

Presentation

Operator

Ladies and gentlemen, welcome to Ooredoo Third Quarter 2020 Financial Results investor call. I will 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. Like in our last call, my colleagues are dialing in from various locations across Doha. We are joined by Sheikh Mohammed Al Thani, Deputy CEO of the Ooredoo Group and CEO of the Ooredoo Qatar, Ajay Bahri, our Group Chief Financial Officer, Andrew Kvålseth, Chief Commercial Officer, Mark Dowds, our Chief Strategy Officer, and Sara Al-Sayed from the Investor Relations team.

Sheikh Mohammed Al Thani will start the session with a summary of our results. Then Ajay Bahri, our Group CFO, will provide more details on the quarter, and in the end, we will have the usual Q&A session. We 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 this webcast. Please do note the usual disclaimer on slide number two.

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

Sheikh Mohammed Al Thani

Thank you, Andreas. Good afternoon everyone and thank you for joining Ooredoo Group's investor call.

I will start with some high-level highlights of our results of Q3 2020. I would like just to say a few things. Here, at Ooredoo, we always believe our investment in our technology and network and digital are really a key element for our success, and that's how we have navigated the challenges that we have been through (the pandemic), and how we continue to serve our customers at during this tough time.

Today, I'm proud to announce that we, as Ooredoo, we have more than 50% of our total revenue attributed to data, and that demonstrates how we are accelerating our digital transition. Yes, this is partially due to the pandemic, but it also illustrates our confidence in our strategy of digitization of our core.

Also, as you can see here, our revenue declined by 3% year-on-year, affected by the COVID-19 pandemic. It has been impacted challenges in some markets, because of the large-scale lockdowns that happened across our markets, and due to some macroeconomic weaknesses. However, we have seen some improvement and have returned to growth in Q3 2020 compared to Q2 2020. Also, if you can see here, from a high level, our EBITDA declined by 4% year-on-year, and that's also impacted by the top line reduction and challenges in some markets, as I said, either macroeconomic, like in Algeria, or due to lockdowns like in Iraq and Kuwait. We remain committed to being efficient and smart with our costs and investment, and are focused on accelerating our digitization during this tough time. That's reflecting in our strong EBITDA margin for the nine months.

If we move to the net profit, we can see there is a growth of 16% year-on-year, and that is attributed also to an improvement in the foreign exchange environment compared to the last year. Details on the financials will be explained further by our Group CFO.

So, as I said earlier, we are very proud to have data revenue represent around 50% of our total revenue and that reflects how we are really progressing with the data and digital transformation initiatives that we started across our operational markets.

So, from that, I would just highlight about digital. We know that digital is part of our strategy and we are always being vigilant about how we can be at the top or at the head of the race compared to our peers, and that's where you can see digital has really contributed to our revenue growth for 2020. We are adopting new initiatives that will enable sustainable digital growth and are working on new digital revenue streams.

I will now hand over now to my colleague, Ajay Bahri, our Group CFO, to take you through the financials breakdown. So, Ajay, the floor is yours.

Ajay Bahri

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

Let's move to slide number five for more information about our group revenue and EBITDA. We continue to see positive revenue trends in Indonesia, Tunisia, Myanmar, and Palestine. However, as Sheikh Mohammed explained, due to COVID-19 impact, a reduction in handset sales and roaming revenue, as well as macroeconomic weakness in some of our markets, group revenues are down 3% during the first nine months of 2020 compared to the same period last year, reaching QAR 21.4 billion. EBITDA declined 4% year-on-year to QAR 9.2 billion for the first nine months of 2020 due to lower revenues and higher cost of sales, as well as challenging market conditions in Algeria, Kuwait, Iraq, and Oman. This was partially offset by strong EBITDA growth in Indonesia and Palestine.

