Transcription for OOREDOO

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Corporate Participants

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Nishit Lakhotia
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Citigroup

Eric Chang
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Presentation

Operator
Ladies and gentlemen, welcome to Ooredoo's Second Quarter Financial Results conference call and webcast. I now hand over to your host, Mr Andreas Goldau, Ooredoo Group Investor Relations. Sir, please go ahead.

Andreas Goldau
[Arabic greeting]

Hello, and welcome to Oordeoo'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 Waleed Al Sayed, Deputy CEO of the Ooredoo Group and CEO of Ooredoo Qatar and Ajay Bahri, our Chief Financial Officer.

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 two.

[Disclaimer]

To begin, I now hand over to Waleed.

Waleed Al Sayed
Thanks, Andreas and thanks to everyone for joining today's call. This has been a very good first half of the year for Ooredoo showing good signs of financial and operational progress across the majority of our operations. With customers at the heart of our business, we grow our customer base by 14% year-on-year, now proudly serving a total of 150 million customs across all of our operations. Financially, Ooredoo generated solid results with a 2% increase in revenue compared to the same period of last year. Data growth is strong, a testament of our continued investment in rolling out our digital strategy and delivering world-class infrastructure. Data revenue accounted for 44% of total group revenue, supported by gross and revenue and EBITDA as well as our strategy to optimise efficiencies across our diverse portfolio. EBITDA margin increase to 43%. I am pleased to say, again, exceeded our guidance for EBITDA, which at QAR 6.9 billion in the first half of 2017 is 7% up over the same period of last year, well ahead of the provided guidance of 0.23%. Due to a significant foreign exchange gain in the first half of 2016, our net profit for the first six months of 2017 is down. However, excluding the foreign exchange gain last year, net profit was up by 11% indicating healthy growth. We will continue to keep a strong hand on operational efficiencies and cost synergies derived from group sourcing. A highlight from the first half of the year has been our operation in Maldives, which is making good progress with the IPO, trading is expected to start this August, with 9.5% of the company shares to be allocated to new investors. We are pleased to invite them to be a part of Ooredoo's growth story.

As you can tell from the results, Ooredoo Group and Ooredoo Qatar experienced no significant impact on our performance following the situation of diplomatic relations by several neighbouring countries, which happened on 5th June 2017.

I am now handing over to Ajay Bahri our Group CFO to cover more details of the quarter.

Ajay Bahri
Thank you everyone for joining the call today. We start with slide number five. We performed well in most of our operations and delivered growth in revenue and EBITDA, reflecting the progress that has been made across the group. In local currency terms, growth was driven by Ooredoo Qatar, Ooredoo Oman, Ooredoo Kuwait, Ooredoo Tunisia, Asiacell and Ooredoo Maldives. Excluding foreign exchange translation impact, revenues increased by 3% year-on-year. Once again, our operations in Qatar and Indonesia demonstrated their significant position within the group and remain our core revenue generators. As mentioned earlier, EBITDA showed a strong growth of 7% to QAR 6.9 billion for the first half of 2017 while EBITDA margins increased to a healthy 43%.

Let's move to slide six. Group net profit was impacted by foreign exchange gain of QAR 540 million in first half of 2016; this led to a year-on-year decrease of 25% in net profit. Excluding the foreign exchange impact, net profit increased 11% in the first half of 2017 compared to last year. Net debt reduced by 6% to QAR 27.9 billion. Our net debt to EBITDA ratio is 1.9 times, which is in line with our long-term guidance of between 1.5-2.5 times.

On slide seven, let's take a look at free cash flow and CapEx. As mentioned at the beginning of the call, we are focusing on deriving cost synergies across the group. CapEx was reduced thanks to our global sourcing programme and group economies of scale. In addition, we have now largely finished the heavy lifting of network investment over the past few years. We maintained a healthy level of free cash flows at QAR 3.8 billion for 2017 first half, an increase of 14% from the same period last year. Our CapEx to revenue ratio continued to decrease to 10% in the first half compared to 15% for 2016. As in previous years, CapEx spend picks up in the second half of the year, and we expect higher levels in the second half of 2017.

Moving onto the next slide, total customers. We are proud of our continued progress in retaining customers and attracting new ones, as it is a testament to our relentless focus on customer centricity, smart marketing strategies, and network quality. As you can see on slide eight, we have achieved a good growth of 14% in our customer base, mainly generated by our operations in Indonesia, Iraq, Algeria, and Tunisia.

