VEON

Q3 2024 Trading Update

November 14, 2024

Operator:

Hello and welcome to Veon's Q3 2024 trading update call. We ask that you please hold all questions until the completion of the formal remark, at which time you'll be given instructions for the question and answer session. Also, as a reminder, this conference is being recorded today. If you have any objections, please disconnect at this time. Faisal Ghori, you may begin.

Faisal Ghori:

Thank you. Good afternoon and good morning to everyone, and thank you for joining us today for Veon's third quarter results presentation for the period ending September 30, 2024. I'm Faisal Ghori, Head of Investor Relations. I'm pleased to be joined in the room today by Kaan Terzioglu, our group CFO, along with Joop Brakenhoff, our group CFO. Today's presentation will begin with the key highlights and business updates from Kaan, followed by discussion of detailed financial results by Joop. We will then open up the line for Q&A.

Before getting started, I would like to remind you that we may make forward-looking statements during today's presentation, which involves certain risks and uncertainties. These statements relating partly to the company's anticipated performance and guidance for 2024, future market developments and trends, operational network developments, network investments, and the company's ability to realize its targets in commercial and strategic initiatives, including current and future transactions. Certain factors may cause actual results to differ materially from those in the forward-looking statements, including the risk detail in the company's annual report on Form 20F and other recent public filings made by the company with the SEC. The earnings release and the earnings presentation, each of which include reconciliations of non IFRS measures presented today can be downloaded from our website. With that, let me hand it over to Kaan.

Kaan Terzioğlu:

Thank you, Faisal. Good morning, good afternoon, and welcome to everyone. I appreciate you joining us today for Veon's presentation of Q3 results for 24. Today, I'm hosting the call from Dubai, our designated HQ, as the largest Nasdaq listed company headquartered in Dubai once the transition is completed over the next couple of weeks. I am thankful for the Dubai authorities, especially his Excellency Minister of Economy, Mr. Almari, for proving how welcoming Dubai is and why it is so easy to do business in this wonderful country. I would like to also remind you that the last day of trading of our stock on the Euronext Exchange in Amsterdam will be November 22nd. And as of November 25th, Veon stock will be exclusively traded on Nasdaq Stock Exchange. This will position Veon as a frontier markets bellwether for US investors who wish to participate in extraordinary growth of Central and South Asia.

Going to the quarterly results, another strong billion dollar quarter growing well above nominal GDP growth. In the third quarter of 2024, we grew revenues by 9.8% year-over-year in US dollar, and 14.1% in local currency terms. Underlying growth, taking into account the impact of the Bangladesh Revolution, will be 16% year-over-year in underlying local currency terms. As a note, the weighted average blended inflation rate across our markets has decelerated from 16.5% in Q3 2023 to 8.2% as of now, marking a substantial reduction of 830 basis points, while weighted average blended GDP growth has stayed over 3.4% over the same period. Against this backdrop, our revenue growth underscores Veon growing faster than both inflation and nominal GDP and thereby, gaining wallet share. Group EBITDA decreased 1.5% year-on-year in US dollars, and increased 3.5% in local currency. EBITDA performance was impacted by certain identified items. Such as pre-revolution disruption of business and post-revolution economic progress impact in Bangladesh, restructuring cost associated with the HQ relocation to Dubai and charitable donations. Excluding the identified items, underlying EBITDA growth in local currency terms would have been 9.8% in local currency and 4.4% in US dollars.

During our presentation, in the next slide you will see, we will concentrate on US dollar growth rates at the corporate level and local currency growth rates at the OPCO level. In Q3 2024, the growth overall was 9.8%. If you look into the breakdown of this growth, you'll see that our telecom and infrastructure revenues combined grew 7.2% year-on-year, while our direct digital revenues grew 35.1% year-on-year in US dollars. Our EBITDA growth for the period was -1. 5%, as mentioned, impacted by identified items amounting to $36 million as previously defined. Excluding those identified items, underlying EBITDA growth would have been 4.5% in US dollars.

