



Conference Transcription

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2012 Conference
Call**

CONFERENCE DETAILS

Conference Date: 30 April 2012

Conference Time: 8:00 BST

Conference Duration: Approximately 35 minutes

Chairperson: Matija Gergolet

Speakers: Matija Gergolet
Laila Danesh
Shaikh Mohamed Bin Isa Al Khalifa
Peter Kaliaropoulos
Kataryna Stapleton

ACT Operator

Thank you for holding, ladies and gentlemen. Welcome to the Batelco Group First Quarter 2012 Results call on 30 April 2012. Throughout today's presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press *0 on your telephone for operator assistance.

I will now hand the conference over to Matija Gergolet from Goldman Sachs, your host for today's conference. Please go ahead, sir.

Matija Gergolet

Yes, hello. Good morning, ladies and gentlemen and welcome. On behalf of Goldman Sachs we are delighted to be hosting this call for Batelco's First Quarter 2012 Results. My name is Matija Gergolet, I am an analyst at Goldman Sachs in Dubai. Today I have the pleasure of introducing our speakers: Shaikh Mohamed Bin Isa Al Khalifa, the group CEO; Mr. Peter Kaliaropoulos, the CEO strategic assignments and Ms. Kataryna Stapleton, Chief Financial Officer. Following the comments the call will be open for questions from the participants.

Before starting the call the Group would like to make the standard forward-looking safe harbour statements and I pass over to management.

Safe Harbor Statement - Laila Danesh, FinMark Communications

Thank you, Matija. Batelco Group notes that some of the forthcoming statements are expectations based on reasonable assumptions. These forward-looking statements are subject to numerous risks and uncertainties. These statements may not be regarded as the representation of anticipated results which will occur on the Group's expected objective. The forward-looking statements are only valid until this day and Batelco Group does not undertake to update these in any form.

With that I would now like to turn the floor over to Shaikh Mohamed Bin Isa Al Khalifa, Group CEO of Batelco. Shaikh Mohamed...

Shaikh Mohamed Bin Isa Al Khalifa

Thank you very much and thank you Matija for the introduction and to Goldman Sachs for hosting today's call to discuss Batelco Group's First Quarter 2012 Financial Results. I would also like to thank each of you for taking the time to join me and the management team. With me today are Ms. Kataryna Stapleton, Group CFO who will walk you through the presentation of the Group's results and performance and Mr. Peter Kaliaropoulos, who will join Kataryna and me in answering any questions you may have later in the call.

Looking at the quarter we are pleased to maintain market leadership in the kingdom of Bahrain with the solid results delivered from our overseas operations especially Jordan and Kuwait. Our investments in these markets have paid off. Kuwait continues to grow its contributions to the bottom line as does Jordan. We are especially pleased that Umniah, our majority owned subsidiary in Jordan, has paid its first dividend to the Group and other shareholders of BHD33.3 million or US\$88.3 million during the first quarter. This is further indication of the Group's ability to derive value from its investment and we see stronger growth ahead in Jordan with our recent investment of JOD50 million, that's US\$70 million, in Umniah's license for 3G services which are currently being rolled out and are expected to enhance the profitability even further by year end and into 2013.

We are also pleased with the progress in Saudi Arabia. The company recently completed its SAR1.2 billion capital raising during the quarter of which the Group's contribution was 15% or SAR176.25 million. The issue was oversubscribed with the new cash injection and a shift in focus to the business customer segment, we expect improved cash flows and margins from Atheeb going forward.

For the three months period our financial performance was in line with the guidance we provided earlier in the year. Anticipated declines to revenues and profit as will be discussed continue to reflect the impact of strong competitive pressures in Bahrain and across the MENA market. This in addition to a BHD2 million one-off charge we reported for Sabafon of Yemen relating to the 2011 period.