Slide number nine. As you can see, we have a well-balanced debt profile with total group debt further reduced to 41 billion. Group debt remains mainly at a corporate level largely in Qatar, followed by Indonesia and then a smaller percentage allocated to the other OpCos. Debt at the OpCo level is kept primarily in local currency.

Slide 10, we have a conservative debt profile in terms of both instruments and timings, but this year there are no upcoming debt maturities. The next due bond is our Sukuk maturing in December 2018.

Let's move to slide 11. Reflecting the significant efforts put by the team to increase business profitability and efficiency, we have again exceeded our estimates of EBITDA growth, which stood at 7%. Revenue growth is within the guidance range on the upper side at 2%. For the reasons discussed a few minutes ago, CapEx is significantly below guidance level and is 32% lower than the first half of 2016.

Slide 13, Qatar. Let's progress to the operations review. On slide 13, you can see that Ooredoo Qatar produced a positive performance in terms of revenue, EBITDA, and customer numbers. We maintain our number one position in the market and are proud of our fixed line and mobile networks being ranked among the fastest globally. The highlight for the period has been the launch of CAT16 technology, a first for the region, which enables mobile data speeds of up to 1 gigabyte per second. Year-on-year revenue remains stable with EBITDA increasing by 4% with an improved EBITDA margin of 50%, as a result of further cost efficiencies. The trend between Q1 and Q2 was almost flat for revenue and EBITDA margin.

Moving on to slide 14, Indosat Ooredoo continues to maintain its significant contribution to the group and delivered another stellar set of results during H1 2017. Revenue was up 9% year-on-year with growth mainly driven by higher revenue in the consumer segment and B2B both supported by data growth. EBITDA was 11% up and continues to be supported by growth in revenue and operational efficiencies. Results were also supported by stable currency movements and lower foreign exchange denominated debt. 4G rollout is progressing well with 31 new cities covered during the first half of the year. Customer base is up almost 20%. Sequentially, revenue grew further by 8% in quarter two due to the Leberon festival and EBITDA increased by 15% with a 3% increase in EBITDA margin supported by underlying growth and cost efficiencies.

Let's move to slide 15. We are pleased to see progress in Iraq with Mosul and other areas being liberated. Revenues positive and up 4% in H1 2017 compared to the same period last year, reflecting more stable market conditions. That said, business in Iraq continues to be impacted by the challenging banking system and political situation. Asiacell's overall performance was impacted by all these factors. However, thanks to our efficiency programme and tight cost control, we maintained a healthy EBITDA margin of 45% in 2017. We also made great progress in customer base growth with new additions coming from the liberated areas. Both revenue and EBITDA showed positive trends over the previous quarter.

On the next slide, you can see Ooredoo Oman delivered good customer growth of 9% in the first half of 2017 compared to last year. Revenue was up 2%, the growth was driven by the mobile and fixed data segment. EBITDA continues to be impacted by the high customer acquisition cost, while EBITDA margin remains strong at 53%, reflecting good cost control. Our financial results have been impacted by the increase in royalty fee and in income tax rate. We are expecting more details on a third player to be announced in September. Sequentially, revenue and EBITDA declined slightly in Q2 due to promotional activities in the holy month of Ramadan.

Let's move to slide 17. In Kuwait, the mobile phone market contracted and customer numbers decreased as we see fewer multiple SIM users. Despite the intense competition and a very tough market, Ooredoo Kuwait had a first solid half year, with 4% growth in revenue compared to the same period last year. EBITDA was up 25% to QAR 322 million year-on-year improving the EBITDA margin by 4%, supported by continued cost efficiencies and reduced handset subsidy from 2016 levels. Sequentially, revenue and EBITDA increased as well.

On slide 18, you see Ooredoo Algeria is facing challenging market conditions and a fierce pricing environment. Year-on-year revenues lowered by 6% due to VAT increase and market conditions. Nevertheless, on-going cost optimisation efforts resulted in EBITDA margin of 45% driven by a 12% increase in EBITDA to QAR 778 million. We maintained revenue market share and continued to grow our customer base. Operationally, we are in a strong position. The new Higher World offer for our consumer and B2B segments have improved Ooredoo brand reaching market brand equity leadership and helped us reach a landmark 14 million total customers. Due to the weak economic environment, Q2 experienced a slight drop compared to Q1.