We ended Q3 with a cash position of $1 billion, of which 453 million is held at headquarters level. Gross debt is down 8% year-on-year, demonstrating effective cash management. Capital expenditures increased in Q3 51.2% year-on-year, reflecting our inability to import equipment to Pakistan in Q# last year due to macroeconomic conditions. CapEx intensity on a last 12-month basis for the period was 19. 2%, higher compared to last year by 1.5 percentage points.

Now I will provide a brief overview of our revenue and EBITDA growth across the portfolio of our operations. In Ukraine, revenues grew 17.9% year-on-year and EBITDA increased 6.9% in Q3. This truly reflects our team's dedication to keeping Ukraine and its citizens connected, while also maintaining a robust business performance. In our Central and South Asian markets, local currency revenue growth for the year remained robust. Pakistan led the growth with a revenue growth of 22.6% year-on-year, while Kazakhstan's growth was 14.8 and Uzbekistan's growth was 15.2, as revenues in Bangladesh declined 8.4% due to the revolution as I explained earlier. On EBITDA, Uzbekistan led at 15% growth, Pakistan by 14.7. Finally, Ukraine at 6.9. EBITDA growth was -5.9 in Kazakhstan and -4% in Bangladesh. I will run through the drivers in each case as I brief you on the countries.

Moving on, I would like to outline some important operational metrics. We added 8 million additional 4G customers year-on-year and grew multiplay customers by additional 4 million. 4G penetration rose six percentage points to 65%, bringing us closer to our group target of 70. As we develop digital services across our market, there are two important growth vectors to take note. As you can see here, first vector is about existing connectivity business grows faster due to greater customer data consumption, improved retention and ARPU expansion. Consequently, the longer a user stays as a multiplay customer consuming one of our digital services, the greater the ARPU they produce.

For example, in Bangladesh, multiplayer users that are with us less than three months generate 3.1 times the ARPU as they stay with us over 12 months. ARPU jumps 5.3 times. We see compounding effect of our 4G for All and digital operator strategies in our multiplayer segment. Expanding 4G access enables us to convert more single player users to multiplay subscribers, who use both 4G connectivity for their connectivity needs and digital products. They spend more time with us, they churn less and they drive higher revenue generation. In Q3, more than half of our revenues were generated by multiplay customers with a growth of 31% year-on-year. Why this is important? Greater digital product adoption across our operating companies deepens our force and increases usage in our core connectivity business. By continuing to focus on customer retention and expanding our multiple offerings, we drive further growth and profitability.

Now about the second vector of growth about our digital services, which shows itself in our direct digital revenues. Let me talk about that next.

Direct digital revenues are revenues generated through digital financial services, entertainment services, healthcare services, advertising, super apps, and enterprise services. These are also driving additional revenue streams such as advertising revenues, in-app purchases, interest income, and also additional subscriber revenues.

These revenues are not included in our telecom business but accounted for separately. These revenues in the first nine months of 2024 reached 334 million, making up 11% of our total revenues up from 10% in the first six months of 2024 as we started to share with you. This 11% of our revenues grow 40% year-on-year in local currency. Diversification into multiple digital verticals allow us to serve unmet market demand and expand our customer base, reducing dependency on a single revenue stream.

Our investments in enterprise digital services such as AdTech, Cloud services and software development are paying off, positioning us to seize new market opportunities. Looking forward, we are committed to enhancing our digital offerings and expanding our presence in these key verticals, driving growth and delivering value to our shareholders. I will touch on each one of these adjacent verticals later on my presentation.

Let's look at our markets and start with Kiev Star In Ukraine. Kyivstar continues to generate strong growth. Revenues for Kyivstar increased almost 18% year-on-year in local currency. Despite the limited digital portfolio in Ukraine, digital revenues reached 2.2% of total revenues and grew five times since last year this time. EBITDA grew by 7% due to operational cost increases in support of the war and ongoing network and utility cost pressures. We are actively managing operational efficiency by optimizing network, IT support services, and working with our competition for shared services.

