The Q1 2017 results conference call
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Presenters

Davor Tomašković
Hrvatski Telekom – President of the Management Board and CEO

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Operator: Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's HT Group Q1 Results Conference Call.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. At which time, if you wish to ask a question, you need to press star-1 on your telephone and wait for your name to be announced.

I must advise you that this is being recorded today on Friday, the 28th of April, 2017. I would now like to hand the conference over to your first speaker today, Elvis Knežević. Please go ahead.

Elvis Knežević: Thank you. Ladies and gentlemen, good afternoon and welcome from Zagreb.

Today our CEO, Mr. Davor Tomašković, and Josef Thürriegl, our CFO, who are dialing in from abroad will talk you through the highlights of our business and financial performance for the three months ended 31st March 2017 using presentation slides, which I hope you have in front of you. If not, please visit our website at www.t.ht.hr where you can access the slides from our Investors page.

After the presentation, Mr. Tomašković and Mr. Thürriegl will be available for your questions. Before we begin, allow me to draw your attention to the Harbor Statement on page 2 of our presentation. Allow me to introduce you to Mr. Davor Tomašković, our CEO, who will outline our company's performance during the three months ended 31st March 2017.

Davor Tomašković: Good afternoon ladies and gentlemen and thank you for joining us today.

It is my pleasure to present the results from Hrvatski Telekom for the three months ended 31 March 2017. I will start the presentation with slide 3, which outlines the financial highlights of the first quarter.

HT Group has delivered good first quarter results, with higher revenue, EBITDA and net profit supported by the positive impact of the consolidation of Crnogorski Telekom since the start of the year.

Revenue in the first three months of 2017 rose 8.7% to HRK 1.818 billion, reflecting the additional revenue from the Crnogorski acquisition.

Underlying these headline figures, we saw encouraging revenue trends in our core HT Croatia business, where mobile, broadband and TV continue to grow.

Meanwhile Crnogorski Telekom's revenue remained under pressure in the first quarter, weighed down by competition in the mobile prepaid market and ongoing pressure on fixed voice sales.

EBITDA before exceptional items rose 7.4% in the period to HRK 674 million, again reflecting the Crnogorski acquisition. Excluding Crnogorski, EBITDA was largely flat. Despite the successful continuation of our transformation program, our margin was impacted by the Crnogorski consolidation, absence of real estate sales compared with last year and the increased cost associated with the energy business. Our EBITDA margin was down slightly to 37.1% from 37.5% last year.

Net profit rose 9.5% to HRK 149 million mainly as redundancy costs reduced compared to the first quarter last year.

We have adjusted our outlook to reflect the Crnogorski acquisition and slight CAPEX increase in HT Croatia, and now expect revenue in the full year 2017 to be around 10% higher than last year, with our EBITDA margin before exceptional items largely maintained at 40%. CAPEX will be slightly lower than last year.

Please turn now to slide 4 which describes a rise in operating cash flow and our CAPEX investment in the Group's network.

Cash flow from operating activities was up 13.6% to HRK 653 million in the first quarter, with the majority of this increase coming from the consolidation of Crnogorski Telekom and the remainder from improved working capital management in our core HT Croatia business.

Capital expenditure also rose in the period, up 16.6% to HRK 366 million, impacted by continuing significant investment in our mobile and fixed broadband network, an increase in capitalisation of contracts for TV content at HT Croatia and Crnogorski Telekom consolidation.

Now we come to slide 5, which describes HT Croatia's revenue growth in the first quarter. We delivered largely stable revenue as momentum in mobile, broadband and TV counterbalanced lower system solutions revenue where fewer projects closing in the period.

Total sales at HT Croatia fell very slightly, down 0.2% or HRK3 million to HRK 1.67 billion in the first quarter of 2017. Mobile revenue rose 3.1% to HRK 675 million, largely due to higher postpaid revenue, data revenue and low margin handset sales. Fixed voice remained on a downward trajectory, as mainline sales, fixed voice traffic and average revenue per account all declined. Fixed voice revenue fell 11% to HRK 220 million.

Broadband revenue in the first quarter remained largely stable while TV revenue rose slightly as we added more customers to our TV offer. Together, broadband and TV revenue rose 1.1% to HRK 327 million.

Fixed wholesale revenue rose strongly, up 15.4% to HRK 98 million in the first quarter. This was driven by an increase in the quantity of wholesale broadband access sold, as well as higher transit and national hubbing traffic.

Other fixed revenue rose slightly, up 2.3% to HRK 181 million, mainly driven by online consumer services largely related to digital advertising, while Optima Telekom revenue remained stable.

The timing of certain projects affected revenue recognition in our systems solutions business. Sales were down 18.8% to HRK134 million as fewer projects closed in the first quarter compared to the same period last year. However, for the whole of 2017 we expect certain growth of this line of business.

Finally, miscellaneous revenue was boosted by growth in our Energy business where we added new business customers, helping to grow this revenue segment 66.8% to HRK 33 million.

