Company: **EFG Hermes Holding SAE**

Conference Title: **Global Telecom Holding 2Q2018 results conference call**

Moderator: **Fuyumi Archer**

Date: **Thursday, 2 August 2018**

Conference Time: **14:00 (UTC+02:00)**

Operator: Good afternoon and welcome to the Global Telecom Holding Second Quarter 2018 Results Conference Call. This call is recorded and is open to analysts and investors of Global Telecom Holding only and it's not open to any members of the media. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a Q&A session. If you'd like to ask a question during this time, simply press star one on your telephone keypad. If you would like to withdraw your question, please press star two. I will now pass over to your host, Omar Maher from EFG Hermes. Thank you. Please go ahead.

Omar Maher: Thank you. Good morning, and good afternoon everyone. This is Omar Maher from EFG Hermes. I'd like to welcome you all to Global Telecom Holding's Second 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 discussion of the key highlights of the period, and this will be followed by a brief Q&A session.

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

Noha Agaiby: Thank you, Omar, for organising our earnings call. Good morning and good afternoon, ladies and gentlemen. Welcome to our Second Quarter 2018 Results Conference Call. As usual, I'm joined today by Vincenzo Nesci, our Chief Executive Officer, and Gerbrand Nijman, our Chief Financial Officer. Let me first draw your attention to the disclaimer.

Forward-looking statements made during today's presentation involves certain risks and uncertainty. These 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 realise its strategic initiatives including current and future transactions. 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 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, it's yours.

Gerbrand Nijman: Thank you, Noha. And good afternoon and also good morning for those in the United States. Also a warm welcome from me on our Second Quarter 2018 Results Conference Call from here in Amsterdam. As you know GTH have received an offer on July the second for the shares in the companies related to our operations in Pakistan and Bangladesh. The Board of

Directors and in particular the independent board members have appointed KAMCO and Fincorp to advise them on this matter, and do an independent evaluation of the offer.

This is still in progress. The independent Board members are also considering the appointment of an international financial institution to advise them on this matter. As you can understand, we can't comment on the valuation of this offer at this time. Now moving to slide 4 which represent the main financial highlights for the second quarter of this year. Total revenue declined organically 1.7% year-on-year, and amounted to $693 million.

This organic year-on-year decline was mainly due to the declined 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 has accelerated this quarter to 44.8% organic growth year-on-year. We continue to see customer growth with 4.3% year-on-year due to customer additions in Pakistan and Bangladesh, and stabilisation of our customer base in Algeria year-on-year which showed a quarter-on-quarter customer growth of 1.1%.

EBITDA amounted to $304 million in the second quarter, an organic increase of 1.2% year-on-year and that was the result of Pakistan achieving strong EBITDA with a growth of 16.8% year-on-year mainly due to revenue growth, Opex synergies and the absence of merger integration costs which was offset by low EBITDA achieved in Algeria and Bangladesh. Vincenzo will discuss the reasons behind these declines later on.

EBITDA margin continued to reach a solid level of 43.8% slightly increasing by 0.9 %age points year-on-year. Moving to slide 5, the income statement. Mobile data revenue increased 33.6% year-on-year mainly due to continue data revenue growth across all operations. Total operating expenses decreased by 10.7% year-on-year mainly as the result of the performance in Pakistan.

And consequently the reported EBITDA in the second quarter was $304 million, a decrease of 7.6% year-on-year.

Depreciation and amortisation decreased by 21.7% in the second quarter mainly due to the reclassification of Deodar as disposal group held for sale in addition to accelerated depreciation in Bangladesh a year ago. Technical services expenses increased to $5 million due to technical costs in Pakistan. Finance costs increased 11% year-on-year mainly due to increased interest payments in Bangladesh as a result of the higher debt for the acquisition of spectrum and 4G LTE licenses during this year.

The foreign exchange loss is due to currency devaluations in all of our markets. Income tax expenses increased by 60% year-on-year due to deferred and current income tax in Pakistan. This all resulted in a loss for the period of $19.5 million. Let's now move to slide 6 where we show you the debt position as for the end of the second quarter. Our gross debt remains almost flat quarter-on-quarter amounting to $2.7 billion including the amount drawn from the RCF from VEON which increased due to the payment of the interest of $59 million and the balance and the full repayment of the short-term loan from Citi Bank and ING on the first June.

