

Mobinil 3Q 2009 Results
3rd November 2009
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START OF CALL

Sergey Fedoseev (Chair)

Hassan Kabbani (HK)

Khalid Elliacy (KE)

Sean Gardener (SG)

Yasser Radwan (YR)

Delilah Heakal (DH)

Alistair Sharp (AS)

Zoltan Palfi (ZP)

Stephen Pettyfer (SP)

Martin Mabbutt (MM)

Coordinator Good morning, good afternoon and thank you for standing by. At this time all participants are on a listen only mode. After the presentation we will conduct a question and answer session. To ask a question please press star followed by 1 on your telephone.

Today's conference is being recorded. If you have any objections you may disconnect at this time. I would now like to hand this meeting over to Mr. Sergey Fedoseev. Please sir, go ahead.

Chair Hello. This is Sergey Fedoseev from HSBC. I'm pleased to welcome our Mobinil management team to present the Q3 results. I would like to welcome Mr. Hassan Kabbani, Chief Executive Officer. He is traveling today so he might be cutting off from time to time from the call. I apologize for this in advance.

I would like to welcome Mr. Khalid ELlaicy, Vice President of Finance and CFO and also in the speaker room we have today the Chief Commercial Officer, Yasser Radwan, and Chief Technology Officer, Marwan Hayek.

I'm pleased to say that in spite of the busy season we have 35 people online and counting. And without any further intro I would like to pass the floor to Mobinil.

KE Thank you Sergey. Before we start I'd like to read the customary Safe Harbor Statement. Various remarks that we may make about future expectations, plans and prospects for the company consistent of forward-

looking statements. Such statements are not actual facts and include expressions about management's opinion on the results of the strategies.

Although Mobinil believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties and actual figures may differ materially from those indicated by these forward-looking statements as a result of various economic factors.

I'd like to start with a brief just notes and then open the floor to Q&A. I think the results of the Q3 overall are very much in line with what our expectations were and what we have said before, especially in the H1 conference call where we said that we would end the year with around a 10% revenue growth and we are currently at 9%. The 10% for the full year coming down from 11% for the H1 should have indicated to all that H2 would be slower in revenue growth, which is currently what it is, and the same thing on the EBITDA level.

So in general I think we are quite pleased with the results in spite of the strong competition that we saw during the summer, and of course the effect of Ramadan on the summer season.

I will not go through all of the numbers. I'm sure all of you have gone through and read the numbers and read through the earnings release and are very eager to throw away some questions. So I'll - I think I'll open the Q&A session now. Thank you.

Coordinator Thank you. Once again, if you would like to ask a question please press star followed by 1 on your telephone.

Our first question comes from Sean Gardener. Please go ahead.

SG Yes, thank you. Maybe you can just run through how pricing has developed in the fourth quarter the first month and how the competitive landscape has changed, just to give us an update. Thanks.

KE Okay. Thank you Sean. Well as you can see in the market what's happened is that in the starting of the end of Ramadan, actually in the last week of September, we've seen the market generally -- you like to emphasize the word generally -- has gone back to the pre-Ramadan prices.

All three players have stopped above the line. Communication on the aggressive offers and the aggressive promotions that happen during Ramadan and the three players have gone back basically to the old offers. There has been no new major offers in October regarding, you know, Ramadan pricing.

So in that sense we are okay with that, but it's sort of like, you know, the calm or the water is still hot under - on the fire. So we don't want to see it boil over, but we all know it might boil over.

It remains to be seen what happens in the next couple of months. We've seen competition - one of the competition bring in a very face-value aggressive offer today on postpaid so we - it remains to be seen if this is - what kind of effect this will have on the market.

SG Thanks. And just on your gross margin in the third quarter which talk to, but can you just run through how much of that came from any sort of changes in interconnect you're running on the network or any other costs that are driving the gross margin down.

KE The gross margin has gone down to - for a few reasons. One is the lower revenue growth. Again, the aggressive Crossnet promotions and a little bit of margins - lower margins when you talk about you see there are some equipment sales there, a little bit of a jump of equipment sales and hence cost of sales on equipment is a little bit higher. And of course you know equipment sales is very low. If It is not even negative margins.

