



Omantel MSX Investor Session Q3-24 Performance Transcript

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Management Team

Chief Financial Officer: Ghassan Al Hashar.

General Manger Strategic Finance: Amal Al Ojaili.

General Manger Financial Control: Sudhakar Ippatappu.

General Manger Treasury: Wahbi Al Riyami.

Investor Relations Officer: Aisha Al Balushi.



Aisha Habib Murad Al balushi

Greetings, ladies, and gentlemen. This is Aisha Al Balushi, and I am pleased to welcome you to the Q3 2024 session. It is my privilege to host you on behalf of our senior finance management team.

Joining us today are:

- Mr. Ghassan Al Hashar, Chief Financial Officer,
- Mr. Sudhakar Ippatappu, General Manager of Finance Control,
- Mr. Amal Al Ojaili, General Manager of Strategic Finance, and
- Mr. Wahhabi Al Riyami, General Manager of Treasury.

By now, you should have received the company's presentation and the Q3 unaudited financial statements, both of which have been uploaded to our official website and the MSX platform.

During this call, we will be making forward-looking statements. These include predictions, projections, or other statements about future events based on current expectations and assumptions. Please note that these are subject to risks and uncertainties.

For the Q&A session, you may use the "Raise Hand" feature or submit your question in the chat box. To ensure as many analysts as possible have the opportunity to ask questions, we kindly request that each analyst limits their input to one question, considering the time constraints of this session.

Now, I will hand over to Mr. Ghassan Al Hashar, our Chief Financial Officer, who will walk you through the main highlights of this quarter.



Ghassan Khamis Ali Al Hashar

Thank you, Aisha.

Good afternoon, analysts, investors, and members of the investment community. Welcome to Omantel's Q3 Financial Performance Update.

Let me start by highlighting that, despite challenges and competition at both the group level and within our domestic operations, we continue to deliver robust performance.

The group revenue for the nine months ending September 2024 stands at 2.2 billion Omani rials, compared to 2.19 billion for the corresponding period in 2023—an increase of 2.2%. Zain Group contribution increased by 58.1 million rials driven by higher revenues from KSA and Kuwait, partially offset by a decrease in revenue from Sudan.

However, the group's net profit after tax decreased by 31.3%, reaching 187.5 million Omani rials, compared to 273.2 million in 2023. After adjusting for minority interests, the net profit stands at 44.7 million rials, compared to 57.9 million rials in 2023, reflecting a decline of 22.9%.

I want to emphasize again, as highlighted in previous updates, that the decline in net profit for the nine-month period ending 30 September 2024 compared to the restated net profit for the same period in 2023 is primarily attributable to a one-off gain from the sale and leaseback of the Zain KSA Tower transaction. This was also discussed in the last quarter.

The restatement of the 2023 nine-month net profit was due to the accounting of the KSA Tower sale transaction, which was revisited in Q4 2023. When adjusted for the gain on the sale and leaseback, the net profit decreased by 10 million Omani rials, or 5.1%, mainly due to the ongoing Sudan crisis. This impact was partially mitigated by increased profits from operations in Iraq and Kuwait.

Now, I will hand it over to Aisha, who will take you through the financial highlights before we open the session for Q&A.

Aisha, you may proceed.



Aisha Habib Murad Al balushi

Thank you very much, Mr. Ghassan.

Now, I will begin with an overview of economic developments and key indicators, followed by an in-depth review of our financial and operational performance.

Over the past nine months, one of the key developments, which occurred in September, was the upgrade of Oman's sovereign credit rating to investment grade by S&P Global Ratings. This upgrade and the accompanying positive outlook from

Moody's were driven by strong macroeconomic indicators and key government reforms. This achievement is expected to boost investor confidence, potentially leading to further rating improvements from Fitch and Moody's, which could positively affect Omani equities.

As mentioned in previous calls, Oman's GDP-to-debt ratio has significantly decreased from 68% in 2020 to a projected 33% by 2025. Omantel is playing a critical role in supporting these reforms.

A key initiative in this regard is the launch of the Future Fund of Oman, which commenced in January 2024 with a capital of 2 billion Omani rials. Omantel's Innovation Lab is managing approximately 12 million Omani rials from this fund, targeting sectors such as artificial intelligence (AI), Internet of Things (IoT), fintech, big data, 5G, and cybersecurity, with a focus on small and medium enterprises (SMEs).