As you might recall the minority investors at the OGM at the end May approved the extension of the RCF with $100 million for six months, so till the end November this year. The net debt to Last Twelve months EBITDA ratio remained flat quarter-on-quarter at 1.8 times. The majority of the debt, so approximately $2 billion, is in US dollars denominated, while the rest is in local currencies.

The weighted average cost of debt increased quarter-on-quarter to 8.9%. Please note that as a result of the inability to repatriate dividends out of Pakistan amidst the depleting foreign exchange reserves coupled with growing economic challenges, the company is dependent on the dividends from Algeria and the RCF from VEON to service its debt and pay holding costs. With that, I would like to hand over to Vincenzo who will present the results of our operations. Vincenzo?

Vincenzo Nesci: Thank you, Noha. Thank you, Gerbrand. Good afternoon or good morning to all of you. We really appreciate you being here at the beginning of August when almost everybody is thinking to summer vacation. I would like to drive you on slide 8 on Pakistan, where we continued data driven revenue growth and further margin expansion as characterised this quarter. In Pakistan in fact we continued to show growth of both revenue and customers despite competitive market conditions.

Whilst the country was characterised by political and currency uncertainty ahead of the upcoming elections, revenue growth of 4.9% year-on-year. And it was supported by an acceleration of mobile data revenue growth of 37% driven by an increase in data customers and the usage, to higher bandwidth penetration and continued data network expansion. The customer base has increased by 5.6% driven by gross additions and lower churn as a result of simplifying prices and more efficient distribution coupled with better customer retention.

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. The EBITDA increased by 16.8% driven by revenue growth, Opex synergies, and the absence of merger integration costs, leading to an EBITDA margin of 48.2, an increase of 4.9 percentage points year-on-year and an increase of 0.7 percentage points quarter-on-quarter.

The CAPEX, excluding licenses slightly decreased year-on-year to PKR6.7 billion in Q2 2018 supporting 4G/LTE network expansion. Quarterly distribution is more balanced in the fiscal year

2018, while the LTM CAPEX excluding licenses to revenue ratio was 17.5%. At the end of the quarter, 3G was offered in more than 368 cities while 4G/LTE was offered in over 117 cities with a population coverage of 3G and 4G/LTE networks of 52% and 32.5% respectively.

Moving now to the following slide, or slide number 9 on Algeria. We are pleased to see the trends improving as customers grew and revenue stabilised quarter-on-quarter signalling a turnaround in a challenging market with intense price competition and regulatory and macro-economic environment which remains characterised by inflationary pressures and import restrictions on certain goods.

The revenue decreased by 8.5% year-on-year, a slightly lower declining pace compared to Q1 2018 as the operational turnaround continued. Price competition, in both voice and data caused a continued reduction in ARPU. Service revenue declined by 7.9% while data revenue grew by 80.7% due to higher usage and the substantial increase in data customers as a result of the 3G and 4G/LTE network roll-out.

This data revenue growth is also supported by the change towards a more aggressive data pricing strategy since the beginning of 2018. The net adds trends reversed from negative to positive during Q1 and was still positive during Q2 2018 and led to customer growth quarter-on-quarter of 1.1% and broadly flat year-on-year. The quarter-on-quarter growth was driven by a continued positive uptake of new offers Djezzy put on the map.

The EBITDA decreased by 11.9% mainly due to the decline in revenues. The new Finance Law effective from January 2018 continues to impact year-on-year performance. As a result of new taxation, the EBITDA was negatively impacted in Q2 2018 by approximately AD2,007 million.

This impact on EBITDA was broadly offset by the positive impact from the partial MTR symmetry, which has been in place since the 31st October 2017.

At the end of the quarter, the company's 4G/LTE services covers 28 wilayas, let's say, districts, and more than 25.4% of the country's population. While the 3G network covered all 48 wilayas of the country and more than 75.6% of population. Capex excluding licenses was DZD 3.3 billion with an LTM CAPEX excluding licenses to revenue ratio of 13.9%.

Moving now to Bangladesh on slide number 10. The market was characterised during Q2 by accelerated price pressure from competition. The regulatory environment remains challenging and limits the customer growth in the market. Results continue to be affected by intense competition with a specific focus on customer acquisition, and also by costs related to the network expansion after the acquisition in Q1 2018 of additional spectrum and a 4G/LTE licence.