So all these factors have affected the gross margin going down a little bit. It remains to be seen how much of these aggressive offers that happen though because these people will stay on these offers will affect negatively the gross margin.

SG So you're finding that some of your customers have passed the quarter and are still staying on these packages, but the prices have come up but they're still using more than they were before.

KE Yes, of course. Not just us - us and all the other operators. Whoever had bought those Crossnet tariff plans or migrated to those cross net tariff plans. As for now they are still on those tariff plans.

SG Okay. Thank you very much.

Coordinator Thank you. Our next question comes from Delilah. Please go ahead.

DH Hi. I was just wondering if you could elaborate a bit about the year on year decline in postpaid ARPU. And secondly, if you could tell us what the capitalization rate was for the third quarter. Thank you.

KE Thank you. Definitely the ARPU decline on postpaid is, like I said, is the effect of the seasonality and the effect of what we talked about in the prior calls about there was a lot of commercial lines in the past.

These lines are not "legal" because these are sort of like terminate international calls. During 2009 Telecom Egypt has been more effective in informing us of these lines so that we can disconnect them. So there has been a drop, of course, on postpaid numbers relating to that. So that is why postpaid ARPU is flattening out or going down.

Okay. On the capitalization rate - on the capitalization rate I have it right here. Hold on just one second. It's 11.6%.

DH Okay. And you expect that same capitalization rate for Q4?

KE Close to it.

DH Okay. Just a brief follow up on the postpaid ARPU. Do you also expect this trend to continue -- the sharpness of the decline in postpaid ARPU -- do you expect more lines to be terminated for the same reason in the coming two quarters or is this starting to escap out?

KE Maybe I'll have the commercial officer talk about that. Hold on a sec.

YR Okay. I think this is a good question because we would continue to disconnect these lines as soon as we are informed by Telecom Egypt so there would be a drop there. We are expecting also because this year has been - we have been very active on prepaid - I mean all three operator in the market and we are expecting in the forth quarter to see some promotions and maybe some strong moves on postpaid that will lead to lowering the ARPU during the fourth quarter.

DH Okay. Okay, thank you.

Coordinator Thank you. Our next question comes from Alistair Sharp. Please go ahead.

AS Hi. I just like to know going on that from where you see the subscriber numbers by the end of the year and just a little bit more information about the ARPU. You're saying that you're basically expecting it to continue to decline. When would you see it - or do you see it coming up above 40 anytime soon?

KE On the subscriber numbers, thank you Alistair for raising that point, I think we must recognize that during Ramadan there was a mass rush on all three operators to take advantage of these very - for the consumer attractive Crossnet tariff plans.

So what was announced that these tariff plans will no longer be available after Ramadan there was a large push by all three distribution channels of all the three operators to take a lot of advantage on those lines.

So you could imagine that distributors purchased a lot of lines and activated them on these tariff plans, and hence will have some period of time to sort of like really get rid of them and put them into the actual market.

So you will see that in order to look at the subscriber growth in a good manner you need to really look at Q3 and Q4 together. We still believe that we're the market leader and we still believe that we'll be the market leader by the end of the year and we're talking about ending the year a little bit over the 25 million mark.

That's on the - yeah, 25 million subscriber - over the 25 million subscriber mark, yes.

That's on the subscriber?

Yes.

AS Okay. If I could just ask a second separate question regarding ISP. There's been reports that Mobinil is looking to buy a separate ISP services license if it doesn't get link.net. Can you give some idea about where our negotiations are on the possible purchase and, you know, what stage you would be at at getting a separate license if that fails.

KE Okay. Let me answer your ARPU question first. ARPUs will continue to decline for the foreseeable future basically because of the math of bringing in only prepaid subscribers basically, or mostly prepaid subscribers and the postpaid base basically stagnant. So on a mathematical situation you will always see that the blended ARPU will continue to go down below the 40.

Now also there's a factor of that the incremental ARPU is less than the average. I will not say how much, but it is less. So that's why you see the ARPUs declining.