Next slide please. During the first half of the year, Ooredoo Tunisia has made good progress in its data focused strategy by investing in advanced technologies, with rapid expansion of 4G rollout. Overall, results have been impacted by Tunisian dinar depreciating 13% year-on-year. Revenue was down 11% and EBITDA was down 10% in the first half compared to last year. However, in local currency terms, they both increased by 2% and 4% respectively, supported by growth in mobile and fixed revenues. Data remained the key contributor to our revenue. Sequentially, while revenue and EBITDA remained stable in local currency, due to foreign exchange depreciation, revenue and EBITDA in riyal terms declined from Q1.

Moving onto slide 20, a highlight for Ooredoo Myanmar for the first six months of the year is its success in driving forward its efficiency programme and cost reduction initiatives maintaining its return to positive EBITDA margin achieved in Q1 2017. EBITDA has also reached a positive QAR 44 million up from negative 3 million in H1 2016, supported by gross margin expansion and tight cost control. Revenue is down 13% impacted by the depreciation of the Myanmar kyat by 10% from last year levels, as well as lower data and voice revenues due to intense market offerings. Recurring revenue grew 1.7% in local currency terms. Operationally, we are now covering the vast majority of the population and continue to focus on the rollout of 4G network. During Q2 2017, we acquired two times 10 megahertz in the 1,800-megahertz spectrum band. Sequentially, the positive EBITDA trend continued while the revenue was lower due to water festival and reduced handset sales. We will continue to make investments in our business to maintain our competitive position ahead of the fourth operator entry to the market end of this year or early next year.

With this, I hand it back to Andreas.

Andreas Goldau
Thank you very much, Ajay and Waleed. I am now going to ask the operator to explain how to ask questions.

Question and Answer Session

Operator
[Operator instructions]

We have a question from Omar Maher from EFG Hermes. Please go ahead.

Omar Maher
Last quarter in the conference call, you mentioned that it was a bit unclear what the outcome of the third license in Oman was. I think this quarter – after your call we have seen a lot more interest from regional players, especially I think we had Etisalat and Zain, some of the big groups have also been interested in the license now. I would appreciate if you can share with us your thoughts on what you think is the impact of the entrance of a third operator in the market, now that you know the profiles of those who are interested and just your thoughts on where competition is heading and where these operators maybe are seeing an opportunity where you think you can defend your position. Thank you.

Ajay Bahri
Competition is not new for the group. We have a lot of operations where we have more than three operators also, so I think irrespective of who the potential bidders might be, I think we have a clear strategy to combat competition and it was expected the third operator would come to the market, so this really doesn't change our view as far as our

readiness is concerned. Readiness would be at the highest level irrespective of who the competition is.

Omar Maher
In light of the increase of royalty rates and the increase in tax, how comfortable are you with the interest of a third operator at this particular juncture?

Ajay Bahri
I think that is for the third operators who have bid to think about that. I think we are not in a position to comment about their interest.

Omar Maher
I was looking to understand your view about the market and probably, I am guessing the acceleration of competition in the market, regardless of what the motivation of the third operator is.

Ajay Bahri
With a third operator coming in, competition normally does intensify as you have seen in all of the markets. It is nothing new to be expecting that and so normally what operators who are in the market have a head start, and they are in a better position to consolidate their position before a third operator comes in. Competition will increase and we expect that to happen maybe some time next year, but like I said, it is a phenomenon of the telecom industry and nothing unusual as far as Oman is concerned.

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

Ziad Itani
I just have two questions. First of all, on Qatar, can you give us some guidance into Q3 numbers if you have seen some exodus of expat population and is there any spill over impact on other markets, such as Maldives, because they previously severed ties with Qatar. The second one on Kuwait, we have seen a massive 20% and 15% Q-on-Q and year-on-year recovery in revenues, but looking at ARPUs, they are down year-on-year and you lost close to 8% of your subscriber base, so I was wondering, actually, what is the reason behind this increase in revenues?

Waleed Al Sayed
For Qatar, the population has increased 4% year-on-year, and it has continued to grow because all the projects related to the infrastructure and also the FIFA World Cup 2022 is accelerating and it is moving ahead with its programme. That is why we are anticipating that the growth in population will continue, and quarter to quarter, we have seen that number of customers has gone up and starting from 1st July, we see also very positive signs that the number of customers is going much higher.