We continue to focus on driving efficiency across all our operations, while optimizing our cost base, which helped us maintain a strong EBITDA margin of 43% during the nine-month period. Sequentially, we are beginning to see growth in both revenue and EBITDA in the vast majority of our markets, signaling the beginning of a recovery should the pandemic be contained. As a result, revenue grew from 6.8 billion to 7.3 billion from quarter two to quarter three, and EBITDA grew from QAR 2.9 billion to QAR 3.2 billion during the same period.

Let's move to slide number six, net profit. Group net profit attributable to Ooredoo shareholders increased by 16% to QAR 1.5 billion during the first nine months of 2020 compared to the same period last year, due to a more favorable foreign exchange environment as explained by Sheikh Mohammed. Excluding the FX impact, net profit for the nine-month period would have been QAR 1.1 billion for the nine months compared to 1.3 billion for the same period last year. However, for the three-month period, net profit excluding foreign exchange would have been QAR 508 million in quarter three 2020 compared to QAR 475 million for the same period last year, showing a growth in operational performance in quarter three year-on-year.

Moving onto slide seven, capital expenditure and free cash flow. As you will see, the CapEx for the period was stable at QAR 3.4 billion, representing a CapEx to revenue ratio of 16%, which is in line with our guidance. We remain focused on optimizing CapEx by taking advantage of Ooredoo Group's economies of scale. We continue to generate positive cash flows even in these challenging times, although our free cash flow for the first nine months decreased 3% to 3.7 billion compared to the same period last year. Please do note that the free cash flow for quarter three 2020 actually improved compared to the third quarter of 2019 by 12%.

Moving onto slide eight, total customers. You will see that the total customer base increased by 3% in the nine-month period. Growth was driven mainly by strong customer acquisitions in Qatar, Indonesia, Iraq, and Myanmar.

Moving onto the next slide, net debt. We continue to maintain a healthy and well-balanced debt profile. Net debt decreased by 12% to reach 23.6 billion as we maintained our course of deleveraging. Net debt to EBITDA is at 1.7 times, which is within our long-term guidance given by the board of 1.5-2.5 times, and well below our bank covenants of 4.5 times. Group debt remains mainly at a corporate level, largely in Qatar followed by Indonesia, and then a smaller percentage allocated to the other operating companies. As a reminder, debt at the OpCo level is kept primarily in local currency.

Moving onto the next slide. We are beginning to see a recovery in the vast majority of our markets following the easing of movement restrictions in many of our markets. However, we remain cognizant that as the COVID-19 pandemic continues, policy measures will continue to change, and custom preferences will evolve. As far as guidance is concerned, visibility is still limited, but we have seen an improvement in our run rate during the third quarter, which is close to the guidance level we have given. We have not revised our guidance to factor the impact of COVID-19 pandemic.

Please turn to slide 12 for an operational overview of our OpCos starting with Qatar.

In our home market of Qatar, we maintained our focus on strengthening our network and bringing new offers to our market. The Ooredoo Fibre Rollout Program continues to connect an increasing proportion of the population and now has 463,000 homes connected across the country. During the quarter, we launched Ooredoo ONE, an all-in-one home service comprising TV, home broadband, and landline, which contributed to a 2% increase year-on-year on customer numbers for our Ooredoo TV customer base. Overall, customer base increased 3% to 3.3 million in the first nine months of 2020, showing a strong growth in our mobile and postpaid customer base. Financially, even as Qatar is in the Stage 4 of the reopening program and business activity has resumed, limited international travel has impacted our roaming revenues. Ooredoo Qatar reported revenues of 5.3 billion for the first nine months, down 3% compared to the same period last year. Consequently, EBITDA decreased 5% reaching 2.9 billion during the first nine months. We continue to focus on optimizing our costs, it has helped maintain strong EBITDA margin of 55%. Sequentially, revenue increased 1% to reach 1.8 billion. This was driven by growth in fixed and ICT services. This revenue growth also supported EBITDA growth of 4% sequentially. Ooredoo Qatar's network enhancement program ensured that network and telecom support and readiness could be extended to quarantine centers and hubs as required.

