

Telecom

HOLD: 12M TP @ 0.350

Valuation Summary (TTM)

Price (RO)	0.340		
PER TTM (x)	17.4		
P/Book (x)	0.9		
P/Sales (x)	0.9		
EV/Sales (x)	1.2		
EV/EBITDA (x)	2.9		
Dividend Yield (%)	5.9%		
Free Float (%)	63%		
Shares O/S (mn)	651		
YTD Return (%)	-23%		
Beta	1.2		
(mn)	OMR	USD	
Market Cap	221	575	
Enterprise Value	289	750	
Price performance (%)	1M	3M	12M
Ooredoo	-8%	-9%	-14%
MSX 30 Index	-5%	-5%	3%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO)	107	225	173
Avg Daily Volume (,000)	362	597	463
52 week	High	Low	CTL*
Price (RO)	0.45	0.30	14.5

* CTL is % change in CMP to 52wk low

Major shareholders

Seyoulla International	55.0%
PASI	6.0%
OIA	5.0%
Others	34.0%

Other details

Exchange	MSX		
Sector	Telecommunications		
Index weight (%)	5.3%		
Key ratios	2020	2021	2022
EPS (RO)	0.033	0.020	0.029
BVPS (RO)	0.395	0.390	0.453
DPS (RO)	0.025	0.018	0.020
Payout ratio (%)	76%	90%	69%



Ooredoo Oman: competition intensifies

Ooredoo Oman (ORDS) is the second largest telecom operator in Oman and subsidiary of Ooredoo in Qatar. The company has been facing significant competition over the last couple of years from the entry of Vodafone. Market share has been declining continuously from 38.4% in 3Q22 to 34.8% in 3Q23. There has also been a price war among the three players resulting in a decline of ARPUs. We are witnessing a fall in both top and bottom line for ORDS. During the 3Q23 revenue slid by 7% YoY and 1% QoQ to reach RO 63.2mn. The reported revenue was also 8% lower than our expectation. For the 9M23 period revenue remained flat at 0.6% YoY. While the revenue from services declined by 8.6%, the sale of handsets increased by 38.3% YoY in 3Q23. ORDS has been aggressively pushing handset sales in order to offset the revenue decline in the core business. This has however increased the cost of inventory and reduced the margins for the company. EBITDA margins for 3Q23 stood at 35% compared to 38.1% in 3Q22 and 36% in the previous quarter. We expect this trend to continue as subscriber base appears to have stagnated and market share erosion is evident, affecting core service revenue. EBITDA declined by 14.5% YoY in 3Q23 and 10.7% in 9M23 compared to the same period previous year. Operating margins also witnessed steep decline by 430bps to 6.5% in 3Q23. Margins are further impacted by the provisioning for unpaid dues of postpaid customers which increased from RO 1.55mn in 9M22 to RO 2.97mn in 9M23 (20% of 9M23 operating profit). Net profit for 3Q23 was reported at RO 2.1mn which was 53.6% lower than the same period previous year. The decline was also severe on a nine-month basis as the ORDS reported net profit at RO 7.9mn (vs 14.2mn) a fall of 44.5% YoY. We are concerned about the loss of market share and declining trend in margins. The net income has been hit hard on account of the weakness in the topline. Based on the latest results we have reduced our revenue estimate for 2023 by 1.5% to RO 257mn and net profit by 13% to RO 10.8mn. Our revised estimate has led us to lower our target price to RO 0.350/share. We provide a HOLD rating based on the muted outlook and revised forecasts.

