Management presentation

Luelle Pillay, Investor Relations:

Good afternoon everyone. Welcome to Ooredoo Group's Q1 2024 financial results call for the period ended 31st March 2024. My name is Luelle Pillay, and I'm the Head of Investor Relations for the Group. Today, I'm joined by Aziz Aluthman Fakhroo, our Group CEO, who will kick off our presentation with an update of our strategy and take us through the consolidated results. He'll be followed by Abdulla Al Zaman, our Group CFO, who will walk us through the operations performance.

As always, we will keep the presentation brief to allow ample time for your questions. Please do type your questions in the Q&A session of the Zoom seminar at any time. The presentation is available on our website at Ooredoo.com as well as on this webcast. The recording and transcription of the session has started now. So, by attending this session, you consent to being included.

Please note the usual disclaimer on slide number 2. And on that note, I hand over to Aziz.

Aziz Aluthman Fakhroo, CEO of Ooredoo Group:

Good afternoon, everyone. Welcome to our quarter one investor call. As usual, I'll commence with our strategy update. Our strategy remains unchanged and fixed around 5 pillars: customer experience; our people and talent; smart telco and evolving the core; strengthening the core; and a valued focused portfolio. We continue to execute on this strategy to position Ooredoo as the leading digital infrastructure provider in the region.

A brief update of our key vertical, starting with towers. In December of 2023, you will recall that we finalized the agreement with Zain and TASC to establish the largest tower company in the MENA region. Currently, our primary focus is on finalizing the deals in each market, a task we anticipate completing within 18 to 24 months.

In the data center vertical, following the carve-outs of Qatar and Tunisia, our attention is focused on Kuwait, which is expected to complete next quarter. The carve-outs of Oman and Iraq will follow suit during the year.

In the Fintech vertical, in Oman, our PSP license was granted last week. The product and technology solutions are ready to go live. A friends and family soft launch will commence during this month. We are pursuing licenses application in Iraq, Kuwait, and Tunisia. The positive momentum seen in Q4 2023 carried forward into the new year with an improvement in all financial and operating metrics.

Let's dive into the details into the next slide. As shown on the slide, all our KPIs are in the green, indicating a strong start to the year in the first quarter. Revenue grew by 4%. EBITDA increased by 6%. EBITDA margin improved by 1 percentage point to close the quarter at a solid 43%. Free cash flows increased by 8% on the back of improved profitability. Normalized net profit was up by 26%, and we maintained a healthy leverage ratio of 0.8 times net debt to EBITDA. We grew our customer base by 3%, reaching nearly 160 million subscribers, including IOH.

Let's move on to the next slide for the revenue bridge. Revenue was up by 4% to 5,9 billion Qatari Riyals. This growth was on the back of strong operational growth in Iraq, Algeria, Kuwait, Tunisia and Maldives. Weaker top line performance in Qatar, which was impacted by lower mobile, fixed services and device revenue partially due to the spillover impact of FIFA, Oman which remains under pressure due to the highly competitive environment, Myanmar grew in local currency, but was impacted by currency depreciation and Palestine, of course, was impacted by the war.

On the next slide for an overview of our EBITDA performance. The improvement in profitability and margin were driven by service revenue and a strict control of our OpEx. Algeria, Iraq and Tunisia were the main contributor to this performance. Included in others is a positive contribution from: Fintech; Masarat our ISP provider; data centers, AMH and IOH. Oman's EBITDA was affected by lower gross margin and higher OpEx, while Qatar's EBITDA decline was mainly due to softer top line performance. Additionally, Kuwait's EBITDA saw a decline due to a one-off bad debt provision raised in Q1 2024.

On a reported basis, net profit was 5% lower on a year on year. Q1 2023 benefited from a litigation gain in Kuwait. On a normalized basis, net profit actually increased by 26%. This slide illustrates the major differences between reported to normalized net profit, with FX impact being the biggest contributor for Q1 2024.

Turning to CapEx. In the first quarter of the year, we invested 382 million riyals on our infrastructure. We strategically increased investments in Tunisia, Qatar, Kuwait and Algeria. The CapEx intensity improved slightly to 6.5%. CapEx spend is expected to rise over the year due to the timing and cyclical nature of expenditures.

