



Transcription for OOREDOO

May 1st, 2019



Corporate Participants

Andreas Goldau

Ooredoo – Head of Investors Relations

Ajay Bahri

Ooredoo – Group Financial Officer

Mansoor Al-Khater

Ooredoo – Chief Strategy Officer

Sara Al-Sayed

Ooredoo – Investor Relations



Presentation

Operator

Ladies and gentlemen, welcome to Ooredoo Group first quarter 2019 financial results investor call and webcast. I now hand over to your host, Andreas Goldau, Ooredoo Group Investor Relations. Sir, please go ahead.

Andreas Goldau

[Arabic greeting]

Hello and welcome to Ooredoo's financial results call.

[Introductions]

We start with an overview of the group results followed by a Q&A session. The presentation is available on our website at www.ooredoo.com as well as on the webcast.

[Disclaimer]

To begin, I now hand over to Ajay.

Ajay Bahri

Thank you, Andreas. Thanks to everyone for joining today's call. I will start with slide number four.

During the first quarter of the year, while Revenue grew in local currency terms in our markets, in Qatari Riyals was down by 6% to QAR 7.2 billion, as a result of Macro economic and currency weakness in some of our markets and reduced handset sales.

We continued with our cost saving initiatives to optimise our offering to deliver value to our shareholders and customers. Group EBITDA reached QAR 3.2 billion, an increase of 4% compared to the same period last year.

EBITDA margin improved to 44% compared with 40% during the corresponding quarter in the previous year mainly due to:

- Effective cost management
- Reduced cost of sales due to lower handset sales
- 3% positive impact from the new IFRS 16 accounting standard on Leases from 1 January 2019

We see data playing an increasingly important role across all our markets and as such have been working carefully to create new and innovative ways to monetise data and create value



for our customers. I am pleased to report that, data revenues during the quarter accounted for 50% of overall group revenue amounting to QAR 3.6 billion.

Ooredoo Group recorded a net profit of QAR 420 million, down 13% compared to the same quarter last year. Excluding FX impact, Net Profit would have been up by 8%.

Next slide. Group revenue QAR 7.2 billion, down 6% compared to the same quarter last year, mainly driven by lower devices sales, currency depreciation and performance decline from Myanmar and Algeria. I would like to take this opportunity to highlight that we are beginning to see year on year growth in Indonesia as the market stabilizes following the introduction of the SIM card registration regulation. I'll touch upon this more in our slide on Indonesia.

EBITDA was up 4% to QAR 3.2 billion mainly which reflects the effect of IFRS 16. Our EBITDA margin grew to 44% compared to 40% for the same period last year with a 3% positive impact from IFRS16, as explained earlier.

Slide six, net profit. Net profit declined 13% compared to the same period last year, primarily due to a reduction in net foreign exchange gains.

In the first quarter of 2018, foreign exchange gains amounted to QAR 166 million whereas during Q1 2019 the gain was limited to QAR 77 million. Excluding the foreign exchange gains net profit increased 8% year on year.

On slide seven, let's take a look at CapEx and free cash flow. CapEx was up 17% to QAR 1.1 billion, representing our commitment to delivering the highest quality of coverage in the markets we operate in as well our ambition to deploy the latest technologies and standards in connectivity.

Our investments have provisioned the company for future growth, mainly 5G and 4G deployment and digitisation across our key markets. Furthermore, our global sourcing strategy enabled us to optimise CapEx by taking advantage of Ooredoo Group's scale.

CapEx represents only tangible CapEx and excludes license fee obligations and right of use assets under IFRS 16.

Free cash flow declined 9% to 1.5 billion, impacted by the increase in CapEx.

Next slide please. We saw an increase in our customer base in most of our OpCos. On a group level, total customers declined 25% to 112 million, this is a result of the clean-up of our customer base in Indonesia post the introduction of the new SIM regulation last year. We have discussed this in detail in the previous quarters. Despite that, revenues in Indonesia increased 6% in local currency during the quarter, as we target higher value customers.



Slide nine, net debt. I am pleased to report that we have a healthy and well-balanced debt profile. Net debt increased 6% to QAR 27.7 billion, impacted by the implementation of IFRS 16.

Our net debt to EBITDA ratio is at 2.2x. Without IFRS 16 impact, it would be 1.9x, which is within our long-term guidance of between 1.5 and 2.5 times.

Group debt remains mainly at the corporate level, largely in Qatar, followed by Indonesia, and then a smaller percentage allocated to the other OpCos.

As a reminder, debt at the OpCo level is kept primarily in local currency.