I will now hand over to Josef, who will walk you through our performance during this period in more detail.

Josef Thürriegl: Thank you Davor and good afternoon everyone.

Please now turn to slide 6 which describes the performance of HT Croatia’s mobile business. At the core of our strategy, we continue to focus on mobile data bundles and the customer experience in order to maintain our leading market position. At the end of the first quarter, HT had maintained its market share by number of subscribers at 47%. Total subscriber numbers were up slightly, to 2.210 million compared to 2.206 million at the end of the first quarter last year. This reflects a small decline in prepaid customer numbers offset by a small rise in postpaid customers.

Prepaid average revenue per user was up around 1% at HRK 40, while postpaid ARPU fell by almost 1% to HRK107. Average minutes of use jumped 6.3% to 209.

The percentage of smartphones as a proportion of total handset sales was 80% in the postpaid segment in the first quarter, which was flat compared to the same period last year. Within this, HT Group's smartphone penetration was 55%.

Our 4G network covered 71.8% of the population indoors and 97.6% outdoors, while 52% of the population could achieve 4G download speeds of 225 Mbps at the end of March 2017.

On slide 7, our fixed line and IP business has delivered growth in broadband lines and TV customers with a decline in fixed mainlines.

By the end of the first quarter of 2017, total fixed mainlines were 6.5% lower year on year at 987,000. The decline was driven by the market trend of fixed to mobile and IP substitution, regulation and enforced competition. HT is continuing its proactive and reactive churn prevention offers. Fixed-line ARPU was down 6.7% to HRK 80.

Broadband access lines rose, however, adding 6.5% more lines by the end of the first quarter to 763,000 compared with 716,000 at the end of the same period last year. The increase came from both retail and wholesale access lines. Broadband retail ARPU was down 2.7% at HRK 118.

TV continued to grow, with a 5.3% increase in TV customer numbers to 408,000 by the end of the period as a result of continuous service and program offer improvements through premium content and enriched exclusive TV content. Still, TV ARPU saw a marginal decrease, down 0.1% to HRK 81 as consequence of the promotion of TV through HT's Magenta1 bundle of fixed, mobile and TV services. ARPU was also weighed down by a new offer for the elderly and successful retention activities.

Next Generation Access speeds have been enabled for 55% of Croatian households.

Following our acquisition of a majority stake in Crnogorski Telekom, we present standalone revenue for this business on slide 8.

Even though we have started to consolidate Crnogorski from the beginning of this year, we are presenting Q1 2016 data for illustrative purposes to indicate key trends in Crnogorski's performance.

Let me add also that EUR is the official reporting currency of Crnogorski Telekom.

Revenue remains under pressure, impacted by an unforgiving regulatory environment and aggressive competition in the telecoms market.

Total revenue at Crnogorski Telekom's was EUR 19.8 million, down 8.1% compared to the first quarter of last year. Within this total, mobile revenue fell 3.1% to EUR 9 million, weighed down by a decline in prepaid customers on the back of aggressive pricing strategies by Crnogorski's competitors, as well as regulatory pressure.

Fixed revenue was also lower, falling 13.9% to EUR 9.6 million, hit by lower voice revenue as regulation and fixed-to-mobile substitution continue to affect the use of fixed line telephony. This segment was also affected by lower broadband revenue because of fewer broadband customers. Churn prevention efforts are underway, with a refresh of Magenta1, the bundle offer that includes fixed, mobile and TV, and other offers in the core telecoms market.

System solutions revenue at Crnogorski Telekom in Q1 2017 rose by EUR 0.1 million, or 13.6% in comparison to Q1 2016.

To further illustrate the current position of the new business, slide 9 describes Crnogorski Telekom's business performance in the first quarter of 2017. The key trend was a rise in mobile customers but a decline in fixed mainline, broadband and TV customers.

A focus on winning new postpaid customers helped Crnogorski Telekom to add 5.6% more customers to its mobile subscriber base in the first quarter. At the end of the period the company had 353,000 mobile subscribers.

Meanwhile fixed retail mainlines fell 8.0% in the period to 132,000 and broadband retail access lines fell 5.1% to 71,000. TV customer numbers were also on the decline, falling 5.5% to 58,000 by the end of the first quarter 2017.

I will now hand back to Davor, who will outline for you our outlook for the whole year.

Davor Tomašković: Thank you Josef

Now on to our final slide, number 10.

It shows our updated outlook, which now reflects the inclusion of our acquisition of a majority stake in Crnogorski Telekom and slight increase in HT Croatia CAPEX.

HT Group now expects 2017 full year revenue to be around 10% higher than in 2016.

As we reported at the full year earnings announcement in February, after achieving a margin of 40.5% in 2016, we expect to report an EBITDA before exceptional items margin of around 40% in the current financial year.

We expect CAPEX to be slightly lower than the HRK1.61 billion we spent in 2016.

With regards to regional expansion, HT is monitoring and evaluating potential M&A opportunities.

Thank you for your attention. We are now ready to take any questions.