

Date: 23 July 2020

Oman Telecom Sector: 1H-2020 Review

- Sector profitability down 46.7% QoQ and 57.1% YoY in 2Q20; 1H20 profit down 33% YoY
- Combined revenue of both operators down 8.5% QoQ and 6.2% YoY; 1H20 revenue down by 1.6% YoY
- Mobile subscribers in Oman down 4.7% YTD till June; Prepaid down 6.3% while postpaid up 6.4% YTD
- Fixed line subscribers down 1.4% YTD
- Active mobile broadband subscribers down 4.3% YTD; fixed line internet subscribers higher by 4.0% YTD
- Future catalysts and risks: entry of third operator, expatriate exodus, tower sale by telcos, 5G network rollout and reduction in mobile termination/origination rates etc.
- Recommend ACCUMULATE on OTEL & ORDS

Sector profitability down 46.7% QoQ and 57.1% YoY in 2Q20; 1H20 profit down 33% YoY

Oman telecom sector reported profit of OMR 11.9mn in 2Q20, down 46.7% QoQ and 57.1% YoY. Ooredoo profits were down 38.3% QoQ and 58.6% YoY during 2Q20 while that of Omantel was down 50.0% QoQ and 56.3% YoY. Profitability of the sector during 1H20 was OMR 34.2mn, down 33% YoY. Omantel profits were down 28% while that of Ooredoo was down 43% during 1H20.

Combined revenue of both operators was down 8.5% QoQ and 6.2% YoY; 1H20 revenue down by 1.6% YoY

Combined revenue of both operators was down 8.5% QoQ and 6.2% YoY during 2Q20 to OMR 657mn. 1H20 revenue of both operators was down by 1.6% YoY to OMR 1.37bn. However, revenue from Oman operations of both the operators was up 5.6% to OMR 421mn compared to OMR 398.8mn in 1H19. Increase in revenue from local operations was led by Omantel whose revenue was higher by 10.9% to OMR 288mn, largely because of increase in Wholesale International business and device revenues.

Mobile, fixed and broadband subscribers continue to decline in 2020

As per the recent data by NCSI, telecom subscribers continued to decline in Oman.

- Fixed line subscribers were down 1.4% (8,463) to 583,733 in June 2020 compared to 592,196 in December 2019.
- Mobile subscribers were down 4.7% (300,717) to 6.08mn in June 2020 compared to 6.38mn in December 2019. Within mobile segment, postpaid subscribers grew while prepaid subscribers declined. Post paid subscribers were higher by 6.4% to 0.83mn in June 2020 compared to 0.78mn in December 2019. Prepaid subscribers were down 6.3% to 5.25mn in June 2020 compared to 5.60mn in December 2019. Within prepaid subscribers, operator subscribers were down 8.7% to 4.22mn in June 2020 compared to 4.63mn in December 2019 while that of resellers were higher by 5.4% to 1.02mn in June 2020 compared to 0.97mn in December 2019.
- Active mobile broadband subscribers were down by 4.3% (216,506) to 4.82mn in June 2020 compared to 5.03mn in December 2019 while the fixed broadband subscribers were higher by 4.0% to 0.49mn in June 2020 compared to 0.47mn in December 2019.

Drop in population aided/maintained penetration level in some segments

Oman population dropped by a percent approximately YTD till June 2020 to 4.57mn from 4.61mn in December 2020. Some of the segments penetration level was same or higher while some of the segment witnessed sizable decline.

- Fixed line penetration levels remained same in December 2019 and June 2020 at 12.8%.
- Mobile penetration levels dropped significantly to 132.9% in June 2020 from 138.2% in December 2019.
- Mobile broadband penetration level was 105.3% in June 2020 compared to 109.1% in December 2019.
- Fixed broadband penetration level improved to 10.8% in June 2020 from 10.3% in December 2019.

Future Catalysts and Risks for the Sector

Entry of third operator next year

Vodafone's operations in the sultanate are estimated to begin next year, following a 15-year partnership signed with Oman Future Telecommunication, an Oman 70 Holding company. As part of the agreement, Oman Future Telecommunications will join Vodafone's global partner program and form a board of directors for the company, which will also include support and investment from the Omani government. If we take cues from the entry of new competitor in other markets such as Kuwait, STC Kuwait (Viva) being the third operator was able to gain 1/3rd market share in less than five years of operations.

| | 2010 | 2011 | 2012 | 2013 | - | 2019 |
|--------------------------------|------|------|------|------|---|------|
| STC Kuwait Market Share | 18% | 21% | 27% | 34% | - | 27% |

Entry of third operator will be detrimental to the revenues of existing telcos over the period of time. Third operator will have tower sharing kind of an arrangement with existing ones as well, then the third operator would not need to invest much in the infrastructure and it would be very quick and easy for them to gain market share in a short period of time

Expatriate Exodus

Expatriates population which at the end of 2019 used to be 1.972mn stands at 1.858mn as of June 2020, drop of 5.8% or 114k in six-month period. Due to COVID-19 and low oil prices, many sectors in Oman has witnessed retrenchment of its work force leading to many expatriates leaving the country. Such a drop has happened despite very less commercial flights leading us to believe that more expatriates will be leaving the country in the coming period. With already intense competition and entry of third operator, exit of expatriates will leave very less market for telecom players to compete on.

