Ooredoo Group Q2 2024 Investor call Transcript

Management presentation

Luelle Pillay, Head of Investor Relations of Ooredoo Group:

Good afternoon, everyone. Welcome to Ooredoo Group's financial results call for the first half of 2024. I am Luelle Pillay and I am Head of Investor Relations for the Group. Today, I'm joined by Group CEO Aziz Aluthman Fakhroo who will start off our presentation with an update of our strategy and delve into the consolidated results. He will be followed by Group CFO Abdulla Al Zaman who will walk us through the operations' performance.

We will keep the presentation brief to allow enough time for your questions at the end. Please type your questions into the Q&A section of this Zoom seminar at any time during the presentation. The presentation is available on the Ooredoo website at ooredoo.com, and 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 two. And on that note, I am handing over to Aziz

Aziz Aluthman Fakhroo, CEO of Ooredoo Group:

Good afternoon everyone. Welcome to our H1 2024 investor call.

To begin, let's dive into an update of our strategy Our strategy remains unchanged and centered around five core pillars.

From a 'value focused portfolio' standpoint, the disposal of Ooredoo Myanmar was finally completed on the 31st of May 2024. The sale aligns to our strategy of maintaining leading market positions where we operate.

We are strengthening the core by enhancing profitability and returns. You will see the progress made on this front throughout the presentation

Under 'smart telco', we are progressing on enhancing the value of the existing assets within our infrastructure stack by turning them into independent profit centres. I will expand on this in the next slide

From a talent perspective, we are focused on developing our people and enhancing our workforce

Cumulatively, our actions and investments are enhancing our customer's experience

Turning to our verticals, we're progressing on all the programs:

On the Towers vertical: Qatar is progressing nicely. We expect this transaction to close this year.

In the Data Centre vertical: We established a carrier neutral data centre company called MENA Digital Hub and appointed Sunita Bottse as its CEO. We are investing one billion dollars over the medium to long term to increase capacity to 120MW. In July, we completed the carve-out of our data centre assets in Kuwait. We expect Iraq and Oman to follow suit in the second half of this year

Moving to our Fintech vertical: In Oman, we received our PSP license and launched walletii. Walletii is a mobile money app that offers a remittance marketplace that allows users to choose from multiple providers to secure the best rate for their transactions. With this app -which is open to both Ooredoo customers and non-customers – you can make payments and send and receive money both domestically and internationally. We are working to submit our license applications in Iraq, Kuwait and Tunisia.

A key update for the half is our exciting collaboration with NVIDIA, the first of its kind in the Middle East. I will take a few minutes to highlight some key points around this collaboration. The collaboration supports our strategy to become the leading digital infrastructure provider in the MENA region and positions Ooredoo at the forefront of Artificial Intelligence. We will bring AI capabilities to six countries: Qatar, Oman, Kuwait, Tunisia, Algeria, and the Maldives. This initiative goes beyond standard data centre racks and GPUs. We will deliver a comprehensive AI stack to all enterprises, governments and start-ups in the region, to enable a wide range of use cases. Our plan includes deploying thousands of NVIDIA Tensor Core GPUs in AI data centres to meet the increasing demand for AI and accelerated computing. Given that the Middle East has been a hub of technological innovation over the past 5 to 10 years, Ooredoo aims to be a key enabler of this progress. And this collaboration with NVIDIA allows us to lead access to the technology that is economically transformative and expected to drive economic growth, job creation, and technological innovation.

According to PwC forecasts, every dollar invested in Generative AI is expected to yield $9.90 in economic growth across the GCC. By 2030, the overall economic impact of Generative AI in the region could reach $23.5 billion annually. Specifically, Generative AI is projected to generate $2.6 billion in economic benefits for Qatar, $1.6 billion for Oman, and $1.3 billion for Kuwait.

Overall, AI's potential impact on the Middle East is estimated at $320 billion by 2030, with annual growth rates between 20-34% across the region. Given this significant potential and the rapid advancements in AI, Ooredoo is strategically positioned to capitalize on these opportunities and gain a competitive edge.