Ziad Itani
And what about Maldives? Did you have any setback over there?

Waleed Al Sayed
Maldives, basically, as we have been informed officially, the issue is political and has no effect whatsoever on the trade or on any economic situation, and that is why we are doing very, very well there.

Ajay Bahri
On the Kuwait side, the revenue is actually up 4% year-on-year, and the EBITDA margin, in fact, has increased in 20s, and the decrease in customer numbers is as a result of a clean-up of the base as well as decreasing multiple SIM-ers in the market. Part of the increase of revenues also coming from non-recurring handset sales as well, so if you look at the mix of the revenue maybe year-on-year, the mix is slightly different, we have more handset sales this year. However, the handset subsidy this year is much less than the previous year, which was when all the operators were doing more handset subsidy, so that has benefitted us in the EBITDA margin. In addition to that, cost efficiencies have been a focus of the company as well. Big picture, it is the reduction in subsidies and cost efficiencies impacting the EBITDA margin.

Ziad Itani
I am talking about Q2 numbers not first half, so regarding Q2 numbers - they are up 4% year-on-year or 15%?

Ajay Bahri
The Q2 numbers again are up, basically, because of handset sales. It is not because of just recurring revenue and handset sales. It is a phenomenon of a one-off nature, so they are up 20.2% the revenue quarter one to quarter two is up 20%, so in the previous quarter the handset sales are not as intense. So there is a little bit of timing, so maybe the best way to look at is more like a total of the two quarters together and the margin

increase, of course, is linked to lack of subsidy. If you have handset sales without subsidies, that has a more positive impact on the bottom line compared to previous years when there were handset sales, but they were with subsidies.

Ziad Itani
So you're making close to 15% margins on handset sales?

Ajay Bahri
We were making losses on handset sales in the past, because we were giving subsidies to the customers.

Ziad Itani
Q-on-Q your margins did not materially deteriorate.

Ajay Bahri
Quarter-on-quarter this year, itself, there has not been subsidies, so there are two different aspects I am comparing. We talked about quarter-on-quarter, the increase in revenue is mainly driven by higher handset sales without subsidy. In quarter one, also, there was no subsidy. But if you compare it to last year, last year there were subsidies in the market so the margins were lower last year.

Ziad Itani
Yes, I get your point, but given that you have EBITDA margins in the range of 25% and that they did not really deteriorate Q-on-Q, this means that the handset sales margins are quite high.

Ajay Bahri
No what it means is we didn’t have much handset sales last quarter. We have had more this quarter but without handset subsidy, so the subsidy impacts the margin in a big way, which has not happened in either quarter one or quarter two, so neither of the quarters had handset subsidies

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Ziad Itani
Any updates on the TRA (Telecom Regulatory Authority) over there in Kuwait?

Waleed Al Sayed
The regulatory is progressing as we said; still there are lots of matters that have to be transferred from the Ministry to the TRA. This is going smoothly, but is taking a little bit of time. We believe that this is not affecting the market there, but it is maturing little by little.

Operator
Our next question is from Walid Bellaha from Barclays. Please go ahead.

Walid Bellaha
I just have one question. Concerning the restrictions in terms of travel now in the region, do you expect any effects on roaming revenues and if it is relevant or negligible?

Waleed Al Sayed
This question definitely relates to Qatar again, because this is the only operation that has this situation. The effect, let me say, was negligible. This issue is related to – the blockade parties and also to Qataris travelling, so the effect is plus and minus, so it is not really significant.

Operator
Our next question is from Nishit Lakhotia from SICO. Please go ahead.

Nishit Lakhotia
I have one question on the Myanmar operations. I have been seeing that the revenue is not really growing. Obviously, you have the currency impact there, but then considering that the fourth operator is coming and you're already investing further on buying spectrum and all. Looking at EBITDA may just be a bit misleading if your depreciation, amortisation and all those costs keep increasing with more and more of your investment into this country. Considering the amount of investment you have done in the operations, when do you see this result giving adequate return to the shareholder in Myanmar and how do you see – are you happy with the progress that you are seeing or are you concerned with more competition coming in to the country?

Ajay Bahri
I think the competition coming into the country was known, so the fact that it is coming is not new information. However, the performance, we would like it to be better than where it is today, and the revenue impact is correct that, although, foreign currency has

impacted, in riyal terms you see a decline. In local currency terms, also, the growth is (irrespective of recurring revenue) is about 1.7%, but normally we would have expected higher growth in the market.