Free cash flow grew by 8% to 2.2 billion riyals on enhanced profitability.

In the Q1, we increased our customer base by 2 million subscribers. Our customer base increased by 4%, reaching just shy of 59 million with each OpCo expanding its customer base. As previously reported, the decrease in our Qatari customer base is attributed to a revision in the definition of prepaid customer. On a comparable basis, our customer base grew by 1% in Qatar.

Now let's discuss our balance sheet. From the chart, it's evident that we have a robust financial position. Our gearing is low at 0.8 times and below our board guidance. We have worked with our lenders to extend availability of our existing RCF up to 2028. We now have ample liquidity to cover all our maturities. We are also structurally hedged for interest rates hike as 96% of our debt is at a fixed rate. Our efforts have paid off. Last month, Fitch upgraded our credit rating to A-stable. They highlighted our conservative leverage profile, strong parent support and solid free cash flow generation. While S&P and Moody's maintain our investment grade rating.

To conclude my section, we reaffirm our forward year 2024 guidance. We had a solid start to the year with improved commercial and financial metrics. Our Q1 results are ahead of our full year guidance. Our revenue is up by 4%, thanks to growing service revenue. EBITDA margin expanded by 1 percentage point to 43% as we work towards improving profitability and cash generation. For 2024, we expect an EBITDA margin in the low 40's with a continued focus on cost control. The CapEx spend is projected to be approximately 3.5 billion Qatari Riyals. On this note, I hand over to Abdulla to provide more insight into our operational performance. Thank you.

Abdulla Al Zaman, Group Chief Financial Officer

Thank you, Aziz. Good afternoon, everyone. I will take you through our operational performance for the first quarter of 2024.

Let's start with our home market, Qatar. The operation grew its customer base by 1% on like for like basis. Revenue decreased by 7% on reported basis. The revenue base for Q1 2023 was higher due to FIFA 2022 contracts for the B2B service and revenue from Ooredoo Financial Service and Data Center, which have now been carved-out. Normalizing for these, revenue decreased by 2% year on year. On the other hand, revenue improved by 2% in quarter 1 2024 compared to quarter 4 2023. Normalized EBITDA declined by 2%. EBITDA margin strengthened by 1 percentage point reaching solid 52%.

Moving to Kuwait, the operation grew its customer base by 3%. The increase in our customer and high service revenue led to a revenue growth of 8% in a local currency. EBITDA was impacted by one-off bad debt provision, raised in quarter 1 2024. Excluding this provision, EBITDA increased by 1%.

In Oman, performance still impacted by intense competition on the mobile market. Despite this, the operation grew its customer base by 2%. Revenue declined by 3% and EBITDA decreased by 5%. Even with intense competition, Ooredoo Oman managed to maintain a solid EBITDA margin of 46%.

Moving to Iraq. Asiacell once again stood out as a strong performance, thanks to a favorable market condition, a growing customer base and increase adoption of data services. Commercially, Asiacell expanded it is customer base by 6% reaching 18 million customers. In local currency, revenue grew by 14% and EBITDA increased by 17%. EBITDA margin expanded by 1 percentage point to 46%.

Next is Algeria. Ooredoo Algeria emerged as another top performer for the Group, highlighting our ability to enhance efficiency and improve profitability. The customer base grew by 4% to 13.5 million. Revenue increased by 14% in local currency. EBITDA expanded by 25% in local currency with 4 percentage point increase in margin to 43%.

Moving to Tunisia, despite a challenge operation environment, we continue to invest in the country and advance our competitiveness. Our investment paid off and we are leading in customer satisfactions and grew our customer by 1%. In local currency, revenue grew by 5%, helped by significant growth in mobile B2B and fixed businesses. Normalizing for one-off bad debt provision in quarter 1 2023, EBITDA grew by 4% in local currency.

Shifting our focus to Asia, in Myanmar customer expanded by 7%. The significant depreciation of the currency impacted the reported financial. However, on local currency basis, revenue grew by 14% due to higher B2C mobile voice and gaming revenue. EBITDA declined by 10% due to adverse FX effect and rising fuel costs, reducing the EBITDA margin to 30%.

