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VEON Ltd. (VEON)

Q3 2023 Sales and Revenue Call - Trading Update

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MANAGEMENT DISCUSSION SECTION

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

Good morning and afternoon. Thank you for, everyone, joining us today for VEON's Third Quarter Presentations for the period ending September 30, 2023. I'm Faisal Ghori, Head of Investor Relations. I'm pleased to be joined in the room today by Kaan Terzioğlu, our CEO, along with Joop Brakenhoff, our CFO. Today's presentation will begin with the key highlights and business updates from Kaan. Following discussion of detailed financial results by Joop.

We'll then hand it back to Kaan to discuss our outlook and priorities for 2023. We'll 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 involve certain risks and uncertainties. These statements relating partly to the company's anticipated performance and guidance for 2023, future market developments and trends, operational network developments and network investments, and the company's ability to realize its targets and 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 risks detailed in the company's annual report on Form 20-F and other recent public filings made by the company with the SEC.

The earnings release and the earnings presentation, each of which include reconciliation of non-IFRS measures presented today, can be downloaded from our website. With that, let me hand it over to Kaan.

Kaan Terzioğlu
Group Chief Executive Officer & Director, VEON Ltd.

Faisal, thank you very much. Good morning and good afternoon to everyone. Thank you very much for joining us for our presentation of VEON's third quarter results for 2023. Before we jump into it, please allow me to take a few minutes and zoom out and talk a little bit about where we are today and how we got there.

I have been in the industry for nearly 30 years and in that time periods, as you might imagine, I have seen quite a bit. VEON is beyond all this, and it has a very special place in my heart. VEON is resilient. VEON is strong. VEON is tough. And let me say it again: resilient, strong, and tough. Nearly two years ago, we were thrown into an unprecedented situation. Two of our largest markets, 70% of business, went to war with each other. The company was thrown its largest set of challenges ever. Not only did we have to deal with the day-to-day challenges to continue providing essential, vital services to our customers, we had extraordinary challenges dealing with regulators, governments, sanctions, and financial market actors.

I want to thank all of our employees, our partners, and our shareholders for supporting us under very trying circumstances. We could not have done it without you. I also want to talk a bit about culture. I'm a believer in the adage, culture eats strategy for breakfast. We had a good culture at VEON prior to the challenges we have faced. But now, having been thrown into the fire, we have emerged tested by war, battle-already, excited and optimistic about our future, about what we can do for our customers, our partners, and our shareholders. We now have an exceptional culture at VEON, which is reflected across all of our portfolio.

Let me give you a few examples. In markets like Pakistan and Bangladesh, our companies are the highest ranked national employers. Employees that had previously departed our companies are rejoining our groups, helping us to deal with the challenges and showing their loyalties. Why I am confident that we can continue delivering growth? Because we have exceptional people and the performance driven culture. During the last 24 months, we have not only survived, but we have tried.

We have continued to deliver services to our customers and delighted them. We will continue to generate significant shareholder value. We are working tirelessly to deliver profitable, sustainable growth. And imagine a second if our team can deliver results as strong as these under most difficult circumstances, what we can do in a more normal environment in the quarters to come.

Let me spell it out for you. VEON will keep moving faster, stronger and harder. This is VEON 2.0. I am deeply proud of all our employees across all of our operating companies for their exceptional hard work and commitment to VEON and our shared future. With that said, let's talk about Russia.

The business, this business was originally founded in Russia and exiting was neither easy nor simple. Yet they won, we made a choice and we chose Ukraine. And our team worked tirelessly in an extremely challenging environment to exit smoothly a very large country. I wanted to thank everyone who helped VEON successfully complete the sale of our Russian business. I am pleased to note the positive impact that this has already had on our cooperation with banks and brokers, with trading volumes of our stock rising and sell side coverage from Barclays, New Street Research, and [indiscernible] (05:40) now available. With the sale of our Russian business complete, VEON has significantly deleveraged its balance sheet and we are delivering much faster growth.

Moving on, our operating companies in their markets are all delivering double-digit local currency revenue growth. I will present the highlights of the third quarter of 2023 on next slides and then move to a country-by-country overview of our operating companies and their continued execution of VEON's Digital Operator strategy. This time, as you have demanded, I will give you more detailed update on our digital services and some more KPIs around those.

What is VEON 2.0? The material on this slide should be familiar to you from my introduction. In short, the new VEON is focused on five pillars. Delivering double-digit growth. As a result of rolling up our sleeves and creating renewed foundation for growth, we have shown we can and will continue delivering double-digit growth. Two, margin expansion. As we continue to grow, we will see margin expansion both from operating leverage and our renewed cost controls. Third, high free cash flow generation. As a result of the first two pillars and moderation of CapEx, as we get closer to our objectives to being an asset-light company and 70% 4G penetration, VEON will be highly free cash flow generative. Four, strong balance sheet. No one comes out of what we have come out without recognizing the value of a fortress balance sheet. We will continue to deliver, delever and optimize our capital structure.