Now turning to H1 2024 performance. The strong positive momentum carried into Q2 2024, driving significant improvements across all financial and operational metrics. In the first half of this year, we grew revenue and improved profitability

Key updates for the half. As mentioned, we finalized the disposal of Myanmar after receiving all regulatory approvals and recognized a gain on the disposal of QAR 118 million. As a result, please note that Myanmar 2024 results are reported up to May for the current year, whereas in 2023, it covered the full six months.

On the sustainability front, we achieved a milestone by releasing our first standalone ESG report, aligned with best practice guidelines and enhancing transparency for our stakeholders.

In the first half, we delivered growth across all financial metrics. Revenue grew by 3%. On a normalized basis, EBITDA increased by 8%. EBITDA margin improved by 2 percentage points to a strong 43%. And free cash flow increased by 6%. Net profit was up by 14%

The solid momentum seen in the first quarter, continued into Q2. Revenue was up 3% in the second quarter. EBITDA showed strong growth at 7%. Our EBITDA margin improved by 2 percentage points. Net profit was up 3% on a normalized basis.

Revenue reached 11.8 billion riyals. On a year-to-date and quarterly basis, revenue was up 3%. Growth for the quarter was driven by our operations in Iraq, Algeria, Kuwait, Maldives, and Tunisia, all of which sustained their momentum. Softer topline performance in Qatar, which was impacted by lower mobile, fixed services and device revenue. Oman remained under competitive pressure. Palestine continued to be impacted by the war. On to the next slide for an overview of our EBITDA performance

EBITDA for the first 6 months of 2024 increased by 6% to 5.1 billion riyals. Strong EBITDA growth for the quarter of 7% versus same period last year. As a reminder, EBITDA increased 6% in the first quarter YoY and 4% in Q4’23 YoY. Qatar, Iraq, Algeria, Kuwait, Tunisia and Maldives were the main contributors to the solid Q2 EBITDA performance. The improvement in profitability and margin were driven by service revenues and cost efficiencies

The growth in revenue and EBITDA has boosted the Group’s net profit. On a reported basis, net profit was up by 4% and up by 14% on a normalized basis. In the following slide, you can see the bridge between reported and normalized net profit

The main non-recurring item for the first half of 2024 was the gain on disposal of Ooredoo Myanmar

Turning to Net profit in Q2, we delivered growth on a reported basis of 15% and 3% on a normalized basis. The main non-recurring item in the second quarter was once again the gain on disposal of Ooredoo Myanmar

Turning to Capex, we strategically increased investments mainly in Algeria, Kuwait, Iraq, Tunisia and Qatar investing a total of one billion riyals for the first half of 2024, up by 16%. Investments covered mostly network rollout including sites and fiber plus digital and security

Free cash flow grew by 4% to 4.1 billion riyals. The healthy growth is on the back of strong EBITDA performance

In the first half of the year, excluding Myanmar and IOH, we increased our customer base by nearly 2 million subscribers compared to same period last year. Our consolidated customer base is up by 4% to 49.7 million subscribers. Including IOH, we have over 150 million customers

Looking at our balance sheet. Our resilient financial position is reflected in the charts. Our leverage remains conservative at 0.6x and below our Board guidance. We have ample liquidity to cover our long-dated maturities. We are also structurally hedged against interest rate hikes, with 97% of our debt at a fixed rate. Rating agencies have emphasized our conservative leverage profile, robust parent support, and strong free cash flow generation as key factors contributing to our investment grade status

To conclude, Ooredoo delivered strong results for the first half of the year, allowing us to re-affirm the Group's full year guidance. The H1 2024 results are ahead of all our full-year guidance. Our revenues are up 3% thanks to growing service revenues. The EBITDA margin expanded by one percentage point to 43% as we work towards improving profitability and cash generation. For 2024, we expect an EBITDA margin in the low forties with a continued focus on cost discipline. Capex will ramp up in the second half and fall within our guidance target of approximately 3.5 billion riyals.

And on this note, I leave it to Abdulla to take you through the operational review.

