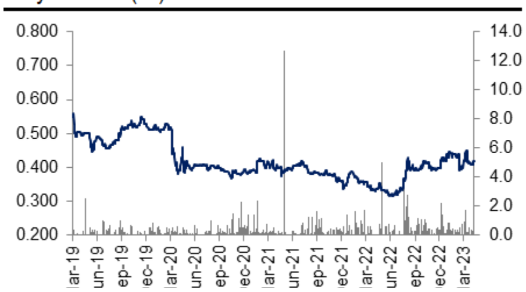
INVESTMENT RESEARCH | Result update

Telecom

Ooredoo Oman: Unabated cash flow trend

BUY: 12M TP @ 0.465

Valuation Summary (TTM)			
Price (RO)			0.356
PER TTM (x)			13.4
P/Book (x)			0.9
P/Sales (x)			0.9
EV/Sales (x)			1.4
EV/EBITDA (x)			2.5
Dividend Yield (%)			5.6
Free Float (%)			34%
Shares O/S (mn)			651
YTD Return (%)			-19%
Beta			1.1
(mn)		**OMR**	**USD**
Market Cap		232	602
Enterprise Value		329	855
Price performance (%)	**1M**	**3M**	**12M**
Raysut Cement	-9%	-16%	12%
MSX 30 Index	-2%	-2%	13%
Industry Index	-4%	1%	0%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (RO ,000)	112	109	118
Avg Daily Volume (,000)	299	273	287
52 week	**High**	**Low**	**CTL***
Price (RO)	0.452	0.312	14.1
* CTL is % change in CMP to 52wk low			
Major shareholders			
Seyoula International			55.0%
PASI			5.9%
OIA			5.6%
Others			33.5%
Other details			
Exchange			MSX
Sector			Telecommunications
Index weight (%)			5.8%
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	0.000
Payout ratio (%)	76%	90%	0%



Ooredoo reported revenue for 1Q23 at RO 65.87Mn exactly in line with our estimates and higher by 1.8% on a YoY basis. While voice and data revenue remained flat on a YoY basis it grew by 3.6% QoQ. The company has been aggressive in its handset sales this quarter and this segment witnessed stupendous growth. Revenue from sale of handsets for 1Q23 was at a record of RO 5.2Mn, higher by 114% QoQ and 29.5% YoY. We believe the sale of handset along with mobile connection will auger well for the voice and data revenue, especially in the postpaid segment. However, we were disappointed at the decline in gross margins impacted by a significant rise in operating expenses. Operating costs increased by 18.8% sequentially and 13.1% on YoY basis. Rapid implementation of 5G network, interconnection charges, and higher costs associated with the purchase of handsets led to the increase in operating expenses. General and admin expenditure also witnessed an increase during the quarter by 8.8%. Depreciation for 1Q23 was reported at RO 17.6Mn lower than the 1Q22 level of RO 18.14Mn. Lower depreciation and lower margins led to a 10.2% decline in EBIDTA for 1Q23. All other expenses were in line with our estimates with no negative surprises. The significant reduction in margins on account of higher operating expenses led to lower net income. ORDS reported 1Q23 net income of RO 2.78Mn, lower than our expectation and a decrease of 38.2% on YoY basis. On a sequential basis the profits declined by 43.6%. While top line has come in line with our forecast we are concerned regarding the negative surprise in the bottom line. We are leaving our estimates unchanged and will revise the same based on the results in the second quarter. We have assigned a target price of RO 0.465 per share. We maintain our BUY rating on the stock based on the discounted valuation, potential of high dividend payout and recovery in growth of subscribers.

ORDS has been focusing on postpaid connections over the last two years and this has led to more than doubling of postpaid subscribers since 2020. Postpaid connections are long term and have higher APRU. The company currently has over 751k post-paid subscribers which is 26% of its total subscriber compared to only 16% in 2020. The aggressive sales of handset along with postpaid connections have also been a reason for the proliferation of this segment. Prepaid segment is witnessing heavy competition especially with the entry of Vodafone. Vodafone has aggressively gathered 6.8% in prepaid as of 1Q23 over a period of 1.5years. They have also recently ventured into the postpaid segment. While we do not expect significant growth in the prepaid segment, we believe ORDS will be able to maintain its market share of around 37% going forward. The current influx of expats is more prepaid oriented and will lead to an overall increase in subscriber base. We forecast flat growth for fixed line and prepaid while we expect postpaid to grow at a CAGR of 10.8% (2022-27e).

