Omantel Performance for the Three months ending March 31, 2024.

Transcript of the MSX Session

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Aisha Habib Murad Al balushi – Omantel IRO

Good afternoon and welcome. We are delighted to present a summary of Omantel's unaudited financial results for the three months ending March 31, 2024.

Joining us today, Ghassan Al Hashar, Omantel Chief Financial Officer, and Amal Al Ojaily GM, strategic finance, and Mr. Seshan Perenkotukuruchi, who's senior strategist CFO office and we have as well Mr. Sudhakar, general manager of Financial Control.

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

During this call, we will make forward-looking statements. These are predictions, projections, or other statements about future events based on current expectations and assumptions and are subject to risks and uncertainties.

For the Q&A session, you may use the raise hand feature or write your questions in the chat box. To allow as many analysts as possible to ask questions, we would appreciate it if each analyst could limit themselves to one question and one follow-up question, keeping the time constraints of the session in mind.

Now, I will hand over to Mr. Ghassan Al Hashar to walk us through the main highlights of the quarter.

Ghassan Khamis Ali Al Hashar – Omantel CFO

Good afternoon, and welcome to our Q1 financial performance update for Omantel.

To begin with, the main highlight is to confirm that Omantel continues its strategic journey toward building an integrated ecosystem around the company. We are transforming from a conventional telecom operator into a technology and digital solutions provider.

Within our ecosystem, we have a diverse range of subsidiaries. Starting with Zain, we also have Info Line in the BPO business, Oman Data Park in data center services, OmPay in fintech, Tadoom in IoT, Etlaaq in space launch infrastructure, Equinix Data Center, and recently, Zain Omantel International in the wholesale business. Additionally, we have partnerships with major Hyperscalers such as AWS, Google, and Microsoft.

Now, further to the key developments and insights from the first quarter.

One of the key developments during the first quarter was the successful issuance of a $500 million sukuk with a tenure of seven years.

Of course, we are also thrilled to announce the commencement of operations for Joy Zain Omantel International, our Joint venture responsible for the wholesale business, which started in Q1 of this year.

To elaborate on our partnerships with the world's leading Hyperscalers, we have a collaboration with Google Cloud focused on Cloud Edge solutions, artificial intelligence, and machine learning. Additionally, our partnership with AWS and Amazon involves providing services in sovereign cloud capacity and marketplace solutions.

Another significant milestone during the quarter was the launch of the national cloud in partnership with Huawei.

Moreover, Omantel Innovation Labs has partnered with the Oman Investment Authority and the Joint Future Fund, raising 12 million Omani rials. This fund, managed by Omantel Innovation Labs, will invest in new startups and technology innovations.

It is also important to highlight that our sustainability report for 2022 and 2023 has been published, in line with MSX 30 disclosures. You may visit the Omantel website to download the report.

Finally, a recent development is our acquisition of a 25% stake in ETLAQ, the space launch infrastructure company in Oman.

Now, Aisha will take you through the presentation and cover all the financial highlights and then the session will be open for Q&A.

Aisha you may proceed.

Aisha Habib Murad Al balushi

Thank you, Shaikh Ghassan.

Moving to the summary of Omantel's highlights for the year, despite the challenges we continue to face, we have successfully navigated our way towards maintaining our market leadership in both mobile and fixed-line businesses.

Omantel's fixed-line business witnessed a growth of 1.2%, supported by an increase in fixed Internet revenue, including broadband, which registered a growth of 800K.

The domestic mobile market continues to experience competitive pressure.

However, we remain focused on enhancing customer experience, service delivery management, innovative service packaging, and maintaining premium network quality. The first quarter saw a positive uptick in ARPU (Average Revenue Per User), driven by successful upselling in both postpaid and prepaid packages. We will explain this further in the subsequent slides.

In the ICT business, we posted a 1.4% growth year-on-year, mainly contributed by cloudification services and communications.

Moving to Omantel's domestic key financial indicators, we can see from the slide that revenues decreased by 6.4% year-on-year, and net profit decreased by 8.6% year-on-year. However, we want to highlight that EBITDA margins at the retail level remained stable. The decrease in EBITDA is primarily due to reduced margins in the wholesale capacity segment. Additionally, we saw an increase in Capex for the first quarter.