In Maldives, we kept investing in our infrastructure to improve our market position, expand our share of a customer wallet, boost revenue and enhance profitability. For Q1 2024, customers grew by 1%, revenue grew by 8% and EBITDA increased by 4%. EBITDA margin was solid at 53%.

Despite the tough condition in Palestine, we remain committed to support our customer and ensuring connectivity, leading to a 3% growth in our customer base which now total 1.5 million. In the face of challenging operation landscape and a 4% depreciation of a local currency against the US dollar, revenue declined 4% on a reported basis. EBITDA decreased by 9%, while EBITDA margin dropped 2% point reaching 38%.

Next is Indosat, last but not least, published another solid set of result last week. Its scale and merger synergy helped propel revenue up by 16% and EBITDA increased by 21%. This concludes my operational review.

Back to IR team. Thank you.

Luelle Pillay, Investor Relations
Thank you very much, Before we dive into the Q&A portion, I'd just like to draw your attention to some of the upcoming conferences displayed on your screen that we may join.

Moving to Q&A. To ask a question, you can raise your virtual hand. I will open the audio line when it comes to your turn. Alternatively, you can simply type your questions in the q and a box.

And if you're dialing in via phone line, please press star 9 to ask a question. For the Q&A a session, I'm joined by senior leadership team. In addition to Aziz and Abdulla, we also have with us Sheikh Mohammed, our Deputy CEO, Rene, our Head of Strategy, and Eyas, our Deputy CFO.

Questions and Answers

Question
Luelle Pillay, Investor Relations
So we're going to open the panel for the questions now. I see a hand raised by Nishit Lakhotia from SICO Bank. Go ahead, Nishit

Nishit Lakhotia, SICO Bank
Yes. Thank you for the call and the opportunity. I have a couple of questions. First on the Qatar operations, it seems that still, Ooredoo is losing a bit of market share to its competitor. So what is the strategy to change that? Because there's been a few quarters of relatively poorer performance versus your competitor in Qatar. So that's my first question.

Second is: can you quantify the impact of the one-off bad debt provision in Kuwait? And what was exactly this relating to that triggered it in the first quarter? So that's the second question.

And 3rd, any update on the TowerCo transaction in the last 3 months since the call that we did in, in terms of how it has moved? That would be helpful. Thank you.

Aziz Aluthman Fakhroo, CEO
Thank you. I'll take a couple, then I'll transfer to the finance team. I'll start with the last. With the TowerCo we are proceeding with trying to close respective market. It's a very complex transaction. As you may imagine, this involves 6 markets - as you know - with diverse regulatory frameworks. We're currently pursuing all the regulatory approval in each market. We're making, right, our main focus is first to close Qatar, as explained on the call. To close Qatar and to merge it within the existing Jordanian and Iraqi business of TASC. This requires regulatory approvals on both sides. We're making very strong progress. We're confident that we will get this transaction closed this year for sure and hopefully before the second half of the year. And we're also pursuing regulatory approval in all the other markets in parallel.

When it comes to Qatar's performance, actually, this is the 2nd quarter in a row where we are stable in revenue market share and mobile revenue market share. And in non-mobile revenue market share, we actually in certain segments likely gained a bit. So I don't see a persistent decline. I'm actually a bit surprised you're saying persistent decline. When we look at our numbers versus competition, we've been stable for two quarters in a row and we're happy with the stabilization within the market.

Regarding Kuwait, I don't know, Sheikh, if you have any other comments about the other?

Sheikh Mohammed Abdulla Al-Thani, Deputy Group CEO
The market is still competitive. And I think when you refer to the decline, maybe it fits year on year because it is an impact of the World Cup, which is related to the B2B services. However, when it comes to the market competition, we're quite optimistic about the market for the last 2 quarters where we've had some stabilization and a good story of back to growth on the prepaid segment. This is in a nutshell how we see a stabilization on the mobile market for the last 2 quarters with the retail cut off. For Kuwait, yes, there is one-bad debt provision. I think we can shed some light on the scene for that exact provision then for quarter 1 is good.

