Ooredoo Group Q3 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 period ended 30th September 2024.

My name is Luelle Pillay, and I am Head of Investor Relations for the Group. Today, I'm joined by CEO, Aziz Aluthman Fakhroo, who will take us through an update of the strategy and walk us through 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. Please type your questions into the Q&A section of this Zoom seminar at any time during the presentation. The presentation is available on our website at ooredoo.com, as well on this webcast. The recording and transcription of the session has started now, so by joining this session you consent to being included. Please note our usual disclaimer on slide number two. And on that note, I hand it over to Aziz.

Aziz Aluthman Fakhroo, CEO of Ooredoo Group:

Good afternoon everyone. Welcome to our Q3 2024 investor call.

Starting off, we continue to be guided by our clear strategy, which remains unchanged, and focus on our five core pillars.

We are making progress approach each of the verticals; on the tower, we reiterate our priority remains on repeating the transaction closure in each market. We have already started with Qatar, which is progressing well.

As previously mentioned, we expected the transaction to be completed within 18 to 24 months from announcement. To accelerate the expansion of our data centres, we signed a Qatari riyal 2 billion financing deal with three local banks. I will elaborate more on the transaction in the next slide.

This deal further supports our recent initiatives to lead in AI following our strategic collaboration with NVIDIA and marks another significant milestone on our journey to become the MENA region's leading digital infrastructure provider. On the DC carve out, we completed Qatar, Tunisia, and Kuwait.

Other countries are on track to follow suit in 2025. Moving to our FinTech vertical, we are progressing with obtaining licenses and have received PSP licenses in Oman and, more recently, in the Maldives. We're currently in advance discussions with the regulator in Tunisia and are working on our license application in Iraq and Kuwait.

It has been a notable period for financing initiatives. As mentioned, we successfully signed a 2 billion riyal 10-year financing deal with QNB, Doha Bank and Masraf Al Rayan, marking the largest transaction ever achieved in the Qatar tax industry. The funds will be used to carve out existing data centres assets from telecom operations, and a large portion will also be used to expand capacity and upgrade infrastructure supporting the growing demand for AI, cloud services and hyper connectivity in the MENA region. There is significant untapped potential in AI, cloud services and accelerated computing, and we believe we are well-positioned to take advantage of this. Additionally, post-period, then we completed a half-a-billion-dollar 10-year international bond issuance. The bond carries a coupon rate of 4.625%, with a yield of 4.714%.

Notably, we secured the tighter spread in our company's history at 88 basis points over the 10-year US Treasury, which was also one of the lowest emerging market corporate issuance spreads ever. The issuance was oversubscribed by 3.6 times, underscoring strong demand and further validating our strategic direction. These funds will be allocated for general corporate purposes, which include the refinancing of our existing indebtedness, ultimately enhancing our financial flexibility as we continue to work; these two initiatives strongly restrict the resilience of the business and our credibility in the market, reinforcing our banking partners and the market's view of Ooredoo as a reliable, secure and future-proofed investment.

Now, turning to the performance for the period. Here, you can see a snapshot of the performance showing we have maintained a strong growth trajectory while driving consistent profitability.

I will walk you through the consolidated numbers in the next few slides. For the first nine months, we delivered year-on-year growth across majority of the financial metrics. Revenue grew by 2%, EBITDA increased by 4%, and EBITDA margin reached a strong 44%, improving by one percentage point. We delivered an impressive 15% growth in our normalised net profit. On the back of strong operational performance, we delivered a robust performance for the third quarter; revenues were up by 1%, and EBITDA came in flat. EBITDA margin was steady at 44% and Net profit was up by 15% on a normalised basis

Revenue for the period reached 17.7 billion riyals. On a year-to-date basis, revenue was up 2%. On a quarterly basis, it rose 1%; growth for the quarter was driven by our operation in Iraq, Algeria, Kuwait, Tunisia and Maldives, all of which sustained their momentum. Qatar and Oman continue to see softer top-line performance mainly impacted by the highly competitive environment.

