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Omantel MSX Investor Session H1-24 Performance Transcript

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Management Team

Chief Financial Officer: Ghassan Al Hashar.

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[Investor Relations Officer: Aisha Al Balushi.](#)

Aisha Al Balushi – Omantel Investor Relations Officer.

Greetings, ladies and gentlemen. This is Aisha Al Balushi, and I welcome you to Omantel's Q2 2024 MSX Session Call.

It's my pleasure to host you all on behalf of Omantel's senior finance management team today. Joining us are:

Ghassan Al Hashar, Chief Financial Officer

Narayanan Seshan Perenkotukuruchi, Chief Strategist, CFO Office

Sudhakar Ippatappu, General Manager, Finance Control

By now, you should have received the company's presentation and the Q2 Unaudited Financial Statement, 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, keeping the time constraints of the session in mind.

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

Ghassan Al Hashar – Chief Financial Officer.

Thank you, Aisha, for the introduction

Good afternoon, analysts, Investors and members of the investors community and welcome to Omantel's Q2 financial performance update.

Despite the challenges and competition faced at the group level and domestic operations we continue to deliver resilient performance.

Domestic revenue for the six months ended 30 June 2024 stands at RO 297.7 Mn compared to RO 305.4 Mn in the previous period, a decrease of 2.5%. The reduction in topline performance is attributed to reduction in Device revenue and Transit voice revenue which reduced by RO 7.4 Mn and RO 2.8 Mn respectively. Excluding Device and transit voice revenues the revenue for year 2024 stands at RO 217.7 Mn compared to RO 215.3 Mn representing an increase of 1.1%.

Again, we reiterate as highlighted in Q1 performance update. The decrease in Group H1-2024 net profit compared to the restated net profit is mainly due to a one-time gain on sale and lease back of Zain KSA tower transaction.

The restatement of H1-2023 Net profit was due to the accounting of the KSA Tower sale transaction which was revisited in Q4-2023. Excluding the impact of the restated KSA tower gains, the drop in net profit (before minority interest) is RO 15.3 Mn (12.2%) which is primarily on account of the ongoing crisis in Sudan.

The negative impact from Sudan is partially mitigated by increase in profit from Iraq and Kuwait. Sudan recovery plan helped in ensuring that around 5 million customers return to the network and improved the performance in Q2-2024.

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 Al Balushi – Omantel Investor Relations Officer.

Domestic Economic Outlook

To begin Oman's economic development and key indicators, followed by an in-depth review of Omantel's financial and operational performance over the past year. sovereign credit ratings from Moody's, Fitch, and S&P Global. These upgrades reflect increased confidence in the country's fiscal management and its

Oman's economic outlook for 2024 can be seen optimistic, underpinned by strategic reforms and investment in key sectors. As Omantel continues to align itself with the national agenda, we believe there are significant opportunities for growth and value creation in the years ahead.

Within this context, Omantel is establishing itself as a vital player in supporting the nation's digital ambitions, in sync with Vision 2040's objectives. Adding to

this momentum, the Oman Future Fund has been introduced with a substantial capital of RO 2 billion, aiming to catalyze innovation and economic diversification. Omantel Innovation Labs is set to be a crucial partner in this initiative, managing a joint fund worth 12 million OMR, signifying its strategic commitment to propel Oman's digital transformation and long-term growth.

Omantel's journey of growth and innovation

Omantel's journey of growth and innovation goes beyond simply keeping up with the telecommunications industry; We are committed to strengthening our core services to enable us to deliver best-in-class digital solutions and ensure a seamless and elevated experience for our customers.

We are advancing beyond the boundaries of traditional telecommunications, expanding into dynamic fields such as Artificial Intelligence, Cloud services, and Space Technology. This is more than just diversification—it's about spearheading the next wave of technological breakthroughs. Through these efforts, we're not merely adapting to the future; we're actively shaping it.

Driving Growth Through Strategic Diversification and Operational Resilience Across Zain Group

The group continues to drive growth through strategic diversification and operational resilience across our group. With a 21.9% controlling stake in Zain Group, we maintain our leadership position, marked by consistent dividends over the past four years.

Our diversified growth is evident in ventures like the TASC Tower Company, with estimated value of USD 2.2 billion, and Zain Omantel International, connecting eight key markets. We're also leading the way in digital innovation through Zain Fintech and ZainTech, showing significant year-over-year growth in revenue and customer engagement.

Across key markets, Zain Kuwait leads with strong infrastructure and we expect winning major B2B Deals, while in Saudi Arabia, 5G and Tamam revenues are soaring. Iraq and Sudan show remarkable resilience, with

significant increases in data revenue in Iraq and 5 Mn subscriber recovery in Sudan due to 40% of network restorations.