Value unlocking by sale of mobile towers

Oman Towers Company (OTC) plans to build its own tower network as well as to reach an agreement with current operators for the management/ownership of their towers. In August 2019, OTC announced that in first stage of investment, estimated at more than OMR 15mn, it will install around 600 towers to expand the network of the incumbent and future operators. OTC also signed MOU with Omantel and Ooredoo to build, lease and manage assets of towers in the Sultanate last year. This potential sale and lease back arrangement when executed will be a positive catalyst for existing telcos and could generate sizable value, estimated in the range of OMR 100-150mn for each operator.

5G network rollout and its challenges

5G network rollout and continuation of growth of OTT (over-the-top) services such as Netflix, WhatsApp, YouTube and Instagram drives an increasing demand of bandwidth volumes, which is in principle is a potential for operators to grow revenues. Building the required infrastructure to support this demand remains a substantial burden on operators, putting an increased pressure on the margins. Also additional challenge is that even with the far superior services 5G can provide in terms of speed and latency, history in previous network upgrades such as 4G has proven that the monetization of these advanced features is challenging.

Reduction in Reference Access and Interconnection Offer rates to reduce the revenue

In late 2018, Oman's Telecommunications Regulatory Authority (TRA) approved the Reference Access and Interconnection Offers (RAIOs) of Omantel and Ooredoo. As such, mobile termination rates (MTRs) will be slashed in phases from the current charge of OMR 0.015 (USD0.039) to OMR 0.004 per minute over four years, while the mobile call origination rate will be reduced from OMR 0.0166 to OMR 0.01054 per minute. This gradual reduction till 2022, will continue to reduce the revenue for the telecom operators.

Regional PEER Comparison – As of 2019

| | Capex to Revenue - % | Ebitda Margin - % | Net Margin - % | Debt to Assets (x) | ROE - % | ROA - % | Intangible Asset to Total Asset - % | Cash to Total Asset - % | Equity to Assets - % |
|------------------------|----------------------|-------------------|----------------|--------------------|--------------|-------------|-------------------------------------|-------------------------|----------------------|
| OOREDOO - OM | 19.9% | 40.3% | 11.9% | 9.9% | 13.0% | 7.7% | 7.7% | 9.7% | 59.3% |
| OMANTEL - OM | 15.5% | 42.4% | 3.0% | 37.1% | 13.8% | 1.0% | 46.7% | 6.2% | 7.4% |
| ETISALAT - UAE | 17.0% | 50.5% | 16.7% | 18.6% | 15.0% | 6.8% | 19.5% | 23.1% | 45.0% |
| DU - UAE | 12.0% | 45.2% | 13.8% | 15.3% | 20.0% | 10.3% | 6.2% | 19.1% | 51.4% |
| OOREDOO - QAT | 19.6% | 42.9% | 5.8% | 42.5% | 7.5% | 2.0% | 29.9% | 16.7% | 26.3% |
| VODAFONE - QAT | 30.0% | 33.4% | 6.8% | 16.8% | 3.2% | 2.0% | 63.0% | 4.3% | 63.7% |
| ZAIN - KWT | 14.7% | 43.8% | 13.1% | 35.7% | 16.7% | 4.6% | 45.6% | 6.3% | 27.4% |
| OOREDOO - KWT | 15.1% | 31.7% | 4.8% | 18.3% | 5.3% | 2.4% | 24.9% | 7.1% | 45.0% |
| STC - KWT | 20.1% | 28.1% | 14.8% | 5.1% | 20.2% | 11.2% | 6.7% | 19.6% | 55.1% |
| STC - KSA | 20.9% | 39.1% | 19.6% | 10.3% | 17.3% | 9.0% | 8.4% | 6.8% | 52.2% |
| ZAIN - KSA | 14.7% | 45.6% | 5.8% | 41.4% | 11.8% | 1.7% | 58.5% | 4.2% | 14.8% |
| MOBILY - KSA | 20.5% | 36.8% | 0.2% | 37.9% | 0.2% | 0.1% | 21.8% | 3.2% | 35.0% |
| BATELCO - BAH | 15.3% | 35.3% | 12.9% | 28.4% | 10.9% | 5.2% | 29.0% | 17.7% | 47.7% |
| ZAIN - BAH | 10.0% | 33.3% | 8.4% | 11.1% | 7.3% | 4.4% | 12.9% | 8.6% | 60.9% |
| GCC TEL. SECTOR | 17.8% | 42.8% | 12.1% | 26.7% | 13.5% | 4.8% | 27.0% | 12.0% | 35.8% |