Key economic indicators as of September include CPI inflation at 0.4%, a 1% growth in the mobile telecom market (equivalent to an additional 89,000 subscribers), and a 2% growth in population.

Strategic Outlook

Moving to the strategy slide, we are continuing to execute our plan of transitioning beyond traditional telecommunications, expanding further into transformative fields such as artificial intelligence, cloud services, and space technology. This strategy reflects our commitment to driving the next wave of technological innovation in the Sultanate. In the coming months, we will unveil our updated strategy, outlining the next phase of this forward-looking journey.

Operational Performance

Across our markets, management teams have successfully navigated competitive and currency challenges, achieving strong operational performance. Key operational markets, including Kuwait, Saudi Arabia, and Iraq, have delivered solid year-on-year growth in financial metrics, compensating for reductions in Sudan caused by unfortunate floods and ongoing conflicts.

Additionally, our Tech business verticals—including Fintech, Zain Omantel International, and digital services—are showing robust revenue growth.

These collective efforts have driven the group to achieve 15-year revenue highs for both the third quarter and the nine-month period.

Market Highlights

Now, moving to our operations across the seven markets: each operating company has contributed meaningfully to our overall success.

Kuwait: Zain Group's flagship operation in Kuwait upheld its market leadership during the third quarter of 2024, supported by a robust customer base of 2.6 million. As the Group's most profitable operation, it delivered strong financial performance, achieving a 4% year-on-year increase in revenue, driven by investments in 5G and digital services.

Saudi Arabia (Zain KSA): Revenue for the quarter grew 2% YoY, benefiting from its expanded 5G network and growth in enterprise, digital services, and fintech sectors.

Iraq (Zain Iraq): Demonstrated strong performance with a 10% year-on-year increase in revenue for the quarter and an impressive 82% jump in net income, attributed to socio-economic stability and successful cost optimization efforts.

Jordan (Zain Jordan): Achieved 6% year-on-year revenue growth for the quarter, maintaining market leadership driven by the expansion of 5G, FTTH (Fiber-to-the-Home), and 4G services.

Sudan (Zain Sudan): Faced significant challenges from ongoing conflict and currency devaluation, leading to an 18% quarter-on-quarter revenue decline. Despite these obstacles, management continues its efforts to maintain network availability and connectivity for customers.

Bahrain (Zain Bahrain): Recorded strong growth with a 13% year-on-year revenue increase, fueled by the expansion of 5G and 4G infrastructure and its fintech platform.

Zain Omantel International

Moving to Zain Omantel International, the update remains consistent with last quarter. We continue to unlock value in eight countries through Omantel's 26% stake in Zain Omantel International. This investment not only expands our footprint but also establishes infrastructure to support global connectivity for years to come. Key projects under our management include the PEACE cable, Africa-1, the KSA terrestrial network, and the Blue Raman cable. All are projected to be ready by 2025.

Domestic Key Developments

Now, moving to domestic key developments for the past nine months in 2024:

During the H1 investor call, we provided an update on the strategic alliances that are helping us lay the foundation for achieving our strategy to transition from a telecom operator (telco) to a technology company (techco). In recent months, Omantel hosted one of the largest wholesale conferences, GCCM, where we announced the launch of the SN1 Data Center in Salalah. This development positions Salalah to become the Middle East's second-largest submarine cable hub through a partnership with Equinix, targeting major global content providers and hyperscalers.

Financial Highlights

Moving on to Omantel's financial highlights for the nine months of 2024:

It is evident that our continuous investments in cutting-edge technologies have been instrumental in securing leadership in both mobile and fixed-line businesses while protecting our subscriber base. This strategic focus has directly influenced the increase in capital expenditure and a corresponding reduction in free cash flow.

Subscriber Market Share: Omantel has not only maintained its mobile market subscriber share but increased it from 37% in Q2 to 39% in Q3. Similarly, despite challenging market conditions, the fixed broadband market share grew slightly from 55.2% to 55.4%.

Group Performance

Including Zain's operations, the group's performance for the nine months of 2024 is as follows:

Revenue: Increased by 2.2% to 2.2 billion Omani rials.

EBITDA: Decreased by 2.9% to 755.7 million Omani rials.

Net Profit: Declined by 31.3% to 187.5 million Omani rials.