Our CapEx is up by 63% in Ukraine year-on-year, as we ensure network resilience with power storage and generation capacities installed across key sites. These investments include deploying over 2300 generators and 124,000 4-hour duration batteries at base stations to ensure continuous service during blackouts. Additionally, we plan to deploy around another 850 generators and 60,000 more batteries.

Moving to Pakistan. Actually, I'm just back from a eight-day trip from Pakistan, including Karachi and Islamabad, and I'm glad to report to you that the seriousness of the government in terms of their discipline in executing IMF program is remarkable as well as the 18 months of stability of the foreign currency rates. I had the opportunity to talk with the Governor of Central Bank, Prime Minister, Finance Minister, ICT Minister, as well as other government authorities, and the resolute that I observed gives me a lot of confidence.

Moving to Jazz. Jazz continues its strong growth trajectory with revenue growing 22.6% year-on-year and EBITDA growing 14.7% growth year-on-year. Pakistan is furthest along its digital operator journey with direct digital revenues now reaching 26% of total revenues growing 27.2% year-on-year. EBITDA grew 14.7% with lower margins, reflecting the impact of a higher proportion of non telecom services and growth investments into enterprise and other digital services. We expect to see total to sales ratio trending lower as well, resulting CapEx in higher free cash flow generation. CapEx increased 99% year-on-year as Jazz continued to expand and upgrade its 4G network. Please note that this 99% increase is reflection of inability to import equipment last year at the same time. This reverse has previously delayed given macroeconomic constraints.

Moving to Kazakhstan. Beeline, Kazakhstan is another outlier in terms of digital operator performance. Total revenues are up by 14.8% while telecom revenues grew 14.1, digital direct revenues grew 25.4 year over year, reaching 10% of our total revenue base. This quarter, as part of our charitable donation program in the country where we commit 1% of our total revenues every year into our foundation called Jili Jirek, we proudly completed the inauguration of a newly constructed secondary school in Kazakhstan with high-end technology facilities. Excluding the charitable donation and an exceptional item from Q3 last year, Beeline Kazakhstan's underlying EBITDA would have grown by 10%.

CapEx for the quarter was 26.6 billion tenge increasing 78.2% year-on-year. We are addressing the underlying demand and entrenching our network leadership in the country. Our massive MIMO initiatives and 4.9G rollout allows us to maintain network leadership and effectively competing with operators with so-called 5G Services.

Now moving into Bangladesh, let me be very clear. Our commitment to Bangladesh is unwavering. We continue to see our long-term opportunities in the country as very exciting. However, the pre-revolution disruption and post-revolution economic impact has also impacted our performance in the quarter. Banglalink revenues decreased 8.4% in Q3 impacted also by a new tax on revenues. EBITDA decreased by 4% year over year as cost reduction initiatives mitigated some of the revenue pressure and offset by higher electricity and network expansion costs. Banglalink's capital expenditures were 2 billion taka, a 7.5% year-on-year decline, reflecting the completion of our 4G network rollout during 2022 and '23.

Turning now to Beeline Uzbekistan. Uzbekistan achieved 15% year-over-year local currency top line growth driven by increased 4G subscribers and higher demand for Beeline's data and digital services supporting an ARPU growth of 21% year-on-year. Direct digital revenues in the quarters increased by 67% and reached 3.8% of total revenues. EBITDA for Beeline Uzbekistan increased by 15% despite higher energy tariffs and increased network expansion costs. CapEx reached 131 billion sums, an increase of 36.3% year-on-year and reflecting about ongoing upgrades and expansions to our network.

Looking into our DO1440, Digital Operator 1,440 minutes strategic development, we are now reaching 103 million customers on our digital service platforms. I expect this number of digital subscribers to continue growing strongly, eventually exceeding our traditional telecom customer base. We aim to be in the lives of our customers in key verticals from entertainment, financial services, health technologies, and education technologies.