Moving onto slide 13, Indonesia. Indosat Ooredoo continues to yield results after [inaudible] customer simple, relevant, and transparent products, which supported a 3% increase in customer base to 60.4 million at the end of nine months of 2020. This supported a 6% increase year-on-year in the company's revenue to reach QAR 5.1 billion driven by mobile and data services on the back of enhanced network. EBITDA for the first nine months was 2.4 billion, an increase of 11% compared to previous year. This was driven by robust top line growth and strict cost discipline. As a result, EBITDA margin increased from 44% to 46% in 2020. Sequentially, revenue and EBITDA increased 5% and 2% respectively.

Moving onto slide 14, Iraq. In Iraq, we are beginning to see a recovery following the easing of movement restrictions. On a quarterly basis, revenue increased 24% and EBITDA increased 41%, supported by a recovery in voice and data services. Our results for the first nine months were impacted by weakness in the first half. Revenues for the first nine months were QAR 3 billion compared to 3.3 billion last year. EBITDA declined 11% year-on-year to 1.3 billion. Asiacell continues to focus on careful cost management and optimized marketing spend during the period, which supported a healthy EBITDA margin of 45% during the first nine months of 2020. Asiacell extended its Metro Fiber to five new locations, which also brought a 1% increase in customer base to 14.2 million over the first nine months compared to the same period last year. Preparation for the launch of LTE services in 2021 are progressing well.

Moving to Oman, slide 15. Ooredoo Oman accelerated the pace of its 5G rollout, extending the coverage of the 5G Supernet Home Internet services to more areas in the country, as we remain committed to offering our customers the most advanced infrastructure to keep them connected. Movement restrictions and the shrinkage of the expat population in Oman impacted our results for the period. Ooredoo Oman reported revenue of 1.9 billion during the first nine months, down 5% compared to the same period last year, driven by a reduction in mobile revenue. Consequently, EBITDA declined 9% to QAR 1 billion, compared to the same period last year. Sequentially, overall, we witnessed an early stage of recovery, EBITDA increased 3% in quarter three 2020 compared to the previous quarter. To better serve our customer base of 2.6 million and differentiate our offerings in the market, Ooredoo Oman launched Pay+, a mobile wallet enabling customers to make contactless deposits, bill payments, transfers and pay over 3,000 merchants by just using their mobile numbers. We also remain committed to supporting the local community through these uncertain times by donating laptops to students and providing access to an online education portal and app-based learning solutions through its enhanced digital tutorial lab.

Moving onto slide number 16, Kuwait. Ooredoo Kuwait's performance for the first nine months was impacted by a softening macroeconomic environment, and intense price competition in the market. The company reported revenue of 1.8 billion for the first nine months, down 9% compared to the same period last year. EBITDA for the period was QAR 482 million compared with QAR 36 million last year. Sequentially, we are starting to see market conditions stabilize as commercial activity picks up, following the easing of movement restrictions. Quarter-on-quarter revenue increased 5% between Q2 and Q3 and EBITDA increased 9% for the same period. Ooredoo Kuwait's customer base at the end of nine months was 2.4 million. In September, we celebrated 1,000 days of data center services with zero downtime.

Moving onto slide 17, Algeria. Economic conditions in Algeria deteriorated during the COVID-19 pandemic, adding to the already challenging market [affected] by intense price competition and currency weakness. The Algerian dinar also depreciated 5% year-on-year. Ooredoo Algeria reported a revenue of 1.7 billion, down 11% from last year. Consequently, EBITDA for the nine months was down 20% to 575 million. Ooredoo Algeria continues to focus on cost optimization, supported by a stable EBITDA margin of 34%. The company witnessed a positive quarter-on-quarter trend in both revenue and EBITDA, which increased 10% and 20% respectively in Q3 2020 compared to Q2 2020. Ooredoo Algeria's customer base was 12.3 million at the end of the first nine months compared to 13.4 million last year.