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

Starting with our home market- Qatar. Revenue decreased by 5% on a reported basis. The revenue for first half 2023 was higher due to FIFA 2022 contracts relating to B2B services, and also Revenue from Data Centre carve out and one-off project revenue. On a normalized basis, revenue decreased by 1% impacted by lower mobile and fixed services as well as device revenue. On a normalized basis EBITDA increased by 1% YoY. For first half of 2024, EBITDA margin increased to 53%, reflecting a 5-percentage point improvement YoY. Improved operational efficiencies on quarter two contributed 2 percentage points increase on EBITDA margin from Q1 2024.

Moving to Kuwait. The underlying results of the operation are healthy. We grew our customer base by 2% YoY. Revenue expanded by 8% in local currency, supported by higher service revenue thanks to increased usage in data and digital and higher equipment revenue. Excluding the one-off bad debt provision that was raised in Q1 2024, EBITDA grew by 3% in local currency.

Next is Oman. In Oman, we continue to see higher competitive intensity in the mobile segment. Revenue decreased by 3% and EBITDA decreased by 6% YoY. The Omani team has a clear focus on maximizing growth and market presence in Oman while driving cost efficiencies.

Moving to Iraq, Asiacell continues to excel, driven by commercial and operational excellence, favorable market conditions as well as increased adoption of data services. Our customer base increased by 7% to 18.3 million customers. In local currency, Revenue grew by 16% and EBITDA increased by 20% YoY. EBITDA margin expanded by two percentage points to a strong 47%.

Next is Algeria. Algeria was the other top performer in the Group, demonstrating our ability to enhance efficiencies, profitability, and high-return strategic network investments. Our customer base grew by 5% to 13.7 million YoY. Improved-network quality has led to expansion of customers and higher data and digital revenue which resulted to local currency revenue increase by 14% YoY. EBITDA expanded by 20% in local currency, with a 2-percentage points increase in margin, which now stands at 42%.

Moving to Tunisia, the operation delivered a good performance for the first half of the year. Revenue increased by 4% in local currency thanks to the continuing investments in the fixed business. Normalization for the exceptional bad debt in H1 2023, EBITDA increased by 5%.

Next is Maldives. The performance in the Maldives is supported by its strategy to elevate revenue and streamline operational expenses. Revenue increased by 8% YoY. EBITDA increased 4% while margin remained very healthy at 54%.

In Palestine, I would like to highlight the courage and dedication of our colleagues. Despite the extreme strain, they have continued to provide support to our customers and maintain connectivity. Our customer base grew by 9% YoY ending the first half of the year with 1.5 million customers. In the face of the challenge operational landscape and a 3% depreciation of the local currency against the US dollar, revenue declined by 2% while EBITDA decreased by 6% YoY.

Wrapping up with our joint venture, IOH published another healthy set of results last week. Revenue was up by 13% and EBITDA increased by 18%.

This concludes the operations review, back to IR team, Thank you.

Questions and Answers

Luelle Pillay, Investor Relations:
Thank you very much Aziz and Abdulla. Before we move on to the Q&A session, I would like to highlight the following. On the slide, you will note two conferences that we may participate in the second half of the year. We have launched our investor relations app. You can scan the code on the slide to download it and stay up-to-date with our share price, investor events and reports, and have access key data on screen easily. Lastly, we will be hosting a Capital Markets Day which is penciled in for late November. Details around this will be confirmed soon.

Now come to the Q&A part of this call. Here's how to ask a question. You can raise your virtual hand to ask a question, and I will unmute your line when it's your turn. You can also type your questions into the Q&A box. If you are on phone line, please press *9 to ask a question.

For the Q&A section, I am joined by senior leadership team. In addition to Aziz and Abdulla, we have Eyas Assaf, our Deputy CFO, and Rene Werner, our Head of Strategy. So we're gonna open up the panel for your questions.

Luelle Pillay, Investor Relations
We will take a virtual question first from Jul Giuliani. Please go ahead. Jul? We'll move on to Nishit Lakhotia from SICO Bank. Please go ahead, Nishit.

Nishit Lakhotia from SICO Bank
Yes, thanks for the call. I have 3 questions. The first on the tower transaction. I know the transaction you mentioned is progressing with closing of Qatar. But is the transaction going a bit slower than anticipated? Or is this the pace was something that's an as expected? So if you can just give some color on how do we see this transaction? Maybe during 2024, what should we expect in terms of on the transaction? So that's, the first question.