Despite an increase of 8% YoY during 1Q23, in the overall mobile subscriber base the mobile revenue remained flat at RO 47Mn. This we believe is on account of decline in ARPU during the period. We believe the stress in ARPU emerges from the heavy competition we are witnessing and the struggle to hold the market share. We estimate a 6.6% decline on a YoY basis in mobile ARPU for 1Q23.

Fixed subscribers contribute 28% of the total revenue. This quarter the fixed line segment witnessed a 4.7% YoY decline in subscribers. However, we believe the stress in ARPU to be much lesser here and based on our calculation, the ARPU levels had an increase of 4.4% during the quarter. We estimate revenue growth of 3.08% CAGR (2022-27e) on the back of stable ARPU and moderate increase in subscriber base.

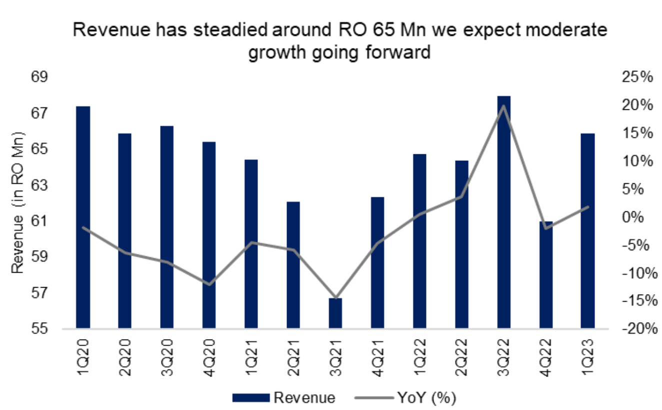
The 5G coverage of ORDS has increased significantly to 70%. It has added 1200 new sites during the quarter taking the total number sites where 5G facility is available 1800. This aggressive implementation of 5G services has resulted in a 91% increase in capex from 1Q22 level of RO 5.4 Mn to RO 10.3Mn in 1Q23.

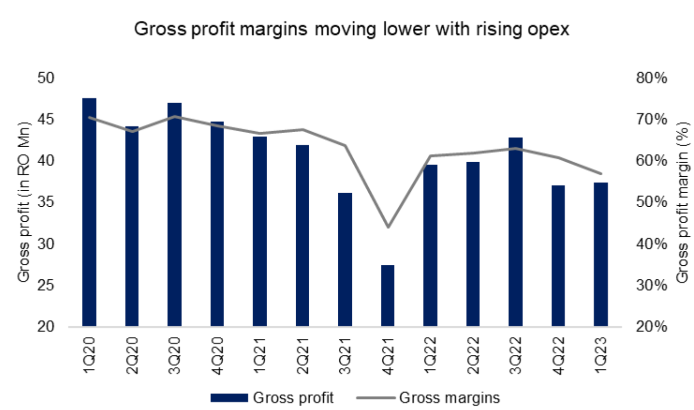
Total operating expenses rose from RO 25.1 Mn in 1Q22 to RO 28.4Mn in 1Q23, an increase of RO 3.3Mn. This is a significant increase of 18.8% QoQ and 13.1% YoY. Operating expenses primarily include network operating and maintenance charges, handset purchases, interconnect charges and branding costs. All these major items appear to have increased in the 1Q23. Management has also highlighted the change in product mix to be a reason for the lower margins. This has resulted in a 10.2% decline in EBIDTA on a YoY basis. We find this a negative surprise and will watch more closely in the next quarter on the continuing trend of this increasing cost. ORDS in the past has witnessed operating margins in the range of 8-10%, while EBIDTA margins have been in the range of 38-40%. We expect going forward margins will stay at the lower end of the range on account of rising costs.