There will be a time when you stop growing high double digit in subscribers and your GDP continues to grow that you start to see ARPUs stabilizing and then coming back up again. I don't think that we will see that in the next year to come because we were still anticipating the penetration curve to go above the 80% so even if it's the same penetration. So the decline in ARPU is going to be with us for a time.

But what we need to look at is the increase in traffic, increase in revenue. That is the more important KPI that we need to look at. And of course with the coming in of data and value-added services that also in the future will participate in the increasing the ARPU.

As for link.net It's no secret. We've announced quite awhile back that we are looking at link.net to be purchased from one of our major shareholders which is Orascom. We are currently in negotiations and these are advanced negotiations and we - there should be a decision yay or nay in the next few weeks or month.

Based on that we will see what our alternatives are. There are alternatives like expanding mobile broadband or having partnership agreements with ISPs and so on.

I will not comment on us acquiring a new license because I don't know whether there are licenses available or not but let's see - just say that we will get to that hurdle - pass that hurdle when we get to it. We're still in negotiations on LINK.

AS Okay. Thank you very much. Can I just confirm who was talking there. Was that Mr. Yasser Radwan?

KE No, this is me, Khalid ELlaicy the CFO.

AS Okay. Thank you so much.

Coordinator Thank you. Our next question comes from Stephen

SP Yeah, hi. I guess that's me. Stephen Pettyfer from Merrill-Lynch. I just wanted to go back, please, to your postpaid customer base and maybe slightly in contrast to some of the earlier questions but it looked to me like you actually had quite a good quarter relative to recent past.

So I just wondered if - with your revenues almost - which have seemingly being declining in that area for so long now it is stabilizing. Is that a function of something you've been doing or is that - or have you been, perhaps, taking share from some of your competitors in that segment? That's my first question.

My second question is just on the - your 3G wireless pricing. I just wondered if you're getting any traction with your current tariffs there. Thank you.

KE Okay. I don't know if - I'll say my point and maybe Yasser will want to comment further. But we're always doing something with not just postpaid or prepaid. We're doing things with postpaid and prepaid. We're trying to always change our tariff plans even if ever so slightly to try to make it good for our consumer and good for us in revenue growth and you are right.

We have been able to try to stabilize the revenue. We've been increasing numbers in - on the postpaid, especially on the corporate market and we have been making some headway. So, yes, we feel good about the trend of our postpaid that the ARPU in itself is declining is not an overly concerning point.

Like I said, it's in the past. We had new customers even in postpaid. They're more some likely to be a lesser ARPU, especially when we focus on the SME and the Soho section. These are less ARPU areas but definitely are postpaid. So that's on the postpaid.

On the 3G wireless pricing I think we have competitive pricing. We have a range of buckets to cater for a lot subscribers whether they want a pay as you go on the prepaid side or they want a monthly commitment with the buckets with different speeds and different download capabilities.

So we do have a good range and I think we have done some excellent work during the summer on mobile broadband. We were first to introduce the Internet prepaid. We were the first to introduce Netbooks. We had some good presence on the north coast and we've seen our number of subscribers double even more and our revenues also. So although there's still a very small percentage of our total net revenue. Yasser, would you like to comment further?

YR I think you covered it all.

KE Okay. Thank you.

SP Could you give us an idea of sort of how many subscribers you have on those HSBPA packages?

KE Won't give you specifics but let's call them in the tens of thousands.

SP Okay. Thank you very much.

Coordinator Thank you. Our next question comes from Zoltan

ZP Yeah, good afternoon Khalid this is Zoltan Palfi from UBS. A couple of questions on CAPEX. These firstly do

you still maintain your year CAPEX guidance of 2.5 to 3 billion Egyptian pounds in the light of the first three quarters?

Secondly, can you please remind me of the 3G license payment that you have to make next year and how do you expect CAPEX to develop as a result of these payments next year?

KE Sure. CAPEX we have given in the beginning of the year between 2.5 to 3 billion based on the evolution of the traffic and the evolution of everything else that happened during the year, and some good negotiations. Its probably going to be towards the lower end of that range so a little bit over the 2.5 or maybe hitting the 2.5. So that's how we see the CAPEX for the end of the year.