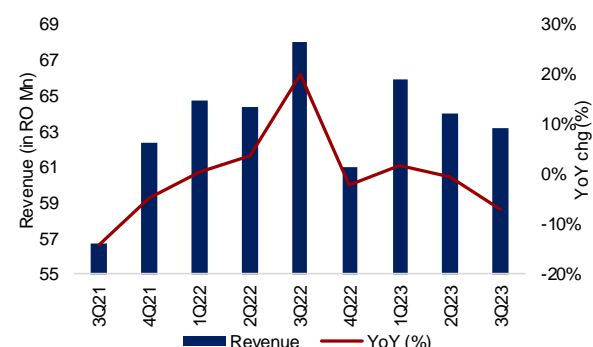
Pressure to retain market share: Vodafone has captured 7.7% market share in a short span of two years resulting in a 400bos decline in the market share for ORDS. Despite the loss of market share, overall subscriber base has increased for ORDS by 7.4% to 3.1mn. Mobile subscribers grew by 7.7% to 2.9mn while fixed line was flattish at 0.6% YoY. The prepaid segment which was on a declining trend has resumed growth and increased by 9.8% YoY (2.2mn in 3Q23 vs 2.0mn in 3Q22). The company pursued a massive cleanup program to remove unpaid subscribers and retaining only quality ones, this has resulted in slower growth in postpaid to 2.1% YoY (730k subscribers). We expect further loss of market share and the current muted growth in the postpaid segment to continue. Further, the growth in prepaid, which is a lower yielding segment will drive down realizations. We estimate a 14.7% decline in ARPU in 3Q23. The management hopes to improve its 5G coverage, offer quality service and provide a value added experience to customers in an effort to retain them. We are cautiously optimistic on the efforts taken and will wait for the tangible changes to be evident.

Valuation and outlook: We are witnessing margin contraction at all levels due to change in the revenue mix shifting in favour of handset sales and prepaid subscribers. Provisions on postpaid are likely to remain at current levels or reduce as most of the cleanup is over. Top line growth is not expected to be significant until the aggressive competition settles down and subscriber growth moves higher. Considering these factors, we have revised our revenue estimates downwards to RO 257mn (from 261mn) and net profit to RO 10.8mn (from 12.4mn). Our fair value estimate stands at RO 0.350/share (vs RO 0.386/share). At the current price the stock trades at 18.7x 2023e earnings which we feel is on the higher end. In our earlier note we had reduced our rating from BUY to HOLD and we maintain the same based on our revised outlook. While there has been no update on the tower sale, any further progress on the same could be catalyst for an upside.

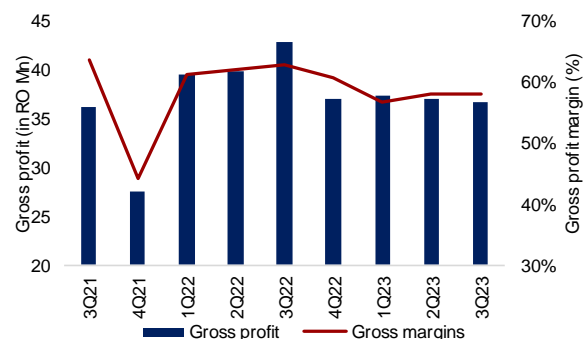
Summary of 3Q23 earnings call:

- Management believes the aggressive stance taken up by the new player might not translate into revenues and hence the situation will stabilize in a couple of quarters.
- ORDS is taking significant steps to offer quality as a differentiating factor to entice customers.
- No further update on royalty reduction, discussions continue with the government
- Tower sale process on to find suitable buyers, no further commitment on timelines or valuation, current inventory of 2848 towers available.

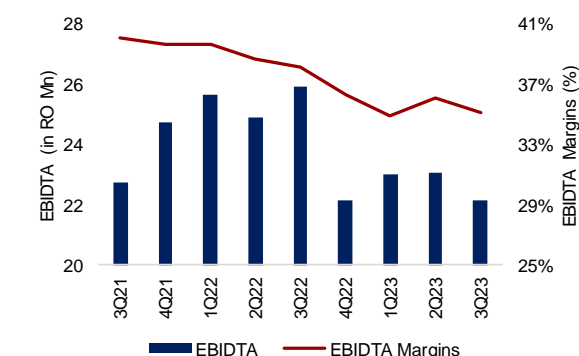
Second consecutive QoQ decline this year