Moving onto slide 18, Tunisia. In Tunisia, we continued to focus on offering our customers the best digital experience and during the quarter we launched our updated My Ooredoo app which boosted the adoption of our digital sales and care channels. Our strong digital capabilities and innovative products offering enabled Ooredoo Tunisia to grow its revenue by 2% during the first nine months and reaching QAR 1.1 billion despite challenging macroeconomic conditions due to COVID-19 pandemic. EBITDA for the period was 494 million compared to 523 million for the same period last year. Just as a reminder, last year in 2019, there were some one-off reversals which benefitted 2019 results, and in addition to that, 2020 was impacted by increased billing and collection costs, reflecting a slowing economy. Sequentially, Ooredoo Tunisia increased revenue by 12% and EBITDA by 22% compared to Q2 2020, showing a recovery in the performance. Ooredoo Tunisia's customer base was 8.8 million, reaffirming its position as the number one telecom player by customer market share as well.

Moving onto the last OpCo, Myanmar, slide number 19. Our digital offering continues to be well received in Myanmar, with the Ooredoo app increasing its monthly active user base to 3.35 million, supported by the launch of the new version of the app. Our subscriber base also increased to 13.1 million during the nine-month period. Ooredoo Myanmar reported revenues of 872 million, up 8% compared to the same period last year, supported by a favorable exchange rate and increased data consumption, which offset a decline in voice revenues. However, increased customer acquisition costs contributed to a decline in EBITDA to reach 198 million. Sequentially, there was a slight revenue decline of 1% Q3 2020 compared to Q2 2020.

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

Andreas Goldau

Thank you very much, Ajay. Before we go into the Q&A session, we are sharing with you our conference planning for the remainder of the year. Three conferences in November, all virtually, by Bank of America, Morgan Stanley and Arqaam. We hope to see you at these events, and now we can start the Q&A part. Questions can be asked on the webcast or over the phone. Dounia, would you please be so kind to explain to our participants how to ask questions. Thank you.

Q&A

Operator

[Operator instructions]

Our first question comes from Dilya Ibragimova, Citi. Please go ahead.

Dilya Ibragimova

I have two please from my side. First is on Qatar, revenue, and EBITDA improvement in the third quarter. You mentioned that both have been supported by the ICT and fixed revenue. Could you please quantify how much of that, actually, you expect to be recurring, all of that or whether there has been a one-off project in there.

My second question is on miscellaneous income that you tend to have that has to be reported below EBITDA. There has been, I think, a chunk of 100 million and further 87 million in the second and third quarter, respectively. Could you give some color on that, what it relates to and whether that's cash income or non-cash?

Maybe last question again focusing on Qatar, if you could update on the competitive environment in mobile. How do you see the price competition and [inaudible] 5G, is it being positioned by you and Vodafone as a premium product or just more of a – or whether you see opportunity to drive ARPU and revenue growth as the 5G devices come on the market.

Sheikh Mohammed Al Thani

Regarding Qatar, I would like just to say a few things here. We had a very solid in our quarter, in Ooredoo Qatar, and we reported a very solid Q3 2020 compared to Q2 2020, and also compared to the Q3 2019. We know that when we see or look at the year-on-year, we have seen that decline, which is impacted heavily by COVID-19. We know that, for sure, we, in the telco industry, are the least impacted compared to other businesses. However, when we talk about our growth, and it has been mentioned by our Group CFO that the main increase we have seen is in the fixed and ICT, and that's, frankly speaking, to our advantage and thanks to our unique offering with Ooredoo ONE TV, that we are providing home broadband, TV and landline, and that's where Ooredoo Qatar has an advantage of offering this type of a product, which honestly we have seen also an increase in customer base by 2% year-on-year. That's where we can see the increase coming from, fixed line.