Source: Company Reports & Presentations

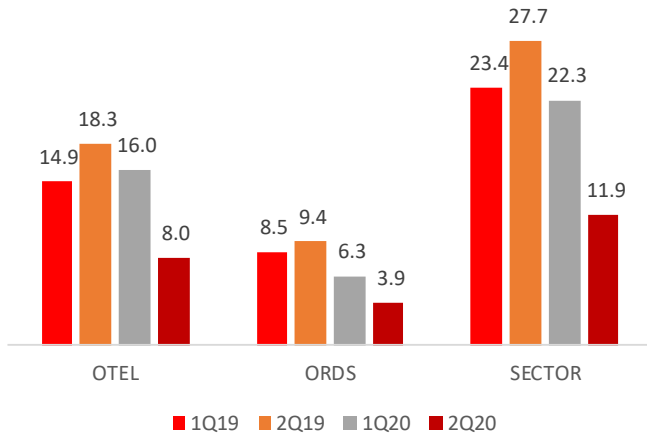
Ranking - Red - 1, Green - 2, Blue - 3

For P/E and P/Bv the ranking will be opposite - the lesser the better

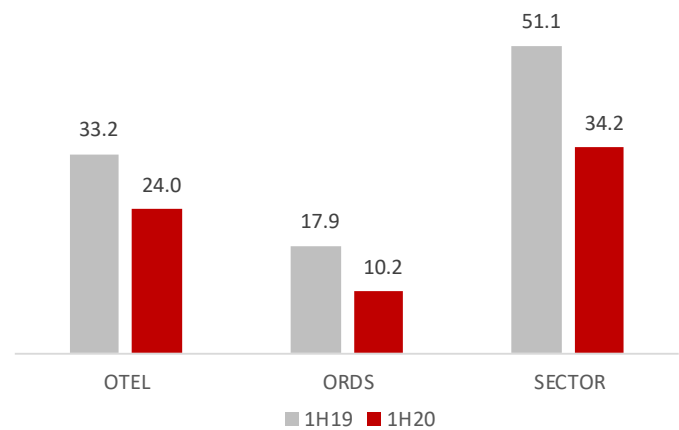
For detailed peer comparison please click - [Link](#)

Oman Telecom Sector Financials (2Q20/1H20) – In Charts

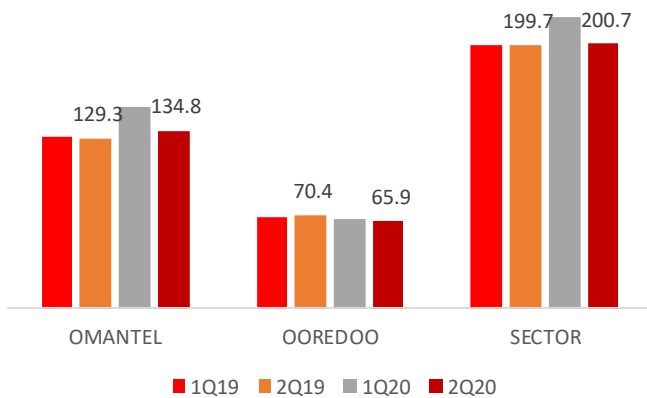
Net Income - Quarterly (OMR mn)



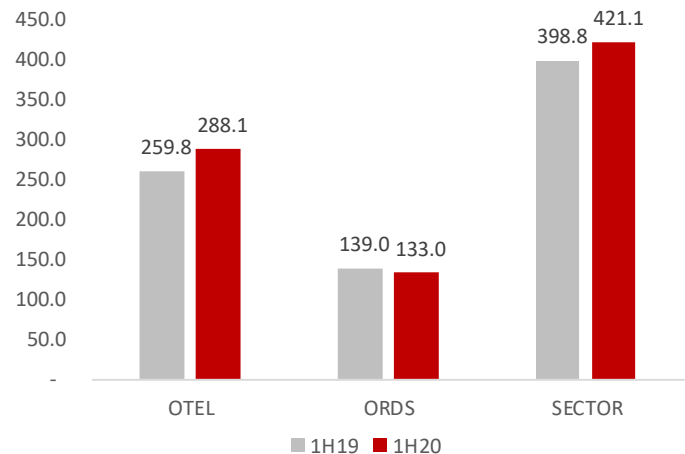
Net Income - Half Yearly (OMR mn)



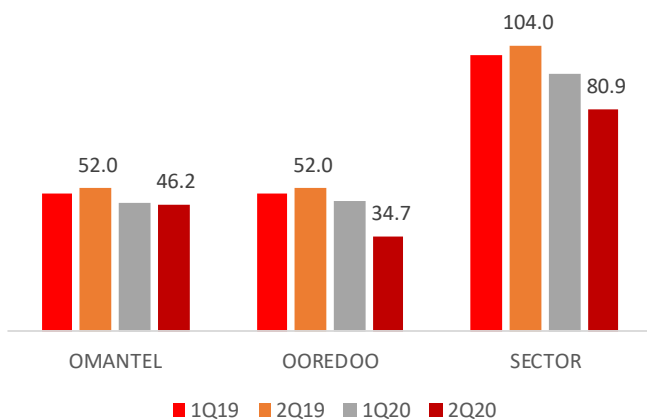
Revenue Oman Operations - Quarterly (OMR mn)



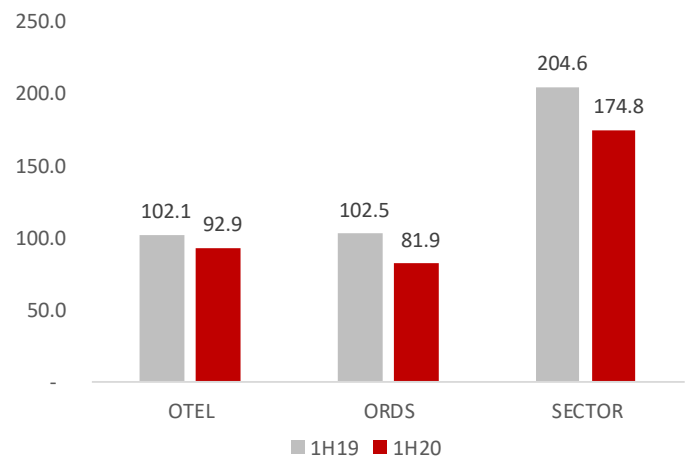
Revenue Oman Operations - Half Yearly (OMR mn)