In terms of subscriber numbers you will have seen that our customer base now stands at 6.9 million across six markets. The decrease from last quarter and year-over-year is largely due to the adjustment for the exclusion of STel operation following the announcement of the sale of our stake in the company early in the quarter. Other adjustments made in the Yemen as conditions there normalised also had a short term impact on growth. We were extremely pleased to maintain our 44% share of the mobile market in Bahrain showing the success of the efforts throughout the quarter to deliver value and innovation which ultimately continue to help us retain our high value postpaid residential and business customers.

Despite the challenging quarter and the significant investments made during this period however we remain in a very solid financial position. We continue to generate significant cash flows and ended the quarter with a strong cash and bank balances to further outgrow. Achieving growth in addition to maximising the performance of our current assets is at the forefront of our strategy and we are focussed on building the scale of our network and that we deliver to customers and shareholders as we go forward.

With that I will now turn the call over to Kataryna who will take you through the presentation and the details of Group financial results and performance for the quarter. Kataryna....

Kataryna Stapleton

Thank you, Shaikh Mohamed and ladies and gentlemen, thank you for joining us today. During my presentation I will be referring to the PowerPoint that we have issued as well as the financial tables and the financial statements which we issued on Thursday. As Laila has already covered the safe harbour statement I will go straight into slide three which provides the Group highlights.

The revenues for the quarter stood at BHD78 million or US\$207 million. Net profit of BHD16 million or US\$43 million. Continued very strong cash position of BHD62 million or US\$164 million and the Group also took on a small facility to pay for the rights issue in Atheeb; the facility was very advantageous so we took advantage of it.

The contribution to the Group from overseas operations continue to increase. Revenues were up 38% and EBITDA to 35%. The Group maintained its investment grade ratings from S&P and Fitch. Now as Shaikh Mohamed mentioned in terms of our market positions we are very pleased to continue remaining number one in Bahrain on mobile, Internet and fixed. Kuwait also remains number one in Internet and Data coms and Jordan is a very strong third and equal second in its product areas.

Subscribers, we have now adjusted our subscriber position for STel. Subscriber stand at over 6.8 million. We had a slight decline in mobile subscribers however broadband growth continues to be strong at 5% year-on-year.

If we now turn to slide five where we will discuss the quarter one performance in greater details and will also be referring to the tables that you have received. Operating revenues declined by 4% for the quarter and sequentially also year-on-year. The majority of the decline came from mobile, Internet as well as wholesale but these were partially offset by data coms as well as other services. Year-on-year the revenue declined mostly from mobile and fixed as fixed to mobile substitution continues to happen. However that was partially offset by increased handset sales, data coms and enterprise solutions.

Looking at the cost, which as I mentioned on previous calls we have been very focussed on, we are pleased to report that year-on-year staff cost have been steady. The network cost have increased as a result of additional support fees as well as cost of sales for the handset as the handset revenue grew so did the costs and as well as license fees. In terms of other where we are pleased to report a decline of over BHD700,000 mostly as a result of decreases in bad debt provisions as collections improved. As a result of these we were able to maintain an EBITDA margin of 36% for the quarter.

Depreciation has also improved quarter-on-quarter sequentially. This is as a result of the Group taking accelerated depreciation charges in 2011. Operating profits for the quarter was BHD19.6 million and as Shaikh Mohamed mentioned we took an impact of BHD2 million as a one-off with Sabafon for 2011 accounts. As a result of that the net profit for the quarter was BHD16.1 million, the margin of 21%.

If we now turn on to slide six, as you know we are very focussed on capital intensity. The GRN CapEx was BHD33.8 million, this is for the quarter however if we adjust that with the significant one-off being the 3G licence where we paid JOD50 million as well as building acquisition which was JOD4.8 million that amount reduced significantly and the CapEx to revenue ratio then dropped from 43% adjusted to 6% which is in line what we had in previous quarters.

Of course free cash flow generation and balance sheets another very significant focus area. If we adjust the free cash flow for the two one-offs I discussed which was the 3G licence as well as the building acquisition the free cash flow for the quarter was BHD12 million being a 44% EBITDA conversion. In terms of the net cash position, BHD62 million or US\$164 million, this is a significant continued positive contribution and we are pleased to say that we expect that to continue. Debt at the end of the quarter was BHD18 million which as I discussed was a small facility we took due to its very favourable rates for the Atheeb rights issue.