We are among the leading telecom operators in the MENA region

Our operations demonstrate robust performance, with each OpCo contributing meaningfully to our overall success. We are seeing consistent growth in subscriber numbers across the board, with revenue and EBITDA reflecting the strength of our strategy and execution.

Country	Subscribers (mn)	Revenue (USD mn)	EBITDA (USD mn)	EBITDA Margin (%)
Iraq	19	516	208	40.0%
Kuwait	2.7	605	222	36.7%
Bahrain	1.1	102	31	30.4%
Oman	2.9	773	213	27.5%
Saudi Arabia	9	1,356	414	30.5%
Jordan	4	269	111	41.2%
Sudan	10	122	46	37.7%

Let's begin by highlighting some of the key markets:

In Kuwait, we continue to be a cornerstone of our regional presence, delivering impressive revenue growth and maintaining healthy EBITDA margins, thanks to our leading market position and continuous investments in the network.

Saudi Arabia is another key market where we are witnessing significant growth, particularly in revenue, supported by robust EBITDA margins that underscore the efficiency of our operations.

In Iraq: Iraq is performing exceptionally well, and we are expanding the 4G Network, that has seen an impressive quarter and expect this market to

continue its upward trajectory and deliver exceptional financials in the 2nd half of the year.

In **Jordan** we are expanding 5G networks, attracting new customers and migrating customers from 4G to 5G as this is the key driver for the revenue growth there.

In **Sudan**: The teams are focused on maintaining and reviving the network to deliver much-needed connectivity as well as implementing price revamps to mitigate the currency devaluation.

Revenue for the second quarter increased significantly compared to the first quarter, with strong EBITDA growth reflecting a solid margin. Net income for the quarter also grew substantially compared to the previous quarter. The customer base nearly doubled, driven by a robust recovery plan and the addition of a new data center in Port Sudan.

Unlocking value in eight countries through Omantel's 26% Stake in Zain Omantel International

Through Zain Omantel International, we are not only expanding our footprint but also laying down the infrastructure that will support global connectivity for years to come. With the PEACE Cable and Africa One under our management and the KSA Terrestrial Network and Blue Raman projects set to come online by 2025, Omantel is strategically positioned to lead in a rapidly evolving digital landscape.

Domestic Key Developments – H1 2024

As we look back at the first half of 2024, Omantel has made significant strides in reinforcing our leadership and expanding our influence across several strategic areas.

Strategic Alliances:

At the heart of our progress is our commitment to forging strong partnerships. This year, we signed over 12 strategic agreements at COMEX 2024, focusing on enhancing Oman's digital infrastructure through advancements in cloud services, and AI. Our collaborations with global giants like Google Cloud and

AWS have been instrumental in enhancing edge data processing capabilities, developing a Digital Marketplace, and ensuring compliance with national security standards through a Sovereign Cloud.

Additionally, our partnership with Huawei has allowed us to expand our national cloud infrastructure, further bolstering our capacity for growth. We are also leading in AI monetization through our strategic partnerships with AWS, Microsoft, and Google, positioning Omantel at the forefront of technological innovation.

Moving to Sukuk issuance

We successfully issued \$500 million in Sukuk, offering a coupon rate of 5.375%.

Awards and Recognitions:

Omantel's impact is clear, ranking among the top 25 brands in the Middle East and 6th in our sector. We also earned recognition for our AI excellence with an award at COMEX, highlighting our leadership in technology and innovation

Investments and Acquisitions:

Our vision extends into new frontiers. We've taken a 25% stake in Etlaq, marking our entry into the space launch infrastructure domain in Oman. This acquisition aligns with our strategy to diversify and explore new growth opportunities.

Moving to what we have covered earlier with Oman Future Fund:

We're also driving innovation through the Oman Future Fund, where the Omantel Innovation Lab is playing a crucial role. With an 8 million OMR commitment from the Oman Investment Authority and a 4 million OMR investment from Omantel, the lab is fostering cutting-edge developments in Oman's tech ecosystem.

Sustainability Commitment:

Sustainability report (2022-2023), aligned with MSX disclosures, reflects our ongoing efforts to reduce our environmental impact and promote sustainable practices.

And now moving to Omantel's Financial Highlights – H1 2024

As we assess Omantel's financial performance for the first half of 2024, it's clear that our continued investment in the latest technologies has been instrumental in securing our leadership in both the mobile and fixed-line businesses and protect our subscriber.