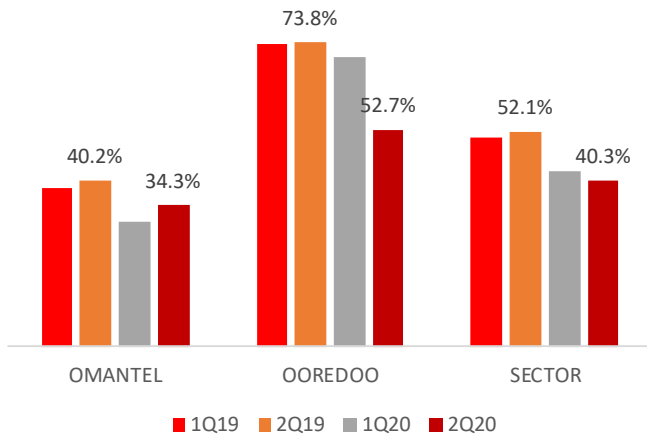
EBITDA Oman Operations - Quarterly (OMR mn)



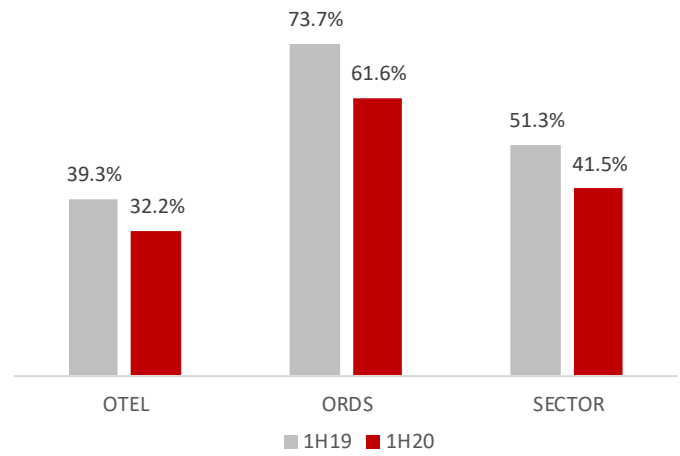
EBITDA Oman Operations - Half Yearly (OMR mn)