In terms of operational overview on slide nine, we give you a summary of the various subscriber divisions for each one of the operation. I won't dwell on that one as it's purely a summary and it's probably more worthwhile to turn to slide ten which shows you the movements of subscribers both from mobile as well as from broadband.

In terms of adjusted year-on-year mobile growth as I mentioned we had a small decline of 2%. Now this decline was predominantly Yemen as Bahrain was mostly steady and Umniah was slightly up year-on-year. We may have mentioned before, in terms of the Yemen subscriber report we have now ensured that the definition includes active customers and excludes customers which have not made or received calls for more than 90 days. If you look at sequentially quarter-on-quarter the decline again came from Yemen and Bahrain, we are very pleased with steady and Umniah steady as well.

In terms of broadband growth continue to have a very positive growth story year-on-year 5% increase and also quarter-on-quarter the increase was 4%. The Bahrain numbers contain a very positive story on data and wireless. Wireless subscribers year-on-year grew more than 80%. Jordan also continues to see very positive growth in subscribers on the UMAX which is a WiMAX of 31%. Kuwait was steady; Saudi has a

slight decline of 4% year-on-year however we are very pleased to see that the number of B2B customers is increasing significantly in the last few months.

If I now look at the segmental information, starting first with revenues, the Bahrain revenue has dropped by 5%. This is mostly as a result of declines in mobile as well as fixed and has been partially offset by data coms services. Jordan has grown 1% and we have a small decline in Kuwait. This is mostly as a result of data coms services where tariffs have been reduced. On the right hand side you will see the percentage contribution by different product lines and you will see decline in mobile from 48% to 43% and a slight growth in data from 17% to 18%.

If I now turn to the next slide which has the profitability by segments. Bahrain has been impacted by intense competition in the mobile market and as a result has decreased 22%. Umniah continues to grow very profitably and has shown a 5% year-on-year increase and we fully expect more with the 3G launch. Other countries, here we see the benefit of the STel reclassification to help with sales so there is a year-on-year increase. Overall the profit has dropped by 7%.

Now in previous sessions we received feedback that the analysts would like to again look at our strategy and focus. Just as we presented at the AGM we maintain focus on the four-pillar strategy, the bridge strategy which includes the B-Scale, be strong, be scope and be innovative, and the five priorities that we have set out for ourselves in 2012 includes a new acquisition and Shaikh Mohamed spoke about that.

India STel completing the sell by quarter four 2012. Jordan, the launch of 3G by quarter three. As mentioned we have already acquired licence and will be rolling out the network. Saudi Atheeb, we were very pleased to complete the rights issue which was oversubscribed and we now see an improvement in the number of B2B customers for Atheeb. Bahrain, very significant focus on the GEAR strategy which includes the retention of high value customers and again we are very pleased to see that during quarter one we have stabilised the number of customers. Furthermore, very significant focus on cost benchmarking and reduction and the programme is currently underway to ensure that we realign our costs as soon as possible.

The last slide basically provides a snapshot of the key financial information on operating revenue, EBITDA, net profit, cash and bank balances as well as adjusted free cash flow. Without further delay, I will now open for questions.

ACT Operator

Thank you. If any participant would like to ask a question, please press *1 on your telephone. If you wish to cancel your request, please press *2. There will be a short pause whilst participants register for a question.

The first question comes from Christian Kern. Please state your company followed by your question.

Christian kern – JP Morgan

Hi, there. This is Christian Kern from JP Morgan. Thanks for hosting this call. Just was wondering if you would be able to shed some more light on your M&A criteria, for example return, thresholds etc... as you put this as one of your key initiatives for 2012.

Second question would be around Zain KSA if there is opportunity still for you to revisit once the company has been restructured?

The third point would be about India. Would you be considering to re-enter India once you sold your STel entity? Thank you so much.

Shaikh Mohamed Bin Isa Al Khalifa

OK, thank you very much. With this I would like to hand over to Peter Kalioropoulos to answer these questions.