Looking at EBITDA, we continue to drive profitability and operational efficiency, which is contributing to solid EBITDA performance. EBITDA increased by 4% to 7.7 billion riyals; EBITDA margins reached a strong 44%. Iraq, Algeria, Qatar, Tunisia and Maldives were the main contributor to the solid performance. Looking specifically at the quarter, the group EBITDA's performance was impacted mainly by the decline in Oman's EBITDA due to lower revenue and gross margin and a drop in Kuwait's EBITDA due to a one-off bad debt provision

The net profit growth delivered by the group was due to increases in revenue and EBITDA.

On a reported basis, net profit was up by 10% and up by 15% on a normalised basis to 2.9 billion riyals. In the following slide, you can see the bridge between reported and normalised net profits.

It's worth noting that the nine months 2024 figures include a one-off gain from the Myanmar disposal. Though the same period in 2023 also benefited from a number of one-offs, including gains from the MNTC legal case, the Meeza IPO and the IOH tower sales.

Turning to net profit in Q3 we delivered growth at a reported basis of 21% and 15% on a normalised basis to 1 billion riyals.

In the third quarter of 2024, we did not recognize any material one-offs.

Turning to capex, we continue to invest strategically for strong returns. For the first nine months, we invested a total of 1.9 billion riyals, up by 22% mainly in Iraq, Oman, Qatar, Algeria, Tunisia, Kuwait investment covered mostly network rollouts, including site and fiber plus digital spend.

Normalised free cash flow remained flat at 5.8 billion riyals. The strong EBITDA performance was offset by an acceleration in capex projects as we continue making strategic investment in the growth of our telecom operations, particularly Algeria and Iraq, to capitalize on market expansion and rising demand.

During the period, including IOH and excluding Myanmar, we increased our customer base by 1% coming in just shy of 150 million subscribers on our network.

The group's financial and liquidity position remains resilient with investment grade rating, liquidity remains strong, with 12.4 billion riyals in cash reserves and 5.2 billion riyals in undrawn loan facilities.

Leverage is conservative at 0.6 times below our board guidance; we have a balance of maturity profile with over six-year of average remaining maturity at the group level. 98% of our debt is at a fixed rate, which means we are structurally hedged against interest rate hikes following the period then, as mentioned earlier, we successfully completed the issuance of half a billion dollar 10-year bond.

To conclude later, delivered robust result in the third quarter, and we are in a strong position. The nine months' results are ahead of our full-year guidance for revenue and EBITDA margin. Our revenue is up by 2% thanks to growing service revenues; the EBITDA margin expanded by one percentage point to 44%. For 2024, we expected an EBITDA margin in the low 40s, with a continued focus on plus discipline; capex will continue to ramp up in the fourth quarter 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.

Abdulla Ahmad Al Zaman, GCFO
Thank you, Aziz. Good afternoon everyone. I will take you through the group, year-on-year operational performance for the first nine months of 2024, starting with our home market, Qatar. Revenue decreased by 4% on a reported basis. Revenue was higher in 2023 due to FIFA 2022 contracts relating to B2B services, revenue from data centre carve out and one-off project revenue, on normalised basis, revenue decreased by 1% mainly due to lower mobile services Ooredoo Qatar. EBITDA remained flat on a normalised basis, while the EBITDA margin increase to a healthy 53% reflecting four percentage point improvements. Customer base increased by 1% to 3 million subscribers.

Moving to Kuwait, we continue to see solid top-line performance on the business; revenue expanded by 6% in the local currency thanks to higher service revenue driven by increased use of data and digital services and a higher demand revenue. The everyday performance was impacted by one of bad debt provisions raised in quarter one and quarter three of 2024 excluding these bad debt provisions, EBITDA, decrease by 2% in local currency, mainly due to increase in operating expense. Customer base remained flat at 2.9 million.

Moving to Oman, the highly competitive market conditions in Oman continue to impact Ooredoo Oman mobile business, revenue decreased by 2% and EBITDA decreased by 6%. Meanwhile, the operation recorded a resilient EBITDA margin at 46%. Our team in Oman has undertaken several initiatives to enhance its competitive advantage in the market. These include extending the 5G network and testing 5.5G as well as running attractive marketing campaigns.