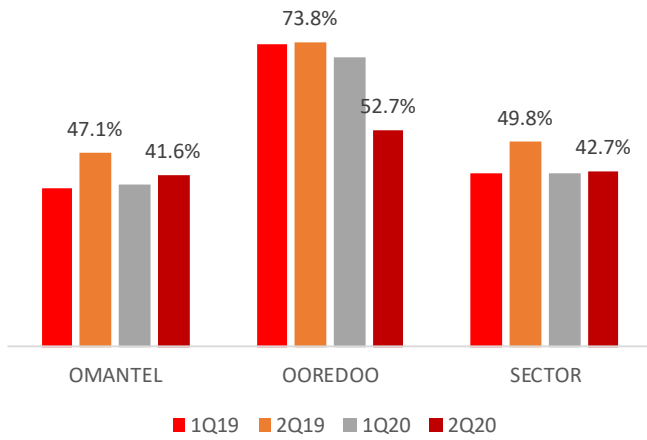
EBITDA Margins Oman Ops - Quarterly



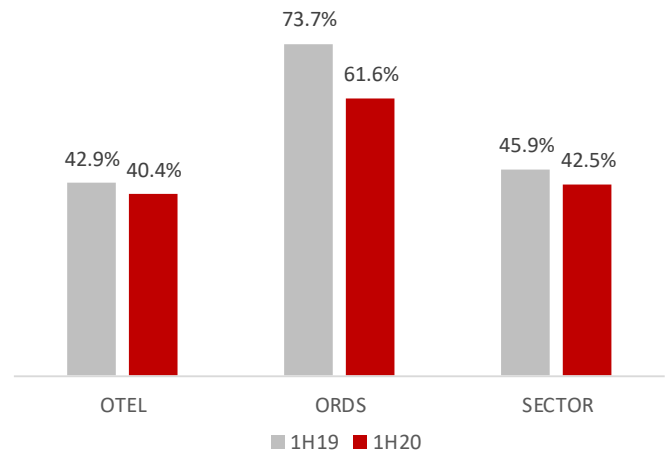
EBITDA Margins Oman Ops - Half Yearly



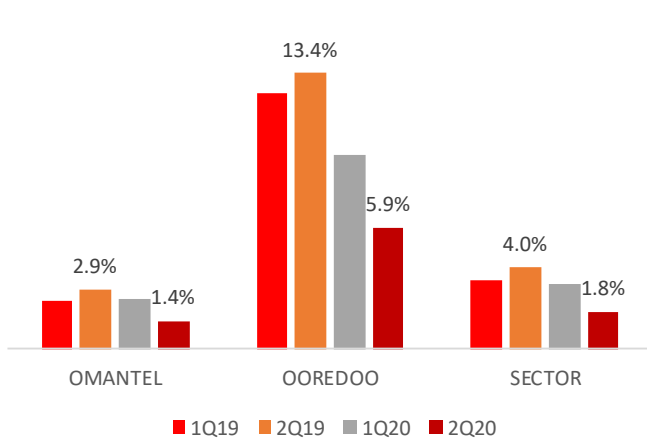
EBITDA Margins Overall - Quarterly



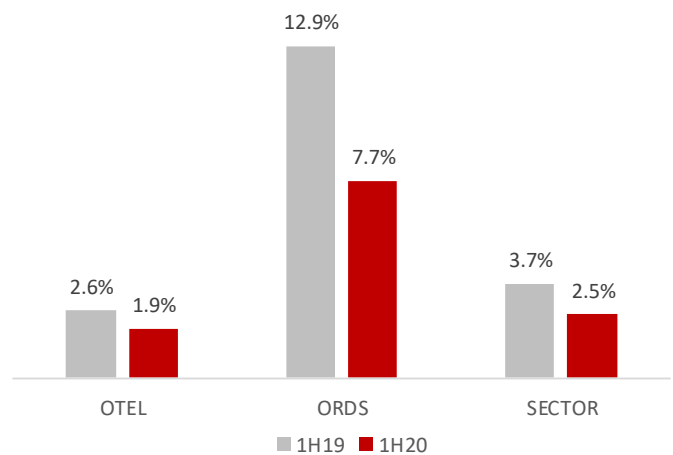
EBITDA Margins Overall - Half Yearly



Net Margins Overall - Quarterly



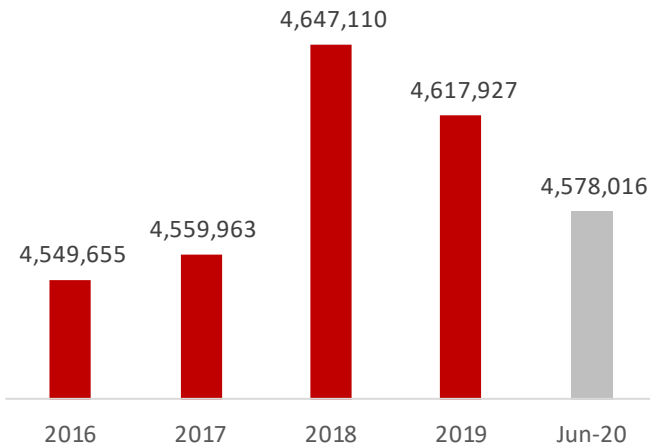
Net Margins Overall - Half Yearly



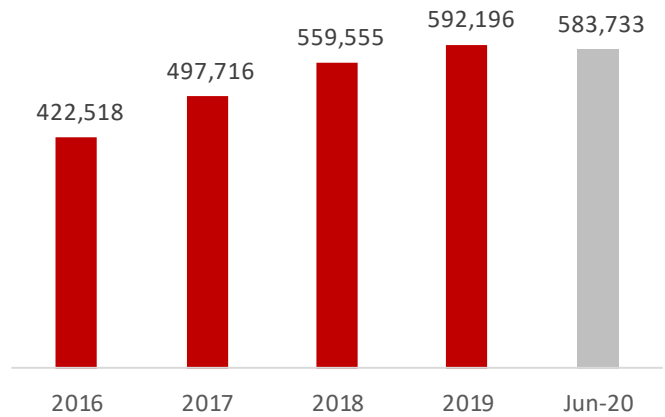
Source: Company Filings

Oman Telecom Sector Statistics (June 2020) – In Charts

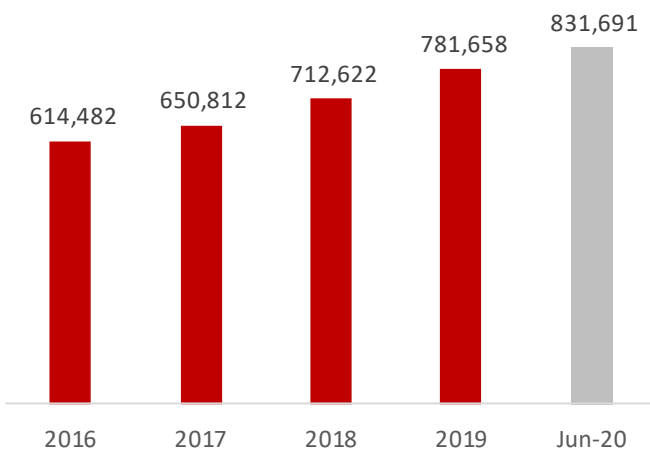
Oman Population



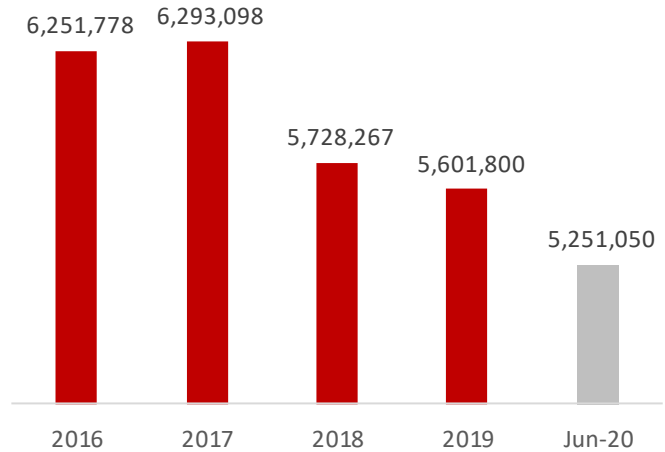
Fixed Line Subscribers



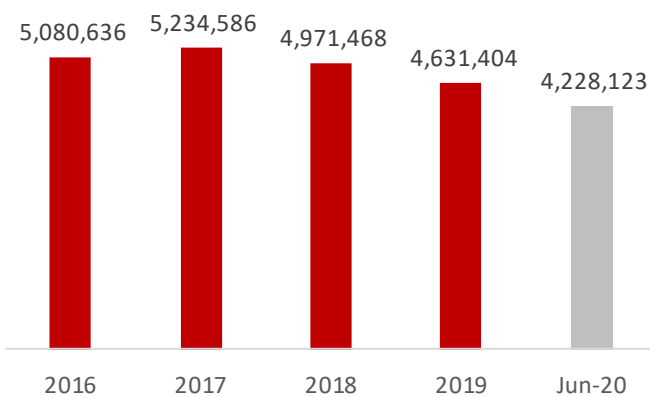
Post-Paid



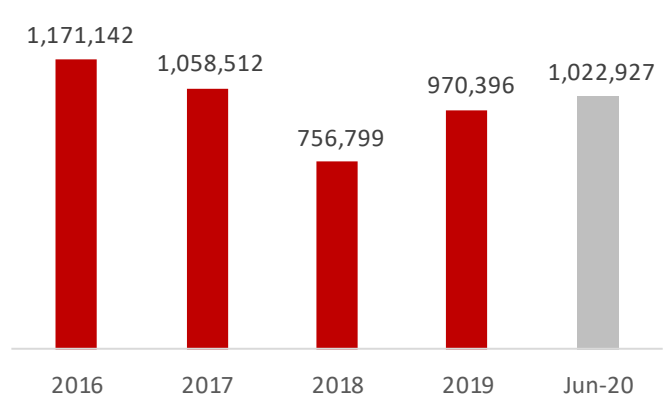
Pre-Paid



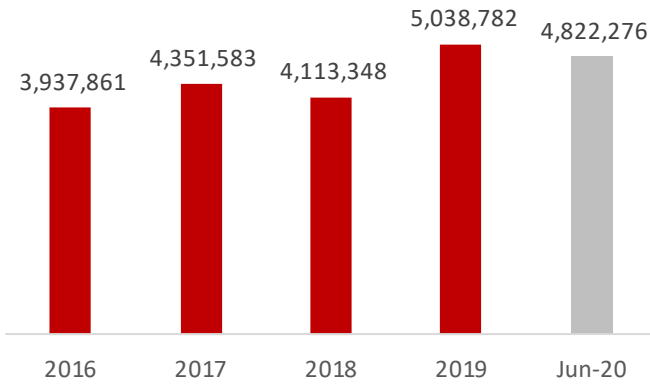
Operators - Prepaid



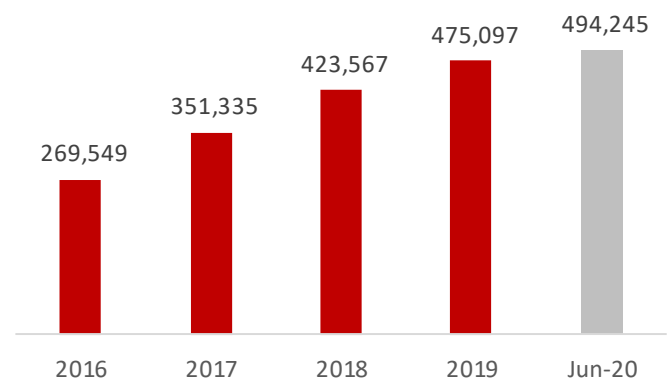
Resellers - Prepaid



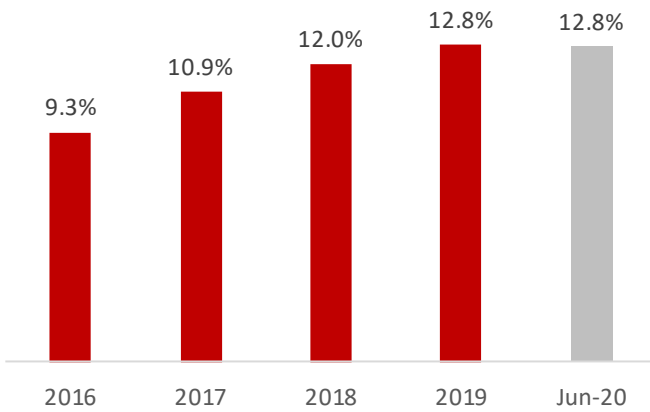
Active Mobile Broadband Subscribers



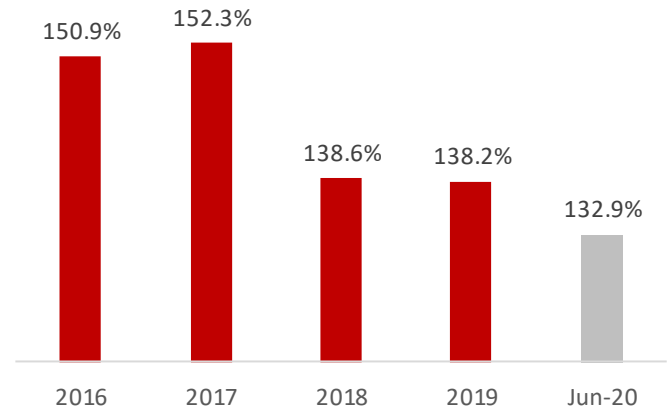
Fixed Internet Subscription



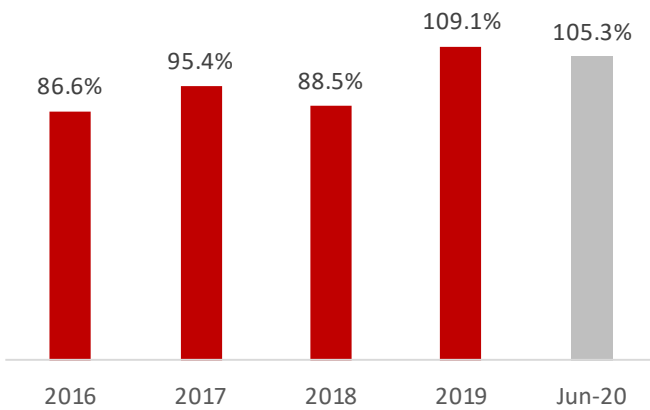
Fixed Line Penetration (%)



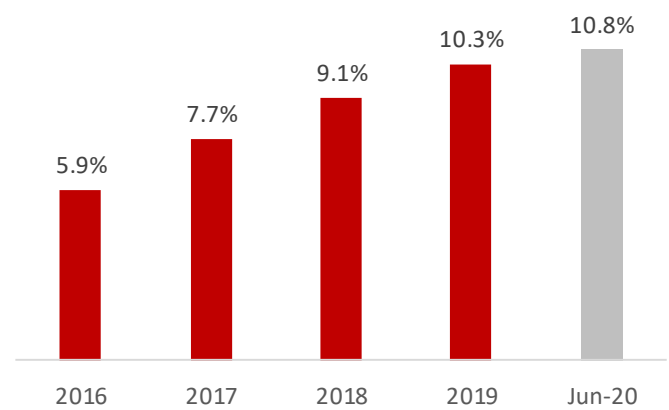