Peter Kalioropoulos

Thank you. Christian, question is appreciated. As I understood the first one relates to M&A criteria. Our strategy going forward is for accretive acquisitions certainly not for start-ups and in terms of returns on investment our board usually looks at an IRR of at least 20% and also cash flows being able to support any lending for that investment and certainly no dilution of dividends. That's predominantly our M&A criteria.

We are looking for mature markets with further growth. We are looking for investments in the mobile data, in broadband services and not necessarily in pure voice. Geographically we are not looking at global. We are looking more at regional markets and we are looking at clusters of markets because in our industry there is a lot of traffic across border. So the same way we built up the Middle East cluster, we are looking for investments potentially in the North African context or some other markets where we have the opportunity to pick up three or four operations at the same time.

Your second question relates to Zain KSA. Certainly we have said the Saudi market is a very critical and very important regional market. It is the biggest market in the GCC. We do operate there through Atheeb and we are now turning into a more favourable situation with a niche player of Atheeb. Long term our aspirations are still there for Zain KSA under the right terms for our shareholder. Should the current rights issue that has been rumoured take place for Zain KSA and there is an opportunity for us to acquire the right percentage with the right terms, management control and so on, of course we will revisit that. Anything in our industry that impacts the Saudi market we are looking at it including opportunities for MVNOs and so on that again the regulator is exploring. We will stay, the word I can use, actively having a watching group on anything that develops in Saudi and if and when there are an opportunity for our shareholders arises we will certainly be interested.

Third question related to India. Certainly, again the Indian telecommunications market continues to grow, continues to diversify. We will always keep an eye on developments in India. What I can stress though is that we are not looking to invest in another start-up or participating in auctions for spectrum. We are more interested in existing operations potentially in India that can be opportunity to grow and improve the margins. Like Saudi, India is another market of interest to us and we will be keeping a watching brief.

Christian Kern – JP Morgan

Very helpful. Thank you for sharing these thoughts, Peter.

ACT Operator

Thank you. Your next question comes from Ranjan Sharma from JP Morgan. Please go ahead.

Ranjan Sharma – JP Morgan

Hi, good afternoon. This is Ranjan Sharma from JP Morgan. One question if I may. There was recent news about Atheeb entering fixed line agreements with Mobily. I am just wondering if you could shed some light on this. Thank you.

Peter Kaliaropoulos

Certainly. Atheeb has certain licences that allows it to deliver voice traffic to fixed customers and Atheeb is looking for partnerships so interesting enough the mobile operators cannot deliver fixed voice. Part of the relationship there is to explore whether we can bundle our products fairly and deliver services together with Mobily. We are interested, we have been having those discussions, our network is more mature.

At this point I think it's premature to get extremely excited but it's a growth opportunity for Atheeb because it will be able to approach a great share of Mobily customers who are only using a mobile phone and together with Mobily we should be able to pick up the mobile to fixed traffic from those operators. We see there is an opportunity. It's early stages. I think probably in quarter two we will be able to offer you some more information about that.

If can name to this what's more exciting about Atheeb right now is that Atheeb is transforming more and more, chasing business customers. Six months ago they had no business customers at all. Today they have over 210 circuits, business data circuits, where the ARPUs are close to SAR8,000 to SAR9,000 per circuit and when you compare that with the residential ARPUs of about SAR140 to SAR150, so it speaks for itself in terms of the transformation of the company to grow its business in the business segment, the SME in particular. That's the focus behind Atheeb and we hope the partnership with Mobily in the next few quarters could help us pick up some more residential voice traffic for Mobily's customer base.

Ranjan Sharma – JP Morgan

That's very clear. Thank you.

Peter Kaliaropoulos

Thank you.

ACT Operator

Thank you. Your next question comes from Alok Nawani. Please state your company followed by your question.

Alok Nawani – NBK Capital

Good afternoon. This is Alok Nawani from NBK Capital. Thank you very much for hosting the call. Just two questions, if I may. The first relates to Jordan. Could you give us some more colour on the competitive dynamic in Jordan at the moment?