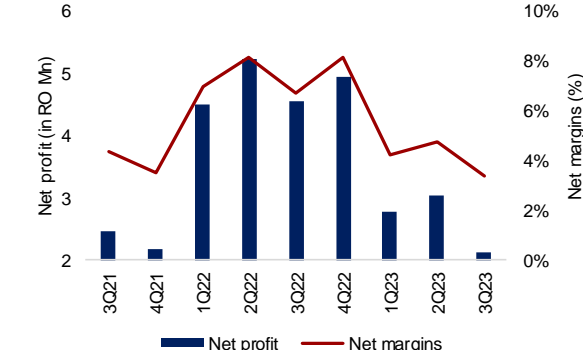
Gross profit margins holds steady



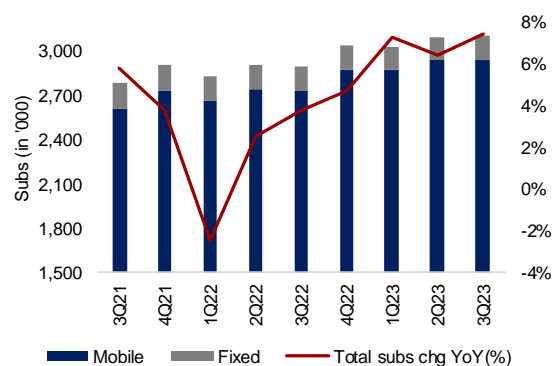
EBIDTA margins decline significantly



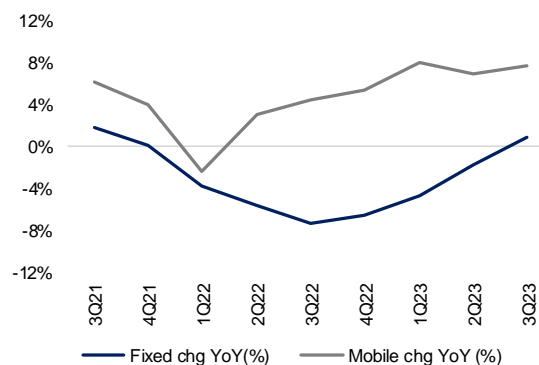
Net margins lower in several quarters



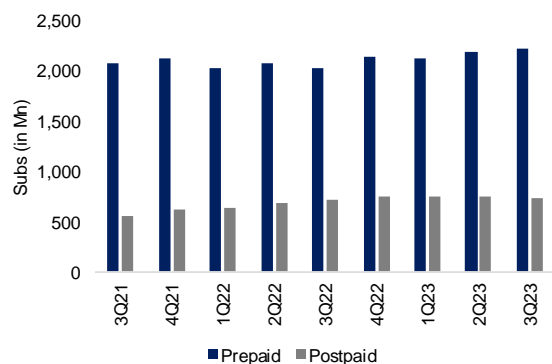
Overall subscriber base grows by 7.4% YoY



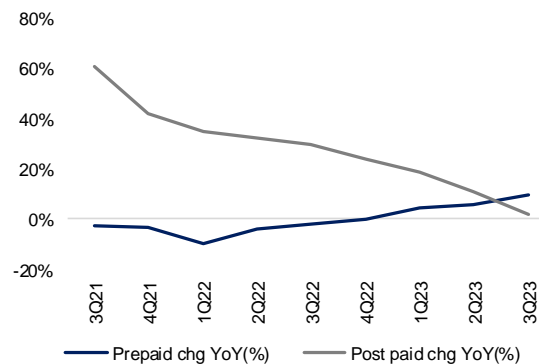
Fixed line flatish, while mobile growth improves



Growth in post paid subs muted, prepaid rise YoY



Clean up in post paid results in subscriber loss



Income Statement (RO Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	286	265	246	258	257	268	271	279	286
Operating expenses	170	160	149	161	170	180	183	187	195
EBITDA	118	108	97	99	91	88	88	91	91
Depreciation and amortisation	72	75	74	72	72	72	70	70	68
Operating profit	47	33	23	27	19	16	18	21	23
Finance costs	3	4	4	3	2	2	2	2	2
Other income/(expense)	0	0	-3	0	0	0	0	0	0
Profit before tax	41	25	15	23	13	14	16	19	20
Tax	7	4	3	4	2	2	2	3	3
Net income	34	21	13	19	11	12	14	16	17