As I did last quarter, I want to talk also a little bit about augmented intelligence, the way we define AI for a moment. We have already developed over this quarter a Kazakh language LLM in Kazakhstan, in partnership with the GSMA and Barcelona Supercomputing Center. We have also announced a program with Nast in Pakistan to start developing local language models in Pakistan. This is what we are doing to do this in all markets to ensure our markets and customers are not left behind the augmented intelligence revolution. There is nothing artificial about AI. There is a way of using augmented intelligence purposefully. I cannot see a better value proposition than offering a better version of themselves for our customers.

Let's now have a look to some of these different digital revenue streams. Let me start with our mobile financial services, digital financial services, where we have three important digital assets. Pakistan JazzCash, Kazakhstan Simply, and Uzbekistan Beepul. We have now a total customer base, across financial services platforms, of almost 23 million, which has increased 39% year on year. Last 12 month number of transactions, number of transactions, reached 2.7 billion, growing 30%. In Pakistan, total financial revenues grew 74% year on year, driven by a 59% increase in gross transaction value to $30 billion equivalent, which is 8.4 trillion rupees. The high growth was supported by continued expansion of

JazzCash's retail distribution network, now reaching more than 400,000 agents and merchants end of Q3. We are now issuing more than 117,000 loans every single day, reaching 19 million customers.

Another strong contributor to mobile financial services strategy is Simply in Kazakhstan. This is the first and leading digital payment card. We are seeing a healthy adoption of this service, with monthly active users increasing seven times, year on year, to 2.3 million. Simply has processed over 100 million transactions over the last 12 months, up 81%, and translated to a doubling of gross transaction value of more than a billion dollars or 643 billion Kazakh tenge.

Beepul, Uzbekistan's digital financial services platform also has doubled its customer base to 1.3 million over the last year.

Let's move to our entertainment platforms. We are now offering services in Pakistan, Bangladesh, Kazakhstan, and Ukraine as OTT streaming services and IPTV offerings. Across this vertical, we serve nearly 20 million customers in the quarter. Our growth in the quarter was impacted by the ending of ICC Cricket tournament in our largest countries. Tamasha's customer base declined, given the fact that the ICC Cricket tournament had an impact over last year. These users' sessions showing 15% decrease should not discourage you from saying that the business is slowing down. On the contrary, we see a very strong pickup and conclusion of ICT tournament, which will result in the new cycle, another hike on user numbers. Over the past year, Tamasha has attracted over 50 international and local advertisers, positioning itself as a top choice for brand partnerships in the country's local OTT space. We have generated close to 146 million rupees in advertising revenues this quarter. Toffee, also reflecting the same decline for the same reason, is around 6.1 million active users. Similar to Tamasha, this is the result of the ICC Cricket tournament finishing. And Toffee also, similar to Tamasha, continues to generate advertising revenues.

Moving to our super apps and second brands. Our super apps are no longer serving just our telecom customers. They are open platforms for every single citizen. In addition to offering self-care to our customers, these super apps offer wide variety of services to everybody, including healthcare, education, entertainment, e-commerce, transportation charges, in a single easy to use platform. We are now serving almost 38 million customers, growing 12% year on year.

Our second, or the way we call it, the lifestyle brands are catered to younger customers. And we've just begun launching them over the past 12 months. Our most recent launch was RYZE in Bangladesh, just launched a couple of days ago, symbolizing post-revolution rise of the country with an unmatched entertainment carrier. Across them, we are now reaching 1.3 million customers. Let me highlight the notable performance of ROX in Pakistan, which boasts over 460, 000 monthly active users, and achieves an average ARPU that is 45% higher that of Jazz, even not one year past launching the service.

Similarly, IZI in Kazakhstan grew its space by 43% year on year, and reached 680,000 users. Notably, nearly half of its customers are not Beeline customers. It is attracting customers from other operators, and it has the highest Net Promoter Score, and much higher ARPU.