The second question also relates to Jordan. The dividend payment of BHD33.3 million from Umniah relates to which fiscal period exactly and how would you guide us in terms of expectations for dividends going forward? Thank you.

Shaikh Mohamed Bin Isa Al Khalifa

OK, thank you very much, Alok. Let me just take your last question and answer you on the dividend. That dividend of course has been the result of the accumulation of the profits over the years that we have held our investment in Umniah. With the company



being able to support its own operations from its cash flows we thought it would be a good opportunity for the shareholders to unlock some of the profits that have been accumulating in the company, so we held the AGM and we have got the approval of course for the distribution of the first dividends. I will turn over to Peter just to give you a quick brief on the situation with the market in Jordan, go ahead.

Peter Kaliaropoulos

Thank you. Alok, the comparative situation in Jordan has not changed probably in the last four to five quarters. What is happening right now is that Umniah will be launching 3G services some time in quarter three, early quarter three. In terms of portfolio products and services, in terms of coverage, in terms of quality of service, value added services, within a period of probably three months every provider will be offering exactly the same proposition to all the potential customers, so the competitive intensity hasn't changed.

What we are seeing is we are seeing more intelligent competition in Jordan by the three mobile operators and there are also a number of WiMAX broadband operators where the emphasis has been placed to try and increase the ARPUs for a customer not necessarily increase the customer base. There has been almost a settlement of customer base and market share. Umniah is just on 30% in terms of the mobile industry, for example. JT is close to that market share as well. And of course market leader in terms of sales and revenues is Zain. That market situation hasn't really dramatically changed over five quarters, we don't expect that it will change but what we do expect is with Umniah launching 3G and making more value-added services available to its client base we will try and increase the total revenue we derive.

We don't expect any MVNO to impact the market more than it has today. We don't expect any new entrances in the marketplace. We expect continuation of the competitive activity. We expect more value to be delivered to customers in terms of new services. We expect better coverage and better 3G services to be made available across Jordan and for example Umniah plans to launch with about 800 base stations that will provide **3G** coverage from day one.

We don't expect any step functions in competitive activity. We expect talk through the operators within another quarter to be able to offer exactly the same services to everyone and differentiation will come down to branding, it will come down to a specific spot offers that are offered in the markets for week to week and month to month, so we don't expect any fundamental shift in the mobile industry.

Umniah also is focusing to build up its data business both on MPLS and business customers which continues to grow and to grow in the fixed broadband through WiMAX with residential markets and again we think those customers are growing in Jordan. I think you don't expect the price I guess any competitive over the next two to three quarters.

Alok Nawani – NBK Capital

Great, thank you very much.

ACT Operator

Once again if you would like to ask a question, please press *1 on your telephone.

Shaikh Mohamed Bin Isa Al Khalifa

Right, it seems - do we have any questions?

ACT Operator

There are no further audio questions sir, please continue. I beg your pardon, Mr Nawani has re-pollled. Please go ahead Mr Nawani.

Alok Nawani – NBK Capital

Yes, thank you again. Just two more questions; I won't be long. One is, now that you are counting for STel off your books I guess - I mean how - do you expect any further cost impact from the operation up until the point that you conclude your sale? And also could you give us some clarity on the nature of the one-off charge from Sabafon please? Thank you.

Shaikh Mohamed Bin Isa Al Khalifa

OK, Kataryna.

Kataryna Stapleton

Perfect. Just on the STel side, no we don't expect any further charges. It's included under IFRS 5 over the last few quarters. And yes the question in terms of the Sabafon, it's only a question of timing. The Sabafon accounts are usually not finalised until later in the year whereas the Batelco closes early in January so it's only a question of timing and which will be another BHD2 million impact.

Alok Nawani – NBK Capital

All right, great. Thank you very much.

Shaikh Mohamed Bin Isa Al Khalifa

OK, any other question?