I've been speaking about our Digital Operator for some time now. Now, we are beginning to see the fruits of the last two years of work. We are now moving from having just customer market share gains to having consumer business wallet share gains. Our digital products and services will further make us even more valuable to our customers.

Let me move to the next slide. In the third quarter of 2023, we once again achieved double-digit growth at 19% year-on-year revenue growth in local currency terms. Service revenues rose at a similar rate, up 19.8% year-on-year. Local currency EBITDA expanded in the third quarter at a rate of nearly 31% and normalized for local currency EBITDA growth, taking some immaterial one-offs aside, 27.4% year-on-year growth.

In United States dollars terms, we saw year-on-year growth of 6% revenues and 17% EBITDA in third quarter. While foreign currency depreciation continued to impact our reported currency performance, macro conditions are stabilizing in our markets. The operational robustness of our business is showing faster growth in EBITDA and margin expansion.

CapEx was down 29.8% year-on-year to $131 million for the third quarter, and our CapEx intensity for the quarter came in at 13.9%, in-line with seasonality. We have a robust balance sheet with a net cash of $2.2 billion, of which $1.8 billion was held at headquarters as of September 30. Joop will later update you on our pro forma liquidity position, reflecting the completion of our Russia exit and early redemption of 2023 and 2024 notes in October later in the presentation.

Next slide. VEON has consistently executed on driving high growth in markets over the last past three years. We have grown local currency service revenues 1.5 times over the last 2.5 years. This should help drive home what is possible in these markets with the right strategy, the right culture and the team can deliver growth as well in excess of traditional telco operators.

As we have expanded access to 4G connectivity and offer tailored portfolios of connected digital services in each market, we are able to convert a growing number of customers to multiplay users with higher ARPU and lower churn. The Digital Operator approach has resulted in double-digit two years cumulative average growth rates across Kazakhstan, Uzbekistan, Pakistan, Bangladesh and Ukraine, as you can see in the slide. With the exit of Russia on October the 9th, VEON has achieved a significant deleveraging of its balance sheet with a more robust balance sheet.

On a pro forma basis, adjusting to account for the completion of the transaction shortly after the reporting period ended, gross debt decreased to $4.4 billion. Net debt dropped to $2.7 billion. Net debt, excluding capitalized leases, dropped to $1.8 billion. And this would put our net debt-to-EBITDA multiple at 1.21x, excluding leases at the end of October 2023. With an optimized capital structure following our exit from Russia, VEON can now focus on delivering its digital operators an augmented intelligence for all strategies across Ukraine and its five high-growth frontier markets across Central and South Asia. As I said earlier, this is the new VEON, VEON 2.0, a stronger company that is running harder and faster.

Going through our portfolio of growth trends. Over the last two years, we have delivered an average of 17% cumulative average growth rate across our markets. Let me put this in context. As we have successfully executed our 4G led multiplay strategy, growth has accelerated in 2022. Ukraine, a country at war has grown 13%. Pakistan and Bangladesh both experienced macro volatility, and hence we have also grown double-digits. This is not a quarterly one-off. This is a structural growth in our markets where 4G penetration remains still low and nearly half of the potential customers are still using feature phones.

Growing in emerging markets is never easy. And many of you will wonder how much of our growth is because of inflation. As you can see above, across the group, we have consistently grown well above inflation and believe that trend can continue. Group A symbolizing all the markets including markets at war, group B markets without war. And both has been delivering consistently above inflation growth rates because we are able to tap and penetrate into adjacent markets and digital services.

Let me give you a brief snapshot across the portfolio of service revenue and EBITDA growth among countries. In Ukraine, Kyivstar delivered another quarter of double-digit local currency growth. This is a testament to the team's hard work to keep Ukraine and Ukrainians connected while also ensuring healthy business performance. Across our Central and South Asian markets, year-on-year local currency service revenue growth ranged from 15.2% in Bangladesh to 29% in Pakistan.

Looking at EBITDA performance excluding Uzbekistan, local currency EBITDA grew at rates ranging from 18.9% in Bangladesh to 36.4% in Pakistan, and EBITDA expanded faster than revenue in every market. Uzbekistan was negatively impacted this quarter by extraordinary one-offs that we will later discuss.