Let's move to slide 10. As you can see, our Q1 2019 revenue missed our full year guidance range of -3 to 0 growth; this is mainly a result of reduction in handset sales.

EBITDA growth stood at 4%, adjusted for IFRS 16, it would be down -3%, slightly better than the full year guidance of -7 to -4%.

We maintained a disciplined CapEx approach, a high performing efficiency programme and strict cost management.

Let's move onto operational review for all the OpCos, slide 12, Qatar. In our home market, Qatar, we maintained our number one position supported by our leading network infrastructure, which is ranked amongst the fastest globally. We continue to lead the global race to provide 5G services with more than 90 5G sites live across the country.

Financially, revenue was down slightly due to reduced handset sales. However, underlying service revenue remained stable during the year. Pre-IFRS 16 EBITDA margin is 56% supported by a favourable mix between service revenue and handset sales, as well as improved efficiencies and cost optimisations across the business. Sequentially, revenue is lower due to higher mega projects and handset revenues in Q4 2018, while the EBITDA margin improved.

During the quarter, we demonstrated a commitment to innovation by conducting the world's first international 5G call from Qatar to Kuwait.

Let's move onto slide number 13. Indosat Ooredoo's top line performance is showing further signs of recovery, leaving the negative impact of the SIM card registration regulation implemented in 2018 behind. Revenue increased 2% compared to the same period last year, in rial terms. This is an indication that the recovery is well on its way with our new approach, following the introduction of the new SIM market regulation.

Improved customer loyalty and lower churn rates resulted in revenue growth, despite a reduction in our customer base. EBITDA increased 10%, faster than revenue due to cost optimisation initiatives and positive IFRS 16 impact.



Sequentially, revenue is down 1% due to seasonality, while EBITDA (pre-IFRS 16) has improved by 12%, supported by continued cost saving initiatives, while Q4 2018 had a one-off marketing expense.

Operationally, we expanded our 4G plus network to 422 cities with our 4G network coverage reaching 81% of the population.

Slide 14, Iraq. In Iraq, due to increased price competition, revenues are flat at QAR 1 billion and EBITDA decreased 12%, due to increased spending on sales and marketing activities.

As a result, the customer base increased 10% to 14.2 million in Q1 2019 compared to Q1 2018.

Sequentially, revenue was lower due to seasonality and increased competition, while EBITDA margin (pre-IFRS 16) is higher. Q4 2018 included certain year-end provisions as well.

On slide 15, let's discuss Oman. Ooredoo Oman continued to report robust financial results with growth across the board.

Growth was supported by our focus on digital enablement as we cater to the changing needs of both business and consumer customers across Oman. To maintain our digital competitiveness, we launched new services and products designed to elevate the customers' digital experience.

During the quarter, "Digital Shahry" was launched alongside a new app for businesses, giving customers increased flexibility along with new channels to interact with Ooredoo Oman.

Year-on-year and sequentially, revenue and EBITDA were relatively stable.

Let's move to slide 16, Kuwait. Year-on-year, revenue declined by 15% due to lower handset sales. We reported significant EBITDA growth of 46% to QAR 210 million, and margin improvement from 18 to 31%. EBITDA margin growth was driven by lower handset sales, a positive IFRS 16 impact, as well as improved efficiencies and cost optimisations across the business.

Ooredoo Kuwait's customer base increased to 2.5 million in Q1 2019, up 13% compared to Q1 2018.

Sequentially, revenue is lower by 5% due to lower device sales. Q1 2019 pre-IFRS 16 EBITDA is lower due to one-off cost provision reversals in Q4 2018.

Slide 17, 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 persistent price war, and an overall shrinkage in the market.

As a result, Ooredoo's total revenue in local currency declined 9% year-on-year.



Operationally, we maintained our mobile data leadership by providing the greatest 4G coverage in the country reaching over half the population in all 48 wilayas. Our customer base increased 4% to 14 million during the quarter, supported by the launch of the La Gold promotion targeting high end customers.

Sequentially, revenue in local currency declined by 3%, while EBITDA (pre-IFRS 16) improved by 1%.

Slide 18, Tunisia. Tunisia delivered another robust set of results this quarter. We maintained our leadership in the mobile market and grew customer numbers by 7% during the quarter. Revenue also grew 7% in local currency terms during the year, however, in rial terms, revenue was down 15% as a result of the strong depreciation in the Tunisian dinar during the year. Growth was driven by mobile data as well as fixed and international revenues in local currency.

EBITDA grew 23% in local currency terms, mainly as a result of increased revenues and the IFRS 16 impact.