EBITDA decreased by 3.1%, mainly due to lower capacity margins, and net debt increased by 6.6% year-on-year. Subscribers decreased by 3.6% year-on-year, and free cash flow decreased by 37% year-on-year.

Regarding the performance of Zain Group, the group's revenue decreased by 1% year-on-year, standing at 1.5 billion U.S. dollars. Group EBITDA fell by 11.1% year-on-year, and the group's net profit decreased by 59% year-on-year. The year-on-year decrease in net profit is attributed to the restatement of the first quarter of 2023 for KSA, challenges related to the Tower Sale, and the ongoing conflict and network challenges in Sudan.

A dividend of 76 million US dollars from Zain will be received in Q2 of 2024.

Regarding strategic developments at Zain Group, ZAINTECH has successfully completed the acquisition of STS, and ZOI has already commenced operations in Q1 2024. Additionally, the Blue Raman and KSA terrestrial projects are expected to be operational by the end of 2024.

Furthermore, we are pleased to report that Zain Sudan has partially resumed network and services operations as of March 7th, despite the challenging circumstances.

We will now delve deeper into these figures and their implications in the upcoming slides.

Now moving to Omantel group performance.

Regarding Group performance, including Zain Group, the group's revenue stands at 728 million RO, reflecting a decrease of 0.8%. EBITDA is at 226.8 million RO, a decrease of 8.7 million RO. The net profit is 40.6 million RO, representing a 21% decrease year-on-year compared to the normalized profit for 2023.

As mentioned earlier, the subscriber base witnessed a decrease of 19.2% in the first quarter, primarily due to the network shutdown and mass migration crisis in Sudan. Domestically, we also saw a reduction in subscribers by 100K. This reduction is attributed to a decrease in the mobile prepaid base by 260K, which was partially offset by an increase in the postpaid mobile base by 146K and the fixed broadband base by 6K.

Domestic revenues decreased by 10.4 million RO, or 6.3%, due to a decline in Hubbing revenue by 3.7 million RO and devices revenue by 6.7 million RO. However, Zain Group's revenue increased marginally by 1.9 million RO, driven by growth in devices revenue and Hubbing revenue in KSA and Iraq, which was offset by a decline in revenue from Sudan.

Domestically, EBITDA decreased by 1.4 million RO due to a reduction in gross profit by 3 million RO, partially offset by a decrease in impairment of receivables by 1.5 million RO. This reflects better management of receivables by the enterprise.

Zain Group's EBITDA decreased by 19.6 million RO, significantly impacted by Sudan, which contributed nearly 29 million RO in losses, partially offset by increases in KSA and Iraq.

Net profit before minority interest decreased by 92.6 million RO. The first quarter of 2022 included a capital gain of 81.7 million RO from the KSA Tower sale.

Excluding this capital gain, the net profit for 2023 stands at 51.5 million RO, representing a year-on-year decrease of 10.9 million RO. This decrease is due to a decline in EBITDA, increased finance costs, and higher amortization at the group level.

Now, moving to Omantel's domestic performance, excluding Zain, domestic revenue, excluding devices and transit revenue, increased by almost 0.2%. This growth is supported by an increase in fixed broadband revenue of 800K RO.

The revenue decrease of 10.4 million Omani Rials is primarily due to a fall in transit voice revenue and a decline in device revenue by 6.7 million Omani Rials. Excluding device revenue, mobile revenue decreased by 600K Omani Rials, while fixed broadband revenue saw an increase. EBITDA decreased by 1.3 million Omani Rials due to reduced wholesale gross margins on capacity sales and reseller revenues. However, retail gross margins remained consistent with the previous year. Operational expenses, including impairments, decreased by 1.5 million Omani Rials, thanks to improved receivables management by the enterprise team. Net profit decreased by 3.5 million Omani Rials, mainly due to lower EBITDA performance and reduced gross margins on capacity sales, alongside an increase in depreciation and amortization by 2.2 million Omani Rials. Additionally, as mentioned earlier, Capex has increased to 18 million, which aligns with the rise in depreciation and amortization.
Regarding the Omantel group profit, the domestic profit, dividends from Zain, and profits from Omantel contributed to a total group profit of 12.8 million. Moving to the value generation slide, despite intense competition and challenging market conditions, effective subscriber retention and upselling strategies have led to better average revenue per user management and customer retention. A drop in the prepaid customer base, mainly due to new TRA regulations halting SIM dumping and the ongoing migration from prepaid to postpaid, has resulted in a decrease in the overall

customer base. However, this decrease was partially offset by an increase in postpaid subscriptions.