Shifting gear, let me share our 4G and multiplay highlights. These are the key metrics driving our operational and financial performance and underpin our 4G for all and Digital Operator strategies. Year-on-year growth in 4G users demonstrates the continued impact of our 4G for all strategy, with 4G users up almost 13% year-on-year to 92 million in Q3. 4G penetration also rose 7.1 percentage points to 58.8%, bringing us closer to our group target of 70%. This growth in 4G users has been underpinned by investments into expanding our 4G network. The third quarter saw us increase the number of 4G sites by 14% year-on-year, reaching a total of 61,000 sites.

In Q3, multiplay users grew 23.1% year-on-year to almost 30 million, representing almost 24% of the user base. Local currency revenue in this segment grew almost 42% year-on-year to reach $85 million, representing 42% of our B2C revenues. We see the compounding effect of our dual 4G for All and Digital Operator strategies in our multiplay segment. Expanding 4G access enables us to convert more single play users to higher ARPU, doubleplay and multiplay subscribers. They use both 4G connectivity and our digital services. Spend more time with us, entertain with us, bank with us, educate themselves and result in less churn and drive higher revenue generation.

Moving on to the country performance section. We will start with Kyivstar as usual. VEON and Kyivstar are committed to supporting Ukraine, both in our everyday efforts to keep Ukraine and Ukrainians connected and with our long-term commitment to invest in rebuilding Ukraine's mobile telecoms infrastructure. It is a result of Kyivstar's success that Secretary Pompeo has joined our board as well.

In the third quarter, nearly 100% of Kyivstar network was operational in Ukraine-controlled territories. While CapEx declined 11% year-on-year, we connected 54 new settlements during the third quarter and continue to install or upgrade base stations. Kyivstar has also made significant progress to ensure network resilience with power storage and generation capacities installed across key sites.

Kyivstar continues to grow its 4G user base which reached almost 14 million in the third quarter, rising 57% of the user base. While Ukraine remains an extremely challenging operating environment, Kyivstar delivered double-digit local currency revenue and EBITDA growth, supported by rising 4G penetration and increases in both doubleplay and multiplay users.

In addition to our plans to invest in rebuilding Ukraine's telecom infrastructure, we are committed to helping Ukrainian communities tackle the challenges they face right now. In the third quarter, Kyivstar donated UAH 57 million to a range of initiatives including de-mining of the arable land and recovery projects including hospitals.

Helsi is the furthest along in terms of our digital health care offerings across our portfolio. It provides online consultations with medical professionals and is a vital part of Kyivstar's digital operator portfolio. It provided 1.9 million appointments in the quarter alone and serves 26 million users virtually the entirety of the Ukrainian population that has online access. Helsi provides an example of what we are in the process of building across our portfolio.

Let me pause here for a second and share with you a few points regarding Kyivstar. VEON is the owner of Kyivstar. Full stop. We are fully committed to Ukraine, the Ukrainian people, and their future. We are a vital provider of communication and digital services to the country, which would not be possible without us. We will do everything in our power to make sure that our shareholders are protected.

We have a very robust internal effort to safeguard our interests and those of our shareholders. We are actively engaged with Ukrainian officials. A delegation from VEON, including myself, visited Kyiv recently, and this constant coordination will continue. We are using all resources alongside various government and international institutions to protect and preserve the rights of VEON and the rights of international investors.

Moving to Pakistan. Jazz, our operating company in Pakistan, gained market share and further accelerated its growth despite the challenging macroeconomic environment. Jazz's successful execution of our Digital Operator strategy, combined with disciplined cost control, helped drive revenue growth of 27% and EBITDA growth of 36% year-on-year.

Both of Jazz's fintech offerings, JazzCash and Mobilink Microfinance Bank, delivered strong top line growth and so their EBITDA margins expand. Jazz's 4G penetration reached 61% of its customer base, enabling the addition of further multiplay users who accounted for 25% of the operator's monthly active users. With JazzCash, Pakistan's most popular financial services app, and Tamasha, the country's leading video streaming app, Jazz, is a good illustration of how our Digital Operator strategy is succeeding and creating growth.

All our product offerings from financial services have positive unit economics from strong underlying growth. During COVID, Jazz offered free usage for its services which led to negative unit economics, which we have now ended. This explains why [ph] USSD (21:16) users went from 9.5 million to 7 million. However, we cherish the fact that Jazz mobile app users grew from 7.8 million to 8.5 million.

Many of you are likely familiar with Safaricom's, M-Pesa and its growth [ph] having transformed (21:36) Kenya. I wanted to focus your attention on two things here. First, we are still in the infancy in penetration of digital financial services in Pakistan at around 6% versus 58% in Kenya. And secondly, take a look at the last line, transaction value versus GDP. Pakistan is at 0.06 times where Kenya is already at 2.5 times, an order of magnitude of almost 42 times. This is despite the fact that Pakistan population is over four times larger. We are at the earliest innings of helping transform Pakistan's digital economy. Already EBITDA and cash positive businesses.