Revenues were grossed up for royalty tax and the full year impact was reflected in Q4 2018. As a result, sequentially, reported revenues declined. On a normalised basis, revenue grew by 7% sequentially in local currency.

Slide 25, Myanmar. Despite the market entry of the fourth operator, Ooredoo Myanmar increased its customer numbers by 20%, supported by our strong brand recognition.

Ooredoo Myanmar generated revenue of QAR 260 million during Q1 2019 compared to 355 million for the same period last year, impacted by the depreciation of the Myanmar kyat, which declined 12% year-on-year and aggressive data pricing in the market. Pre-IFRS 16 EBITDA is breakeven due to aggressive price competition and customer acquisition costs, despite other cost saving initiatives. Sequentially, revenue was flat.

Looking ahead, we remain cautiously optimistic about revenue recovery. Starting from mid-Feb 2019, the regulator asked operators to stop top-up bonus promotions to be in line with the price laws they have recommended. This has led to some improvement in the market.

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

Andrea Goldau

Thank you very much, Ajay. Before we start on the Q&A session, just a reminder that we are still planning our capital markets day in June, final details to be decided very shortly and we keep you updated on this.

If the operator could now explain how to ask questions over the phone and over the webcast.

Question and Answer Session

Operator

[Operator instructions]

Our first question comes from Herve Drouet from HSBC. Please go ahead.

Herve Drouet

Just a couple of questions on my side. The first one is the EBITDA margins in Qatar, we saw a significant jump, 56%, just wanted to see if it is mostly due to IFRS 16 for this margin improvement or if there are other reasons for the improvement.

In Algeria, I wanted to get a bit more in terms of your view when you think we could see some start of stabilisation and when do you think operations can start to be turned around in that country. Do you think it is something that may happen this year, potentially, or do you think it is further away.

Also, I was wondering if you can give us, as well, any update in potential spending, additional spending on CapEx or in terms of frequency acquisition in the different countries you are operating. Thank you.

Ajay Bahri

The first question on Qatar EBITDA margin, as you will see on slide number 12 that pre-IFRS, we said the EBITDA margin was 56%, so 1% benefit is coming from the IFRS 16 savings. Another factor is lower handset sales, but if you look at the absolute increase in EBITDA, if you take out 1%, that is due to cost efficiencies in the country.

As far as Algeria is concerned, I think we are also keen to see stability return to the country. As you are aware, there is economic and political instability today in the country and we believe it will take a little time before stability returns to the country. I think following political stability, we would expect economic stability as well, which of course will then get reflected in the stability of the telecom market as well. We are cautiously optimistic things will get better as we progress during the year.

Spending of CapEx for frequency acquisitions, there is no active acquisition of frequency as we speak. If you talk about our license renewals, one of the major license renewals would come in Iraq in 2022, so that is one of the first major license renewals on the cards.

Operator

Our next question comes from Dilawer Farazi from Loomis Sales. Please go ahead.

Dilawer Farazi

Just a sort of broad question in terms of how are you looking at the markets that you currently operate in, given the difficulties you have had in terms of flattish growth. Where do you see growth in these markets and would you have any interest in exploring into new markets or exiting some of the ones that you are currently in. Can you just give us an idea around the strategy of the business?

Ajay Bahri

I think the issue that you have highlighted is the issue for the whole industry, not just specifically for us as Ooredoo. As you are aware, the industry itself is going through a lot of changes right now. One of the focuses of the industry is on digitalisation right now, and that is one area where we are also focused, and the speed of implementing that is different in different markets.

As far as the portfolio itself is concerned, right now we are focused on the portfolio we have, we are not actively looking at other M&A opportunities. What we have also said is that if there is an opportunity which is really value accretive, as an exception, we might look at it, but we are not actively looking at M&A activity, either to enter or exit. What we are open to is in-country consolidation, if there is an opportunity and those opportunities are well known to everyone in each country where there are multiple operators. Some of them have opportunities, but in the past, some regulatory constraints were there to implement these.

Dilawer Farazi

So Turkey is definitely off the table.

Ajay Bahri

Actively, we are not looking at Turkey now.

Operator

Our next question comes from Dalal Darwish from Arqaam Capital. Please go ahead.

Dalal Darwish

I have just one question on Algeria. Can you please tell us what is the percentage difference between the official foreign exchange rates and the black market rates?

Ajay Bahri

We can only comment on the official rate. What we report to you is based on the official rates, so the rate for Algeria for 1 USD is DZD 118.7, so that is the rate that we are using, 118.7 for the quarter.