The cost of sales for Q1 2024 decreased by 9.4, aligning with the revenue decrease, primarily due to lower Hubbing and device costs. Operating and administrative costs decreased by 0.5% year-on-year, attributable to impairments. The Capex to revenue ratio stands at 11.8, but it is expected to return to the previous year's level of around 15% by year-end.

Regarding the debt profile at the end of the first quarter, net debt increased from 678 million to 720.22 million due to an increase in borrowings by 30 million, supplier financing by 6.4 million, and a reduction in cash and bank balances by 8 million, excluding lease liabilities. The net debt at the end of the first quarter is approximately 593 million compared to 549 million.

As CFO Ghassan mentioned earlier, a key development during the period was the successful finalization of a sukuk issuance of 500 million US dollars with a seven-year tenor at a 5.3% profit rate, which is below the budgeted cost. This resulted in savings of around 400K for the quarter and 1.5 million for the full year. This concludes our presentation, and we will now open the floor for questions and answers.

NG **Neetika Gupta - Ubhar Capital**

Hi, this is Neetika Gupta from U-capital Capital. Thank you for the presentation and for addressing my question. I would appreciate a more detailed explanation regarding the Zain Omantel International Joint venture, now that it is operational. Could you provide some insights into the expected revenue and potential net profit contributions for this full year? Understanding how this venture will start impacting our financials this year would be very helpful.

Answer:

Hello, Nikita. As previously mentioned, ZOI is a Joint venture between Omantel and Zain, with Omantel holding approximately 26%. The primary objective of ZOI is to invest in submarine cables and terrestrial expansions, particularly in regions where Zain's operations are located. Currently, both investors, Omantel and Zain, are funding capacities in these regions and new submarine cables. The developments we discussed, including the Blue Raman and the KSA terrestrial expansions, are expected to become operational by early 2025 or possibly towards the end of 2024.

For 2024, the revenue and profitability from ZOI will not be substantial as the venture is in its capital expenditure phase. However, ZOI also manages the wholesale operations for Omantel, as well as those of Zain's operations. Through this management, ZOI earns a fee and continues to ensure that Omantel's wholesale business meets its targets. As mentioned in our last investor presentation, Omantel's existing assets will remain with Omantel, and we will continue to generate the revenue and profitability seen in previous years based on these assets.

Therefore, the contribution of ZOI to Omantel's profits as an investment will become more apparent in the coming years, starting from 2025.

NG **Neetika Gupta - Ubhar Capital**

Just one follow-up question regarding the situation in Sudan. We've observed a significant decline in the subscriber base there. Could you provide an update on this issue and share your perspective on how it might evolve in the future? Additionally, what are the potential resolutions you are considering for this situation?

Answer

So, Nikita, unfortunately, the situation in Sudan in February was beyond the control of management, including a complete network shutdown. However, immediately following this, Zain Management took decisive actions by implementing their disaster recovery plan and establishing a new data center in Port Sudan. This enabled partial restoration of our network.

Regarding the loss of the subscriber base, you observed up until March, a significant portion has been recovered in April as the network was reinstated and management actively worked to reacquire these customers. While not all subscribers have returned to pre-shutdown levels, a substantial number were restored in April. Management is continuously implementing measures within their control to ensure the continuity of business operations.

Bishen Bhalla - Vision Capital

Hello Aisha and team,

Good afternoon. Thank you for this call and the opportunity to interact. I appreciate seeing the Omantel standalone numbers at the end of the presentation. It's helpful to view the Omantel Group excluding Zain, as it offers insight into the performance of the parent entity. Could you clarify if the borrowings on your balance sheet include Oztel, or are these figures excludes Oztel?