Let's switch to Tamasha, which is now recognized in the country as the best digital platform for entertainment. Tamasha is open to all mobile users. 63.4% of its user base are actually non-Jazz customers. At the same time, the Jazz customers that watch Tamasha have an ARPU that is 2.7 times higher than our single voice customers. By bringing original and exclusive content that is relevant to our customers in Pakistan, Jazz and Tamasha are able to drive more individuals to use data and more multiplay offerings that drive higher revenue performance.

Moving on to Kazakhstan, Beeline Kazakhstan remains Kazakhstan's leading operator in terms of Net Promoter Score and continues to gain market share. This contributed 18% year-on-year local currency revenue growth with service revenues up 19% year-on-year. Beeline Kazakhstan's strong performance continues to be driven by higher ARPU, with consistent growth in the 4G data user base and consumption of data and digital services. 4G penetration was at 73% in the third quarter, and multiplay users represented 42% of monthly active users. These customers consume Beeline Kazakhstan's digital services, such as BeeTV, Simply financial services product, IZI, [ph] hitter, (24:10) and they account for 60% of subscriber revenues in the third quarter.

Let me speak about IZI, I-Z-I, which is Kazakhstan's first digital operator. Users of the IZI app continue to grow, reaching almost 0.5 million monthly active users in Q3. Their year-on-year growth is 4.3 times. Just under half of IZI users are non-Beeline customers, while the remainder also have an IZI SIM card and power their connectivity in addition to entertainment services they consume. Monthly active mobile customers rose 59.1% year-on-year to 219,000 in the third quarter. And IZI users who enjoy the digital experience of the entertainment super app have an ARPU over 4.4 times higher compared to the ARPU of IZI customers who do not consume entertainment content.

In Bangladesh, Banglalink revenues rose 15.1% in the third quarter, the company's sixth consecutive quarter of double-digit revenue growth and tripling the average growth of the competition. Growing market share and ongoing investment in the Banglalink network drove EBITDA up almost 19% in third quarter. Banglalink's strong focus on cost control and inflationary pricing helped deliver this impressive result, even as the electricity and fuel costs continue to rise. Banglalink's total subscriber base reached almost 40 million by the end of the second quarter, rising 8% year-on-year. Banglalink's 4G penetration continued to rise as a result of investment into its expanding network, with the share of 4G users up by 9 percentage points year-on-year at almost 20 million. This represents 49% of the total subscriber base, a growth still to come. 4G rollout combined with Banglalink's digital services portfolio helped deliver 56.1% year-on-year rise in multiplay users and 62.3% year-on-year growth in multiplay revenues.

Last but not least, let me share that we have sold nearly one third of our tower portfolio in Bangladesh. This is a sign that we are committed to our strategy of being asset light. Expect us to continue delivering on unlocking greater value from our portfolio of both physical and digital assets. Toffee is part of Banglalink's digital operator offering and the country's leading entertainment platform. Toffee continues to maintain a healthy user base, with monthly active users reaching [ph] 12.2 million (27:17) in the third quarter, up 72.2% year-on-year. Toffee's another example of VEON operating companies' digital service that is available to all mobile customers in the country and 70% of Banglalink users have not even tried Toffee. But this application is being consumed by the competition customers. Toffee customers continue to make the most of platform's wide variety of streaming content with the local total number of sessions watched up 31% year-on-year. Banglalink customers who use Toffee generate 2.6 times the ARPU of a single-play voice customer, which continues to illustrate the value of the offering.

Turning now to Beeline Uzbekistan. In the third quarter, Beeline Uzbekistan achieved 15.6% year-on-year local currency top line growth. This performance was driven by the combination of expansion in the customer base and higher ARPU, as well as double digit increases in 4G users and data usage. Beeline Uzbekistan now exceeds our 70% 4G penetration target, with 71% of the customer base using 4G.

Data consumption rose almost 30% on the back of the increase in 4G users. The year-on-year decrease in EBITDA in the third quarter was impacted by one-off factors in Q3 2022 and Q3 2023. Adjusting for those, Beeline Uzbekistan would have reported EBITDA growth of 10% year-on-year.

For the last two years, we spoke a lot about the Digital Operator strategy. In the next few slides, I will go in some detail, as you have requested, to show you what we have built and continuing to build. There are four key additional verticals from our existing self-care applications: education, healthcare, entertainment and financial services. As you can see here in each market, we have a variety of applications catering to the needs and desires of our customers. In Q3, we hit 93 million monthly active users. And I'm happy to share that at the end of October, 93 million user number is now about 100 million monthly active users. It shows the dynamism in this vibrant space.