Let me also turn to HELSI in Ukraine, our exceptional healthcare service platform, almost with the population equivalent of users registered on it, 28 million. HELSI continues to be the furthest along in terms of our digital healthcare offerings. Across the portfolio, it provides online consultations with medical professionals, and is a vital part of Kyivstar's digital operator portfolio. The registered patients is up 8%, reaching 28 million. And please take into consideration the total population of 38 million in Ukraine. It penetrates 74% of the country. HELSI has access to almost 1,600 active healthcare institutions, up 10%, more than 39,000 healthcare specialists, up 12%. In Q3, we facilitated approximately 2.2 million appointments through the platform, a 20% increase. Our recently launched AI-based subscription service now serves 33,000 customers, demonstrating the great potential of the platform. With that, I will hand over to Joop.

Joop Brakenhoff:

Thank you, Kaan. For the recent quarter, we've achieved double-digit year on year growth in local currency revenues across our six markets, with total revenue growing 40% year on year, and digital revenue growing 33% year on year. Our reported revenue on US dollar basis increased 9.8% year on year. This performance is despite the revolution in Bangladesh. The driving forces behind our revenue growth include gains in market share and the expansion of our digital platforms across all operations, coupled with the implementation of disciplined inflationary pricing strategies. Excluding identified items, underlying group revenue would've increased by 60% year over year in constant currency. We're also seeing positive macroeconomic tailwinds in our markets business, assisting in our growth.

Turning our attention to our EBITDA and EBITDA margin. Group EBITDA increased by 3.5% year on year in local currency terms, reaching $438 million, and declined by 1.5% in reporting currency. Our EBITDA margin stood at 42.2%, a decrease of 4.9 percentage points. Our EBITDA growth was impacted by identified items in Bangladesh, and cost associated with researching at our HQ. Excluding these identified items, underlying group EBITDA would've increased by 9.8% year over year in constant currency.

Shifting focus to key balance sheet figures. As we close the quarter, the group maintained a healthy liquidity position, with a cash reserve of $1 billion, plus 80% year on year. Of this amount, 453 million is held at our headquarters. In the first nine months of 2024, net dividends upstream for OpCos amounted to $396 million, strengthening our financial position.

Turning now to our debt profile, our average cost of debt is now just under 10%, and reflects the blended rate of borrowing in our market currencies. Apart from some insignificant other facilities, Pakistani rupee debt generally has the highest cost, and is about 28% of our total group debt, excluding leases.Our average debt maturity is not 2.7 years, 3.3 years if we includes our lease liabilities.

Turning to our debt maturity schedule. We have no material maturities anymore in 2024, only smaller maturities at our operating subsidiaries. At HQ, the nearest maturity is in April 2025. Let me hand it back to Kaan.

Kaan Terzioğlu:

Thank you very much, Joop. Let me start looking to the 2024 outlook. Blended weighted average inflation rates in the countries that we operate has declined from 16.5% in Q3 2023 to 8.2% in Q3 2024, a reduction of 830 basis points. At the same time. Blended weighted average real GDP growth in our markets is around 3.4% for the period. As a result, six weeks to the end of the year, for the full year, we now expect total revenue growth of eight to 10% year-on-year growth in US dollars and NABTA growth of 46% in US dollar terms. Assuming current foreign currency rates. We are revising our prior local currency guidance on this call given above considerations to 12 to 14% year-on-year growth for total revenue and 9 to 11% year-on-year growth for EBITDA in local currency terms. Taking into consideration the identified items that we have mentioned, underlying growth in local currency is expected to be 15.7% growth in revenue and 11.2% growth in EBITDA. This marks a change from our previous guidance of 16 to 18% growth for revenue and 18 to 20% growth in EBITDA for 2024 in local currency terms.

I would like to mention that we are very satisfied with our current trajectory of growth, given that we are beating actually more than planned the nominal GDP growth, which demonstrates solid wallet share gains in the countries that we operate in. With that, I would like to end our call and pass it to you and start the Q&A session. Faisal.

Faisal Ghori:

Thank you, Bob. We can now open up the line to Q&A.