Total Mobile Penetration (%)



Mobile Broadband Penetration (%)



Fixed Internet Penetration (%)



Source: NCSI

OMANTEL (OTEL) - 1H 2020 Result Review

Recommendation:

ACCUMULATE

TP (OMR): **0.720 /share**

Upside / (Downside): **18.4%**

Analyst: Hettish Karmani

| Bloomberg Ticker | OTEL OM EQUITY |
|-----------------------------|----------------|
| Current Market Price (OMR) | 0.608 |
| 52wk High / Low (OMR) | 0.700 / 0.526 |
| 12m Average Vol. (000) | 144.00 |
| Mkt. Cap. (USD/OMR mn) | 1200 / 462 |
| Shares Outstanding (mn) | 750.0 |
| Free Float (%) | 26.0% |
| 3m Avg Daily Turnover (OMR) | 71,409 |
| 6m Avg Daily Turnover (OMR) | 116,798 |
| P/E 2020e (x) | 7.9 |
| P/Bv 2020e (x) | 0.8 |
| Dividend Yield (%) | 8.2% |
| Price Perf. (1m/3m) (%) | -4.3 / -5.5 |

Price Volume Performance



Net income declined 27.7% YoY during 1H20

Omantel reported its half year numbers. Company reported net income attributable to shareholders of OMR 24mn in 1H20 compared to OMR 33.2mn in 1H19. U Capital estimated net income of OMR 31mn for the half year. Drop in earnings was led from the topline as revenue dropped while margins also witnessed a decline during the period. Profit attributable to shareholders from the total was lesser in 1H20 at 24% compared to 26% in 1H19.

Revenue declined by 1.3% YoY during 1H20

Omantel reported revenue of OMR 1.24bn compared to OMR 1.25bn in 1H19, drop of 1.3% YoY. Revenue was inline with U Capital estimates of OMR 1.26bn. Revenue from domestic operations grew by 11%, which mainly came from increase in Wholesale International business and device revenues which are typically of low margin compared to the core revenues. Adjusted for the above, Core revenues for 1H20 was OMR 221mn compared to OMR 232.5mn in 1H19, a decrease of 5%.

EBITDA margins dropped in 1H20

Overall, EBITDA margins of the Company dropped to 40% in 1H20 from 43% in 1H19. EBITDA margins change from domestic operations was higher than at the group level. EBITDA margins from Oman operations dropped to 32% in 1H20 from 39% in same period last year.

Interest cost related to Zain acquisitions remain almost same in 1H20 and 1H19

Interest costs incurred by Omantel Group relating to Zain acquisition was OMR 26.2mn in 2020 (2019: OMR 26.2mn) and is accounted at Omantel Group level and is not part of Domestic performance.