This strategic focus on continuous investment has directly influenced the increase in our capex and the corresponding reduction in free cash flow.

Starting with our core business performance:

- In the mobile segment, despite challenging market conditions, we have successfully protected and even slightly increased our market position, as reflected by the growth in mobile subscriber share from 35.8% to 37%. This resilience has positively influenced ARPUs in both postpaid and prepaid segments.

In the fixed-line business, our leadership remains strong, evidenced by a 3.6% revenue growth driven by the robust performance of our fixed broadband services. Our continuous efforts to upgrade infrastructure and adopt cutting-edge technologies have enabled us to maintain a dominant market share of 55.2%.

Moving to our Domestic financial indicators:

- Revenue for the first half was 297.7 million OMR, a slight decrease of 2.5% year-on-year.
- EBITDA held steady at 82 million OMR, with a modest 0.4% growth year-on-year.
- Net Profit declined by 9.1%, reaching 38.8 million OMR.

Detailed explanation will be covered under Domestic performance.

Operational highlights: Our investments have led to extensive network coverage, with 92% 5G and 96% 4G coverage across Oman, ensuring that we continue to deliver top-tier services to our customers.

Financial strength:

- Reflecting our commitment to staying at the forefront of technology, we saw a 14.7% year-on-year increase in capex, totaling 36.7 million OMR.
- Free cash flow has decreased by 39.6% to 30.3 million OMR.
- Net debt decreased in line with our bond repayment, while net leverage slightly increased due to Helios towers lease liabilities.

Moving to the Omantel Group (Incl Zain Group) – H1 2024

Omantel Group, including Zain Group, delivered solid results in H1 2024 with a 2.1% increase in group revenue, reaching RO 1,469.6 million. However, we faced challenges with a 4.4% decrease in EBITDA to RO 487.4 million primarily due to the ongoing crisis and currency devaluation in Sudan, partially offset by an increase in Iraq. It's important to note that the 2023 EBITDA included a positive impact from a one-off item related to settlements and provisions for Sudan.

Domestically, EBITDA stood at OMR 82 million, reflecting a 0.4% increase, driven by a reduction in impairment provisions and improved management of government receivables.

While the Net profit before minority interest decreased by RO 96.9 Mn (46.8%) since H1-2023 includes the Capital gain on KSA tower sale of RO 81.7 Mn. Excluding Capital gain on Tower sale net profit for 2023 stands at RO 125.5 Mn which represents a YOY decrease of RO 15.3 Mn. The subscriber base decreased by 9% due to issues in Sudan.

Moving to Zain Group's total subscriber base decreased by 4.9 Mn compared to 2023 coming mainly from Sudan on account of network shutdown and mass migration crisis.

Domestic subscriber base reduced by 180K on account of reduction in Mobile Prepaid base by 309k which was offset by increase in Postpaid Mobile base by 129k and FBB base by 8k.

Looking at Omantel Group (Domestic Financials) – H1 2024

Now, moving to the domestic financials, including Omantel subsidiaries but excluding Zain, revenue decreased year-on-year by OMR 7.7 million.

As mentioned earlier, this decline is primarily due to lower device revenue and transit voice revenue. Mobile revenue, excluding device revenue, decreased by OMR 1 million, or 1%, in a fiercely competitive market, with mobile revenue in 2024 standing at OMR 92.8 million compared to OMR 93.8 million in the previous year.

Fixed revenue, on the other hand, increased by OMR 2.8 million, representing a 3.6% growth, driven by an increase in fixed broadband revenue. However, wholesale revenue decreased by OMR 1 million.

EBITDA increased slightly by 0.4%, largely due to better management of government receivables, which contributed OMR 3.6 million. This was offset by a reduction in gross margin by OMR 3.1 million. Net profit decreased by OMR 3.9 million despite stable EBITDA performance, mainly due to increased depreciation and amortization of OMR 4.4 million, and a reduction in finance and other income by OMR 2.2 million. These were partially offset by an increase in the share of profit from associates by OMR 1.6 million and a reduction in tax expenses by OMR 800K.

Omantel Group Profit– Domestic to Group profit– H1 2024 vs H1-2023

Omantel Group's domestic profit stood at OMR 38 million, while the group profit after minority interest was OMR 27.8 million. When comparing the first half of 2024 to 2023, it's important to note that the reported profit in 2023 included the impact of a one-time gain in KSA.

Business Performance:

This period, Omantel successfully migrated 39,000 prepaid customers to postpaid plans, enhancing customer loyalty and long-term value creation. Our focus on retention and upselling has reinforced our market leadership, with a 37.1% share in the mobile market and 55.2% in fixed broadband.

