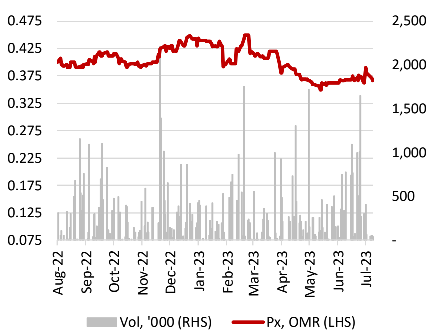
Ooredoo Oman (ORDS)

Rating: Hold
Target Price: OMR 0.390
Upside: 5.4%

Recommendation	Hold
Bloomberg Ticker	ORDS OM
Current Market Price (OMR)	0.37
52wk High / Low (OMR)	0.450/0.350
12m Average Vol. (000)	299.9
Mkt. Cap. (USD/OMR mn)	626/241
Shares Outstanding (mn)	650.9
Free Float (%)	45%
3m Avg Daily Turnover (SAR'000)	119.4
6m Avg Daily Turnover (SAR'000)	113.1
P/E'23e (x)	15.8
EV/EBITDA'23e (x)	3.1
Dividend Yield '23e (%)	5.4%
Price Performance:	
1 month (%)	-
3 month (%)	(2.6)
12 month (%)	(11.9)

Source: Bloomberg, values as of 03 Aug 2023

Price-Volume Performance



Source: Bloomberg

- **Ooredoo Oman is facing significant pressure from competition in most of its segments resulting in a loss of market share across the board**
- **New postpaid customers are being acquired at higher cost resulting in margin erosion with limited visibility on the timeframe of potential improvement; ARPUs in the prepaid segment are under pressure**
- **We downgrade our estimates for 2023 on the back of market share loss, pressure on ARPUs, and consequently margins**
- **Consistent dividend payout policy; potential upside exists with tower sale**

We review our coverage on Ooredoo Oman (ORDS), post the 2Q23 results report, and assign a **Hold** rating on the stock with a target price of OMR 0.390/share, offering an upside of 5.4% on the current market price. Currently, the stock trades at a P/E of 15.8x and EV/EBITDA of 3.1x, based on our FY23 estimates. The implied dividend yield for FY23 at our target price is 5.4%.

Investment Thesis

- As of FY22, Ooredoo Oman had a market share of 37% in mobile business in Oman. This has declined to 35.5% as of 2Q23. Vodafone, the new entrant has increased its market share from 6.1% to 6.9% and Omantel's market share has increased marginally from 39.4% to 39.8% over the same period.
- The company has indicated that its ARPUs in the prepaid segment are lower.
- The company's strategy to focus on the under-penetrated domestic postpaid market is coming at a higher cost resulting in pressure on margins.
- Fixed-line business and wholesale business reported decline in 1H23. However, the management is increasing its focus on this business and we expect it to support top-line growth during the forecast period.
- Following the global trend, Ooredoo is also planning to sell/lease its towers. If sold at a good valuation, it will further increase its liquidity position, although we have not currently factored in the cash inflow expected from the sale of their towers in our estimates due to limited visibility on the same.
- The company's strong balance sheet is an added advantage to fund its investments in new technologies including 5G.

2Q23 performance - ORDS reported revenue of OMR 64mn (-1% YoY; -3% QoQ), which was in line with our expectations. However, the net profit decreased by 42% YoY to OMR 3mn, missing our estimates by 17% due to higher costs related to higher device and ICT sales. Postpaid customers grew 11% YoY; down 1% QoQ to 745,700 customers; Prepaid customers grew 5.6% YoY and 3% QoQ to 2,188,448 customers.