Moving to Iraq, Asia, once again, delivered impressive growth taking advantage of the favorable market dynamics, additional customer and great uptake of data services. The operation gained 9% additional customer on it is network to reach 18.6 million customers in local currency. Revenue grew by 15% and a bit then increase by 19%, EBITDA margin expanded by 1% point to a strong 47%.

Algeria is another market in our portfolio with extreme strong growth thanks to our strategic investment into a high-quality network and customer satisfaction. Customer base grew by 10% to 14.5 million in local currency, revenue grew by 15% driven by data and digital revenue growth. EBITDA expanded by 22% in local currency with a three-percentage point increase in the EBITDA margin, which now stands at 43%.

Moving to Tunisia, the operation continues to deliver healthy performance thanks to strategic investment and operation efficiency; revenue increased by 5% in local currency, normalizing for the one-off bad debt in 2023 with the EBITDA margin increase by three percentage point to 41% thanks to continue focus on profitability.

In Maldives, we continue to see solid revenue growth across all segments. Our position on the market will become even stronger as we became the largest 5G network on the country. Revenue increased by 6% while EBITDA grew by 3% within a EBTIDA margin that continues to remain very healthy at 54%.

Moving to Palestine, I want to commend our colleagues in country for keeping customers connected through the conflict, the support for the customer in Palestine included free bundle in the form of voice and data packages. Our customer base grew by 8% to reach 1.5 million customers in the face of the challenging operating landscape and a 2% depreciation of a local currency against the US dollar revenue and EBITDA decreased by 2% and 7%, respectively. While EBITDA margin stood at 39%

Wrapping up with our joint venture IOH, published very strong results for the first nine months of 2024, revenue was up by 12%, and EBITDA increased by 15% with a solid EBITDA margin of 48%.

This concludes the operational review. Over to the IR team. Thank you.

Questions and Answers

Luelle Pillay, Investor Relations:
Thank you very much Aziz and Abdulla. We have now come to the Q and A segment of today's call. Here's how to participate. You can raise your virtual hand to ask a question, and I will unmute your audio line when it is your turn. Alternatively, type your questions in the Q and A box if you prefer. And if you're dialing in via phone line, please press star 9 to ask a question.

I'm joined by the senior leadership team today for the Q&A section. In addition, to Aziz, we have Sheik Mohammed Al Thani, Deputy CEO, Deputy CFO, Eyas Assaf, Rene Werner our Head of Strategy. So, let's open the floor to questions. I don't see any typed questions. I see your hand raised Fardi Algamadi please go ahead and ask your question.

Fardi Algamdi
Yes, salaam alaikum. This is Fardi I just have one question, what is the what's the percentage of your revenues in gap that are related to the B2B segment? Thank you.

Aziz Aluthman Fakhroo, Group CEO
I think of the cost, and we can send you the right number. I think we're totaling around 17% I think, it's around 20 to 22. 22%

Fardi Algamdi
22% this is B2B, are you including the B2G in it or it's only B2B?

Aziz Aluthman Fakhroo, Group CEO
Do you disclose how much is the B2G?
No, we don't break down by segment.

Luelle Pillay, Investor Relations
Thank you. Our next question comes from Alessandra David, from Ashmore, Please go ahead, Alessandra.

Alessandra from Ashmore
Hi, just one question for me. I think the last earnings call with regards to the data centre, carve out. It was mentioned that there was the ambition to have the financials in the numbers in q4 to have the data centre financial split out. Is that still, are we still operating on that trajectory? Or has the timeline been revised?

Aziz Aluthman Fakhroo, Group CEO
So, to have segregated financials for data centres, but the target is to have full segregated by Q1 by for the beginning of next year. I don't know if we'll be issuing performance in Q4 I need to check with my team. Yeah.

Eyas Assaf, Ooredoo Group team
We might do it based on the status of the outcome out of other carve outs. So, it's between the Q4 and the Q1.