Operator:

Thank you. At this time, if you would like to ask a question, please click on the raise hand button, which can be found on the black bar at the bottom of your screen. When it is your turn, you'll receive a message on your screen inviting you to join as a panelist. Please accept and wait until you are promoted to panelist. Please unmute your audio, turn on your camera, and ask your question. As a reminder, we are allowing analysts one question and one related follow-up today. Written questions can be submitted on the webcast by using the ask a question tab on the top right of your screen. We'll pause one moment to allow the queue to form. Our first question will come from Stella Cridge with Barclays. Please unmute your audio and ask your question.

Stella Cridge:

Hi there everyone, many thanks for all the updates that you gave today. I wanted to ask about the base case that you have for addressing the 2025 maturities. I mean, we obviously saw the whole co cash increasing quarter on quarter. I was reading that you were expecting to receive the proceeds of the sale of TNS Plus within six weeks at the end of September, so I just wondered if that happened also, or would you plan to still engage in some refinancing? That would be great, thanks.

Kaan Terzioğlu:

Stella, thank you very much for your question. We feel very comfortable about the servicing the 2025, and that will happen through our operational cash proceeds as well as you mentioned, the TNS plus sale. A portion of the sale proceeds has already been collected and the rest will happen over the next couple of weeks, so we do not see any issues with regard to that. Joop, anything that you would like to add?

Joop Brakenhoff:

[inaudible 00:34:54] Kaan, you're fully right based on the current upstream of cash and the close from the TNS Plus, we'll be able to pay back the odds in April.

Stella Cridge:

Many thanks for that. And if I could take the opportunity of this follow-up option for the question as well. I mean, you're obviously speaking today from Dubai, you've communicated about the change in the headquarters. I just wonder from a corporate structure point of view, does this have any other implications than the structure? You obviously got beyond holding BV as issuing entity. Would you plan to issue from another entity in the future or do you think you would keep that as your bond-related entity?

Kaan Terzioğlu:

Stella, I think those decisions will happen over the time, but we will definitely explore alternatives to it as we will be paying back the old bonds and the new bonds will probably be issued from a new entity.

Stella Cridge:

Many thanks for that.

Kaan Terzioğlu:

Thank you very much.

Faisal Ghori:

We have a submitted question from a retail investor. Given Shaw Capital's roadmap to $160 share price or a 5.5 times EV EBITDA valuation by 2026, can you discuss the feasibility of achieving these targets and the strategies you plan to implement to reach them? What are we doing to increase worth?

Kaan Terzioğlu:

Thank you very much and thanks a lot for raising this question. We have actually responded to the letter sent by Shaw Capital in a proper way, approved by our board, and first of all, we are delighted to have committed and excited shareholders in supporting our strategies. All the seven issues Shaw Capital has raised in their letter are actually part of our game plans and we are in the process of delivering on those.

So given that and given the, I think a reasonable 5.5 metric he has set for it, of course we will do everything in our control in terms of executing the strategy and achieving that value creation opportunity. Naturally, there are certain things which might be out of our control like the wars and revolutions in different parts of the world, but so far our team, I believe, has proven to be very resilient when it comes to challenges of that nature and we will be executing our strategies as previously planned. Thank you very much.

Operator:

We'll take another submitted question from a retail investor. What is the amount of tax savings that Vion is expecting in 2025 with the headquarters move to Dubai? Will there be any savings for 2024?

Kaan Terzioğlu:

To be precise, moving to Dubai has never been an issue about saving taxes. We do pay our taxes in the countries that we operate, and there is no particular differentiation in between Netherlands and United Arab Emirates nor Dubai in terms of taxation of enterprises. So we are not expecting any changes to our effective tax rate because of our move to Dubai. There are other areas where we have prioritized our effective tax rate as something that we have to improve. And if you would remember, this was also one of the seven points of the famous shot letter that we will of course take into consideration, most of them related to our local operations. Thank you.

Operator:

We have no further questions at this time. I will hand it back to Faisal Horry for closing remarks.

Faisal Ghori:

Thank you everybody. Thank you for joining our quarter three earnings call. Myself and the IR team is available for any additional questions that you may have, so feel free to reach out. Thank you everybody.