As mentioned, in the ICT business, we have seen growth in Ooredoo Qatar and that's also attributed to the pandemic where we had seen a lot of demand of video conferencing and enterprise services that is driving the increase in the ICT business and other managed services that we have seen for the last few months during the pandemic.

Concerning the question or query about the mobile, we know that mobile market has been flat and we have seen tough competition specifically for prepaid, and I could attribute that the prepaid decline is because of the pandemic that really affected the disposable income of workers and also due to a decline customer confidence due to the pandemic. This consolidation of services and products has been also a bigger part, which is really hitting the market.

However, we have been very proud how we are excelling in our mobile services through our recent 5G plans, which has really uplifted ARPU and unique products in the market, as well as the type of products that we are offering. So, that's really bringing a flavor how we are uplifting or giving the value for money for our customers through a good type of product here.

Part of that question is related to below the line, I would maybe leave that question to my colleague, Ajay, our Group CFO to highlight of this below the line, let's say, remarks.

Ajay Bahri

Thank you very much. For the miscellaneous income, the year-on-year increase is about QAR 235 million. The biggest piece of that increase is coming from foreign exchange improvement, about [80] million comes from foreign exchange movement, primarily coming from Myanmar. Apart from that, there were three other large items, two of them were last year, which were benefits in Indonesia, one was spectrum [audio] recall, and so it was a reversal of tax provisions last year. This year, the major other income coming also from Indonesia, which was the reversal of the warranty provisions for the sale of the towers.

So, these are the four big reasons why the variance is there between the two years. The complete foreign exchange benefit is not coming to the bottom line, because last year there were two large one-offs in Indonesia. It is partly offset by the warranty provision reversal.

Operator

[Operator instructions]

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

Sara Al-Sayed

We have one question from Omar Maher. "Could you please provide updates on competitive dynamics in Iraq?"

Ajay Bahri

In Iraq, I think there are two dynamics. Right now, the most important one, really, is that in quarter two, because of the pandemic, there was a shutdown in the country and that's why we saw a steep decline in the overall market size, and you can see a steep recovery now coming into the market. As a result of this recovery, there was a significant increase in both revenue and EBITDA quarter two to quarter three, almost 24% increase in revenue and 41% increase in EBITDA. So, we can see some stability coming back from the COVID impact, but not still reaching the normal levels.

As far as competition is concerned, it's been always intense in Iraq and that intensity still continues. The real dynamic in Iraq is going to be the launch of 4G services, which was initially expected to happen at the beginning of next year, with the award of the spectrum and renewal of the licenses. And maybe it's good to highlight that the license renewal has been challenged in the court by one of the parliamentarians there, and that issue is still not decided, so we wait for the court decision to see how this progresses moving forward.

I see there's a question on Oman as well. Sara, which question would you like me to answer now?

Andreas Goldau

I think there was a follow-up from Omar. He said, "can you be more specific? My question is, would you say that the intense price competition is value destructive in your view or is it normal?"

Ajay Bahri

I think this quarter actually one can see recovery quarter-on-quarter, and the price competition, like I said, has always been there. It goes up and down, so nothing unusual about the intensity, but the offers which are limited in nature, if they are not controlled well, there is a risk of destroying the market, that is true, but we have to see how that plays out in the coming quarters.

Andreas Goldau

Then we have a question from [Yegide Onabule]. "Plans to finance the bond in 2021 in the market?"

Ajay Bahri

So, the February refinancing for the \$1 billion bond, we are quite well placed right now in terms of liquidity, and we are looking at options if we need to access the market, which will include options of going to the bank market or the bond market, so those reviews are still ongoing. If there is any update to that, we will let you know, but as far as the liquidity is concerned, we are well placed already for the refinancing.

Andreas Goldau

Then we've got a question from [Anastios Galadianakis]. "Could you please update on coverage and 5G speeds in Qatar? How do you see iPhone 12 sales developing in Qatar?"