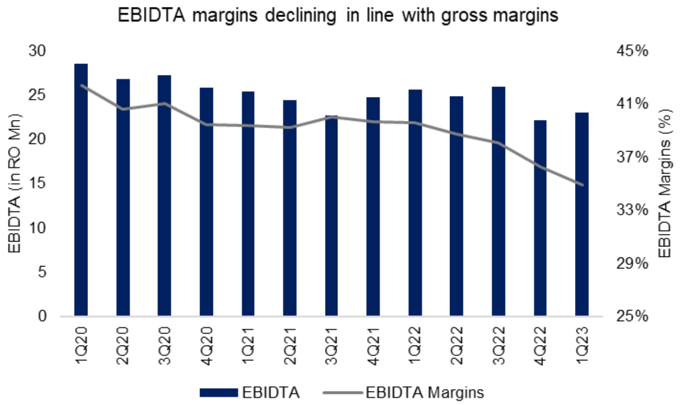
While the company has near zero long-term debt, it borrowed nearly RO 60Mn during the quarter for working capital needs. Two major cash outflows for the quarter occurred on account of renewal of license and payment of dividends. The short-term borrowings were pursued to cover the timing difference in the cash flow. ORDS renewed its mobile license for another 15years starting from February 2020. The total renewal fees amounted to RO 75Mn which was paid in installments of RO 12.5Mn. The last installment of the same was paid in January 2023. Dividend to the tune of RO 13 Mn was also paid out in March 2023. The financing cost of borrowing and leasing has remained constant at around RO 1Mn for several previous quarters and we do not expect any changes in this trend.

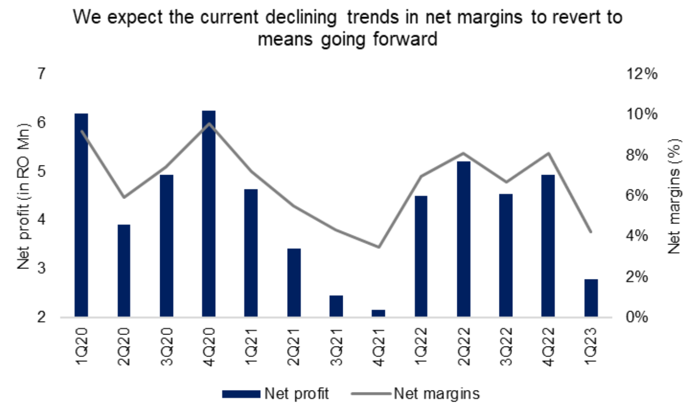
We believe the telecom sector is undergoing a transformation from an asset heavy business to a leaner one. All the telecom operators are in the mode of exiting their non-core infrastructure and Ooredoo is also pursuing the same. We believe it will follow Omantel in its pursuit of finding a suitor for its tower assets. We are positive on this premise, and we believe a significant payout awaits shareholders in the next couple of years in the event this takes place. Economy coming back to track is also a reason to believe there would be an increase in telecom activity and rise in expat influx. We are already witnessing signs of the subscriber base increasing. It is pertinent to note the increasing market share of Vodafone and the impact it will have on the market share going forward both in the pre and postpaid segment.

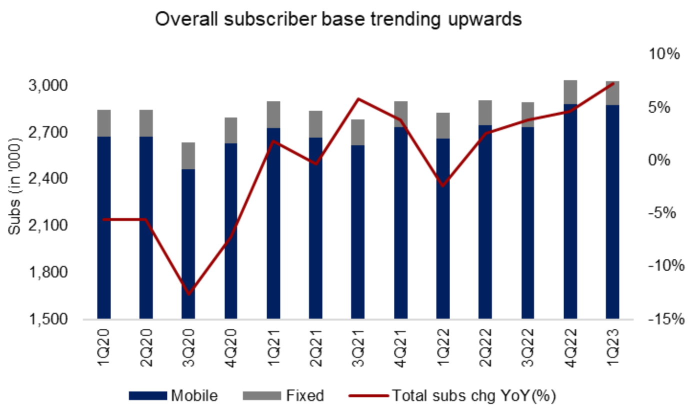
We had recommended to BUY the stock at RO 0.380 with a target price of RO 0.465. The stock has moved to a high of RO 0.400 since then and back to RO 0.356 currently. We maintain our recommendation without any changes to our forecast. This leaves an upside of 30.6% in price without accounting for the potential positive impact of the special dividend payout.