Andreas Goldau

For your reference, we have all the exchange rates at the bottom of the OpCo slides in the footnote there.

Operator

Our next question comes from Dilya Ibragimova from Citigroup U.K. Please go ahead.

Dilya Ibragimova

Just a quick question on Iraq, whether there is any update on the licensing renewal, either timing or cost and what is your view on the fourth license process that seems to be ongoing, that the Government is doing some consultations with external parties to put together another proposal. Do you think there is a risk that the new player may be offered an exclusivity as your license is coming due and how would you approach that. That is my first question, thanks.

Ajay Bahri

Like I said, the Iraq license will be the major licenses coming up for renewal in 2022, so generally discussions with Government start a couple of years before that, so maybe next year some discussions could start, but we don't expect any finalisation any time soon for that.

As far as the fourth license is concerned, we don't have any official update on how that is progressing. However, our view is clear that currently the three operators are covering the country well, and as far as exclusivity is concerned, there are no indications or anything like that is on the cards as we speak.

Dilya Ibragimova

Just stating on Iraq, a quick question on the network capacity and growth, it seems like there is some slowdown in revenue growth and the CapEx has been slow for yourselves and the competition. How do you see growth going forward? Is there enough capacity to drive growth or, for now, it will just be more harvest of the network that you have and just maintaining returns as they are until you get more clarity on the licensing?

Ajay Bahri

Right now, as you know, in Iraq only 3G is there and data growth is still continuing, which is offset by voice decline. I think in the country there is huge opportunity of growth of data, especially 4G. That is one thing which is actively being talked about. Although, I did say, our license extension is for 2022, but discussion of 4G could happen before that, so there is no



cutback on CapEx spend, it is driven by the needs in the country and as and when there are requirements, we intend to maintain our network leadership.

Operator

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

Ziad Itani

First of all, on the other income, this foreign currency gain of around 82 million, this is coming in from where? Is it from the devaluation of the Myanmar kyat because you have debt there, or what?

Ajay Bahri

During the quarter, the kyat had appreciated, as it had done last year in quarter one as well, so last year the impact was much bigger. Although the impact in foreign currency is in a lot of markets, the majority of the impact is coming from Myanmar this quarter, as well as Q1 2018. It is appreciation of the kyat, not a depreciation

Ziad Itani

So why do you have a gain? You have debt in which currency there?

Ajay Bahri

We have payables and loans in dollar terms, and that is why if it appreciates we get a foreign exchange gain. The reverse happens when the currency depreciates.

Ziad Itani

Also, on the other income, you have some miscellaneous income of 1 or 3 million, that is one quarter of your total net income. What is this, if you want to model for it, for example?

Ajay Bahri

We have 165 total as an income and the big movement comes in foreign currencies which is 82 versus 172, and the other movement which you are talking about as major in the miscellaneous income, a lot of these are one-off incomes, sale of assets, sometimes sale of investments which happen here, but the material movement in that overall line item is coming from foreign exchange in this quarter.

Ziad Itani

Within the miscellaneous income you have also FX impact.

Ajay Bahri

The FX impact is in what we are seeing as foreign currency gains. If you look at Note Number 4 of the financial statements, there is a special line for foreign currency, so all the FX goes in that line item. In miscellaneous income we have got other items in different OpCos, sometimes there are one-off income and benefits, sometimes on asset disposals, which are covered here. Miscellaneous by its very nature, it is something which cannot be clubbed into something else.

Ziad Itani

Just one question on Qatar, how much have you got in spectrum on 3.5 GHz and when can we expect this to sort of start to impact the operations.

Ajay Bahri

Again, I will have to reconfirm the number, I think we have got 100 already at 3.5, and the impact of that in terms of 5G revenues obviously comes once a full-blown launch of 5G happens. Right now, it is more like a showcase and limited rollout, only just about 90 sites have been rolled out, so the benefit of that would only come as we start expanding the network on 3.5.

Ziad Itani

Do you see this as a potential threat on the fixed segment revenues if, let's say, competition can make usage of this to gain market share on the fixed.

Ajay Bahri

Fibre, long-term, is cheaper to deploy and more efficient as well, so I think in countries where there is no fibre, I think that is an opportunity in those countries to use 5G as an alternative. Where fibre is already deployed in all the households, like in Qatar, I think cost effectiveness-wise, fibre would definitely be better in the long-term.

Operator

We have a follow-up question from Dilya Ibragimova from Citigroup. Please go ahead.