During Q2 2018, Banglalink continued to focus on acquiring customers in a competitive market with improved network availability. Revenue decreased by 8.4% mainly driven by service revenue which decreased by 10.0%. The decline in service revenue was still mainly due to the gap in 3G network coverage compared to competition. However, the service revenue increased by 0.8% quarter-on-quarter.

The increase was mainly driven by data growth resulting from improved network during the quarter following spectrum acquisition in Q1 2018, and enhanced network availability along with the expansion of the distribution footprint. The customer base grew by 4.1% supported by improved distribution. However, the sequential decrease in customer base was mainly caused by intense pricing pressure on the market.

EBITDA decreased by 23.3% mainly as a result of revenue decline and the increase of structural OPEX due to network expansion. The EBITDA margin was 34.4%, which represents a year-on-year reduction of 6.7 percentage points. The CAPEX excluding licenses significantly increased year-on-year by 22% driven by investments to improve network resilience and roll out 4G/LTE sites. LTM CAPEX excluding licenses to revenue ratio was 27.9%.

Banglalink continues to invest in efficient, high-speed data networks aiming to substantially improve its 3G network coverage and availability. 3G population coverage is approximately 72% of the population at the end of Q2, while the 4G/LTE service which was launched in February 2018, covered a population of approximately 15% at the end of Q2 2018. And with this, I have summarised all the significant steps in our three operations.

And I'd like to conclude this presentation – this part of the presentation praising the teams which in Algeria have been able at the end of Q2 to launch the DBSS platform, the world premiere of this size and of this complexity, in technical complexity with excellent results already indeed relationship with the customers.

Noha, now I'd like to hand over the floor or the mic to you. Please.

Noha Agaiby: Thank you, Vincenzo. We're now ready to take your questions. Operator, can we have the questions please?

Operator: Thank you. We now start with the questions and answers. If you wish to ask a question, please press star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again press star one to ask a question. Again, press star one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions.

We'll take our first question from Stella Cridge from Barclays. Your line is open. Please go ahead.

Stella Cridge: Hi there. Good afternoon and many thanks for the presentation. And I have two questions please. The first is on Algeria. I think it's around about the second quarter of the year that the decision is usually taken on the dividend distribution for the previous year. I was wondering if that meeting has taken place, if there has been a decision yet or if the meeting still has to take place? And my second question is on Pakistan.

So you already commented that there's been a hold in dividend income and from Pakistan. And obviously we've seen the currency there depreciate further in recent weeks. So I wondering what your expectation was there in terms of economic developments in general? Do you expect a further currency stress? Do you think that you are effectively going to be not receiving dividends therefore for the foreseeable future? Just a bit more colour on the outlook there. It would be great, thanks.

Vincenzo Nesci: Thank you. Thank you for your questions. Concerning Algeria we held the Ordinary General Assembly on 21st June. And the general assembly has authorised the distribution of dividend which in size is similar to the one of last year, AD16-point-some billion to be shared among the three shareholders. And we have already started to proceed with the central bank to rapidly[?] these dividends.

And we do not expect problems on this file. And we should be able like it was last year to have these dividends in the first part of Q3. Concerning Pakistan, the situation is a little bit more complicated. As you know there is an electoral process ongoing marked by some violences and [inaudible] march. It's clear that the foreign currency situation of the county is not brilliant.

But our team is working with the banks and with the central bank to obtain the repatriation of dividends. But I am unable and I believe that also Gerbrand cannot express the date to make a reference to a foreseeable date in the future. We are sure that it will happen, but I don't know. I cannot say. I don't like to make any forward statement on this subject.

Gerbrand Nijman: And just to add to that, so Stella you might remember last year we had been able to expatriate dividends from Pakistan in the last, it was received early January this year. But due to – so there is an open willingness I think and there is the system in place that you can't extract dividends from operations in Belgium. But given the foreign reassurance[?] issue currently impacts and the central bank clearly has a priority to maintain this in the best interests of the country. So we have to see how that develops to see how we going forward will be able in the future to extract dividends from operational performance.

Stella Cridge: Sure, that’s clear.

Vincenzo Nesci: And just to add for Algeria the fact that we have distributed on the fiscal year 2017 an amount similar to the one of 2016, but with lesser revenues. This is an increase in terms of the distributable dividend.

Stella Cridge: Okay, that’s quite helpful. And in terms of the currency, do you expect further depreciation?