Income Statement

| (OMR mn) | 1H19 | 1H20 | 1H20e | YoY | Dev. % |
|---|-------|-------|-------|--------|--------|
| Revenue | 1,259 | 1,242 | 1,260 | -1.3% | -1.4% |
| EBITDA | 540 | 502 | 517 | -6.9% | -2.8% |
| Net Profit | 127 | 101 | 113 | -20.6% | -11.4% |
| Profit Attributable to Shareholders (PAS) | 33 | 24 | 31 | -27.7% | -22.6% |

Key Ratios

| | 1H19 | 1H20 | 1H20e | YoY | Dev. % |
|------------------|------|------|-------|-----|--------|
| EBITDA Margins | 43% | 40% | 41% | | |
| Net Margins | 10% | 8% | 9% | | |
| PAS / Net Profit | 26% | 24% | 27% | | |

Source: Company Reports, MSM, U Capital Research

OOREDOO OMAN (ORDS) - 1H 2020 Result Review

Recommendation:

ACCUMULATE

TP (OMR):

0.474 /share

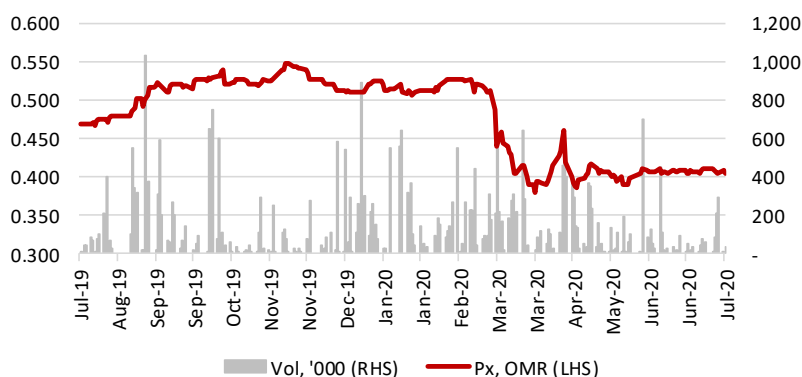
Upside / (Downside):

18.5%

Analyst: Hettish Karmani

| | |
|----------------------------|--------------|
| Bloomberg Ticker | ORDS OM |
| Current Market Price (OMR) | 0.400 |
| 52wk High / Low (OMR) | 0.550/0.380 |
| 12m Average Vol. (000) | 141.8285 |
| Mkt. Cap. (USD/OMR mn) | 670/258 |
| Shares Outstanding (mn) | 650.94 |
| Free Float (%) | 0.45 |
| 3m Avg Daily Turnover | 48 |
| 6m Avg Daily Turnover | 63 |
| PE 2020e (x) | 11.53 |
| PBv 2020e (x) | 1.00 |
| Dividend Yield (%) | 7.4% |
| Price Perf. (1m/3m) (%) | -2.8 / -13.9 |

Price-Volume Performance



Net income drops to historic low on quarterly basis

Ooredoo Oman reported net income of OMR 3.9mn in 2Q20 compared to OMR 6.3mn in 1Q20 and OMR 9.4mn in 2Q19. Earnings were lower largely because of drop in revenue and also because of rise in expenses as both the EBITDA and net margins dropped. For 1H20, company reported net income of OMR 10.2mn compared to OMR 17.8mn in 1H19, drop of 43%.

Revenue drops by 6.4% YoY and 1.8% QoQ during 2Q20

Company reported revenue of OMR 65.9mn compared to OMR 67.1mn in 1Q20 and OMR 70.4mn in 2Q19. For 1H20, revenue reported by the Company stood at OMR 133.3mn compared to OMR 139.1mn in 1H19.

Mobile and fixed customers to have declined

With many expatriate leaving the country, U Capital estimated the mobile and fixed numbers to have dropped to 2.80mn from 2.84mn in 1Q20. Although Company did not disclose the numbers of the customers, we believe it would have declined and expected to decline further in coming quarters.

Income Statement

| (OMR mn) | 2Q19 | 1Q20 | 2Q20 | 2Q20e | YoY | QoQ | Deviation % |
|------------|------|------|------|-------|--------|--------|-------------|
| Revenues | 70.4 | 67.1 | 65.9 | 63.4 | -6.4% | -1.8% | 3.9% |
| EBITDA | 38.6 | 36.6 | 34.7 | 36.0 | -10.1% | -5.2% | -3.6% |
| Net Profit | 9.4 | 6.3 | 3.9 | 5.2 | -58.6% | -38.3% | -25.0% |

| | 2Q19 | 1Q20 | 2Q20 | 2Q20e | YoY | QoQ | Deviation % |
|---------------------------------|------|------|------|-------|-----|-----|-------------|
| Mobile and Fixed Customers, 'mn | 3.11 | 2.84 | NA | 2.80 | - | - | - |

Key Ratios

| | 2Q19 | 1Q20 | 2Q20 | 2Q20e |
|---------------------|-------|-------|-------|-------|
| EBITDA Margins | 54.8% | 54.5% | 52.7% | 56.8% |
| Net Margins | 13.4% | 9.4% | 5.9% | 8.2% |
| Average ARPUs (OMR) | 22.7 | 23.6 | NA | 22.6 |

Source: Company Reports, U Capital Research

Recommendation

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

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