In terms of subscribers, Zain's total subscriber base decreased by 4.7%, primarily due to challenges in Sudan, including network shutdowns, mass migration, and floods. However, Omantel's domestic subscriber base increased by 49,000, supported by a 55,000 increase in the mobile segment.

The Zain group revenue grew by 58.1 million rials, driven by higher revenues from Saudi Arabia, Iraq, and Kuwait, while the ongoing Sudan crisis offset some of these revenues.

The group's net profit before minority interest decreased by 85.6 million rials compared to 2023, reflecting a decline of 31.13%. This includes a capital gain of 77.9 million rials Capital Gain from the KSA Tower sale.

Domestic Revenue:

Now, moving on to domestic performance for the past nine months of 2024, including domestic subsidiaries, we observe a 1.2% decrease in overall performance.

The main decline in revenue stems from device sales and transit voice revenue. Device revenue fell by 7.2 million, while transit voice revenue decreased by 5.4 million. Excluding these items, the 2024 revenue stands at 334.4 million Omani rials, reflecting a 2.2% year-on-year increase.

EBITDA increased by 100,000 Omani rials, representing a modest 0.1% growth, which is attributed to:

A 1.7 million rial increase in gross margin from core services revenue and value-added services (VAS) margins.

A 2 million rial reduction in impairment provisions, partially offset by higher operational costs related to fiber optics.

Net profit, however, was impacted by:

Higher depreciation and amortization expenses, which increased by 5.5 million rials.

Increased tax expenses of 500,000 rials, partially mitigated by a 2 million rial increase in share profits from associates.

Business Performance:

Despite facing competition, the Omantel management team successfully migrated 71,000 customers from prepaid to postpaid during the past nine months. This shift compensated for the decline in prepaid subscribers, as reflected in the subscriber metrics. The growth in postpaid subscribers is attributed to effective base management strategies, which focused on customer retention and upselling in a challenging market environment.

Additionally, there was a slight year-on-year increase in ARPU (Average Revenue Per User). Omantel continues to maintain its leadership in both the mobile and fixed broadband market segments.

On the fixed broadband side, Omantel has emphasized customer retention by strategically migrating customers from legacy corporate technologies to 4G, 5G "FWA (Fixed Wireless Access)", and fiber solutions, allowing the company to capture a greater share of the competitive market.

Cost Analysis Summary

For the past nine months, the cost of sales decreased by 3.3%, in line with the decline in revenue from device sales and transit voice services. However, operating and administrative costs increased by 3.1% year-on-year.

The Capex-to-revenue ratio currently stands at 15.1% and is expected to remain at 15% for the full year.

Domestic Debt Profile

Net debt increased in Q3, rising from 678.2 million Omani rials to 692.7 million Omani rials. This was primarily driven by:

- A 24.2 million rial increase in borrowings, and
- 6.5 million rials added in lease liabilities.

These increases were partially offset by a reduction in supplier financing.

Free Cash Flow

Free cash flow decreased by 19.6 million Omani rials, mainly due to:

- An interim dividend payment from the Zain Group for 2024 amounting to 11.8 million rials, received in October 2024, and
- A 25.6 million rial year-on-year increase in Capex cash outflows.

However, this was offset by an increase in cash inflow from operations, which grew by 33.3 million rials.

Credit Rating

It is worth highlighting that during Q3, Moody's upgraded Omantel's rating from BA2 Positive to BA1 Stable. Additionally, Fitch maintained Omantel's rating at BB+ with a Positive Outlook.

Sustainability

Omantel remains committed to aligning with Oman Vision 2040 by creating a greener world, becoming an employer of choice, and operating responsibly to develop prosperous communities.

In 2024, Omantel published its sustainability report covering 2022 and 2023. We will continue to issue these reports annually from 2024 onward. The report highlights various initiatives, including transitioning to net-zero emissions, greening the grid, recycling batteries, awarding contracts to SMEs, and transitioning to electric fleets.

Further details are available on our website.

In conclusion, this brings us to the end of the presentation. The floor is now open for questions from analysts.

Manna Thomas - United Securities

Good afternoon. Thank you for your presentation. Regarding subscribers, it was noted that there has been a reduction in prepaid mobile subscribers and an increase in postpaid mobile subscribers. Do you anticipate this trend will continue with further growth in postpaid mobile subscribers?