Answer

Borrowings include Oztel.

Bishen Bhalla - Vision Capital

I just wanted to reconsider the figures. If I look at the December 31st numbers reported in the presentation versus the standalone financials released to us earlier today, I notice a discrepancy. According to the balance sheet for December 31st, Omantel Group, excluding Zain, the total borrowings were 278 million Omani Rials, as per Note 17.

However, when I look at the overall Omantel financials, the total borrowings should be around 484 million Omani Rials. Why is there a discrepancy between these figures? The Q1 2024 number reconciles correctly with the new Sukuk, but I couldn't reconcile the December number. According to Note 17, the December balance sheet shows borrowings of 278 million Omani Rials.

Could you please clarify this difference?

Answer

I think you're only considering the non-current portion of the borrowings. If you see this, 278 million Omani Rials is the non-current portion, and then you have 211 million under current borrowings.

If you remember, last time before the sukuk issuance was completed in January, the previous sukuk repayment was financed through a bridge loan. Since the bridge loan was borrowed for a very short period, it was shown under the current portion, which is included in that 211 million Omani Rials.

So, cumulatively, with your long-term borrowings, the total comes to around 490 million Omani Rials, which is more or less correct. Perfect.

Effectively, this gives us a good picture of Omantel's standalone financials and operations in its home market. The assets also reflect this. This comprehensive view aligns with our previous discussions, where we gained insight into Omantel's core operations.

Regarding the finance cost of 43 million Omani Rials for 2023, it effectively includes the lease cost for the sale and leaseback of the headquarters.

BB **Bishen Bhalla - Vision Capital**

regarding the competition from the third operator and its impact on growth, especially in fixed broadband and data services, could you discuss some of the challenges you foresee in these areas and the strategies Omantel plans to adopt for the home market? It's encouraging to see Omantel's initiatives in these challenging environments, and I wish you all the success in your endeavors.

Additionally, could you discuss some of the ARPU metrics for fixed broadband? Since there is only a certain level to which we can grow in this area, any insights on this would be helpful.

Answer

Yes, Bishan, if you look at the numbers, one positive takeaway is the improvement in ARPU itself. In the first quarter, which also reflects the culmination of our efforts last year, we focused not only on retaining customers but also on upgrading them to higher-end plans. Initially, we were primarily acquiring customers with postpaid plans online. We have since introduced entry-level plans starting at 10 and 11 Omani Rials, with slightly higher allowances, enabling us to acquire customers at that entry point. This is one reason for the increase in ARPU.

Additionally, we have successfully upgraded customers from these entry-level plans to higher plans. This upselling strategy, executed last year with a strong focus, has helped in increasing the ARPU. On the prepaid side, there are some challenges due to TRA regulations, which we view positively. These regulations have changed the pricing structure so that SIM cards are now charged at one Omani Rial each. Previously, the plan was embedded in the SIM, leading to operators effectively dumping SIMs into the market. While this regulation impacted our subscriber base, our revenue remained intact. Our monthly average revenue from prepaid was around 4.6 to 4.7 Omani Rials, and we even saw a slight increase in prepaid ARPU of 100 baisa across that base, primarily due to improvements in our value-added services (VAS).

In this competitive market, particularly in prepaid where pricing has been aggressive, Omantel has focused not just on reacting to price changes but also on exploring other revenue streams, particularly in value-added services, while trying to maintain our price positioning like last year.

I hope this answers your question. The prepaid market remains challenging, but the first quarter shows that we have been able to maintain revenue by diversifying into these value-added revenue streams.

BB **Bishen Bhalla - Vision Capital**

You know, up until last year, you would provide us with the ARPU for both fixed and internet services, which I'm not seeing currently. Secondly, if I look at your Q1 2023 presentation—the one Omantel delivered on this call exactly a year ago—your ARPU for prepaid was 2.6 OMR, but now it shows as 3.1 OMR. Comparing last year with this year, it's 3.0 OMR versus 3.1 OMR. However, last year's presentation indicated it was 2.6 OMR. I can't reconcile this difference. What has changed for it to be restated to 3.1 OMR? Additionally, could you provide us with the ARPUs for fixed and internet services going forward? These are the two things I need clarification on.