	FY19	FY20	FY21	FY22	FY23e	FY24e
Revenues (OMR mn)	285.5	265.0	245.5	258.1	267.2	278.2
Net income (OMR mn)	34.1	21.5	12.7	19.1	14.9	15.8
EBITDA margin	41.5%	40.9%	39.6%	38.2%	34.9%	34.3%
Net profit margin	11.9%	8.0%	5.2%	7.4%	5.6%	5.7%
RoE	13.0%	8.3%	5.0%	7.3%	5.7%	6.0%
FCF (OMR/share)	0.09	0.06	0.05	0.06	0.05	0.04
DPS (OMR/share)	0.04	0.03	0.02	0.02	0.02	0.02
P/E (x)	10.0x	11.9x	19.5x	14.3x	15.8x	15.0x
P/B (x)	1.3x	1.0x	1.0x	1.0x	0.9x	0.9x

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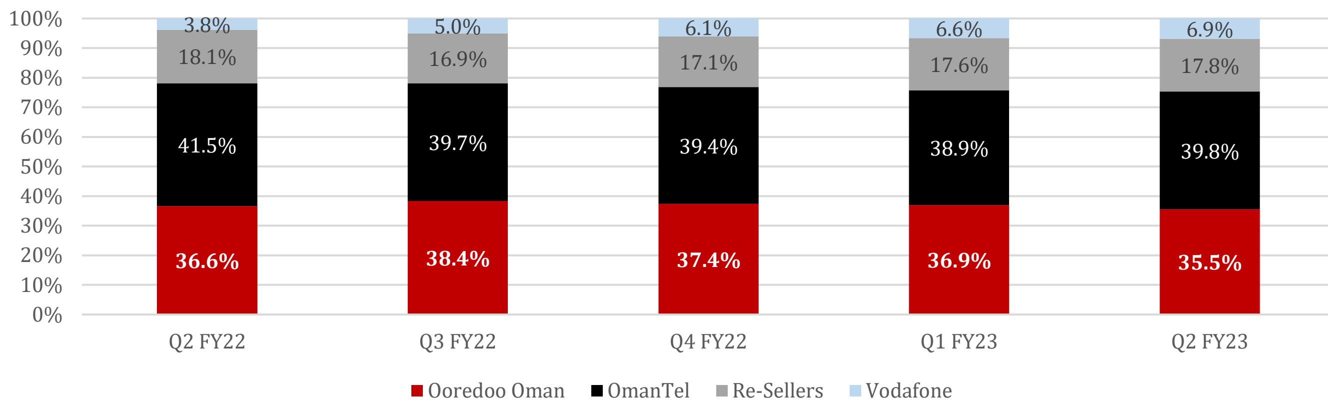
Consistent market share declines due to increased competition in the sector

The Oman Telecom market has become increasingly competitive since the entry of Vodafone Oman in the last six quarters. With its extensive experience and technological capabilities, Vodafone Oman has captured market share from the existing telecom operators, which currently stands at 6.9%. Ooredoo Oman has been losing market share to the competition faster compared to other existing big players in the industry. The competition is expected to intensify further in the postpaid as well as the prepaid mobile market. We show the quarterly market share trend in the chart below.