Gerbrand Nijman: No Stella let's -– I don't want to speculate on that one in both, not for Algeria nor Pakistan. We are not currency traders. There are clearly indications on the markets where [inaudible] happening[?]. But you also know that these things are linked to the economic development and the bond[?] issuer. So there is a clear link that gives indication for yourself to form an opinion. You know we do the business in local currencies. But yet there has been at least a substantial devaluation over the last year in this.

Stella Cridge: Sure. Okay, that's fine.

Vincenzo Nesci: In the mean time, you will notice that Algeria is facing the considerable oil crisis. But the oil prices has gone up and so this will be compensate a little bit the situation, the negative situation and the pressure on the Forex.

Stella Cridge: Yeah, okay. That's great. Many thanks.

Gerbrand Nijman: Thanks, Stella.

Vincenzo Nesci: Thank you.

Operator: Ladies and gentlemen, as we do not have any further questions, I would now like to hand the call back to management for concluding remarks.

Gerbrand Nijman: I am sorry, Brian. Can you give them one more opportunity?

Omar Maher: Yeah, of course. One question from my end, so Omar here. Sorry, I got disconnected. I'm not sure if my question is already asked. But I wanted to ask about the EBITDA margin in Pakistan. This is the second time that we see it crossing the 50% mark, even though you're operating in a very challenging environment. So I was wondering if you could shed some light on what's driving the EBITDA margins trend? And what should we expect going forward given that the – I think the macro environment overall is a little bit challenging. So maybe on the local currency trends, the numbers are doing well. But obviously because of the FX pressure, it might look a little bit different. Thank you.

Vincenzo Nesci: Gerbrand, you take it.

Gerbrand Nijman: Yeah, I am going to take it. Yeah I think if you look at the operation of this, I think in Pakistan, we still see I would say [inaudible] but still very strong [inaudible]. We continue to have invest [inaudible] I think it is the operations we do, we have a very good team on the ground doing well. So I think from that perspective, I actually [inaudible].

Yes indeed [inaudible] but with the devaluation of close to 20% [inaudible] today's price then yes in the dollars, it is really worse. But you show that also for the group as a total because all of our offerings is evaluated in the second quarter. And so that's what you see an organic much better [inaudible].

Omar Maher: Sorry Gerbrand, your voice is fading. Can you just repeat that last part?

Gerbrand Nijman: Yeah we don't see today since the end of the second quarter improvements of the currencies as of yet. So there is a continued pressure also in the third quarter of the currencies. Did you get it, Omar?

Omar Maher: Yes, I got it. Thank you.

Operator: Once again if you would like to ask a question, please press star one. We'll take our next question from Bernard Griesel from Steyn Capital Management. Your line is open. Please go ahead.

Bernard Griesel: Hi. I just wanted to find out if you can tell me what is the net debt on OpCo[?] level, and what is the change been quarter-on-quarter?

Vincenzo Nesci: You are correct. We have published our gross debt for OpCo and that was also in my slide. And we have [inaudible] the net debt level for OpCo level. But I can sort of cover that. In that if you look at Algeria, I can tell you that we have [inaudible].

Bernard Griesel: I'm sorry. The line is breaking up quite badly. I struggle to hear.

Vincenzo Nesci: Okay yeah, well I can luckily clearly hear you. So I am going to repeat it again, but I don't know what –

Bernard Griesel: Now it's better. Now it's better.

Vincenzo Nesci: All right, very good. So you we don't publish net debt for OpCo. But I will give you a bit of [inaudible] Algeria at the end of the second quarter [inaudible] there was clearly more cash than debt. So we had a negative net debt [inaudible]. But there is dividends to be extracted, so in [inaudible] currencies there. And in Banglalink also we have also cash clearly as a holding in that. We have not much cash at all because that would be a waste of [inaudible] but there is not much cash here. So I think that the gross debt is roughly the same as the net debt.

Bernard Griesel: Okay. Thank you.

Operator: We'll now take our next question from Ivan Kim from VTB Capital. Your line is open. Please go ahead.

Ivan Kim: Hi, yes everyone. Your line is terrible somehow. So it's almost impossible to hear unfortunately what you say even if you repeat. But the question is on the potential dividends for you. So if we were to think that the transactions with them is closed. And I do see the explanation that you gave to the regulator what needs to be done to approve a dividend which is fairly structured lengthy process of more recommendation [inaudible] etc. The question is though is it the intention to distribute the dividend if the transaction for sale Pakistan and Bangladesh [inaudible]? Thank you.