Answer

OK, regarding your first question about the fixed internet ARPU, what you are seeing here pertains to the fixed broadband segment. Our fixed broadband plans are bundled with fixed voice services. Therefore, the ARPU you're observing represents both broadband and voice combined. We have a very small number of customers who purchase only the voice service from us, as most customers now opt for both broadband and voice, with voice being bundled. In short, the ARPU figures you see include both home broadband and voice services. I hope this answers your question regarding the fixed service.

We were trying to disaggregate that, but I believe that doesn't present a meaningful picture considering that the fixed voice revenue continues to go down and we have got a very small set of customers who only exclusively buy voice services. Yes, uh, I think your next question is on a mobile, right?

OA **Omar Al-Rajhi - Bank Muscat**

Could you please elaborate more on the company's new revenue drivers and the expected growth from these initiatives? Thank you.

Answer

So Omar here, I think we are giving you a breakdown of our of our revenue mix. So first starting with the mobile, which I've explained in in detail how the market is panning out and how we were able to preserve the revenue because of our growth in postpaid revenue, prepaid is the one where we have seen a decline.

So the growth in postpaid is not fully offsetting the fall in the prepaid and that's because of the pricing pressure.

What we are witnessing in the market on the prepaid side now on the fixed side, which is another major segment on when I say fixed here, it includes the fixed broadband and the enterprise data circuits business.

Now that's an area where we have grown marginally.

If you see, compared to last year, the growth is around 300,000 out of this fixed broadband is the main driver for that growth.

The fixed broadband increased by close to 800,000 now this even this growth in fixed broadband is the backdrop of a significant competition.

The major competition is coming from Awasr, which is the other player besides Orido is also active in these fixed broadband now in the fixed broadband segment, I think the investment which we have done in 5G that is the main driver for this growth in fixed broadband revenue roughly around 40 to 41% of our total subscriber base of fixed broadband is now coming from wireless and around 40% comes from fiber.

I will give you a breakdown of our revenue mix. Starting with mobile, I've already detailed how the market is shaping up and how we've managed to preserve revenue due to growth in postpaid revenue. However, there has been a decline in prepaid due to pricing pressure, and the growth in postpaid has not fully offset the fall in prepaid.

On the fixed side, which includes fixed broadband and enterprise data circuits, we have seen marginal growth. Compared to last year, the growth is around 300,000 Omani

Rials, with fixed broadband being the main driver, increasing by close to 800,000 Omani Rials. Despite significant competition, particularly from Awasr and also from Ooredoo in fixed broadband, our investment in 5G has been a main driver for this growth. About 40 to 41% of our fixed broadband subscriber base now comes from wireless, and another 40% from fiber. These two streams collectively contribute to the growth in fixed broadband revenue.

Regarding devices, although device revenue has decreased during this period, this reduction mainly stems from a decrease in wholesale device revenue, while retail device revenue remains at similar levels. In fact, retail device sales support growth in postpaid revenue, as most postpaid customers are interested in devices, which remain crucial for our customer acquisition.

Wholesale is another significant segment, comprising both capacity sales and the international voice business. This quarter, managed by ZOI, saw a decrease in capacity sales margins compared to last year, which also lowered our EBITDA margin. However, we believe that this gap in margins will be compensated going forward, and margin levels on capacity sales will align with those of last year, despite being affected by some one-time revenues.

On the ICT front, as Sheikh mentioned, our partnerships with Hyperscalers and other partners will continue to support our growth. Currently, our ICT revenue stands at around 37.3 million Omani Rials, showing marginal growth from last year. Most of our subsidiaries are also offering solutions in the ICT space.

In addition, as you can see, the core revenue streams from mobile, fixed, and wholesale have been maintained in line with last year. However, there is a decline in wholesale and device revenues, which are typically lower-margin revenue streams within our overall revenue mix. A key focus is the revenue stream from our ICT business. This segment is still in the early stages, and we are aiming to grow it moving forward by creating new partnerships and ventures in the coming years.

