I think that will have a positive impact on EBITDA. Q3 did have certain one-off expenses, which were more of a timing issue so the decline should not be seen as a permanent decline in the EBITDA margin. It’s just to do with the timing of certain promotional spend.

As far as Myanmar is concerned, of course we are long-term investors, so we look at every market on a long-term basis, and in Myanmar the dynamics which have happened after the fourth player had entered have been negative for the overall market, for all the four players. So I think as the pricing is stabilised there and the regulator is supportive of getting a reasonable price levels and putting some price floors in place, that will help the overall industry there, and as some stability comes into pricing level, the growth is still there in the market as penetration levels are still not as high as the other countries in the region. So long-term we are hopeful about better performance going forward in Myanmar. We are open to options which are strategic in nature, depending on how things happen in the market, but as of now that focus is to get our own company more efficient and get to a reasonable scale.

**Question and Answer Session**

**Dilya Ibragimova:**

Thanks very much for the comment, and maybe just to follow-up on your comment on Q3 performance, service revenue performance in Qatar, you do mention that the Q3 is seasonally weaker, but looking at the year on year performance, this year Q3 was specifically - maybe had higher outflow of people, is that what you have seen and, which affected the whole of the market. So maybe just exceptional quarter?

**Ajay Bahri:**

I think the general trend in the prepaid market has been a lower revenue trend starting more from the beginning of this year. A certain local price increase has happened in certain commodities and that has shown weakness in the pre-paid market; the post-paid on the other hand, we can see a number of customers going out as well as the revenues, but partly offset by that, so maybe if we look at the total market, maybe we should look at both of them together, if you want to understand the mobile market dynamics.

**Dilya Ibragimova:**

Right, thank you.

**Jonathan Milan:**

Congratulations on a very good set of results and thank you very much for taking the time for the call. I have a few questions if I may. First of all, on the Qatar operations, and it sounds like Q3 may be seasonally weak, but we’ve seen it down-trend in the blended ARPU as was pointed out by the presentation on slide 25, and especially noting that Qatar has one of the highest ARPUs in the region to say the least, rivalled only by the UAE, where do you think these ARPUs can settle and, as a result, don’t you think it would be extremely difficult to see an improvement in EBITDA over the next 2 to 3 years in Qatar? That is my first question. My second question is on Indonesia, the tower sale, will they be bundling towers, will they have more than one telecom company per tower, in which case the leaseback rate will be even more attractive than if it’s only Indosat that’s leasing back the towers, that’s how you generate economies scale. My third question will be that, now that the net debt to EBITDA pre-IFRS is below 2x, I believe, is below 2x, which is quite good for a telecom company, and in terms of the debt profile, you only have 700 million in payments next year, a billion the year after, would you consider increasing your dividends, now that you’ve brought your leverage to a far more acceptable level?

**Ajay Bahri:**

Thank you for the questions. I think the Qatar ARPUs trends have declined, as you can see in the slide that you referred to; there’s been a declining trend, which is not dissimilar to a lot of other markets where the industry is under pressure. The dynamic of that really is the voice usage and revenues declining faster than the growth of the data. Data pricing in most markets has been on the lower end as competitors try to create market share based on data. For that dynamic is playing at a lot of markets, so although the propensity to pay in all markets by the customers is high, I think the telecom industry hasn’t settled the pricing level for data at the right level. Another dynamic there is, as you roll out new technology like 4G, where the cost of data is cheaper, you can price data cheaper, but the usage growth sometimes is not offset by the increased usage and the increased revenue doesn’t come as anticipated. So that dynamic is an industry issue, that’s’ one of the reason why you see a declining trend in ARPUs. Having said that, the EBITDA growth, again I’m not talking only Qatar here, must come from cost efficiencies in the industry. The growth levels are very low for the industry. Our phone cost, if you saw was more a declining revenue. But that was also because of foreign exchange and conversion rates in QAR terms. So a lot of growth in EBITDA will come with a combination of revenue growth from non-traditional sources, which would B2B, digital and also cost efficiencies. As far as Indonesia tower leaseback is concerned, these are towers which we were owing ourselves; there are a combination of towers where we were the only tenant, and also towers where we had other tenants already there. So in the leaseback sale and leaseback process, the sale proceeds that we get upfront takes into account the tenants which will already be there and similarly the price of leaseback also takes that into account. The tenants are generally more than one. So the pricing takes that into account, the leaseback pricing and what you get upfront from the other company takes that into account.