Fig. 1: Ooredoo Oman has faced market share pressure in the past few quarters

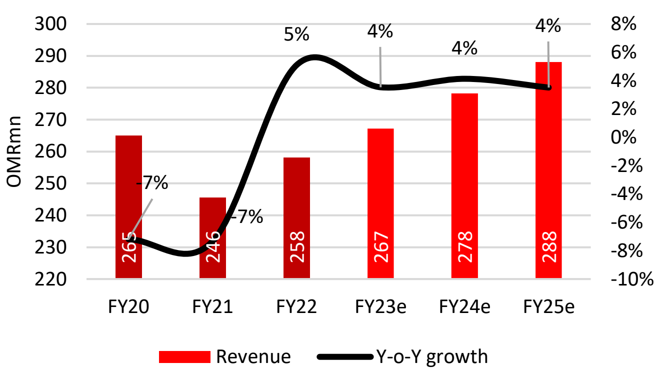


Source: Company Reports, U Capital Research

Modest growth in revenue due to declining ARPUs

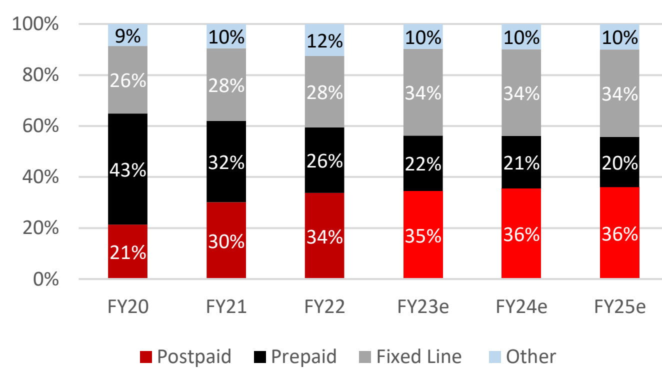
Following the intense competition among telecom operators, ARPUs are under pressure. We note the loss of prepaid subscribers for Ooredoo Oman over the years with further impact from pressure on ARPUs. The company anticipated this and focused on increasing its penetration in the high-yielding postpaid segment. However, the increase has come at a higher cost to acquire new customers further impacted by the increase in bad debt, which the company is rationalizing as evident from a decline in postpaid customers in 2Q23. Consequently, we reduce our revenue growth estimates for the mobile revenue business to CAGR of 3% from FY2023-2027 (prior 4%). This includes a CAGR of 6% (prior 7%) in postpaid mobile revenues and prepaid CAGR of -1% (prior estimates include growth of 1%) over the same period.

Fig. 2: Total revenue is projected to grow at a stable rate post FY23



Source: Company Reports, U Capital Research

Fig. 3: Increasing proportion of postpaid and fixed-line revenue in long term



Source: Company Reports, U Capital Research

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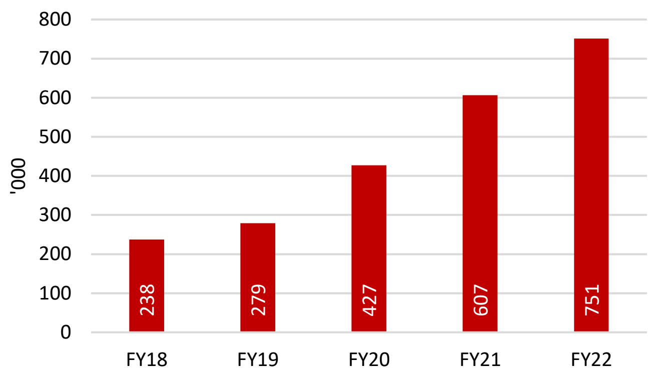
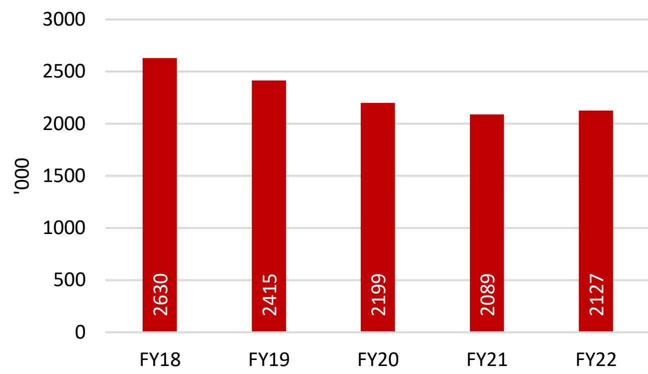
The company has undertaken continuous investments to develop innovative products and services for the fixed-line segment aided by growth in wholesale business. We project a growth rate of 4% in fixed-line revenue from FY23 to FY27, reaching OMR 107.88 million by FY27. Revenue growth is likely to remain muted over the forecast period.