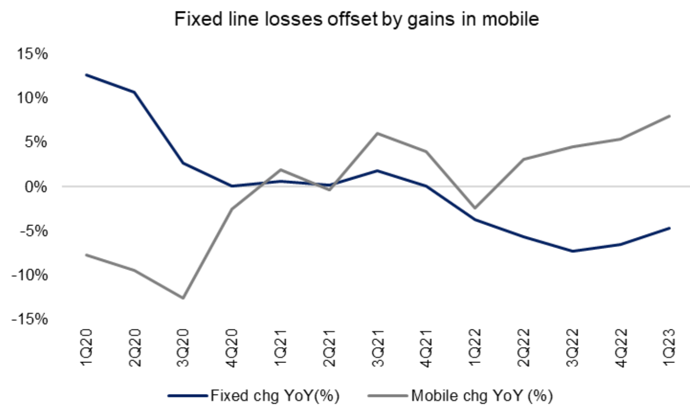


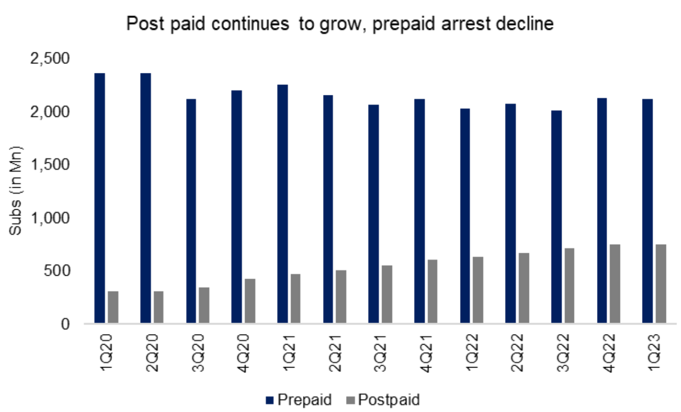


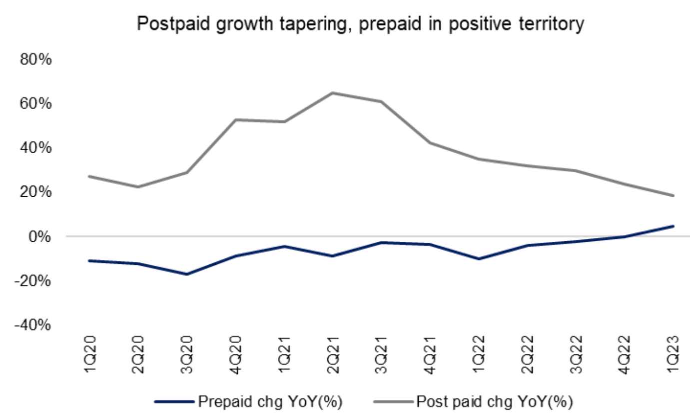

EBIDTA margins declining in line with gross margins
EBIDTA (in RO Mn)
EBIDTA Margins (%)
1Q20 2Q20 3Q20 4Q20 1Q21 2Q21 3Q21 4Q21 1Q22 2Q22 3Q22 4Q22 1Q23
EBIDTA
EBIDTA Margins


We expect the current declining trends in net margins to revert to means going forward
Net profit (in RO Mn)
Net margins (%)
1Q20 2Q20 3Q20 4Q20 1Q21 2Q21 3Q21 4Q21 1Q22 2Q22 3Q22 4Q22 1Q23
Net profit
Net margins


Overall subscriber base trending upwards
Subs (in '000)
1Q20 2Q20 3Q20 4Q20 1Q21 2Q21 3Q21 4Q21 1Q22 2Q22 3Q22 4Q22 1Q23
Mobile
Fixed
Total subs chg YoY(%)


Fixed line losses offset by gains in mobile
1Q20 2Q20 3Q20 4Q20 1Q21 2Q21 3Q21 4Q21 1Q22 2Q22 3Q22 4Q22 1Q23
Fixed chg YoY(%)
Mobile chg YoY (%)


Post paid continues to grow, prepaid arrest decline
Subs (in Mn)
1Q20 2Q20 3Q20 4Q20 1Q21 2Q21 3Q21 4Q21 1Q22 2Q22 3Q22 4Q22 1Q23
Prepaid
Postpaid