As far as net debt/ EBITDA is concerned, you’re right, the trends have been positive, excluding IFRS 16, of course, IFRS 16, the accounting standard from just an accounting perspective increases the leverage; the dividend decisions are taken by the Board on an annual basis after looking at various factors, including debt, cash flow generation, future capex requirements, profitability for the period and expected growth in the outer years as well. So, all these factors, including debt, will be considered in the dividend decisions by the Board. We don’t give guidance on dividend, but I think once we get the results of the full year, you will hear more about it from us.

**Jonathan Milan:**

Okay, then may you reiterate the capex guidance say for next year, I mean there could be 5G in Qatar there could be big, but still, and again in Indonesia, selling these towers you have enough cash to fund your capex for quite some time. Could you please reiterate capex guidance for next year?

**Ajay:**

Well, this year the guidance was 5 ½ to 6 ½ billion riyals, and next year guidance will be given after the full year results call, so I think we’ll have to wait for that to happen. That’s probably going to be some time end of February.

**Jonathan Milan:**

But will it be higher or lower, I mean, I’m sure you can get the feeling of whether it’s higher or lower.

**Ajay:**

No, I think we normally give guidance when we give the guidance. I wouldn’t want to pre-empt my guidance comment of February right now, but you correctly pointed out some dynamic which should play to that, which is 5G in some markets, which is not there today, but at the same time that means the 4G expansion will not happen into those markets. And there is an offset where 5G is rolled out, but I think the appropriate time for me to give the guidance will be in February.

**Jonathan Milan:**

Okay, perfect, thank you very much.

**Nishit Lakhotia:**

Yes, thank you for the call. I have a few questions. First one is on general and admin expenses for this quarter was a bit on the lower end, I believe because of the cost optimisation that’s happening at the group level and other operations as well, but if you can just give some guidance as to whether we can expect further material improvement on this particular cost item on the G&A in the coming quarters or what should be the run rate? Should it be around 1.4 billion Qatari riyal or lower? Anything on that front would be helpful. The second question I have is on Ooredoo Myanmar, the net finance cost is quite high this year versus last year, so any colour on the debt at this entity, is the leverage increasing and I also understand that the group has also lend to Myanmar there is an intercompany loan given to this entity, so any colour on that, and is the future capex and all being funded through leverage, and how the cash flow situation. Any colour here would be helpful. And third, on the competitive environment in Kuwait, you mentioned a bit on the Kuwait slide in terms of it continues to be very competitive, but there was a time when the handset related competition had stabilised, so how is the environment now, is it again gone back to competition both on the voice as well as handsets, so it’s not as competitive as what it was in Q3 last year?

**Ajay Bahri:**

Thanks for the question. As far as G&A costs are concerned, you will see in Q3 there is a decline. It’s caused partly by two things: one is a little bit of seasonality this includes marketing spend as well, which moves seasonally. There is a little bit of a decline there, which may not be sustainable. But it also has cost optimisation factored there and a one-off transaction in one of the OpCos where certain provisions were reversed, and that piece will not repeat, so in a nutshell I would say about one third of this could be attributed to sustainable decrease. Some of the other are either timing related like marketing, and others are one-off coming in this quarter.

Myanmar, the funding for Myanmar to a large extent is done through the group itself, through intercompany financing arrangement. Local funding in terms of debt is very limited, so the impact of interest, if you see it at group level gets nullified, intercompany transactions are excluded, so you don’t see that impact at the group level. The forecast of course is the company, as you can see from the EBITDA margin level, still needs funding to fund the CAPEX program, especially when it comes to rolling out 4G network, so at least in the short term it will need funding from the group but the trending is for it to become sustainable, so that the EBITDA it generates should fund its, capex in the long run.

Competition in Kuwait, we did see some positive trend in the first half of the year and some stability in the market, which in post-paid and the voice segment is sustaining in Q3 as well. The new development in Kuwait is [unintelligible] 5G as you are aware and that can trigger more competitive dynamics. Some of those can be visible now, but not to the level that we’ve seen earlier. However, we are hopeful that the stability will continue in the coming quarters as well.