Fig. 4: Postpaid subscribers have been increasing at a good rate



Source: Company Reports, U Capital Research

Fig. 5: Prepaid subscribers have been decreasing due to competition

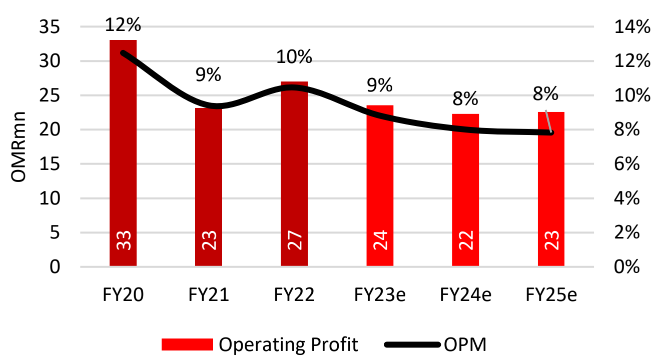


Source: Company Reports, U Capital Research

Margins likely to remain under pressure

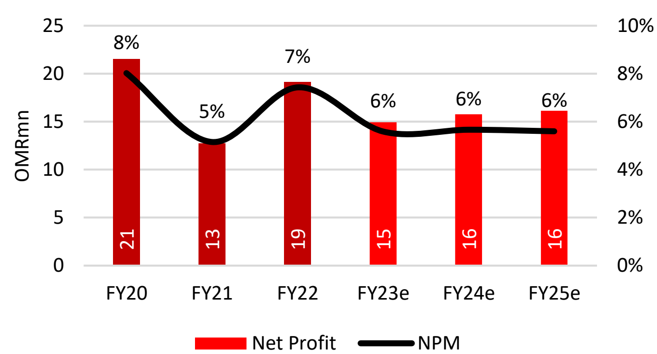
The continuous dependency on handset sales has led to lower margins at the operating and net profit in the last two quarters. Operating Expenses in the quarter grew ~10% driven by a change in revenue mix, expenses on ICT and devices business, and acquiring customers in the competitive market. We expect this trend to continue and show our forecast in the charts below.

Fig. 6: Operating margin likely to be under pressure



Source: Company Reports, U Capital Research

Fig. 7: Net Profit to be under pressure post FY22



Source: Company Reports, U Capital Research

Higher receivables coming from pivot to grow in postpaid

The company has been focusing on growing its revenue from postpaid segment by increasing its postpaid subscribers, but the rising number of postpaid subscribers has led to higher receivables over a period of time. However, to reduce this risk, Ooredoo Oman is focusing on quality customers which led to postpaid subscribers falling 1% QoQ. Going forward we expect receivables to increase around current levels as the number of postpaid subscribers increases.

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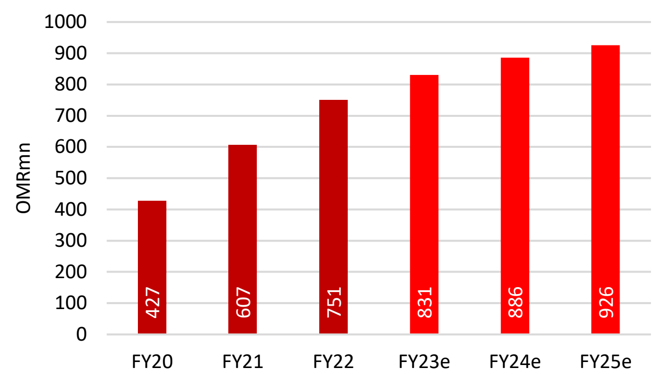
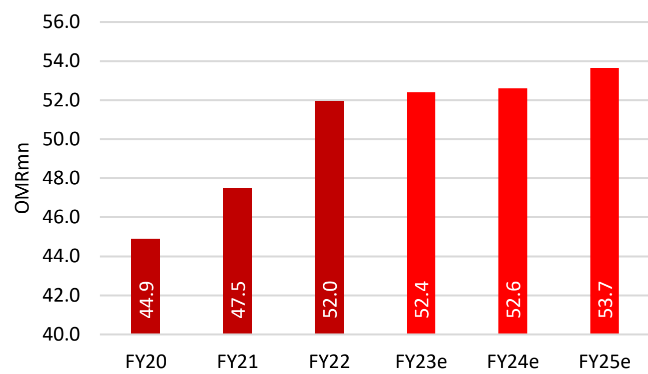
Fig. 8: Growing Postpaid subscriber base



Source: Company Reports, U Capital Research

Fig. 9: Increasing receivables driven by a rise in postpaid subscribers



Source: Company Reports, U Capital Research

Tower sale update

Ooredoo currently owns and operates roughly about 2700 towers. The company announced in June 2023 that it has issued the tender to sell and lease back the passive infrastructure of the towers owned by the company. No decision in this regard has been made yet and Ooredoo is still evaluating the proposals received. As a reminder, Omantel recently sold its towers to Helios Towers at a price of USD 494m. We show the table below with recent tower deals done in the sector. Once the deal is finalized it will further increase the company's liquidity and strengthen its balance sheet. However, since the deal is still in its early stages, it is difficult to determine the financial impact on the company and we do not yet include it in our estimates.