Dilya Ibragimova

Just a quick question please, on 5G in Qatar, how many base stations have you already installed and what are your plans for this year and next year. If you could quantify that, that would be great.

Ajay Bahri



Right now, we are just over 90 sites, like we have highlighted in our presentation as well, and I think the future deployment, really, depends how we see things going in terms of handsets as well, also how we see demand and use cases for 5G evolving going forward. Like I said, right now, it is more a showcase. We also had the first international call between two countries in the world, which was between Qatar and Kuwait done by us. As you know, the World Cup comes here in 2022, in Qatar and we will be at the forefront of all telecom technologies for that. This should be seen in the context of that long-term vision which the company and the country has.

Operator

We have a follow-up question from Ziad Itani from Arqaam Capital. Please go ahead.

Ziad Itani

Just on Kuwait, it seems there is overall a strong decrease in device sales in that market. What is the reason behind this? Did the regulator intervene or is it a change from the strategy of, let's say, telecom operators there or is just a demand factor?

Ajay Bahri

A little bit of demand factor, in the previous year, the iPhone demands were much higher, and the iPhone X hasn't had the same amount of traction as the other models. Very often if the competition is also not pushing handsets then it goes down, but we believe this can change during the year as new models come out. Having said that, the benefit that you see in Kuwait is because of stabilisation of prices there, which is benefitting all the operators, and that is why you can see improvement in margins for two reasons, one is revenue stabilisation and lower handset sales, so both of these have contributed to higher EBITDA margin.

Ziad Itani

The regulator, basically, did not intervene to stop any handset subsidies?

Ajay Bahri

Not that I am aware of, there are no such interventions.

Operator

[Operator instructions]

Andreas Goldau

Maybe in the meantime we take a few questions from the webcast.

Sara Al-Sayed

We have a question Al Rayan Investment.

“You have CapEx guidance of 5.5-6.5 billion for 2019, what are your funding plans for this CapEx?”

Ajay Bahri

CapEx fund is done independently by each of the operations themselves, with the exception of Myanmar, which is where the EBITDA is still low. So self-funding is the answer for all the OpCos except Myanmar.

Sara Al-Sayed

Another question from Loomis Sales.

“What are your funding plans? Do you expect to do any issuance this year?”

Ajay Bahri

As far as this year is concerned, we do have some refinancing up on the cards, for which we are not planning to access the debt capital markets. As of now, no plans to go to the debt capital market this year.

Sara Al-Sayed

Another question from EFG Hermes.

“Are you experiencing any pressure on growth in Qatar because of expat departures? Is that the reason why you reduced handset sales, if not, should we expect handset sales to increase again throughout 2019? How is the operating environment in Qatar?”

Ajay Bahri

As far as the expatriates is concerned, I don't think there is a material impact, the overall population is relatively stable and expected to actually grow as we get closer to the 2022 expansions start happening.

Handset sales, like I explained for Kuwait, a similar impact to Qatar as well, where iPhone sales were lower than what we have done in previous years. Also, some of the sales of the handsets were wholesale in nature in Qatar, which was not impacting our direct customers as well.

Having said that, during the year, as we go ahead, one could expect some increase compared to what we did in Q1 for handset sales.

Sara Al-Sayed

A question from [Danstec] Investments.

“Could you please give us more colour on operational aspects in Iraq, competition and CapEx?”

Ajay Bahri

In Iraq, competition has intensified during this quarter and as a result of that, you can see the revenue growth which we were witnessing in the previous years was not there this year. At the same time, as data revenue is growing, voice revenue is declining and with growth in data revenue, there is a need for more transmission, which has impact on the cost, so intensified competition from what we saw last year.

And the CapEx deployment is, as usual, there is nothing unusual on the CapEx side, we will continue to invest in CapEx like I answered for one of the previous questions.

Sara Al-Sayed

Another question from [Danstec] Investment.

“Growth potential and market share gain possibility in Iraq?”

Ajay Bahri

In Iraq, we are the leader as far as revenue and market share is concerned, customer market share, Zain is the leader. I think we are still maintaining that leadership position for revenue. I talked about 4G as a potential that really depends on the licensing of 4G, so that can add a new dynamic to the market. As we speak right now, we intend to maintain our market leadership in the country.

Operator

[No further questions]

Andreas Goldau

I would like to thank everybody for joining today’s call. Please refer to the Ooredoo Investor Relations website for additional updates and follow us on Twitter at OoredooIR and feel free to contact the investor relations team for further information. We look forward to your participation in our next update probably around the 29th July. Thank you again for joining and your continued interested in Ooredoo.