Matija Gergolet – Goldman Sachs

Can I also ask a question? **Matija Gergolet** from Goldman. I have two actually. One is just on your - could you provide us on your CapEx. I know you have clearly said a higher but one off CapEx in the first quarter because of the 3G licence in Jordan, but what kind of level of CapEx would you expect including the cost for the licence on 3G expansion in Jordan for 2012?

Then secondly just a further clarification just on Yemen. I understand you have changed the way you are accounting for the active number that you report excluding the customers that have not made any calls for 90 days. Do you have any number that you could help us to - do you have any numbers on a comparable basis just for us to understand whether the underlying customer numbers have actually grown or not on a year-on-year or on sequential quarterly basis? Thank you.

Shaikh Mohamed Bin Isa Al Khalifa

I will give Kataryna first to answer you on the CapEx issue and then Peter will give you an input on the Yemen situation. Kataryna.

Kataryna Stapleton

On the CapEx issue, on the overall group perspective we provided some guidance as to what the total amount would be for the year which was 25% including 3G, if we excluded that 12.5%. We now expect as the year goes by that CapEx level will actually decrease so we will be definitely better off. In terms of Umniah specifically, I think you asked, I believe - I don't have the numbers unfortunately in front of me but it was in the 20% plus for Umniah itself to include the 3G licence and the equipment for the year.

Matija Gergolet

OK.

Peter Kaliaropoulos

On the second part of your question, Matija, in terms of the normalisation of the customer numbers in Yemen what has happened in Yemen, I just want to put it on the record, there were always accounting active customers in terms of the 90-day making or receiving a call. But in the last two to three quarters because of the challenges we faced in Yemen that database was not updated so the previous year's numbers certainly up to quarter one last year are valid. What they have done was some people had difficulties going to the office. It wasn't a normal operating environment unfortunately and some tasks were de-prioritised.

Now they are caught up with that and that's where we actually now feel confident that all these customers who were supposed to drop out of the database have now dropped out of the database, so we are comparing the 3.4 million customers that we are reporting now. We are very confident that that is accurate. I have done it in front of - I think this time last year we reported a 3.6 million customer base. That is also an accurate number so year-on-year we had a small decrease of about 6%.

Now why that has happened because also if you remember some of them for about a year ago were not allowed to make international calls due to a dispute with the authorities at the time. Their international connectivity was cut off, so the customer base that were making international calls obviously were not - they didn't stay as customers of Sabafon, so the 3.4 million customers now are just beginning to go back to what it used to be because we do have restored now international connectivity.

We went through this period over the last 12 months where our customer base marginally decreased because of the lack of ability to make international calls. The issues have been resolved with government. We have got access to the one international gateway that does exist in Yemen so we are confident we are going to continue growing our customer base and continue to grow the business.

The last comment I want to make about customers is that even on the revised customer base we understand from the analysis we have done Sabafon remains having their largest market share, so that market leadership position is still there in Yemen.

Matija Gergolet

OK, very clear. When was the international or say gateway with international calls ability restored just to -?

Peter Kaliaropoulos

It was restored last quarter. I think it was in the December quarter from memory and I think it was around about November that timeframe.

Matija Gergolet

OK, thank you, glad to hear.

Shaikh Mohamed Bin Isa Al Khalifa

OK, any further questions?

ACT Operator

There are no further questions, sir.

Shaikh Mohamed Bin Isa Al Khalifa

Right. Well, ladies and gentlemen, I would like to thank you very much for joining us this morning. However just before we conclude I would like to announce that this would be Kataryna's final call with us as CFO of the Group. Of course she has made great contributions to Batelco and to our subsidiaries over the past five years and we will miss her.

Effective, tomorrow, May 1st taking her place will be Mr. Marco Regnier with whom many of you will already be familiar. Marco has held various senior finance and operational management roles in the industry and most recently joins us from Tunisie Telecom where he was CFO. A brief announcement on Marco's appointment is going to be released today. Again, we thank Goldman Sachs for hosting today's call and we look forward to keeping you apprised of the Group's progress over the coming months. Thank you very much.

ACT Operator

That concludes the Batelco Group First Quarter 2012 Results conference call. Thank you for participating. You may now disconnect.

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