Final Transcript

Beltone Financial | AUERBACH GRAYSON: Global Telecom Holding Q1 2018 Results

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SPEAKERS

Ahmed Adel – Beltone Financial
Noha Agaiby – Head of Investor Relations
Vincenzo Nesci – Chief Executive Officer
Gerbrand Nijman – Chief Financial Officer

PRESENTATION

Moderator

Ladies and gentlemen, thank you for standing by. Good afternoon, and welcome to the Global Telecom Holding First Quarter 2018 Results conference call. This call is recorded and is open to analysts and investors of Global Telecom, who will be allowed to ask questions. Members of the media are not allowed to ask questions. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a Q&A session. [Operation instructions].

I will now pass over to our host, Ahmed Adel from Beltone Financial. Please go ahead.

A. Adel

Thank you. Good morning and good afternoon, everyone. This is Ahmed Adel from Beltone Financial. I would like to welcome you all to the Global Telecom Holding First Quarter 2018 Results conference call. From GTH, we have with us Mr. Vincenzo Nesci, Chief Executive Officer; Mr. Gerbrand Nijman, Chief Financial Officer; and Ms. Noha Agaiby, Head of Investor Relations. As usual, the conference call will begin with a presentation of the key highlights of the period, followed by a Q&A session.

I will now hand over the call to Ms. Noha. Thank you.

N. Agaiby

Thank you, Ahmed, for organizing our earnings call. Good morning and good afternoon, ladies and gentlemen. Welcome to our First Quarter 2018 Results conference call. I'm joined today by Vincenzo Nesci, our Chief Executive Officer and Gerbrand Nijman, our Chief Financial Officer.

Before starting the call, let me first draw your attention to the disclaimers. Forward-looking statements made during today's presentation involves certain risks and uncertainty. The statements relate, in part, to the company's anticipated performance and prospects, future market development and trends, operational network development and network investment, and the company's ability to realize its strategic initiatives. Any financial projections or any other statement of anticipated future performance made on this call are expectations by the company's management. These forward-looking statements involve certain risks and uncertainties, and may be thought to be incomplete or inaccurate. Actual results achieved may vary from the projections, and the variations may be material. These statements should not be regarded as a representation of anticipated results, which would occur on our expected objectives, or of the assumption underlying such statements.

Let me also remind you that the earnings release and the earnings presentation can be downloaded from the GTH website.

So as usual, Gerbrand will start by taking you through the Group financials and thereafter, Vincenzo will present the operational performance of our three companies. Of course, there will be ample time for questions thereafter.

So at this time, I would like to hand over the call to our CFO. Gerbrand, the floor is yours.

G. Nijman Thank you, Noha. Good afternoon and good morning for those in the United States. Also, a warm welcome from me on our first quarter results of 2018 from Amsterdam.

Go to slide 4. Here, you see the main financial highlights for the first quarter of 2018. Total revenue declined organically 2.2% year on year, and amounted to USD $699 million. This organic year-on-year decline was mainly due to the performance in Algeria and Bangladesh, which was slightly offset by good revenue growth in Pakistan.

Our mobile data revenue continued to show strong growth. It had accelerated this quarter to 40% organic growth, year on year. We are pleased that we have crossed the landmark of 100 million customers, reaching close to 103 million customers at the end of March, a 3.5% increase year over year, as a result of continued additions in Pakistan and Bangladesh.

EBITDA amounted to USD $301 million in the first quarter of 2018, an organic decrease of 1.3% year on year. And this was the result of Pakistan achieving strong EBITDA, with growth of 20% year on year, mainly due to revenue growth, opex synergies, and the phasing out from Q1 2018 of merger integration costs, which was more than offset by low EBITDA achieved in Algeria and Bangladesh. Vincenzo will discuss the reasons behind those declines in more detail later on. EBITDA margin reached a solid level of 43.0%, slightly declining by 1.2 percentage points, year on year.

Moving to slide 5, the income statement. Mobile data revenue increased 33.2% year on year, mainly due to continued data revenue growth across all operations. Total operating expenses decreased by 5.1% year on year, mainly as a result of the performance transformation programs.