[caller] that's clear. Thank you.

Luelle Pillay, Investor Relations
Thank you. Alessandra, we have a typed question from Celine DuBois on Ooredoo Algeria; the post-paid has declined while the base remains stable. How can this be explained? The EBITDA increased by three percentage points during a commercial challenging period. How is this achieved?

Eyas Assaf, Ooredoo Group team
Ooredoo Algeria is a seasonality usually is the best season for the prepared slower in the EBITDA for the season, because some people travel outside. That move is the EBITDA percentage is linked again to the facility. You see it the highest growth revenue usually comes in Q3 due to the expat coming back to the country and using prepaid more than most.

Luelle Pillay, Investor Relations

Yes. Another question, are we expecting significant impairment to be booked in Q3, and I think you mean 2024.

Eyas Assaf, Ooredoo Group team
We will do this exercise, review the impairment test by end of the year, and by that time, share the results. As of today, we don't see any material number as Q3, but usually we do it in Q4.

Luelle Pillay, Investor Relations
okay, I don't see any other questions. Give it 10 seconds. Another question from Alessandra.

Alessandra from Ashmore
Hi, so I just had another question. It was just maybe more general, if you could maybe talk to some of the demand that you're seeing in your home market, in Qatar, I think the Q, the 2023, numbers, especially on the customer side. I understand there was that reclassification, but it just in terms of like how your market share is looking within both the postpaid and the prepaid segments, and maybe some of the competitive dynamics you're seeing on the ground that would be really helpful to get bit more color on that. Thank you.

Sheikh Mohammed Bin Abdulla Bin Mohammed Al Thani, Deputy Group CEO
Yeah, the market is quite competitive here, in Qatar. It has been very challenging year, as I said about the segmentation and the classification is still, honestly, the market itself, very competitive. A lot of promotions going here and there. However, we acknowledge that challenging in the top line and what we are facing, however, Ooredoo Qatar has made a good contribution to the bottom line, or specifically to the EBITDA standing at 53% of EBITDA margin, which is quite healthy for them to get.

Luelle Pillay, Investor Relations
Thank you Sheikh. Our next question comes from Himandi, please go ahead and ask your question.

Himandi
Can you please share the expansion strategy in depth with respect to data centres, especially AI data centres.

Aziz Aluthman Fakhroo, Group CEO
As you know, for the data centres, we've announced a carve out already, carve out most of our significant markets were finalizing. Currently, we'll carve out Qatar, Tunisia and Kuwait. We're finalizing the carve outs in Iraq. We have quite an aggressive expansion strategy which is not driven as what I would call opportunistic. We will build it, and they will come, most all our expansions are anchored by anchor tenants. We have communicated many times, and we're happy to go into that and to be probably subject to the capital markets.

Today, we're looking to really triple our capacity within the medium term, within the need the next five years, going from close to 40 megawatts of installed capacity, to 120 megawatts of installs, installed capacity, and this is driven just by cloud native data centres. To this, we have added a leg recently with the NVIDIA partnership. We are the first telco in the region to become an NVIDIA cloud partner, to layer GP with a service and to go up the value chain in the AI as well, we're seeing significant demand. We estimate the first AI chips to be installed, at least by Q1 of next year.

To that effect, we've committed a billion dollars of expansion over the same period for this expansion, as you might have noted, we have raised 550 million of debt in facility with three local banks.

[caller] That answers the question. Thank you. Thank you.

Luelle Pillay, Investor Relations
Thank you. Aziz, our next question is from Nikhil Please go ahead.

Nikhil
Yeah. Hi, thanks for the call. Well, my actual question is what to do with your region wise specific performance we can see, a clear demarcation coming out within GCC and outside GCC. Suppose I may have in terms of both, you know, revenues flattening out margins, you know, getting competitive. So largely, as you mentioned, 53% EBITDA from Qatar. And you know, to certain extent, Oman and Kuwait. So how you force it, given the fact that you know it's quite saturated, how you will be able to, at least in this short to medium term, look forward to in terms of revenues getting evolved from this region. Thank you.