Date	Seller	Number of Towers	Buyer	Total Price (USD million)
May-23	Globe Telecom	447	Unity Digital Infrastructure	98
Jan-23	Zain Iraq	4,968	TASC Towers	180
Jan-23	Zain KSA	8,069	Public Investment Fund	807
Dec-22	OmanTel	2,519	Helios Towers	494
Dec-21	Zain Jordan	2,607	TASC Towers	88
Feb-20	Zain Kuwait	1,620	IHS - Towers of strength	130

Source: Company Presentation, U Capital Research

ORDS to maintain consistent dividends going forward

Overall cash generation is impacted by lower profitability and an increase in receivables. However, The company's dividend payout ratio has been on an upward trend since FY18 despite earnings pressure. Given a likely improvement in earnings and stable FCF generation, we expect the trend to continue during FY23-27e. We expect the company to maintain the dividend payout at stable levels. At the current market price, the dividend yield stands at 5.41% in FY23e.

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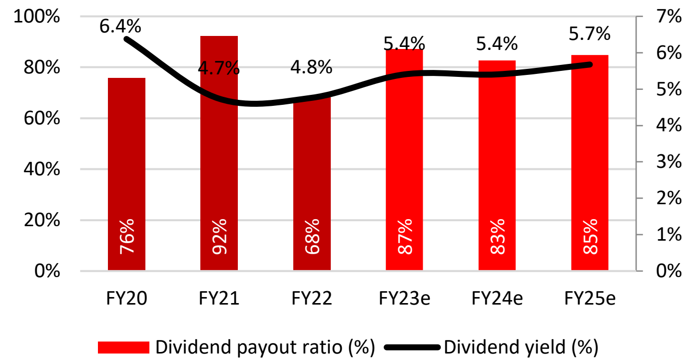
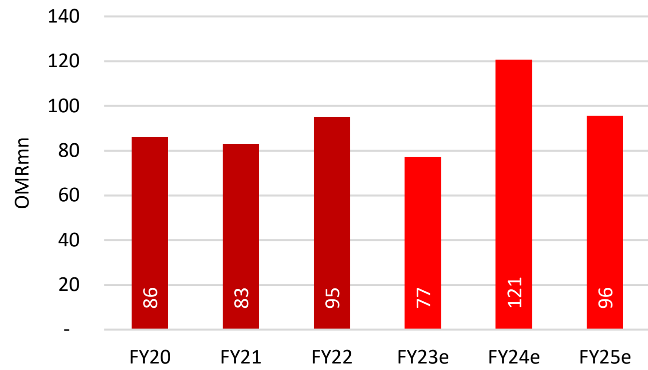
Fig. 10: Dividend per share and payout trends



Source: Company reports, U Capital Research

Fig. 11: Stable cashflow to support dividends



Source: Company reports, U Capital Research

Risks

Key downside risks:

i) Fall in subscriber base,
ii) Decrease in ARPU and
iii) Delay in 5G rollout.

Key upside risks:

i) Better-than-estimated increase in fixed-line penetration,
ii) Higher-than-expected increase in ARPU,
iii) More-than-expected improvement in operating efficiencies and
iv) Expected plans to sell its towers.

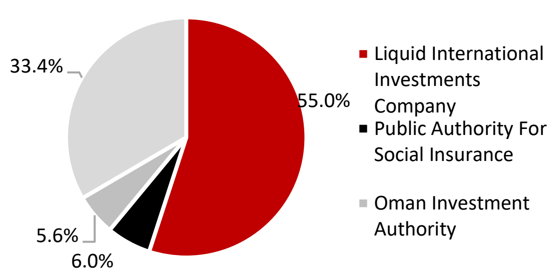
Valuation

Our target price is based on blended valuation methodologies – (i) Discounted Cash Flow (50% weightage), (ii) Relative Valuation (using P/E, 20% weightage and EV/EBITDA multiple, 20% weightage) and (iii) DDM (10% weightage). Considering the factors like loss of market share led by rising competition, margin pressure and rising receivables, we have assigned a Hold rating. Our target price of OMR 0.390 implies a potential upside of 5.4% from the current market price.