Second, on the Iraq operations, what's actually driving the better margins in particular? Is it just a revenue growth or there's some cost efficiencies? Anything on that would be helpful.

And finally, on your home market, we've seen there seems to be a bit of pressure in general even if you do more account for the revenue adjustments. But how do you see this the competitive environment that you've highlighted? How do you how do you see this in the coming quarters playing out on are we seeing the worst behind, or there could be more pressure on the home market in the coming quarters? Thank you.

Luelle Pillay, Investor Relations
Thanks, Nishit. Can we start on Towers?

Rene Werner, Head of Strategy
On your question on towers, we have made indeed quite substantial strides in preparing for the transaction. In Qatar, for example, we are also progressing quite good. In other markets in terms of operation preparedness. But in most of these markets, there is basically no regulatory framework so far for the tower business as such. We're in constant dialogue with the authorities where partially these frameworks are currently built as we speak or have to pass legislation. So that is for us currently basically a timing factor on the transaction. We're still optimistic that we can close certain of these markets during the current year.

Luelle Pillay, Investor Relations
Thank you. Thanks, Rene. And and, Iraq, what's driving the margins?

Abdulla Al Zaman, Group CFO
With the EBITDA margins? Well, the better margin, as you know, the contribution of from that line from major OpCo that we have, like Iraq for example, Nigeria and Tunisia. Is it driving the EBITDA margin increase. And, plus, we have sort of a cost optimization also is contributing to the EBITDA margin increase.

Luelle Pillay, Investor Relations
And the last question was on Qatar, the competitive pressure in the market.

Abdulla Al Zaman, Group CFO
Well, if we go to Qatar as an individual, we see there is a slight pressure. But we see the growth on the EBITDA, I would say, as an absolute number and as a margin. It's sustainable and competitive as the environment about today, yes, there is a slight competition in the market which probably will pressure right now, the Qatari market.

Luelle Pillay, Investor Relations
Thank you. So we'll go to the type question from Pradumuya of HSBC. What is the share of data centre capex within the 3.5 billion Qatari riyals capex guidance for the full year of 2024?

Abdulla Al Zaman, Group CFO
Approximately 10%, I would say.

Luelle Pillay, Investor Relations
And then they were, you've already answered the question on the margins, but what were the drivers for the strong Q2, specifically, margins in Qatar and Iraq? And is it sustainable?

Abdulla Al Zaman, Group CFO
For Qatar, as I mentioned earlier, it is. I would say it's cost optimizations. And for Iraq, it's the data usage and the environment overall. The market in Iraq, is a very strong market, and I see it also, hopefully, will be a sustainable and there is a growth in the market.

Luelle Pillay, Investor Relations
Thank you, Abdulla. From Ziad Itani from Arqaam Capital. How will the deconsolidation of Myanmar impact your profits going forward? Is it reasonable to assume it was a loss making and now finally its disposal will improve reoccurring normalized EPS by around 5 to 8%.

Abdulla Al Zaman, Group CFO
Well, that's about Yeah.

Eyas Assaf, Deputy Group CFO
I think, yeah, it will have a positive impact because it used to have a pressure, especially from forex impact. How much as percentage of share, we don't usually disclose this, but we are optimistic that it will have positive impact.

Aziz Aluthman Fakhroo, Group CEO
Myanmar was performing well in local currency over the last couple of years, but was number 1 contributor to forex, foreign exchange adjustments. So, I think this will create some relief.

Luelle Pillay, Investor Relations
Thanks, Aziz. Next question from Nikhil Butane. Your prepaid numbers in Qatar has seen a fall on quarter on quarter basis. Can we know the reason? Has your market share reduced?

Abdulla Al Zaman, Group CFO
I will not refer it to the market share. During the quarter one, we had a lot of visitors due to the Asia cup, I would say. And the visitor was, I mean, we had a big number of visitors. And due to the summer also, we at Qatar, we have a very loose a very low season, I would say, of a business, and that's why you see the drop. It's on the customer base.