Vincenzo Nesci: I'm happy to take that question if you can hear me of course and that we're not breaking up again. I don't know what it is because we should be in a very high-speed data here network, but let's see. Now of course you know that if there is let's say cash that comes in from a transaction. And you know that also our company will be almost debt free, only some debt to service in Algeria.

So you should not stay on a pile of cash of your company I would say, and you notice that from the past as well. So certainly of course it's been in the end a decision of the shareholders and the board meetings still decide on what they would recommend. But there would be clearly a room to probably, on any dividend distribution yes.

Ivan Kim: Okay, thank you. Now actually the line was pretty good.

Vincenzo Nesci: Okay, assuming of course all things will be approved etc., etc., but yes.

Ivan Kim: Yeah, thank you.

Operator: Once again if you would like to ask a question, please press star one. And we'll now take our next question from Rami El Sirgany from Naeem. Please go ahead.

Rami El Sirgany: Hello. Good afternoon. I have a couple of questions. I'll be brief as possible. Assuming that the AGM would approve VEON's recent offer, would VEON also take over the subsidiary little[?] level debt which I guess amounts to $1.1 billion. And if yes, will Global Telecom be considered as a debt-free company?

Gerbrand Nijman: I can answer that straightaway. So let's do that. If you have more than one question, we will answer them one by one. Yes, they are buying the shares in our company. So they have also stated that they indirectly acquired and also the debt of the OpCo's, that external debt yeah. And yes, effectively after if this all would be completed, we would be a company that has at holding level no debt. We would have repaid the RCF and VEON would have taken over the bonds. And -– or then in addition, we would only have the debts in Algeria as it currently is already. That's roughly a $130 million equivalent because it's clearly in dinar.

Rami El Sirgany: Okay. And so [inaudible]. So what proportion of the $165 million equity value of Pakistan and Bangladesh would be considered cash, and how much would be deferred?

Gerbrand Nijman: No, Rami that is still to be determined between VEON's of course, that's not -– we haven't yet discussed that. We are still not in phase of the process.

Rami El Sirgany: Okay. So last question, so based on VEON's previous offer, the £7.9 per share, Djezzy was valued at -– we back calculated Djezzy's value based on considering the client's offer for Bangladesh and Pakistan. And we arrived at a value of $1.1 billion for Djezzy. Do you still think that Djezzy can be internally valued with the same value as $1.1 billion or less?

Gerbrand Nijman: Yeah Arami, as I said early, I cannot make any comments on the valuation because I don't want to jeopardise the process, the independent directors who have appointed and hired an independent financial advisor approved from the list of FRA's. So I don't want to mention anything on the valuation at the moment.

Rami El Sirgany: Okay, thank you.

Gerbrand Nijman: You're welcome, Rami.

Operator: Ladies and gentlemen as we do not have any further questions, I would now like to hand back the call to management for concluding remarks.

Gerbrand Nijman: Vincenzo?

Vincenzo Nesci: So yes, I am here. And first of all I really would like to thank all the participants to this confidence they are having for the questions and for having respected the statement we made at the opening of the things we cannot say and on which we cannot comment by the law. In a nutshell as we previously presented GTH as having more customers this quarter, and grew by

4.3% year-on-year driven by customer additions in Pakistan and Bangladesh coupled with quarter-on-quarter customer growth in Algeria [inaudible].

We are pleased to see the growth trends in Algeria in addition to the growth of revenues from customers in Pakistan. As we mentioned before, we are intensifying our efforts to improve our position in Bangladesh by being structurally lean, efficient on our core business with digitally engaged employees and customers, while continuing to invest in our network and especially in the rollout of the 4G/LTE network.

Thank you for -– again for your participation today here at this[?]call and for your continued interest in Global Telecom. Please do not hesitate to contact Noha any time should you have any follow-up questions. Have a good day and good bye for now.

Gerbrand Nijman: Bye-bye.

Vincenzo Nesci: And have a nice vacation if you're leaving on vacation.

Gerbrand Nijman: Have a good holiday all. Speak to you, bye-bye.

Vincenzo Nesci: Bye.

Operator: 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 Ms Noha Agaiby or EFG Hermes. Thank you.