Over the next three slides, we provide an overview of some of our most strategic digital platforms across our key verticals in the DO 1440 strategy. Specifically, we focus in on financial services, entertainment, and self-care app segments. In Kazakhstan, Simply, the country's only branchless neobank recorded a 2 times year-on-year increase in monthly active users. In Pakistan, fintech JazzCash maintains its leading position, boasting 15.4 million monthly active users and a total transaction value of PKR 1.4 trillion, up 39% year-on-year. The decline in monthly active users and number of transactions at JazzCash was due to the post-pandemic era, discontinuation of zero or negative value accounts, which were impacting profitability negatively.

Let me now pause here and talk about our entertainment vertical. Our two major entertainment platforms have delivered another quarter of positive user growth. In Pakistan, monthly active users of our Tamasha platform grew 4.4 times year-on-year, while Bangladesh's Toffee recorded a 72.2% increase. We have also smaller entertainment platforms in Kazakhstan, albeit they are all number one in the countries that they are serving. BeeTV goes from strength-to-strength, monthly active users reaching 800,000, a rise of 24.1%.

Moving to our self-service applications. Our super app in Bangladesh, MyBL delivered another quarter of double-digit year-on-year monthly active user growth rising 43% to reach 7.6 million users. We also highlight ongoing penetration gains, app users growth and engagement improvements across all our service platforms, specifically noting 20% plus growth in monthly active users at My Beeline Kazakhstan and Uzbekistan.

I will keep you posted on these categories moving onwards on a routine basis to demonstrate the traction we see in the digital services and digital operators DO1440 strategy.

I will stop there and, Joop, let me hand it over to you.

Joop Brakenhoff

Group Chief Financial Officer, VEON Ltd.

Thanks, Kaan. I will outline some of our revenue highlights for the third quarter. We have delivered another quarter of double-digit year-on-year local currency revenue growth across all of our six markets. The group service revenue rising 19.8% year-on-year and total revenue up 19.3% year-on-year to reach $945 million.

While our reported revenue also demonstrated growth of 6.1% year-on-year, this was impacted by significant local currency depreciation across our markets, particularly in Pakistan, Bangladesh, Uzbekistan and Ukraine. Revenue growth was driven by market share gains and the expansion of our digital platforms across all our operations, as well as the effect of disciplined inflationary pricing. Let's now take a closer look at our EBITDA and EBITDA margin. VEON's local currency EBITDA rose 30.6% year-on-year in the third quarter while our EBITDA margin increased 4.4 percentage points to 47%. It is important to note that EBITDA growth was impacted by extraordinary one-offs in Kazakhstan, Ukraine and Uzbekistan in both the second and third quarter.

Adjusted for these one offs, normalized group EBITDA increased by 27% year on year in local currency terms. On slide 32, we can direct our attention towards our CapEx and CapEx intensity. In line with our asset-light strategy and focus on maintaining strict financial discipline, CapEx and CapEx intensity have decreased year-on-year and fall within our full-year 2023 guidance. CapEx in the third quarter stands at $131.1 million with a CapEx intensity of 17.8%, helping drive our 4G network expansion and deliver on our 4G for All strategy.

Given the challenges in Pakistan and Ukraine, our CapEx spend was less than anticipated at the beginning of the year. We remain disciplined and flexible with respect to where, when and how we will spend CapEx to ensure our customers have the best service possible across our platforms.

Moving now to some important balance sheet metrics, let me outline our debt and liquidity positions. At the end of the third quarter, the group's liquidity position remains strong with a total cash position of $2.2 billion, excluding banking operations in Pakistan, with $1.8 billion of this cash held at HQ. At the local company level, VEON's operations continue to be self-sufficient from a funding perspective.

In September, VEON initiated a full and early redemption of notes due to mature in December 2023 and June 2024, which led to a meaningful reduction in reported gross debt levels. Outside of the Q3 2023 reporting period, October 2023 contained numerous transactions that have had a material impact on the group's financial position. Specifically, the sale of our Russian assets, and the repayment of VEON Holding of 5.95% notes maturing in October 2023. Adjusting for both events on a pro forma basis, VEON net debt including leases stands at $2.7 billion, representing a significant reduction from $8.2 billion of net debt 12 months ago. We note $1.6 billion of net debt is at HQ level. Our cash balance stands at $1.7 billion, of which $1.3 billion is at HQ.

Moving onto the highlights for the nine months of 2023. VEON once again recorded double-digit local currency revenue and EBITDA growth with revenue rising 18.2% year-on-year and EBITDA up 18.1% year-on-year. These figures demonstrate the continued impact of our digital operating strategy across our markets. While inflationary pricing continues to play a role in increasing revenues, revenue growth for Q3 is in line with our full year guidance, which we revised upwards at the end of the second quarter.