Postpaid growth tapering, prepaid in positive territory
1Q20 2Q20 3Q20 4Q20 1Q21 2Q21 3Q21 4Q21 1Q22 2Q22 3Q22 4Q22 1Q23
Prepaid chg YoY(%)
Post paid chg YoY(%)

UNITED SECURITIES LLC
المتحدة للأوراق المالية ش.م.م

Ooredoo
29 May 2023

Income Statement (RO Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	286	265	246	258	261	270	280	290	300
Operating expenses	170	160	149	161	166	176	186	192	199
EBITDA	**118**	**108**	**97**	**99**	**95**	**94**	**94**	**98**	**101**
Depreciation and amortisation	72	75	74	72	74	67	63	61	60
Operating profit	**47**	**33**	**23**	**27**	**22**	**27**	**31**	**37**	**41**
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**	**20**	**25**	**28**	**35**	**39**
Tax	7	4	3	4	3	4	4	5	6
Net income	**34**	**21**	**13**	**19**	**17**	**21**	**24**	**29**	**33**

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	52	53	55	57	59
Cash and cash equivalents	43	12	2	2	12	18	38	54	69
Others	0	0	2	3	3	3	3	3	3
Total Current assets	**93**	**64**	**57**	**61**	**72**	**80**	**102**	**121**	**138**
Property and equipment	265	262	252	245	224	211	203	200	200
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**	**352**	**340**	**333**	**330**
Total Assets	**442**	**477**	**461**	**442**	**444**	**432**	**442**	**454**	**468**
Payables and accruals	106	112	106	113	107	89	92	95	99
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	131	112	115	119	122
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	266	273	280	289	299
Non-controlling interests	0	0	0	0	0	0	0	0	0
Total Equity and liabilities	**442**	**477**	**461**	**442**	**444**	**432**	**442**	**454**	**468**

Cash flow (RO Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from Operations	**99**	**86**	**78**	**95**	**87**	**72**	**91**	**91**	**95**
Capex	-55	-55	-54	-45	-52	-54	-56	-58	-60
Purchase of License	0	-38	-13	-13	-13	0	0	0	0
Cash used in Investing	**-56**	**-98**	**-72**	**-62**	**-65**	**-54**	**-56**	**-58**	**-60**
Increase/decrease in debt	-13	13	4	-15	0	0	0	0	0
Dividends paid	-35	-32	-21	-18	-13	-12	-15	-17	-21
Cash used in Financing	**-48**	**-19**	**-16**	**-33**	**-13**	**-12**	**-15**	**-17**	**-21**
Net inc/dec in cash	**-5**	**-31**	**-10**	**0**	**9**	**6**	**20**	**17**	**15**

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	-0.09x	-0.16x	-0.37x	-0.52x	-0.65x
Interest Coverage	37x	27x	24x	32x	42x	42x	42x	43x	45x
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%	6%	8%	9%	10%	11%
RoA	8%	4%	3%	4%	4%	5%	5%	6%	7%
EBITDA margin	41%	41%	40%	38%	37%	35%	34%	34%	34%
EBIT margin	16%	12%	9%	10%	8%	10%	11%	13%	14%
PBT margin	14%	10%	6%	9%	8%	9%	10%	12%	13%
Net margin	12%	8%	5%	7%	6%	8%	9%	10%	11%

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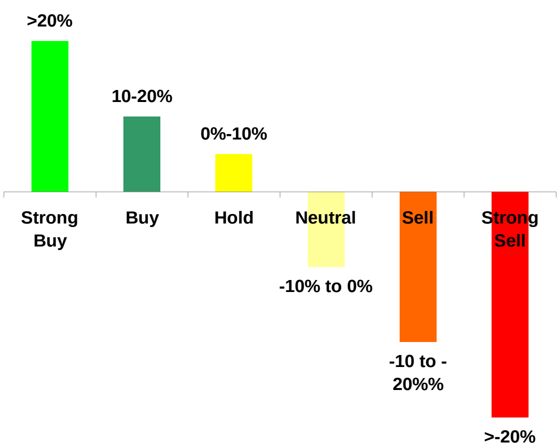
Rating Criteria and Definitions

Rating



Rating Definitions

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	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	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	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	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	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

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