For the license payments we were supposed to make a license payment of 750 million January 1, 2009. This license payment was linked to 2G, and I stress again 2G frequency, and because we did not receive those 2G frequencies thus payment was postponed.

There's another third and last installment of 750 due January 1, 2010 and this will be paid. And then there's the tail end payment of 1.1 billion for the second five megahertz of 3G frequency and that is also expected to be paid in December of 2010.

I won't give a guidance on our tangible CAPEX for next year, as we're in the process of getting our budget approved and as we always we do, we give that guidance for the full year in our end of year earnings release conference call.

ZP Right. Thanks Khalid. That's very helpful. One more point, if possible. Do you expect this postponed 750 million Egyptian pounds to be paid at some point next year?

KE We do expect it to be paid at some point when we get the frequency and hopefully will be next year, yes.

ZP Okay. Thank you very much.

Coordinator Thank you. Our next question comes from Martin.

MM Hi. Yeah, Khalid, this is Martin Mabbutt at Nomura. Just one quick question on the interconnect issue as to whether there's any more news on the negotiations with the regulator and potentially, you know, extending the interconnect debate into other sort of cost saving issues for Mobinil.

KE Okay. Unfortunately I don't have any major updates regarding any negotiations with the regulator. There is a lawsuit in place and there's been I think a couple of procedural hearings on the lawsuit and that's about it.

But we have filed according to the existing agreement, and this is disclosed now in our financial statements that will be put on our Web site very soon, we have filed arbitration proceedings against Telecom Egypt and they've received that arbitration proceedings and they have filed a counter claim against us.

So - but there's still ongoing and like we said before, if we receive bona fide offers that make sense linking international and leased lines and the interconnection we are willing to discuss this. But until now we have not seen something that we would like to start negotiating on.

MM Okay, that's great. Thanks.

Coordinator Thank you. Our next question comes from Sean Gardener.

SG Yeah, sorry. Just going back to that with a follow up. These Crossnet packages that you had in the third quarter; were they promotional or are they ongoing? I wasn't clear about that.

YR Yes. There was some products launched with Crossnet offers and others and promotions. Promotions all have stopped in September while we have - for the products we have frozen the customers inside - we're grandfathering them so they are benefiting from this status, but we are not adding any more customers to them.

SG Okay. And then just going back to the cost. I remember the second quarter you're talking about the negative effects of having to do increased marketing and the like around Ramadan, but just looking at your update it seems like the rise in Opex was only something like 70, 80 basis points quarter on quarter. So I'm just wondering did you spend less or was - did I misinterpret the comments?

HK I think we have been spending wisely.

KE Yes. We've been spending, like Yasser said here, wisely. It's not just - well I think of course the commercial expenses probably grew more than that, but the other expenses might have not. But have seen that of course that the margin has gone down. The margin for the quarter is 45%. If you looked at the - Ramadan, September definitely was - the margin was far less than 45%.

SG Okay. And...

KE Because the quarter has July, August, September - yeah, the quarter had July, August, September but you could see, of course, bulk of the spent on marketing and advertising was in just one month. So if you average out you see that we probably did some heavy spending in one month.

SG So you can still get back to what? A high 40s margin in that business; is that correct?

KE No, because of the - a lot of the fixed costs are here to stay. And you'll see that the fourth quarter revenue is, like I said, if we're going to hit the end of the year around 10% and sort of like the lower part of the 10%, so around 9, you'll see that the next half is going to be a little bit just like the third quarter. Hence we will be sort of in the mid-range of the EBITDA margin, like I said, around the 45, 46.

SG Okay. But your margin hasn't gone up because you've finished Ramadan because it sounds like you're margin could have been sort of in the high 40s in July and August rather than in the mid 40s.

KE It could have been for the whole quarter much higher if the revenues were - growth was higher because of the of Ramadan. But definitely Ramadan and the offers have affected the revenue growth and hence the margins.

SG Okay. Thank you.

KE You're welcome.

Coordinator Thank you. Once again, if you would like to ask a question please press star followed by 1 on your telephone now. At this time we are showing no questions.

KE Okay. Sergey, I guess if there's no questions I'd like to thank all who participated and your interest in the company and hope to talk to you soon in the next conference call. Thank you.