Omar Al-Rajhi – Bank Muscat

Sure, I appreciate your answers. I just have one more question, if you don't mind. Regarding the 5G technology mentioned earlier, are there any new products expected to be launched that could also impact this?

Answer

Moving forward, as we've mentioned, our objective is to advance our digital transformation, with our digital strategy playing a crucial role. As I mentioned earlier, one of our subsidiaries focuses on Fintech, and we're exploring other areas that we identify as potential quick wins and opportunities for rapid growth. However, these initiatives are still in the early stages. To address your question, our primary focus is on the digital space, app solutions, and platforms. I've previously noted that at Omantel, we leverage our customer base registered on our digital app, which numbers approximately 1.5 million. We are counting on this base to expand into new solutions that we can deliver to our customers beyond the current platform. These areas represent where we see potential for growth moving forward.

Joice Mathew - United Securities

Hello, good afternoon, gentlemen. Thank you for the presentation. I have a few follow-up questions. One concerns the developments in Sudan that you mentioned. You stated that a significant portion of the customer base has been restored. When do you think your revenue and EBITDA will return to the levels seen in the fourth quarter? Will this recovery occur in the second quarter, or do you anticipate a quicker recovery? Or should we expect it to take longer?

Answer

I believe this question, Joyce, concerns an area with very high uncertainty. At this stage, it is difficult for us to predict the recovery trajectory for the coming quarters. The important point to highlight is that there is a gradual recovery and progress is being made. Sudhakar mentioned that the shutdown in Sudan began in the first week of February and the network resumed operations in the first week of March. We are seeing good progress in increasing the customer base back to our target levels.

Regarding the other matter related to the fourth quarter of 2024, with the restatement because of the one-time gain from the sale and leaseback of Zain KSA's towers, I believe that this will normalize towards Q4, and the impact we see here because of the restatement will be much less significant.

Regarding Sudan, my comment is that this is an area of high uncertainty. However, we are seeing gradual progress moving forward.

Joice Mathew - United Securities

Thank you, Shaikh Ghassan. My question was specifically about Sudan, not about the restatement.

My second question is regarding our current domestic market share, which has slightly declined to just below 36%. Given the presence of a third operator in the mobile market segment, how do you see our market share evolving? Do you think it will stabilize soon?

Answer

Yes, Joyce. I've detailed our growth drivers in both the postpaid and prepaid segments. As mentioned, pricing has been quite aggressive, particularly in the prepaid segment. You may be aware that Awasr has also received a mobile license and will soon be operating in this segment. This is a heavily saturated market characterized by multiple players.

At Omantel, we aim to offer a spectrum of services that engage customers continuously. This approach is part of why we've introduced initiatives in ICT and Fintech, as Sheikh mentioned earlier, which help keep customers engaged while we continue to generate core revenues from them. This engagement helps us reduce churn and maintain differentiation from other operators. While our subscriber share has dropped, our revenue market share remains intact. This indicates that we are effectively retaining high ARPU customers and upgrading customers successfully in a competitive scenario.

As to where this will settle, it's difficult to predict, but with some price stability in the market—which we hope has reached a new bottom—it's the superior customer service that will drive growth for operators going forward. We believe we can maintain and grow our revenue market share based on the initiatives we have taken.

Furthermore, over the past two years, we've been proactive against competition by successfully migrating customers from prepaid to postpaid to ensure better stickiness. This strategy has helped us maintain our financial performance and our ARPU. You'll notice a decline in our customer base, but those leaving are generally lower-end customers, which doesn't significantly impact us as we focus on providing best-in-class services to medium and high-end customers.
As Sudhakar mentioned, we are also aiming to expand our services and solutions beyond our core telecommunications and connectivity services. This is a game changer and marks the second phase of our strategy to face competition moving forward. After completing the migration phase, we are now expanding our offerings to provide more solutions and services to our customers.