About ORDS

Ooredoo Oman is an Omani telecommunications company owned by Ooredoo. The company was founded in the Sultanate of Oman in 2004. After launching fixed broadband services in 2010, the company has remained an integrated services telecommunications operator in Oman and is servicing 2.5mn customers as of FY22.

Fig. 12: ORDS's Shareholding Structure



Source: MCD

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Key financials

In OMR mn, except stated otherwise	FY20	FY21	FY22	FY23e	FY24e	FY25e
Income Statement						
Sales	265	246	258	267	278	288
Service expenses	(102)	(97)	(99)	(113)	(120)	(125)
Employee benefits expense	(30)	(28)	(34)	(35)	(36)	(37)
Depreciation and amortization	75	74	72	70	73	76
Royalty	(25)	(23)	(26)	(26)	(27)	(28)
Operating profit	**33**	**23**	**27**	**24**	**22**	**23**
Other Income	(0)	0	(2)	0	-	-
Finance costs, net	(4)	(4)	(3)	(4)	(4)	(4)
Income before tax	**25**	**15**	**23**	**17**	**19**	**19**
Income tax	(4)	(3)	(4)	(2)	(3)	(3)
Net income for equity shareholders	**21**	**13**	**19**	**15**	**16**	**16**
Balance Sheet						
Inventories	5	6	4	5	7	7
Trade and other receivables	45	47	52	52	53	54
Cash and bank balances	12	2	2	10	47	58
Property and equipment	262	252	245	241	243	245
Right-of-use assets	42	42	39	39	40	39
Total assets	**477**	**461**	**442**	**439**	**475**	**482**
Loans and borrowings	13	17	2	21	19	17
Trade and other payables	137	118	113	89	98	103
Lease liabilities	42	46	44	44	45	45
Total liabilities	**219**	**207**	**181**	**176**	**209**	**213**
Share capital	65	65	65	65	65	65
Retained earnings	171	167	174	176	179	182
Equity Attributable to Shareholders	**257**	**254**	**261**	**263**	**266**	**269**
Cash Flow Statement						
Net cash generated from operating activities	86	83	95	78	121	96
Net cash generated from investing activities	(98)	(77)	(62)	(69)	(69)	(71)
Net cash (used in) provided by financing activities	(19)	(16)	(33)	(2)	(15)	(15)
Cash and cash equivalents at the end of the period	**12**	**2**	**2**	**10**	**47**	**58**
Key Ratios						
EBITDA margin (%)	40.9%	39.6%	38.2%	34.9%	34.3%	34.1%
Operating margin (%)	12.5%	9.4%	10.5%	8.8%	8.0%	7.8%
Net margin (%)	8.0%	5.2%	7.4%	5.6%	5.7%	5.6%
ROA	4.5%	2.8%	4.3%	3.4%	3.4%	3.4%
ROE	8.3%	5.0%	7.3%	5.7%	6.0%	6.0%
Current Ratio (x)	0.4	0.4	0.5	0.5	0.7	0.7
Capex/Sales	24.5%	24.7%	20.4%	20.7%	25.0%	24.5%
Debt-Equity Ratio (x)	0.05	0.07	0.01	0.08	0.07	0.06
EPS	0.03	0.02	0.03	0.02	0.02	0.02
BVPS	0.40	0.39	0.40	0.40	0.41	0.41
DPS	0.025	0.018	0.02	0.02	0.02	0.02
Dividend Payout Ratio	75.7%	92.2%	68.2%	87.2%	82.6%	84.8%
Dividend Yield (%)	6.4%	4.7%	4.8%	5.5%	5.5%	5.8%
P/E (x)	11.9	19.5	14.3	15.8	15.0	14.6
P/BV (x)	1.0	1.0	1.0	0.9	0.9	0.9
EV/EBITDA (x)	2.8	3.2	3.2	3.1	2.7	2.5
Price as at period end*	0.392	0.380	0.420	0.362	0.362	0.362

Source: Company Reports, U Capital Research

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Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Capital
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