Luelle Pillay, Investor Relations
Okay. let's move to a data centre business question. Can you give a time frame for your $1 billion CapEx on data centre business? Also, from where the demand will come for the 120 megawatts capacity?

Aziz Aluthman Fakhroo, Group CEO
I'll take yeah. I'll take it. we've committed to, we've committed to increase our capacity by 120 megawatts by 2030. We've committed a $1 billion of capex within the next few years. We're currently when we see and track the demand from hyperscalers and the growth of data centre capacity requirement, and that's excluding, the recent developments in AI. We're seeing that our initial plan was actually conservative in terms of timeline. In a certain way, if we could deliver them faster would be better. Now giving exact timeline is quite hard because as you know, to build data centres, it's quite a complex enterprise: from securing land acquisition, securing power capacity,

and all the required regulatory approval. That being said, the constraint is not on demand. The constraint is on delivery time scales.

Luelle Pillay, Investor Relations
Thanks, Aziz. Another financial question from Nikhil. Can we understand the reason behind the flexibility in your impairments on financial assets on a quarter on quarter basis?

Abdulla Al Zaman, Group CFO
I would refer it to, always the to the operating or the operating performance, you know, at the end. And this is where it would trigger any, I would say, impairment. This is due to the, as you're aware of the accounting standards. So it's due to the performance.

Eyas Assaf, Deputy Group CFO
If the question was on the financial asset, which is the receivables, we announced last year, there was one time, that debt provision on Qatar is around 88 million rials. Therefore, we saw last year, uh, we booked almost 135 rials. This year, we booked we went back to the normal, bad debt provision. The question was on financial assets.

Luelle Pillay, Investor Relations
Thanks, Eyas. From anonymous, 2 questions. Qatar pricing. Your ARPU across each of the segments have declined consistently. Can you comment on the pricing strategy in this market and going forward, how you aim to maintain market share? And then number 2, higher operating costs in Maldives. Are these one off? Could you give some indication of what's driving these? Thank you.

Rene Werner, Head of Strategy
I take the first one. Qatar pricing. Our Qatar operations is predominantly focused also on the high value segment where we are more exposed than our competition to that segment. Hence, the pricing strategy reflects that exposure to the high end of the market, which is obviously also attractive to the competition. So, you see there a little bit of movements along this. But again, there's an old rule of thumb in the mobile industry, 25% of your customers generate 70% of profits. So, we feel quite comfortable sitting in a very strong position in that high end segment. We are having a very strong position in the Qatari segment. Also, the expat segment is far as interesting on postpaid, and we're kind of looking into the segment to explore there and build further market share. That has much for the market share over there.

Luelle Pillay, Investor Relations
The second question was on Maldives. What's the higher operating costs? Are these one offs? Could you give some indication on what's driving these?

Eyas Assaf, Deputy Group CFO
We'll check this point. But overall, it's not one item. It's the operation, of course. We'll we can update you on more details.

Luelle Pillay, Investor Relations
Okay. The next question is also from anonymous on dividends. Is there a plan to distribute interim dividends in line with other Qatari publicly listed companies?

Aziz Aluthman Fakhroo, Group CEO
So on this one, if you recall at the last AGM, we've secured the approvals to enter into interim dividends policy. For this year, we're looking at the effect of the companies in the market which had taken interim dividends. We're studying the case if there is a major benefit to our shareholders in terms of value creation and in terms of share price appreciation by this type of exercise. Also, interim dividends requires a bit more puts a bit more pressure on cash flow management during the year. So we're balancing both. And we will probably come up with a recommendation towards this end of this year to the Board.

Luelle Pillay, Investor Relations
Thanks, Aziz. I think the team has touched on Qatar and the customers, but just for completeness, I'll read the question. The population has come down approximately 8 to 10% in July 2024 figures versus Q1 2024. That's March 2024 end figures in Qatar. How should we look at the rest of the year with regards to subscribers in Qatar?