Consequently, reported EBITDA in Q1 was USD $301 million, a decrease of almost 9.5%, year on year. Depreciation and amortization decreased by 21%, year on- year, mainly due to the reclassification of Deodar as disposal group held for sale, in addition to accelerated depreciation in Bangladesh a year ago. Loss on sold property decreased 89% year on year, mainly due to gains on sold property and accruement [ph] in Bangladesh during the first quarter of 2018.

Technical service expenses decreased by 75% year on year, due to phasing out of technical costs recorded in Q1 2017, associated with the merger integration in Pakistan, the rollout of networks, and performance transformation costs for all operations. Finance costs increased by 10% year on year, mainly due to finance cost increase in Pakistan. The foreign exchange loss is mainly due to the Pakistani rupee depreciation. All in all, we are pleased with the profit for the period of USD $38.2 million.

Now, moving to slide 6, our debt position as of the end March 2018. Our gross debt remains almost flat quarter on quarter, amounting to almost USD $2.8 billion, including the amount drawn from the RCF as of the end of March, of USD $135 million. However, the amount drawn from the RCF was at USD $184 million by the end of April 2018 and this was due to the payment of the interest of USD $59 million on the bonds in April.

The net debt-to-loss 12 months EBITDA ratio slightly increased quarter on quarter to 1.8 times, but was down year on year. The majority of the debt, approximately $2 billion, is in US dollars denominated, while the rest is in local currencies. The weighted average cost of debt increased slightly quarter on quarter, reaching 8.4%. GTH bridge loan, with Citibank and ING bank, matures in June. And, we are proposing to temporarily increase the revolving credit facility that GTH has, with fee in holdings by a third of USD $100 million for general corporate purposes including the repayment of this bridge loan. We have submitted the temporary increase of the revolving credit facility for approval at the upcoming ordinary General Assembly Meeting of the company, scheduled to be held on the 30th of May in Cairo.

With that, I would like to hand over to Vincenzo, who will present the results of our three operations. Vincenzo?

V. Nesci Thank you, Gerbrand. Good afternoon or good morning or good evening to all of you. We are now moving to our operational and financial analysis of the three countries, starting with Pakistan, which is our largest operation.

As you know, we operate under the brand name of Jazz in Pakistan. We continued to show growth of both revenues and customers, despite competitive markets condition. Revenue growth of 5.7% year on year was supported by acceleration of mobile data revenue, which grew 33.9% year on year, driven by an increase in data customers through higher banded [ph] penetration and continued data network expansion. The customer base increased by 5% year on year driven by growth addition, as a result of simplifying prices and more efficient distribution channel management.

Jazz sees data and voice monetization among its key priorities, underpinned by the aim to offer the best network in terms of both quality of service and coverage. Reported EBITDA amount increased to 47.5%, with an increase of 5.7 percentage points year on year, whereas EBITDA increased by 20.1%, driven by revenue growth, opex synergy, and the phasing out from Q1 2018 of merger integration costs. Capex, excluding licenses, increased to Pakistani rupees 7.3 billion in Q1 2018, mainly due to the 4G/LTE network expansion, while the LTM capex, excluding licenses-to-revenues ratio, was 17.8%.

At the end of Q1 2018, 3G was offered in more than 300 cities, while 4G/LTE was offered in over 70 cities, and we consider a city covered when we have at least 3 base stations. At the end of Q1 2018, population coverage of 3G and 4G/LTE was 52% and 28%, respectively.

Moving to Algeria, I have to say that the Djezzy operation on turnaround continued in Q1 2018, despite the high macroeconomic, regulatory and competitive challenges, which had an effect on first quarter results compared to Q1 2017, yet with a slightly lower declining pace compared to Q4 2017. A new finance law was implemented as of January 2018, imposing new direct taxation that could not be passed on to customers, and the effect of which of this law was broadly offset by the positive year-on-year impact from partial MTR symmetry.

As I've said, results were impacted by high macroeconomic, regulator and competitive challenges. Revenue decreased by 9.3%, year on year. Price competition sometime [indiscernible] in both voice and data caused a continued reduction in ARPU, as the year on year increased in churn.

Djezzy's Q1 2018 service revenue was Algerian dinar 23 billion, an 8.2% decline, while data revenue growth was 79.7% due to higher usage and a substantial increase in data customer as a result of the 3G and 4G/LTE network rollout. This data revenue growth is also supported by the change towards a more aggressive data pricing strategy. Through the launch of new offers which improved Djezzy's share of growth ads [ph] and reversed the trend of net ads from negative to positive in Q1 2018.