Answer:

Regarding our subscriber metrics, there has been noticeable growth in our postpaid segment compared to December. This growth is predominantly driven by the conversion of prepaid subscribers to postpaid plans. Notably, this quarter saw significant growth in our postpaid numbers primarily due to an increase in our Machine-to-Machine (M2M) subscriber base. On the enterprise front, we secured a contract from the Nama Group to provide smart metering solutions, contributing to the rise in M2M SIMs.

To address your question about organic growth in postpaid, if we exclude the M2M SIMs, there is a slight slowdown compared to last year. However, we continue to see growth supported by our strategy of converting prepaid users to postpaid plans.

Regarding prepaid subscribers, a decline has been observed. This decline can be attributed to several factors, including the ongoing conversion of prepaid users to postpaid plans and the introduction of new regulations by the TRA aimed at eliminating the practice of SIM dumping in the market. These factors have contributed to a reduction in the prepaid subscriber base across all operators.

Despite the decrease in subscriber numbers, we have seen a 300 **Baisa** increase in Average Revenue Per User (ARPU) for prepaid services compared to last year. This improvement is largely driven by the growth in our value-added services revenue, which increased by approximately 5.2 million year-over-year from both postpaid and prepaid segments.

In summary, while the significant growth in postpaid subscribers is driven by M2M SIMs, there is still marginal organic growth in the postpaid segment. The prepaid segment has experienced a decrease in subscriber numbers due to regulatory changes and market competition. However, we have maintained healthy overall performance by diversifying our revenue sources beyond core voice and data services to include value-added services.

M Manna Thomas - United Securities

Could you please provide an update on the status and outlook for recovery in Sudan?

Answer:

This year in Sudan, if we look at the quarterly evolution, the first quarter was particularly challenging for Sudanese operations due to a complete network shutdown. This disruption prevented Zain from offering services in the market.

Since then, there has been gradual recovery, particularly in Q2, where we witnessed a rebound in subscriber numbers as the network was partially restored. However, the situation has not fully improved. This quarter, the country also suffered the impact of devastating floods, further compounding the challenges.

The overall environment in Sudan remains highly volatile. Despite this, the management has taken several steps to safeguard revenue. For example, the country has been divided into "safe" and "high conflict" zones. In the safe zones, operations have grown compared to last year, and the management is making significant efforts to sustain and increase growth by ensuring network availability in these areas.

To address connectivity issues, management has employed alternative approaches, such as improving the backhaul network and exploring satellite connectivity options to provide service continuity in affected regions. In unsafe areas, efforts are ongoing to identify feasible methods for maintaining connectivity, although progress is hindered by the volatile situation.

Another factor affecting performance is the declining purchasing power of individuals in Sudan due to extremely high inflation and significant currency devaluation. These economic challenges have directly impacted profitability. Adjusting for currency devaluation, the operations in Sudan have still shown growth in SDG terms (Sudanese pounds) compared to last year. However, it is worth noting that last year's metrics are not an ideal benchmark due to the extraordinary circumstances.

The management remains committed to recovery efforts and is actively exploring all possible measures to stabilize operations. Sudan has historically been one of Zain's most profitable markets. Prior to the conflict, it was among the top markets in terms of profitability. We are hopeful that the situation will improve, and we anticipate a phase of recovery in the coming quarters.

J Joice Mathew - United Securities

Thank you, , for taking my question.

This is a follow-up regarding the subscriber base. Currently, we are seeing nearly 271,000 net additions in the postpaid segment for this quarter. You mentioned that this growth is due to the NAMA contract.

Are these new additions generating any revenue? Also, how many additional SIMs have been issued in the postpaid segment specifically due to this contract?

Answer:

In terms of our M2M (Machine-to-Machine) SIMs, our overall M2M SIM base is

approximately 750,000. As I've mentioned in previous calls, these M2M SIMs generate an average revenue of around 200 **Baisa** per month. However, in terms of overall revenue contribution, it is not significant.

When presenting our results, we adjust for the impact of these M2M subscribers on our overall revenue contribution. While M2M SIMs do not generate much revenue individually, they represent an important revenue stream. Through these SIMs, we interact with enterprise customers, providing solutions that meet their business needs.

J Joice Mathew - United Securities

Also, this quarter has seen an addition of 17,000 net prepaid subscribers. Could you please explain the reasons behind this sudden change in trend? Over the last few quarters, we've consistently seen a decline in prepaid numbers, but this quarter, especially, has shown an increase. What is your outlook for the prepaid subscriber base moving forward?