Rene Werner, Head of Strategy
First of all, there's seasonality where during the summer, we usually see a population decreasing in Qatar so that's nothing new. More interesting is the year over year comparison In Qatar, the

statistics office just published basically fresh July numbers. And now we have roughly 80,000 more population than previous year, so there's actually growth year on year

Luelle Pillay, Investor Relations
Great. Thank you, Rene. Tower question from Alessandra from Ashmore. On the Telco transactions, do you remain on track to meet the guidance that you initially issued to the markets with the roadmap at your previous Capital Markets Day?

Aziz Aluthman Fakhroo, Group CEO
Yeah. We're, we're working very hard to meet the guidance as previously mentioned by Rene. Some of the elements in the timeline are beyond our control with the regulatory approval. We've done quite a lot of progress in the last few months, especially in Qatar in terms of regulatory approval. We've done progress in Iraq. And we're working very hard in Tunisia and Algeria. So, we're striving to close at least Qatar by the end of this year. That's our main goal. And to fold in then very quickly the remaining countries within probably the first half of next year. So overall, as a transaction timeline total transaction timeline, I think we're in line with our initial plan even if some of the building blocks are slightly moving back and forth.

Luelle Pillay, Investor Relations
Thanks, Aziz. From Hamza, given the rapid advancements in AI, how does Ooredoo envision integrating artificial intelligence into its core services, including customer customer experience and network efficiency?

Aziz Aluthman Fakhroo, Group CEO
So, AI, we're looking at it from two standpoints. I think the first part is how does Ooredoo integrates AI within its own practices for its own business. And on this, I know there's been a lot of hype with generative AI over the last probably 12 to 18 months. That being said, Ooredoo has already been integrating, for instance, in the network planning side and network resilience side, machine learning over the past years to improve our efficiency in terms of CapEx deployment and also availability of network. So, we've already been using AI tools for a while.

We're, of course, looking at the new tools and new solutions to see how that could increase our efficiency, our productivity, and our customer experience. First cases are, of course, on the customer facing side, which is on customer care, advanced CVM. But there's a number of cases which can stem through the whole Ooredoo workflows even in the finance department from credit risk analysis, etcetera. So, there's really a lot of pieces where we can integrate AI within our business.

The second part, which is also very important, is how do we monetize and sell AI? As you remember, we've signed an agreement with NVIDIA. We're the leading telecom provider in the region, signing the 1st NCP deal for the region and as NVIDIA Cloud Partner, which will allow us to get priority access to their chips. And this will allow us to not just sell data centres, racks, but we will be selling GPUs as a service and also sell added value services above that from NVIDIA and other partners.

Luelle Pillay, Investor Relations
Thank you. We have another question from Alessandra on data centres. On the data centre expansion, could you give any comment on the competition within the market, both within your home market and across the others that you are building capacity?

Aziz Aluthman Fakhroo, Group CEO
So historically, and as of today, in most of the market where we operate, and correct me if I'm wrong, I think we command around roughly 60% market share of installed capacity. There's a lot of growth here. De facto one of the first call for to cater to that growth. Of course, there is competition. Now while we see data centres as a great opportunity, not just because of its growth profile, but also due to the barriers to entry. In the regions we operate, it's actually quite complicated to build operate data centres in terms of regulatory landscape, uh, acquisition of land, land ownership. But also when we talk about data centre, it's not just about hosting the racks and, for instance, GPU as a service if we're talking about AI. But you also need the whole connectivity, landscape where Ooredoo is the market leader. We all sell landing station across the region. We own a lot of fiber network in terms of backhaul and international connectivity. And all these piece create barriers to entry and allows us to consolidate our position in the market.

Luelle Pillay, Investor Relations
Thanks, Aziz. I don't see any more questions, no hands raised.

Eyas Assaf, Deputy Group CFO
Regarding the question we have checked, as Abdulla said, there's two parts. It's the cost of sales and the staff costs. These are the main reasons for increasing the OpEx, but still EBITDA is a growth even with this increasing of the OpEx.

Luelle Pillay, Investor Relations
Thanks. I don't see any more questions coming through.

So, since there are no further questions, I'd like to thank you for participating in a review of H1 2024 call. The next results release will be likely towards the end of October. If you have any further questions, please feel free to reach out to the investor relations team. Thank you.