Balance Sheet (RO Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Inventories	5	5	6	4	6	7	7	7	7
Trade receivables and other assets	45	47	47	52	51	53	53	55	57
Cash and cash equivalents	43	12	2	2	9	18	42	66	87
Others	0	0	2	3	3	3	3	3	3
Total Current assets	93	64	57	61	68	80	105	131	153
Property and equipment	265	262	252	245	224	206	190	176	164
Right-of-use assets	44	42	42	39	39	32	27	24	20
Licences	22	89	83	93	106	106	106	106	106
Other intangible assets	12	14	19	0	0	0	0	0	0
Other non-current assets	7	6	8	3	3	3	3	3	3
Total Non-current assets	349	413	404	381	372	347	327	308	294
Total Assets	442	477	461	442	441	426	432	439	447
Payables and accruals	106	112	106	113	106	88	89	92	94
Current borrowings	0	13	17	2	2	2	2	2	2
Lease liabilities	6	7	10	11	13	13	13	13	13
Other liabilities	22	16	12	8	8	8	8	8	8
Total Current Liabilities	134	148	145	134	129	111	112	115	118
Non-Current borrowings	0	0	0	1	1	1	1	1	1
Lease liabilities	37	36	36	33	33	33	33	33	33
Other non-current liabilities	9	36	26	13	13	13	13	13	13
Total Non-current Liabilities	46	71	62	47	47	47	47	47	47
Equity	262	257	254	261	264	268	272	277	282
Non-controlling interests	0	0	0	0	0	0	0	0	0
Total Equity and liabilities	442	477	461	442	441	426	432	439	447

Cash flow (RO Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from Operations	99	86	78	95	83	70	87	89	89
Capex	-55	-55	-54	-45	-51	-54	-54	-56	-57
Purchase of License	0	-38	-13	-13	-13	0	0	0	0
Cash used in Investing	-56	-98	-72	-62	-64	-54	-54	-56	-57
Increase/decrease in debt	-13	13	4	-15	0	0	0	0	0
Dividends paid	-35	-32	-21	-18	-13	-7	-8	-9	-11
Cash used in Financing	-48	-19	-16	-33	-13	-7	-8	-9	-11
Net inc/dec in cash	-5	-31	-10	0	6	9	25	24	21




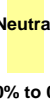


Key Ratios	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Debt to equity	0.00x	0.05x	0.07x	0.01x	0.01x	0.01x	0.01x	0.01x	0.01x
Debt to EBITDA	0.00x	0.12x	0.18x	0.02x	0.03x	0.03x	0.03x	0.03x	0.03x
Net Debt to EBITDA	-0.36x	0.01x	0.16x	0.00x	-0.06x	-0.17x	-0.45x	-0.69x	-0.92x
Interest Coverage	37x	27x	24x	32x	41x	39x	39x	41x	40x
Inventories Days	7	7	9	2	9	9	9	9	9
Receivables days	57	64	71	18	72	72	72	72	72
Payables days	135	155	157	40	150	120	120	120	120
RoE	13%	8%	5%	7%	4%	4%	5%	6%	6%
RoA	8%	4%	3%	4%	2%	3%	3%	4%	4%
EBITDA margin	41%	41%	40%	38%	36%	33%	33%	33%	32%
EBIT margin	16%	12%	9%	10%	7%	6%	7%	8%	8%
PBT margin	14%	10%	6%	9%	5%	5%	6%	7%	7%
Net margin	12%	8%	5%	7%	4%	4%	5%	6%	6%

Key contacts

Research Team

Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

Rating Criteria and Definitions

Rating	Rating Definitions
 Strong Buy	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
 Buy	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
 Hold	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
 Neutral	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
 Sell	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
 Strong Sell	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. Opinion expressed is our current opinion as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we endeavor to update on a reasonable basis the information discussed in this material, United Securities, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. United Securities LLC, and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions. United Securities LLC and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.