**Nishit Lakhotia:**

On the assets held for sale. It has gone quite significantly this year, relatively speaking. So above 300 million. So what exactly is this particular asset that Ooredoo is trying to sell?

**Ajay Bahri:**

These are basically the towers in Indonesia, which once we make the decision to sell them, they get transferred, the asset held for sale. In quarter four we hope this transaction will be closed. Once we close this transaction you will see that this asset held for sale will be removed.

**Nishit Lakhotia:**

Okay, thank you so much.

**Dilya Ibragimova:**

Thank you very much, just a quick follow-up please. You’ve mentioned the one-off. I was wondering whether there are any one-off in Myanmar this quarter. One of the competitors Telenor has made reversal of the provisions related network rollout because the obligations have been met. I was just wondering whether you had similar thing happening in this quarter. Thank you.

**Ajay Bahri:**

We don’t have any one-off reversals during the quarter in Myanmar. We also have met all our obligations for roll-out, but we didn’t have any reversals of provisions coming out of that.

**Dilya Ibragimova:**

All right, thanks.

**Jonathan Milan:**

Hi, thank you for allowing me to ask for a follow-up question. Would you ever consider exiting one of these countries, I mean, I understand a lot of progress has been done in all 10 countries in which you operate, but further consolidating the business, would you consider exiting one or two or more of these countries if you are given a profitable offer to focus more on certain key markets, especially since, I mean, across these 10 countries, it does create a bit of noise, it might cause you to lose a bit of focus from some of the core markets, I mean, would you consider that? That’s one question, and another question is on the ARPU in Indonesia, I mean, we have seen a bit of weakness in Q3 although year on year it’s still going up, but what do you think is the trend, what do you expect as a trend in terms of ARPU Indonesia? Is it still extremely competitive, will there be a ceiling for the ARPU pretty soon or do you still see some upside for ARPUs in Indonesia, which so far has done a fantastic job?

**Ajay Bahri:**

Okay, as far as the first question is concerned about exit, I think at the moment we’re not focused on exit of any market. Our focus is to make sure our operations are run efficiently and provide a good return to the shareholders. Having said that, we do look at market consolidation as an opportunity where it is available. But as far as exit is concerned, it an offer come on the table, we have an obligation to look at it for the benefit of the shareholders, we don’t have any such options right now.

Indosat ARPU decline, it’s a slight decline as you can see. Part of that is because of the increased customer base as well. During the quarter, about 2 million customers were added to the base, which, were contributing to revenue only for part of the period. So part of the decline is the result of the increased customer base as well. Overall we expect stability in this, the growth that you saw in ARPU is also a reflection of the clean-up of the customer base, which, you will recall from last one year, a large number of customers had to be cleaned up because of the SIM registration requirements, a lot of this customers were not giving much of ARPU, they were just going out without taking revenue out, so part of the increase is a mathematical implication, but the other part which is for this quarter, is because of a turnaround in customer numbers, which has some impact on the average revenue producer.

**Jonathan Milan:**

Okay, any update on the fourth entrant in the Iraqi market and how sizeable can be the cost for renewing the mobile licence in Iraq?

**Ajay:**

I think the fourth entrant, no official feedback in recent times on that, but it’s something which was quite active sometime back, but not much updates since then. The licence renewal, of course, depends on discussions with the government. We don’t have an indication of that as yet, and as and when there is certainty on that, it will be in public domain, and we hope that it will all be in reasonable terms, because there’re three operators in the market providing good service and spectrum fee licence fee have an implication on pricing for customers as well. So we expect it to be reasonably priced.

**Jonathan Milan:**

Okay, thank you very much.

**Ajay Bahri:**

Thank you.

**Andreas Goldau:**

I just want one more announcement from Investor Relations at Ooredoo, we’re going to attend the Qatar Exchange London Roadshow next week on Thursday, and we still have some slots available on the day before, on Wednesday, so if you’re interested in meeting with Ooredoo in London, contact the Investor Relations Team here. I would like to thank you all for joining today’s call. Please refer to the Ooredoo Investor Relations website for additional updates or follow us on twitter @OoredooIR, and feel free to contact the Investor Relations Team if you need any further information. We look forward to your future participation. Our next update is probably due sometime in the middle of February with the full year results. Meanwhile, thank you again for your continued interest in Ooredoo.