Answer:

The prepaid market has been quite challenging overall. If you adjust for the growth in value-added services revenue, as I mentioned earlier, the growth in this segment has been offset by a decline in core voice and data revenue. Therefore, the overall mobility market in Oman has experienced a contraction, with a higher decline on the prepaid side.

Now, regarding subscriber outlook, 17,000 net additions is not a significant number compared to our total base of 1.5 million (or 1.47 million). We have been focusing on retaining our high ARPU (Average Revenue Per User) customers, even in the prepaid segment. Of the 1.5 million, the revenue-generating base is likely closer to 900,000 to 1 million subscribers. Our focus has been on retaining these high-ARPU customers by converting prepaid subscribers to postpaid, while also offering a broad range of services within the prepaid segment to retain them.

In terms of outlook, the market remains quite challenging. Our focus is on maintaining the existing subscriber base. We do not expect significant growth in the prepaid subscriber base, but we are working to protect existing revenues and ensure revenue

growth. We are also focusing on the total mobility market, considering both postpaid and prepaid segments together.

J Joice Mathew - United Securities

This quarter showed a net addition of 17,000 subscribers, reversing the declining trend. What caused this sudden change?

Answer:

There is not a major shift in the trend itself. Our churn ratios have remained the same. So, 17,000 net additions are not a significant change. We also see a lot of subscribers moving between prepaid plans, so we do not consider this a major shift in prepaid growth.

J Joice Mathew - United Securities

Could you please elaborate on the observed cost structure? We have noticed a 13% increase in the cost of sales in Q3 compared to Q2, alongside a 16% rise in operating expenses. It is also worth noting that Q2 represented one of the lowest cost quarters for Omantel. Could you provide an explanation for these changes and offer guidance on how we should expect the cost structure evolving into the next year?

Answer:

Yes, Joyce, I think the reason for the increase in OpEx, as we have explained in earlier calls, is due to the formation of a new venture, Zain Omantel International, which is now managing Omantel's wholesale business. Previously, this entire team was part of Omantel Wholesale, but it was spun off into a new entity.

To manage this wholesale business, the new entity is entitled to a management fee. For the past nine months, the management fee paid to Zain Omantel International has been approximately 5 million Omani rials. This explains the increase in OpEx. Additionally, while the management fee payout is around 5 million rials, we also charge the full staff and resources-related costs for managing this operation back to the entity. The staff cost recharged to the entity is approximately 2.3 million rials.

In total, the increase in OpEx due to the management of the wholesale business is around 2.8 million rials, which is the major driver behind the OpEx growth. Another key factor, as Aisha explained earlier, is our ongoing investment in digital transformation. We have been heavily investing in our platforms to ensure future growth and to diversify our revenue streams. This has led to an increase in our IT costs, further contributing to the rise in OpEx.

Now, moving to the cost of sales: you'll actually see a reduction in the cost of sales, and the reason for this is the change in our revenue mix. Specifically, there has been a decrease in revenue primarily coming from transit voice and device sales. Naturally, this has had an impact on the direct cost of sales, as both categories saw cost reduction.

However, when it comes to core revenues and direct costs, we've seen significant growth in the fixed broadband segment. The growth is approximately 3.3 million rials year-on-year. Within fixed broadband, the fiber technology segment has seen the biggest growth. As a result, we are paying around 9.3 rials per subscriber to Oman Broadband Company, and since we have seen an increase in fiber subscribers, there has been a corresponding increase in costs related to fiber infrastructure.

Answer:

To add to what the Team highlighted, regarding our revenue mix and how we view the cost of sales in relation to our OpEx, I would also like to emphasize that the management team is actively pursuing cost optimization initiatives. We continuously reassess our cost structure in all areas of the business.

As you know, we are in the process of transforming Omantel from a traditional telco to a techco. Of course, we understand that costs, particularly OpEx, play a significant role in this transformation.

This transformation is being carefully managed, and I can confidently say that most of the initiatives have been successful in enhancing our EBITDA levels, which you have seen reflected in the results.

Looking ahead, as part of this transformation, we will continue to focus on minimizing the impact of any costs associated with this journey.



Aisha Habib Murad Al balushi

Thank you, Management team for answering the Analyst Questions, please refer to the Investor Relations website for additional updates and feel free to contact the IR team at investor@omantel.om for further information.

We look forward to your future participation in our YE Results.

Thank you for joining the call.