There has been some intense competition, which has slightly abated recently, so if you talk about from the middle of last year, there was competition – competitive pricing pressures on data side in the market, which we did respond to and that has impacted the overall revenue in the market. However, a little bit of that has abated recently, so the impact of that will be more visible in the coming quarters, and we are long-term investors in the country and although right now the competition is intense, which can only become more intense when the next player comes in. But long-term the country is already on a high GDP growth trajectory and we believe that with the growing economy of the country, all sectors, especially the telecom sector will also benefit with that.

Operator
Our next question is from Carin Cheung from AIA Group Ltd. Please go ahead.

Carin Cheung
I have two questions. The first one would be about a jump in intangible CapEx in Q2. The year-to-date CapEx increased to 2.4 billion, which was very close to last year full year number of 2.8 billion. I remember earlier this year the management commented that the spending would be substantially lower in this year. May I know the nature of the increase and whether the amount will stay where it is now or go up further? The second question, I just want to know whether you are still confident to achieve the performance guidance given the situation in Qatar and in the GCC?

Ajay Bahri
As far as the intangible CapEx is concerned, it says in our presentation in Myanmar, there was an opportunity to get 2,100 spectrum, 10 megahertz of that for all the operators at a fixed price, and that opportunity could not be let go of. Long-term with 4G coming in the market, there would be need for more capacity, so the business case for investing CapEx against getting more spectrum made sense to buy more spectrum. That was something, which was not clearly planned earlier, but when the opportunity came, it made more financial sense to get more spectrum to alleviate the cost of CapEx going forward.

As far as the performance is concerned, we are ahead of our guidance and we don't see any need for revision to that. We are not unduly concerned, like Waleed also mentioned that the performance in Qatar has been not significantly impacted by the events. We are considering that the guidance given is appropriate.

Carin Cheung
Just a follow-up question regarding the CapEx spending, you mentioned that it is due to unexpected opportunity that you could not let go, so if similar opportunities arise in the second half, would you still spend your cash flow on that? Or you intend to keep certain level of free cash flow to cope with the upcoming maturities in 2018/2019, although I understand that you have – you are still very rich in cash.

Ajay Bahri
Normally, when we give our CapEx spend, we normally exclude the intangible CapEx in that exactly for the same reason, so the intangible CapEx, when you give guidance is normally not covered in the total CapEx. Having said that, opportunities like this don't come up very often. Very often, the spectrum allocation strategy is generally agreed with the regulators upfront and although I can say we're not expecting any major spectrum auctions in either of the countries right now. But if suppose an opportunity comes, it is basically a financial decision. Very often, most spectrum means your CapEx spend would be lower especially on the capacity side, so we normally look at the financial return at a certain cost, then you would invest in that, so it has to be value accretive then you could consider things like this in the future.

In terms of our refinancing requirement, I think the amount of spend on small blocks of spectrum is not very expensive compared to – the amount is not significant, let me put it like that – compared to the refinancing needs, so that is certainly not a factor when we are taking that decision.

Carin Cheung
Thank you and would you mind providing guidance for the free cash flow for 2017?

Ajay Bahri
I think we have our revenue, EBITDA and CapEx guidance, so generally EBITDA minus CapEx would give you an indication of the free cash flow.

Operator
Our next question is from Omar Maher from EFG Hermes. Please go ahead.

Omar Maher

I have a couple of follow-up questions. My first question is again on free cash flow. Obviously, the CapEx spend in the first half was relatively low, as you said, there is a phasing out effect because of the completion of the network modernisation across the board, but I am guessing it is probably going to increase from the current 10%, a little bit more by the end of the year. But if you're able to maintain a strong free cash flow profile for the second half of the year and for the full year, just trying to understand what would be your priority whether it is in terms of retaining the money in order to meet your debt maturities or improve the return of value to shareholders.

My second question is on Kuwait, trying to understand more the reason for the decline in handset subsidies that you mentioned earlier, is it an elective decision based on an attempt to improve the margin or are you witnessing the same kind of trend across the market from competitors as well?