Aziz Aluthman Fakhroo, Group CEO
Look, I'll try to give a short answer, because there's a long answer to that question, I think this is the compelling offer, or the value offered, Ooredoo is balanced portfolio is the most diversified portfolio in the region in terms of footprints, what you get is high, I would say, investor grade, mature market within the GCC, which gives you stable cash flows, but they're much more limited growth and extreme currency stability. All countries have pegged or close to pegged, in the case of Kuwait, currencies, on the other side is attached the growth engines, which is the Iraq Algeria, Tunisia, which are emerging markets. As you know, you can see in our numbers, what we're announcing are driving the growth of the group was expanding top line and profitability. But these markets carry much more volatility, historically and probably going forward.

So, when you invest into Ooredoo, you're investing into that portfolio effect of the stable foundation, which I would call the GCC, and the upside lever, which is these emerging markets. This is the compelling offer, and the differentiation of Ooredoo versus, I think, a number of our peers.

Nikhil
So, do you foresee? You know, you continue with the strategy, say, within Qatar, and you know, maybe to certain Oman, you know, pricing going up, I mean in terms of maintaining the revenues, while even my, to certain extent, you know volumes, I mean price driven revenues, rather than volume driven revenues. Do you see that? As you are seeing in Qatar.

Aziz Aluthman Fakhroo, Group CEO
We've all been focused on the past year, near not on price driven revenues, nor volume driven revenues, which we've been focused, and I think our numbers show for our fact is profitability driven revenues. So, we're trying to target in any given market, we're generally more focused on EBITDA market share, then revenue market share is a metric. What we're trying to attract is the healthiest segments in any given market we operate in terms of revenue that can flow through the biggest contribution to the bottom line, I think, the constant expansion of our EBITDA margin and our net profit is a testament to that.

[caller] Thank you, sir. Thank you.

Luelle Pillay, Investor Relations
We have a typed question from Pradyuma from HSBC, shall we expect any cash proceeds this year from the tower co transaction?

Aziz Aluthman Fakhroo, Group CEO
So, we're working tirelessly to complete the first closing, the first closing of this transaction. We're still going through regulatory approval process in all jurisdiction, including our own, Qatar. These are not trial processes, as we're the first tower co to establish. So, we're going through this process realistically. We were hoping to target the close by the end of this year. Given where we are in the year, I think it would be probably end of this year, but more realistically, very early next year.

Luelle Pillay, Investor Relations
Another one from Prayumna from HSBC, this quarter is already to share an income from IOH has been the lowest in the last five quarters, around 79k is IOH? Is earnings growth momentum slowing down? Please shed some light on the outcome.

Eyas Naif Assaf, Deputy Group CFO
No, there's no slowing down. But the right comparison is to compare year on year, quarter and quarter. There's seasonality. If you compare a Q1'24 is higher than Q1'23 and I can give you the numbers the same Q2' 24 is always higher than Q2'23, Q3' 24 is higher than the Q3'23.

We cannot compare the quarter, or which is the best performance of Indosat with the Q1 and we cannot compare Q1 with Q2 this is seasonality. So, in summary, year on year, all the group, all the quarter are grouping. But if you compare Q1, Q2 to Q1 in the same year is less, and this is normal. And if you can, if you take the history, it's the same trend. We are comfortable with IOH result. Maybe Aziz can add that we compared year on year. We see it almost ago.

Aziz Aluthman Fakroo, Group CEO

I think I would expand on the word comfortable. We're actually very proud of the IOH journey from the work delivered by the management, but also, we realized ahead of schedule, all the envisaged synergies when we did the merger. We are again, and I've said this many times, when we had announced the merger of Indosat with CK Hutchinson, we had guided to $300 to $400 million of synergies within year four, year five. Today, we're in year three of the merger, and we're realizing at the top range of our guidance. So, we're extremely happy with the performance in terms of delivering the synergies in terms of the merger, but also, you know, the management in this indosat has been exceptional in terms of the work that on the ground and in the market.