We have repeatedly said that we are embarking on a new era as a leaner, well-capitalized VEON and this vision is reflected in our continued focus on cost controls. CapEx declined by 31% year-on-year, with CapEx intensity turning lower to 14.3% while our EBITDA margin stands at 45.4%. The process of selling of our Russian assets marked a milestone moment. In our transition to a new VEON and that's led to a substantial decrease of debt levels, with gross debt reducing from $11.4 billion to $4.3 billion year-on-year, a decrease of 62% and net debt reducing from $8.2 billion to $2.1 billion year-on-year, a decrease of 74%.

Following our exit of Russia, our capital structure continues to be progressively optimized. Our cash liquidity position remained strong, with leverage metrics at 1.2 times net debt to EBITDA due to large declines in gross debt balances over the past 12 months. In addition to this, there's a $1.05 billion outstanding under the RCF, which can be rolled over until final maturities in 2024 and 2025.

We've also maintained a robust cash position, as outlined earlier in this presentation, with $1.7 billion cash and cash equivalents, of which $1.3 billion is held at HQ. Where does our debt profile stand now? We have made significant progress in establishing a more favorable debt maturity schedule, shifting all significant debt maturities to 2025. As of the end of the third quarter, VEON has $124 million of debt maturing in the next 12 months.

As of October 2023, [ph] we note (39:10) debt maturing in 2025 is $1.5 billion. We note the additional debt redemption will only reduce [ph] average (39:16) gross debt levels and maturities at VEON, but also reduce absolute debt servicing cost at VEON. In addition to this, there's $1.05 billion outstanding under the RCF, which can be rolled over into final maturities in 2024 and 2025.

Let me outline some of the changes to our cost of debt and average debt maturity. The cost of borrowing [ph] versus (39:43) the second quarter of 2023 has been impacted by three key factors. One, higher interest rates on floating US dollar and Pakistani rupee debt. Two, the early redemption of VEON bonds maturing in December 2023 and June 2024 have also an impact on borrowing cost, due to these bonds holding relatively lower coupons versus the average cost of debt, and the acquisition of VEON Holding bonds by PJSC VimpelCom. And three, one should note that we now have a greater proportion of higher rate OpCo debt than lower rate US dollar debt in our gross debt mix. [ph] This is the (40:23) effect of increasing blended cost of debt.

Average debt maturity, excluding RCF, stands at 3.4 years. The next tranche of RCF due to mature on October 2023 and totaling $692 million as we rolled over until January 2024.

And now I will hand over to Kaan again.

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Joop, thank you very much. And before I share with you our revised upgraded guidance, I want to highlight two important things. I am realizing that there are less analysts following our company's details. I think these two information will be useful in visualizing our run rate figures. Let me zoom out for two important factors. One, last year in October 2022, due to us winning a court case in Pakistan, we had extraordinary recognized revenues which were not recognized previously properly because of this tax case, and it had an impact of $30 million in revenues and $91 million in EBITDA. I think it is important to note that to compare our 2022 and 2023 results. It's also important to note that almost $43 million of extraordinary costs year-to-date is associated with exit from Russia and restructuring of our headquarters operation in 2023. Naturally, these costs will also not be recurring. Excluding the abovementioned one-offs, the two cases, October 2023 year-to-date EBITDA growth is trending at 20.3% year-on-year, and this level of growth accurately reflects the current normalized EBITDA growth trends for VEON's underlying operations.

Going forward, we will now provide the market guidance for EBITDA on a normalized basis excluding these two one-offs. Let me share with you our full year guidance for 2023. Although we have revised the guidance upwards last quarter, we are now revising our guidance upward again for the second time this year. We expect our full year top line growth to be in the range of 18% to 20%, up from previously declared 16% to 19%. And we also expect normalized EBITDA growth of 18% to 20%, up from 10% to 14% as expressed before. Our CapEx intensity will now be in the range of 16% to 18% versus 18% to 20% as we have expressed before.

Where are we going with this situation? Let me try to summarize. We are effectively progressing and executing on all our goals, despite certain new challenges, we are optimistic and excited about our future. We have exited Russia. In Ukraine, we will now focus on ensuring VEON's ownership and shareholder value protection.

Looking ahead, our markets remain nascent, with most of the population still using feature phones. We will continue delighting them with great service and digital products that matter to them and make their lives better whether that is through healthcare, education, financial services, watching cricket or entertainment. We are increasingly becoming asset-light. As some of you may be aware, we are recently announced the sale of our towers in Bangladesh, to be precise one-third of our portfolio. Expect more news along these lines in the future. We will continue to optimize our balance sheet to better reflect our Digital Operator strategy.