Abdulla Al Zaman, Group Chief Financial Officer
Yes. On like to like, we said there is a growth if we normalize the one off that was coming in the quarter one. And that's a slight increase by 1%, I would say. So from a performance perspective on COVID, we see it's a growth, and it's not declining.

Question
Luelle Pillay, Investor Relations
Thank you. Our next question comes from Maddy Singh from HSBC. Go ahead, Maddy.

Madhvendra Singh, HSBC
Yes. Hi, can you hear me okay?

Luelle Pillay, Investor Relations
Yes. We can.

Madhvendra Singh, HSBC
Great. Um, so, a few questions from my side. Firstly, to follow-up on the TowerCo transaction. Is there any guidance or you know, like, any suggestions on, you know, how what will be the impact of the tower code transaction on the income statement for Ooredoo. Are you expecting it to be: net income accretive or dilutive? What kind of impact we should expect on the EBITDA margins? If you could share any thoughts on that. For our modeling purposes, that will be very helpful.

And, the second question is on Algeria. The performance looks very strong there. So, I was wondering whether this is a sustainable performance, you think? Especially the margins, you know, coming back to more above 40%, 42-43%. So whether that level is sustainable?

And thirdly, on the Indosat performance, again, very strong performance during the quarter. So I was wondering. Has there been any upgrades to these synergy targets, if at all, in Indonesia? And, generally, you know, right now, we are at 80 million profit level as you shared on the slide. Can the net profit margin is there a target on what could be the, let's say, a sustainable or good level of net profit margin compared to, you know, where the revenues are? That will be great. Thank you.

Aziz Aluthman Fakhroo, CEO
So first for Indosat as we guided in the past, initially, when we announced the transaction, we were targeting around $300 million- $400 million a year of recurrent synergies within year 4 or 5. As we've guided in the recent quarters, we're running ahead of the schedule. We actually completed most of the synergies as of today and we're at the higher end of the of our estimates. So we're closer to $400 million of recurring synergies achieved within 2.5 to 3 years versus 4 to 5 years. That is one big driver of Indosat's performance. The other performance driver is also the excellent job the management team has been doing on many fronts: from driving efficiency, innovation, customer excellence, and also a general market dynamic where rationalization of the market subsequent to our merger has driven general better behavior by all telco operators. So there's not one factor, but many factors helping with Indosat.

Going to Algeria, Algeria and Iraq, by the way, also have been very fast-growing markets for the past 2 years now. First, there's a macro picture. These are oil denominated economies. They're benefiting for the past two and a half years from elevated oil price, which is for fueling the economy in general. As you know, telco is, in a way, a factor of GDP. So that has helped. There is also quite a lot of positive evolution in the countries in the economic fabric and evolution of the middle class there: a young population with high growth population. So this is also benefiting. But last and not least, the management teams on the ground are also doing excellent work in capturing a larger than fair share of that market growth. And this is all to their credit.

What was the first question?

Luelle Pillay, Investor Relations
The TowerCo

Aziz Aluthman Fakhroo, CEO
The TowerCo, we have happy to answer offline to this question. We've done a full very, very comprehensive explanation of the TowerCo deal in December when we had our Capital Markets Day. I would please advise you to first go and look at that presentation, which is available in our IR section. There's also a link to the video, and if you have any additional question, we're very happy to answer them. And this covers: closing sequence; pro forma impact; value uplift. In general, what we're seeing is a slight value uplift at the EBITDA level. In terms of the general telco operation, there is, of course, leases that sit below that. But also, as you know, we are not selling the towers. We actually retain 50% of our business, which is larger than our own tower. So we get back of the lion's share of the economics on that side. But please go to the section. There's a full comprehensive overview of the transaction, and happy to answer any subsequent questions which are not covered there to the extent we can disclose them or we actually have the answers.

Madhvendra Singh, HSBC
Thanks Aziz, just one follow-up on the Indonesia side. Is the net margin number: how quickly you think we can get about 10%?

Abdulla Al Zaman, Group Chief Financial Officer
Sorry. One second. I'm not clear about the whole question.

Luelle Pillay, Investor Relations
Can you repeat the question, Maddy, please?