Eyas Naif Assaf, Deputy Group CFO
Last point, I want just to continue on we clarify this point. There are always difference between our books and understand box around 7 million every quarter. This is, I don't want to go in details about amortization, different tax liability, but as we said in Q1 by Q4 this amortization will expand, will finish, and from Q1 next year, it will be 100%. But overall, I think the comments from Aziz clarified the position.

Luelle Pillay, Investor Relations
Thank you. We have four questions from an anonymous attendee on data centre on Meeza, what are your plans for the remaining stake you have in Meeza, Isn't there a conflict of interest to grow data centres while still holding on to a competitive state?

Aziz Aluthman Fakhroo, Group CEO
When it comes to Meeza, we've already monetized 10% at the IPO. It's an asset. It's a non-core asset is we see it as a financial investment. Our lock-up has expired, so we will be looking at monetizing the stake over time, in an orderly manner, to protect our value, but also as a responsible corporate citizen, within the framework of Qatar, to protect the value, even if it's of our competitors of Meeza, by not just liquidating this position.

Furthermore, we don't need the cash right now. As you've seen from our balance sheet, we're in a strong cash position. So as of today, we're holding it and looking to monetize it at an opportunity time where we will maximize value for our shareholder, results implying any disruption to the value of visa intrinsically by itself, especially more.

Luelle Pillay, Investor Relations
The next one on data centres. Are you looking for a strategic investor in data centres? And if so, what's the reason behind this?

Aziz Aluthman Fakhroo, Group CEO
So yes, we've announced to the market that we're running a process to look at the strategic investor, a significant minority investor. The reason is quite clear: we've been doing data centres for a long time we are actually in terms of installed capacity. The market leader in all the markets we operate was close to North of 60% of installed capacity. That's being said is data centres as a whole. And the way we were trying to gear it up is a whole new business.

This is why we're carving out and we're hiring experts into the business, anchoring that with an investor that is an expert, not a financial investor, pure but is an expert in the space that can help us leapfrog the learning curve, whether technologically, designed, built and commercially, it would be a huge benefit too. It would also anchor the valuation of our data centre, data centre business standalone, within our sum of the parts. So we do believe there is merit to doing that exercise, as long as we will achieve the right alignment of interest and the right valuation.

Luelle Pillay, Investor Relations
Great moving to Iraq. Are there any updates on 5G tender, and what about the issuance of a new mobile license there?

Sheikh Mohammed Bin Abdulla Bin Mohammed Al Thani, Deputy Group CEO
There is no such update on there, as well as from a new mobile license. Still, the topic is there with the leadership of the country. So still, we don't have the timeline of the issuance of this licenses back to the 5G there's no such update as I say. However, from 4G perspective, we are really covering, you know, having a decent coverage in the country. We're really acquiring the highest this is your percentage of the 4G subscription, and we still committed to invest in the country.

Luelle Pillay, Investor Relations
Thank you and then on dividend. Why is your dividend policy so conservative, especially when you compare it to a domestic competitor Vodafone Qatar, who doesn't shy away from paying even 100% of its earnings in dividends.

Aziz Aluthman Fakhroo, Group CEO
So I could shy away from the question, by saying that the development of the dividend policy is the prerogative of the board and not of the management team.

That being said, our dividend policy is, you know, we guide a 60% payout ratio of normalised net profit. At the same time, we've been at the top of that range consecutively for the last three years, and in the same time period, our dividend has grown, I think, close to 120%, something like this. So I'm not sure a lot of our peers in the market have had the same growth in absolute dividend as we've had.

Luelle Pillay, Investor Relations
Don't see any more questions or any more hands raised since there are no further questions; I'd like to thank everyone for joining today's Q3 2024 call.

Ooredoo Group's, next results are scheduled, the full year results mid-February of 2025 if you have any additional questions, please feel free to reach out to the IR team, thank you again, and we look forward to connecting with you soon. Thank you.

[collective] Thank you very much, everyone. Thank you.