In fixed value generation, we continue to grow by upgrading customers from legacy technologies to advanced 4G/5G and fiber broadband, securing a strong competitive position. These efforts underscore our commitment to sustained growth and value for our investors.

Cost Analysis Summary for H1-24

Our cost of sales decreased by 3.4%, aligning with the reduction in revenues, primarily driven by lower Hubbing and device costs. Operating and administrative expenses also saw a year-over-year reduction of 3.9%, largely due to a decrease in impairment provisions.

Despite these reductions, we have continued to invest strategically, with CAPEX additions increasing by 14.7% to support future growth initiatives, resulting in a CAPEX to revenue ratio of 12.3%. We expect this ratio to reach 15% by year-end, underscoring our commitment to driving innovation and enhancing our market position.

Moving to the Debt Profile

Our net debt increased from RO 678.2 million in December 2023 to RO 710.7 million in June 2024, primarily due to higher borrowings and a decrease in cash reserves, driven by increased CAPEX outflows.

Interest costs for H1 2024 rose by RO 1 million compared to H1 2023, due to factors including a one-time gain in H1 2023, additional costs from utilizing RCF facilities, and increased tower lease payments.

Free cash flow decreased by 39.6% to RO 30.3 million, reflecting our significant investments in growth. Looking ahead, we continue to manage our debt prudently while investing in key initiatives that will drive long-term value for our shareholders."

With that we will move forward with Q/A Session.

Joice Mathew – United Securities

Good afternoon, team. Thank you very much for the presentation. It's clear that Omantel is evolving into more of a technology company, and it's exciting to see the initial steps you're taking in that direction. Could you please provide some additional insights on this transformation? Specifically, I noticed in the presentation that you discussed the OMPAY app and the Super App. It would be helpful if you could share more details on customer adoption trends, including some numbers on monthly active users, transaction volumes, and your vision for how these apps will evolve in the future and if you can share Omantel's strategy roadmap?

- Also, if you can give more clarification about the reason for the slight increase in finance costs during the second quarter compared to the previous quarter.

Answer:

Ghassan Al Hashar – Chief Financial Officer.

Omantel is in the early stages of integrating Fintech services into its main platform, including payment gateway and remittance services, with licenses secured from the CBO. Omantel App currently boasts over 1.5 million users, with more than 1 million active users—showing significant growth from last year. While the financial impact remains minimal at this early stage, partnerships with global leaders like AWS are crucial to developing a digital marketplace and accelerating Omantel's transformation into a leading technology services provider. We will have more updates in the coming Quarters.

To answer your Question on the strategy, Aisha can you go to the slide where we are showing the domestic milestones and developments.

To ensure the success of our roadmap and objectives, it's crucial to establish partnerships with global leaders. For instance, we are exploring the integration

of other platforms with the main Omantel app and our Fintech app, such as our collaboration with AWS. We are also developing a digital marketplace, highlighting that this effort extends beyond Omantel alone. We have joint ventures and partnerships with strategic players who are experts in these areas.

Reflecting on our overall strategy, what we once called the Omantel Shift Gear Strategy, initiated in 2020, is now approaching the end of its journey. This strategy has been pivotal in transforming Omantel from a traditional telecom operator into a provider of technology services, products, and solutions.

The main focus areas of our current strategy from 2020 to 2024 have produced significant results. We have successfully monetized non-core assets and deleveraged our balance sheet through strategic initiatives like the sale of our towers.

Looking at our overall strategy, what we now call the Omantel Shift Gear Strategy was initiated in 2020, and we are nearing the end of this transformative journey. This strategy has been focused on evolving Omantel from a traditional telecom operator into a provider of technology services, products, and solutions.

As we approach 2025, we are preparing to embark on a new strategy that will guide us through to 2030. We are currently formalizing the key components of this new strategy and will be able to share it with you as we move forward.

While we can't yet provide details on the upcoming strategy, we look forward to sharing it with you, likely in the early months of 2025.

Dear Ravi you may answer Joice's second question.

Narayanan Seshan Perenkotukuruchi, Chief Strategist, CFO Office

On your Secon Question, H1 2023 benefited from a one-time gain of RO 292k related to a term loan prepayment and the foreclosure of an interest rate hedge. Secondly, in H1 2024, we incurred an additional RO 144k due to the

utilization of revolving credit facilities. Lastly, an increased tower lease payment of RO 519k in H1 2024 also contributed to the higher interest cost.

Ghassan Al Hashar – Chief Financial Officer.

Thank you, Aisha for the presentation and the 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 Q3 2024 update.

Thank you for joining the call.