Madhvendra Singh, HSBC
The net income margin in Indonesia, even though the performance has been very strong, I think we're still below 10% net margin. Right? So just wondering, what would be the sustainable net margin level for the for the business?

Eyas Assaf, Deputy CFO
We don't we don't guide on this net income margin neither at the group nor at end of the end level. As you know, we guide only at revenue and EBITDA level, but we don't guide at net income margin.

Aziz Aluthman Fakhroo, CEO
But there is a flow through. And if you look at Indosat, the EBITDA margin, which is one we especially look at the gross margin and EBITDA margin. Because below EBITDA margin, a lot of it are accounting effects more than anything else. And we look at free cash flow. If you look at Indosat, three years ago, they were in the very, very low 40s or even high 30s in terms of EBITDA margin. Today, we're getting close to the 50s in terms of EBITDA margin. So there is a direct flow through at the end in the bottom line.

Eyas Assaf, Deputy CFO
And this is shared already by the IOH team. They share the guidance on the EBITDA margin. They expect it to reach very close to 50.

Madhvendra Singh, HSBC
Okay thank you.

Luelle Pillay, Investor Relations
Thanks Maddy

Question

Luelle Pillay, Investor Relations

So let's go to our typed questions. Indosat's net income is up around 40% year on year while the contribution of Indosat to Ooredoo's accounts is up by just 7%. No. Please shed the lights on this.

Eyas Assaf, Deputy CFO

That's okay. If you allow me, I'll take this. I don't want to make it accounting details, but high level, 2 years back, when we done this acquisition, we changed our accounting treatment from subsidiary to associate. And therefore, at that time, due to the deal, there was some potential gain for coming in. We decided to amortize it over 2 years. It's expired at 40 million on a quarterly basis, finished by Q4 last year. Therefore, when you compare Q1 to Q1 24 to Q1 23, there is a difference of the 20 million has been booked in Q1 last year, not booked this year. And we'll see that whatever reflected in Indosat numbers, you'll see it in our books. Today it is very simple. If you normalize 20 million from last year, 85 million bring it down to 65 million and compared to the 91 million, it will be almost 40%, the same growth presented in Indosat numbers.

Question

Luelle Pillay, Investor Relations

Thank you, Eyas. From Pradyumna again from HSBC, when do you expect to start receiving cash receipts from the asset equalization process of the tower JV deal?

Aziz Aluthman Fakhroo, CEO

So once again, I'll refer you to our Capital Markets Day presentation. Just as a very quick recap, it's a sequential close. The initial first close, which is done by the closing doorway of Qatar, will be an equity contribution, which nearly mirrors the value of the Iraq and Jordan businesses of TASC. And then subsequent, every single market that closes thereafter that will be equity and cash, cash consideration.

Luelle Pillay, Investor Relations

Thanks, Aziz.

Question

Luelle Pillay, Investor Relations

From an anonymous attendee, any update on the corporate tax of 15% and how likely is this in getting implemented next year? Anything you hear from the authorities on this?

Aziz Aluthman Fakhroo, CEO

So when constant consultation on the impact of the tax and how to account for it, and also we're in consultation with the authorities on how it should be treated. We've looked at what other countries have done. Of course, we're trying to minimize the impact for the Group and therefore for our shareholders. Then again, this is a government-led process. We don't have full visibility of the implementation date nor on the final, law and way of it being implemented.

Question

Luelle Pillay, Investor Relations

Great. Um, we have Nishit. Nishit, go ahead. You have another question?

Nishit Lakhotia, SICO Bank

Sorry. I forgot to lower my hand. Sorry.

Luelle Pillay, Investor Relations
Okay. Sure old hand.

Nishit Lakhotia, SICO Bank
Thank you.

Luelle Pillay, Investor Relations
So I don't see any more questions coming up. So it looks like we've covered all your questions. If you have any further questions, please feel free to reach out to me.

Our next quarter results are tentatively scheduled for the 30th July, and our investor call is penciled in for the 5th August. We look forward to meeting you at upcoming conferences. Thank you for joining Ooredoo's quarter 1 2024 investor call.

Aziz Aluthman Fakhroo, CEO
Thank you very much.