Sheikh Mohammed Al Thani

Regarding the coverage, we are very proud to say that we have more than 90% coverage of 5G on the populated area. I think we have been seeing the progress of the 5G network also having an iPhone 12 launch coming up, that will really complement the experience of our customers and how we are very confident also that we can provide the best customer experience when this 5G is out in the market. We know that there is a big push and a big percentage of our customer base, they are iPhone driven, and I'm sure that we will have that confidence and customer experience enjoyment by our customer base.

Andreas Goldau

We've got another question Yegide Onabule. "Can you comment on the Omani market, new players, competitive behavior, and strategy?"

Ajay Bahri

So, the Oman market has witnessed shrinkage of the market this year, partly because of the pandemic as well as because of vendor intensity and competition on the mobile side, which all players and [inaudible] as you know in the market. Competition is going to come now next year, the strategy of Ooredoo Oman is based on focused customer service and digital excellence. An example of that was the launch of the Pay+ mobile wallet recently. We continue to improve our customer service and digital approach. We already have other digital services in the market. Another aspect of Oman is also the fixed line business, which is growing well, where our market share was lower and we're growing our market share. So, it's basically making sure excellence on the digital side, which is a core of our group strategy where Oman also plays a key role.

Operator

We have another audio question from Ziad Itani, Arqaam Capital. Please go ahead.

Ziad Itani

I just have a question on the dividends. So, your policy is 40-60% of normalized earnings. I'm just wondering if we can consider what's disclosed on slide seven for the nine months of 1.1 billion as normalized earnings or not.

Ajay Bahri

I think we will talk normalized profit once the full year is over, but think big picture, this is the foreign exchange movement, which underlines this, is taken out from that. From that perspective, you're right, that will be excluded, the gain or a loss when we look at the normalized profits, yes. But more details we can talk about once the full year results are there on how we will determine what is normalized. Any one-off big items, some of them which sit under "miscellaneous income" could also be something you might have to consider.

Ziad Itani

So, the miscellaneous, also, gains should be probably removed from this. Also, just one more question on the MVNOs in Kuwait, is there any development on these?

Sheikh Mohammed Al Thani

There have been some developments, but when the pandemic started, there has been, let's say, some frozen talk into MVNO, and that's where we stand as of today.

Ziad Itani

Also, on Kuwait, anything new on the number ranges case?

Sheikh Mohammed Al Thani

There has been no such progress. Still in the stage of the High Court and we can update when any such progress happens.

Ziad Itani

And one last question on Iraq. Also, you mentioned you planned to launch 4G services next year. Is this associated with the license renewal or it's separate, or it has to be one agreement, basically. Is there any color on the potential cost of this?

Ajay Bahri

So, the 4G launch and services was in the same decision which has been challenged in the court now, which included the license renewal as well, so until this court decision comes out, it will be difficult to say what will be the final amount, but the initial decisions were reasonable and in line with market rates, about \$233 million was the renewal cost, but we will have to wait and see what happens in the court case.

Ziad Itani

And any timeline on this?

Ajay Bahri

We believe the hearing is coming next month, but as you know, court cases can take some time, but given the urgency of this matter, we believe this should have, hopefully, a sooner resolution.

Operator

[Operator instructions]

Andreas Goldau

It looks like we covered all the questions, I don't see any more on the webcast nor on the audio. Dounia, is this correct?

Operator

I can confirm that we don't have any further questions.

Conclusion

Andreas Goldau

Then I would like to thank everyone for joining today's call. Please refer to the Ooredoo Investor Relations website for additional updates. Do follow us on Twitter at @OoredooIR or feel free to contact the Investor Relations team if you need further information. We look forward to your future participation at the conferences in November and our next update is the full year results probably mid of February. Meanwhile, thank you again for your continued interested in Ooredoo. Stay safe.