NL **Nishit Lakhotia SICO Bank**

Thank you for the opportunity. I have two questions. Building on what Joyce mentioned, the mobile market share has dropped quarter over quarter from 36.4% to around 35.8%. From a quarterly perspective, this represents a 0.6 percentage point fall. Are you suggesting this is the bottom, and that we won't lose more market share on the mobile side? Given the market dynamics and Vodafone possibly needing a larger critical mass to expand, it seems that aggressive pricing might be the only way to grow by acquiring more customers. What is your view on the overall market? Have there been any recent population increases in Oman that could drive the telecom business? Some additional insights on revenue would be helpful, especially since your service revenue has declined this quarter—from 138 last year to 134.

I'm trying to understand where the bottom is in terms of revenues and, regarding your profits, aside from interest costs, are there any other cost efficiencies we should expect this year that could help improve your bottom line? These are my two questions.

Answer

So Nishit, the reason for the reduction in revenue primarily comes from two segments: a reduction in device revenue of around 6.7 million and transit voice revenue of 3.9 million. Unlike other core revenue segments, transit voice revenue carries a margin of about 3 to 3.5%. Thus, that reduction in revenue did not significantly impact our margins to begin with.

Regarding devices, there are two segments in our device business. One is direct sales to our retail customers, and the other is sales to wholesalers in the market. The revenue decreases mainly occurred in sales to dealers. Similarly to transit voice revenue, the margins here are about 2.5 to 3%, whereas we enjoy a much healthier margin of close to 9% in retail. Retail device sales also support our growth in the postpaid segment.

These are the two main reasons for the reduction in revenue. However, if you exclude both these segments and then look at our revenues, our overall total revenue shows a marginal increase of about 0.6%. This is due to growth coming from fixed broadband, where we continue to add customers on both fiber and wireless. There's also a small marginal increase in ARPU in fixed broadband. We've been pushing to upgrade customers from the 25 OMR plan to the 30 OMR plan and so on. This upgrade strategy, combined with customer acquisition on the fixed side, has helped us achieve growth in fixed broadband.

The market penetration for fixed broadband is now close to 76 to 78%, indicating that there is still room for growth for all operators in this area. While the mobile market is highly saturated, our focus on maintaining customer engagement has helped us capitalize on growth opportunities in fixed broadband over the past two years, and there remains potential for further growth in this sector.

I did not understand your comment about service revenue declining, as that is not the case from our perspective.

Additionally, at the macro level and regarding the state of the economy as you mentioned, this impacts us. Population growth is important, but the overall economic condition is equally crucial as we serve both consumer and corporate segments. In the consumer sector, we are seeing projects and government spending increase from the levels of two or three years ago. This expansion is leading to more companies starting businesses to support government development and expansion plans. This will undoubtedly have a positive impact on our enterprise segment, including the SME segment, offering further growth opportunities.

When it comes to competition, at Omantel, we do not believe it would be in our favor to engage in a price war. We feel it is more beneficial to provide value to our customers rather than focusing solely on price. We are doing this through the additional services and solutions we offer. I understand that major components like home offers are being aggressively promoted by our competitors, but we are in a strong position with our offerings in this area.

To directly answer your question, we are not entering, nor do we plan to participate in any price wars moving forward.

NL **Nishit Lakhotia - SICO Bank**

If I may, I just have one more question about the cost side. I had asked whether there are any targets for operational efficiency or any cost savings that you could guide us on for this year.

Yes, regarding the refinancing through the sukuk issuance, we achieved savings due to the successful issuance. When we planned to issue the sukuk, the market interest rates were higher, but we were able to secure the proceeds of 500 million at a profit rate that was considered lower compared to our budgeted costs. This resulted in savings of around 400K for the quarter and 1.5 million for the full year. In addition, our plans and efforts are focused on optimizing costs in various areas, as we continuously seek opportunities to enhance efficiencies. This is a collaborative effort, not only by the finance unit but by the entire business and support functions within the organization. These efforts will be ongoing, and you are already seeing the results with stabilized EBITDA compared to the previous period. We will continue to enhance efficiencies wherever possible.

Aisha Habib Murad Al balushi

Thank you, Sheikh Ghassan and the management team for answering the Analyst Question.

Dear Analyst and Investors thank you for Joining us today and 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 Q2 2024 update.
Thank you for joining the call.

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