Ajay Bahri

As far as the CapEx is concerned, like you also pointed out, that the second half generally has a catch up on the CapEx spend side, so we expect that to happen this year as well. However, given that we have given you a higher EBITDA guidance, and a lower CapEx guidance compared to last year, you can derive that the free cash flow is expected to be higher than last year, in terms of derived guidance, which you can get. How that free cash flow is to be utilised is obviously a function of what opportunities for investment are available in the business, and we normally balance repayment of debt against returns to shareholder, and these are generally decided by the board more in the first quarter of the year, once the net profit and final results are there. So there is no fixed dividend pay-out policy, as you are aware. It is a flexible policy, but historically, we have seen that we balanced the needs of all the stakeholders when we allocated free cash flow. But increasing free cash flow does mean that there is possibility of looking at dividend payout ratio as well.

Waleed Al Sayed

Regarding Kuwait, we believe, basically, that handset subsidy was overdone by all the operators. In fact, we see trends that from the start of this year that there is like a slowdown in handset subsidy and we play rationally in all the markets that we are in, and that is why we have also reduced our handset subsidy and we don’t do handset subsidy at the moment, except if we are going to react to some of the promotions that are being done by remaining, and we hope that everybody will continue to play rational in this sense.

Omar Maher

Just from conversations with some of your competitors in the market, most of the time they will mention that it is actually Ooredoo that initiates the relatively more aggressive offers, especially when it comes to subsidising handsets, so this is why I am just trying to understand whether it is mostly a decision from your end. If it is the case that you are more on the initiating side of these promotions, or whether you're just walking the same trend as the rest of the market and seeing everyone reducing the handset subsidies as well.

Waleed Al Sayed
Let me correct this. We heard what you heard also that we have been accused to be who started the price war, but this is absolutely not the truth. The truth is that we were the most affected by the price war and what has happened by other operators. We are trying to show that we are a professional operator; we are trying to be rational and playing in the market. The competition should be the offering, the value for the money, the marketing, the quality of the service and the customer services, not the price war. However, sometimes it is not in our hand and we have to react to what happens in the market. From the beginning of this year, we saw some more rational approach to the market. We hope that this is going to continue and if this continues, definitely, Ooredoo will be the most supportive to this approach, because this is the right thing to be done.

Operator
[Operator instructions]

We have two further questions on the audio. Yulia Ibrahimova from Citigroup. Please go ahead.

Yulia Ibrahimova
I had a couple of questions please, one on Qatar. Considering your fairly confident comments on population growth that you have seen so far in the country and going in, looking forward. My question is why service revenue in mobile, for example, it doesn't seem to be growing, and including in second quarter. What is happening in the second quarter? Is this a result of promotional activities on the back of Ramadan, or are you just not seeing or perhaps you are seeing decline in consumption per customer. If you could add some colour, why even though the population is growing, the number of customers is growing and the revenue is not growing? My second question is on Algeria, it seems like in local currency, the year-on-year decline in revenue has accelerated in the second quarter. Maybe you could give us a bit more colour on what is happening on the ground. Is it competitive pressure from incumbents or Algeria Telecom? Is it promotional and you expect some recovery in growth? Just any colour on what is happening with the revenue.

Waleed Al Sayed
Related to your question about Qatar, definitely there is a small portion of roaming revenue that has been declining, because, basically as I said, this is the effect for both sides, not one-sided effect, and the same thing that the roaming in Qatar has declined because of those blockade countries, citizens, they cannot travel to Qatar. Definitely, Qatar has not blocked anything and they are welcome to come. But anyway, I think they are blocked from that country. The effect is in both sides. The only effect is a small portion of this roaming has stopped and that is the effect. However, you know that the pricing between GCC countries is like the local pricing and the effect on that is very minimal and it is not significant.

Yulia Ibrahimova
If I may just follow-up with this, given what has happened with your competitor in July, do you have any perhaps anecdotal evidence of how you think you will be affected in the third quarter. Have you seen increase in active customer base, for example, on the back of network failure, or maybe increase in traffic, whatever you see on the network?

Waleed Al Sayed
That basically happened in the month of July. We don't comment on that at the moment. I think in the third quarter you will see if there is an effect or not. However, the competition now, they have restored all their services, and they give a compensation plan, and they are doing operation in a very, very professional way. Whether anybody is going to port from their side to our side, we will see this effect on the third quarter and then we will report back to you.