At the end of the day, we are here to create value for our customers, our partners and shareholders. Becoming a leaner, faster and stronger organization that will deliver greater value to all. Thank you very much for listening to us today. And Faisal, let's move to the questions.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

Thank you, Kaan. We can open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]

Joop Brakenhoff
Group Chief Financial Officer, VEON Ltd.
A

[indiscernible] (45:23) question.

Kaan Terzioğlu
Group Chief Executive Officer & Director, VEON Ltd.
A

Can we increase the volume a little bit?

Joop Brakenhoff
Group Chief Financial Officer, VEON Ltd.
A

Can you repeat the question?

Operator: [Operator Instructions]

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.
A

I think we have some questions in the Q&A so let me start from there then. Our first question comes from [ph] Shawn Cook (46:11) With the Russia sale complete, are you now able to pursue a credit rating from a reputable firm? Joop?

Joop Brakenhoff
Group Chief Financial Officer, VEON Ltd.
A

Thanks, Faisal. Yeah, indeed. With the Russia operations being sold, we really want to go back to normal and we started the process to pursuing credit rating with one or more with the credit agencies. Yeah.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.
A

Thank you, Joop. Our next question is from [ph] Anjali Doshi (46:40) Can you comment on the following: What is your comfort level of net debt to EBITDA range, excluding, inclusive and excluding leases going forward?

Joop Brakenhoff
Group Chief Financial Officer, VEON Ltd.
A

Yeah. I think we've given a lot of information in this update. Going forward, probably we talk around 1.5 times post IFRS, including leases, for us in an acceptable level. And as you know, we're optimizing our capital structure and also increasing our debt maturity. So we think about 1.5 times.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

A

The second part of the question, can you discuss the opportunities to repatriate cash from each of your markets to HQ?

Joop Brakenhoff
Group Chief Financial Officer, VEON Ltd.

A

Yeah Faisal. Thanks. [ph] Indeed a (47:25) relevant question, of course. We have no formal limitations to repatriate cash to the center except for our operations in Ukraine [ph] of course due to the martial law. (47:38) But for the other operating companies, there are no formal limitations to [indiscernible] (47:43) cash.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

A

The next question is from [ph] Rumen Ivanov (47:48) Can you please clarify your plans with respect to the RCF? Do you plan to repay the facility, or at least partially extend it?

Joop Brakenhoff
Group Chief Financial Officer, VEON Ltd.

A

Yeah. As mentioned, we are optimizing our capital structure. Being a smaller organization, of course, we are also reviewing our RCF. At this moment, we're in discussion with our shareholders to look for possibilities to reduce and extend the current RCF. As mentioned, we also want to increase our debt maturity. That's a good combination of this discussion.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

A

Great. Our next question is from Stella Cridge from Barclays. Can you explain the move in net debt quarter-over-quarter and between September and October? What other steps need to be taken before VEON can return to debt markets?

Joop Brakenhoff
Group Chief Financial Officer, VEON Ltd.

A

Yeah. These are [ph] two (48:40) questions. The first one, as presented, you've seen the numbers of September 2023. These are the numbers where the Russian operations were still part of VEON group. We've also explained, showed you the current cash, gross debt, and net debt level as per October 2023. And these are, of course, the numbers without Russia. So there you see changes which mainly have to do with the redemption of [indiscernible] (49:13)

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

A

Great. Our next question is from [indiscernible] (49:19) Could you please provide more updates on asset monetization? And on the recent tower deal, are you planning to upstream proceeds to the holdco level?

Kaan Terzioğlu
Group Chief Executive Officer & Director, VEON Ltd.

A

Sure, [indiscernible] (49:29) First of all, you would remember that back in two years ago, even actually in 2021, when we set our strategic plans, we said we are going to be an asset-light company. And we believe that there are better specialized, dedicated, independent tower companies to manage the towers rather than keeping them buried in our balance sheets. Since then, we have done actually quite a lot of heavy lifting. We have, as of now, ring-fenced and spin out all our towers into separate companies in all the operations that we are currently operating in.

Regulatory wise, Bangladesh was an exception because we cannot own a tower company in Bangladesh. It's a licensed operation. But, apart from that, all our other operations already have tower companies and we are working it and talking to different independent tower companies in terms of how to engage them, managing our towers in a better way and allowing us to crystallize the value. Since the beginning, we have sold, before the war, our towers in Russia. Later on, we have now sold one-third of our portfolio in Bangladesh and we still have close to 30,000 towers in various different operations, which we will be working on.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

A

Thank you, Kaan. Our next question is from Chris Hoare of New Street. Regarding CapEx guidance, do you expect 16% to 18% of sales going forward or can you reduce it further?

Kaan Terzioğlu
Group Chief Executive Officer & Director, VEON Ltd.