The customer base in Algeria decreased by 4.5%, to 15.3 million, due to competitive pressures in the market. However, in the same period, the customer base grew by over 2% quarter on quarter, driven by positive uptake of new offers. ARPU declined by 1.8% year on year, a lower decrease compared to Q4 2017, primarily driven by continued and intense price competition.

In Q1 2018, EBITDA decreased by 17.3% year on year, mainly due to the decline in revenues. EBITDA margin was 44%, improving by 2 percentage points, quarter on quarter. At the end of Q1 2018, the company's 4G/LTE service covered 28 [indiscernible] and more than 25.3% of the country's population, while the 3G network covered all 48 [indiscernible] and more than 75% of the population. In Q1 2018, capex, excluding licenses, was Algerian dinar 1.6 billion, with an LTM capex, excluding licenses-to-revenue ratio, of 13.5%. All in all, we see encouraging developments in Algeria.

And moving to Bangladesh on slide 10, Q1 results continued to be affected by intense competition, with a specific focus on customer acquisition, and also by costs related to the network expansion after the recent acquisition of additional spectrum and 4G/LTE licenses.

During Q1 2018, Banglalink continued to focus on acquiring customers in a competitive market. The network availability, which was deteriorated by the severe weather condition in 2017, has significantly improved in Q1 2018. The customer base grew by 5.6% year on year, supported by improved distribution, despite continued competitive customer acquisition campaigns in the market.

The revenues in Q1 2018 decreased by 10.6% year on year, while Banglalink service revenue decreased by 11.1% year on year, to Bangladeshi taka 10.4 billion. The decline in service revenue was mainly the result of the gap in 3G network coverage compared to the market leader. ARPU decreased year on year by 14.8%, a trend similar to the one of Q4 2017, as a result of the pricing pressure.

The market remains characterized by intense price competition, especially in relation to data. Data revenue increased by 8% year on year, driven by increased market penetration and 97.3% year-on-year data usage growth, along with 20.7% growth in active data usage.

Banglalink EBITDA in Q1 2018 decreased by 29.9%, to Bangladeshi taka 3.9 billion, mainly as a result of revenue decline, increase in customer acquisition costs, and network expansion-related expenses like maintenance, leasing, and utilities. The EBITDA margin was 36.1% in Q1 2018, which represents a year-on-year reduction of 9.9 percentage points.

In Q1 2018, capex, excluding licenses, significantly increased on year on year to taka 4.6 billion, with an LTM capex, excluding license-to-revenue ratio, of 26.6%. Banglalink continues to invest in efficient high-speed data network, aiming to substantially improve its 3G network coverage, approximately 70% of the population at the end of the first quarter of 2018, and its availability [ph].

The 4G/LTE service has been launched in mid-February and at the end of the first quarter of 2018, 23 [indiscernible] coverage, with a population coverage of approximately 12%. I have to say that, as in Algeria, we also see encouraging development in Bangladesh, but we need to keep working hard on this turnaround.

And now, I would like to hand over, again, the mic to Noha.

N. Agaiby Thank you, Vincenzo. We are now ready to take your questions. So operator, can we have the first question please?

Moderator Thank you. We can now start with questions and answers. As a reminder, media is not allowed to ask questions. [Operator instructions]. And we have no questions. I would now like to hand the call back to management.

V. Nesci Thank you. It seems that we have the same audience this morning on the call, most probably.

So without questions, I would like to close this call with some remarks and in a nutshell, as Gerbrand said at the beginning of the presentation, we added more customers this quarter and we surpassed the threshold of 100 million customers, driven by the continued customer addition in Pakistan and Bangladesh. We are quite happy [ph] seeing that our efforts for the transformation of Algeria and Bangladesh are giving the first positive results, and is encouraging development strength and the motivation of the management.

I would like to thank all of the participants, and Beltone, and Ahmed, of course, for your organization of this call and for the continuous interest in Global Telecom. Please do not hesitate to contact anytime should you have any follow-up questions. Thanks and have a good day.

G. Nijman Goodbye.

Moderator Ladies and gentlemen, this concludes today's conference call. A transcript of the call will be available 48 hours after the call. To request a copy, please contact the Beltone Resource or Global Telecom IR Team. And that does conclude your conference. You may now disconnect.