Ajay Bahri
As far as Algeria is concerned, the decline that you see in Algeria year-on-year and even quarter-on-quarter to some extent is a combination of a couple of things. The major impact year-on-year is the VAT implementation which was not passed onto the customers by the industry. I would say about two-thirds of the impact is coming from that. In addition to that, it is the competition and the economic slowdown in the country due to the oil prices has also impacted spend by the consumers, and of course, competition is also a little more intensified. But the major decline is because of the VAT.

Yulia Ibrahimova
Could I just follow-up and maybe just add another question on Kuwait, it seems like it is not only device subsidies that are being curtailed, but also from the second quarter,

there seem to be big adjustments to data prices in that data bundles are being reduced by all the players. Do you think there is a change in the mind-set on the market and players want to restore or get some money back on the investments in 4G that have been made, or do you think it is just… perhaps it is shift in strategy that, I don't know, whether it is driven by you because you are always competitive and others are following, or maybe the other competitor, the challenger is becoming less aggressive and everybody follows and tries to get some returns on fast investments?

Waleed Al Sayed
As I have mentioned before, the offering and the pricing and the subsidy and the data pricing in Kuwait was irrational at all, and I think all the three competitors we were doing negative margin on data, because of the price war that is happening there. We believe also that this is – Kuwait the cheapest data pricing in the world, which does not make any sense if you take the buying power and the GDP income and all these things, it makes no sense at all. I think we have not been – definitely we have been expressing our opinion in the market, but there was not something like that between all the three companies to agree on anything like that. That is why Ooredoo started stopping any price decline, and since the beginning of this year, once we saw that there is, basically, people or competitors became more rational in this, we have just followed what is happening in the market. Whenever there is a reduction in the packages or anything like that, then we follow and we watch, because again, we don't want to be surprised by another promotion that slashes the prices to the bottom.

Alhamdulillah this is happening now and very slow, but very steady and we hope that it will continue. If this happens, then maybe one day we will go to a positive margin for data and not negative as today.

Yulia Ibrahimova
Could I ask just one more last question from my side? Just on the net debt level, could you remind us what net debt to EBITDA level you feel is comfortable and if the credit rating was to change and the sovereign rates were to rise in Qatar, for example, by 50 basis points, how would that level of comfort change for you?

Ajay Bahri
I don't conjecture about the increase in rates, but what I can talk about is the comfortable level that we have is more a ratio rather than an absolute number. We believe ratios give a more indication and are more appropriate to look at because that takes scale in context as well. Like I said, our range is 1.5-2.5 times EBITDA as the net debt target. We are at 1.9 times, which means we are now in the lower half of the range. So big picture, I would say that the net levels we have now are in a comfortable range.

When we were more towards the higher end, which was a year back or one and a half years back, I would say those were the levels we were not very comfortable with, but as a ratio, we are reaching more comfortable levels now.

Yulia Ibrahimova
If the rates rise, for example, if you were to refinance, and right now most of the debt portfolio it is on a holding level, it is fixed rate, but if the sovereign rates were to rise, would that change at all your position on what you feel is less comfortable?

Ajay Bahri
I think we will have to cross the bridge when we reach there, because rates are just one factor one would consider in such a decision. However, I think it would not be good to conjecture in isolation about one variable. But definitely at the time of refinancing, all these things would be looked at. There was another question earlier about how do you use your extra free cash flow, so all these decision making takes into account various variables, cost of refinancing is one of them.

Operator
Our next question is from Eric Chang from HSBC. Please go ahead.

Eric Chang
I just want to dwell on the tax, it doubled year-on-year, is it because a combination of the tax holidays has lapsed or increased profitability in some of your subsidiaries. What drove the near doubling in taxes?

Ajay Bahri
It is a combination of both things you talked about. There is increased profitability in terms of countries. The major impact is coming from Algeria where we had a tax holiday until last year, where the taxes have started. In addition to that, taxes have gone up in Oman as well, like we mentioned, so it is a combination of both things, higher profit in countries where we have taxes, for example, in Indonesia as well, profitability is higher than last year, but it is a taxable jurisdiction, in Algeria, taxes started this year, there were no taxes until last year, and Oman where taxes have increased during the year.

Operator
[Operator instructions]

We have no further questions. Dear speakers back to you for the conclusion.

Andreas Goldau

Thank you very much operator and thank you all for joining today's call. Please refer to the Ooredoo investor relations website for additional updates and feel free to contact the investor relations team for further information. We look forward to your future participation in our next update probably around the 25th of October. Meanwhile, thank you again for your continued interest in Ooredoo.