A

Maybe, let me take this question because if you remember, we said that we are targeting for 70% 4G penetration and we will continue to be elevated at the levels of CapEx. There are two important things happening. First of all, we are growing faster and we are happy with that naturally and that is, of course, releasing the CapEx to revenue, sales ratio in favorable way.

Secondly, if you, for example, take a country like Pakistan, today, 15% of our revenues in Pakistan is actually from mobile financial services and entertainment platforms, which are totally different business models and does not require same level of CapEx. So if you put all these things together and if you add the fact that we are now getting very close to 70% and actually already exceeded 70% in Kazakhstan and Uzbekistan, you would naturally see a reduction on the CapEx to revenue ratio. That's why you see 16% to 18%. And I would expect this figure to go below 16% over the next three to five years as we further generate more revenues from non-telecom businesses as well as reach the penetration levels that we desire.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

A

Our next question is from [ph] Roman Ivanov (52:23) What actions would you take to crystallize value of digital assets?

Kaan Terzioğlu
Group Chief Executive Officer & Director, VEON Ltd.

A

We are unique in the sense that the population in the markets that we operate in is more than 510 million. What we observe is the consumer business, consumers in these markets are significantly underserved. There is an unmet demand, especially when it comes to entertainment, financial services, education, and healthcare. Therefore, every single investment we do in this area, and as you can imagine, investment in digital services considering the power of distribution we have through the, thanks to the telecom, is much smaller in size. It gives us to create the largest player in a vertical over 12 to 18 months. This is what happened with Tamasha, this is what happened with Toffee, what's happened with JazzCash, Simply, IZI and Helsi. So you – what we would like to do is to make sure that to further accelerate the growth of these digital services, we would be seeking out strategic partners who can enhance our offers and create differentiation. And you will see us moving in that direction when it comes to looking for partners that will also, of course, crystallize the value of these assets as well.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

A

Our next question is again from Chris Hoare of New Street Research. He's asking about the EBITDA margins, specifically regarding our currencies. Normally, when currencies are under pressure, you would normally expect margins to fall. Why aren't you seeing that? And then secondly, does that imply OpCo margins can rise next year if we have stability in the currencies?

Kaan Terzioğlu
Group Chief Executive Officer & Director, VEON Ltd.

A

Yeah, I will also – Joop, you can add to what I will say. But clearly, we see our revenues growing actually much faster than our cost structure is growing. This is thanks to two things. One, of course, us having more wallet share from the adjacent markets and ability to increase our prices while keeping the customers, which is very important. It's not only about inflationary price increases. It's actually increasing the value that we offer to the customers and them embracing this in a positive way.

And, of course, the second important thing, especially this year, while we have gone through our restructuring, we have lowered our headquarters' cost by 55%. And this is basically a sign that as a company we are agile, we can adapt to new conditions, as we exited from Russia, we reflected this also in our HQ run rate cost and that, of course, will, has its impact for next year. I am very happy currently with the margin expansion that we have demonstrated in Q3 with, or more than 4 percentage points. And I think given our structure with higher growth expectations, I think, this trend will continue at least one or two more years. Joop, anything you would like to add?

Joop Brakenhoff
Group Chief Financial Officer, VEON Ltd.

A

Yeah, Kaan, I think it's good to mention that, of course, in our challenger markets, Bangladesh and Kyrgyzstan where we're not the number one, our margins are a little bit lower and also more difficult to increase compared to the markets where we are number one, like in Pakistan. So that's also has an impact, of course, on how we can manage EBITDA.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

A

Our last question comes from [ph] Anjali Doshi (56:05) How do you view the optimal mix between HoldCo and OpCo debt on local currency? On a normalized basis, what is the cash level you'd like to keep at HoldCo?

Joop Brakenhoff
Group Chief Financial Officer, VEON Ltd.

A

Yeah, we – it's very clear, we want to deleverage the group [ph] in total (56:21) But we also want to leverage operating companies in local currency to a normalized level, that means that we will have going forward more local currency debt than total debt at the center and that balance will shift. And what we'll also think about is that probably we need cash level of several hundred, $300 million, $400 million at HQ.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

A

Thank you, everybody, for joining our call.

Kaan Terzioğlu
Group Chief Executive Officer & Director, VEON Ltd.

A

So maybe if I may add something. Naturally over the last two years, I named it as the fortress of balance sheet, we needed it, we did it well. But, of course, moving onwards you should expect us rational effective use of cash balances. And we realized that over the last two years it was difficult to spot this. We had always ample liquidity, and we needed it. I think that was the right thing to do. But moving onwards, you will see us much more lean when it comes to cash management. Thank you.

Faisal Ghori
Group Director-Investor Relations, VEON Ltd.

Thank you, everybody, for joining our call. And with that, we'll close.