TPG TELECOM LIMITED (ASX: TPM)

FINANCIAL RESULTS COMMENTARY

HALF YEAR ENDED 31 JANUARY 2018

TPG Telecom increases underlying EBITDA and upgrades guidance

Reported Results

TPG Telecom Limited has today announced its results for the half year ended 31 January 2018 ("1H18"), which include:
- Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the period of $418.2m;
- Net Profit After Tax attributable to shareholders ("NPAT") for the period of $198.7m; and
- Earnings per share ("EPS") of 21.5 cents per share.

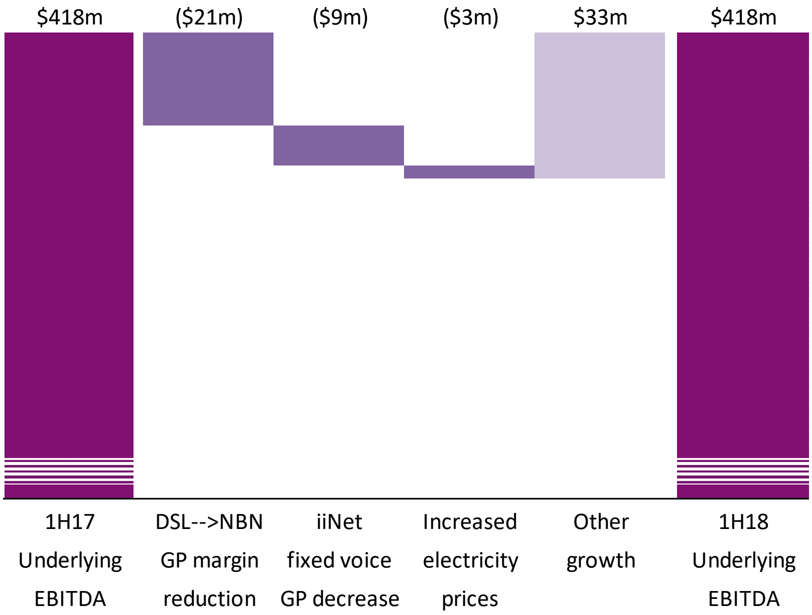
Underlying[1] Results

The 1H18 EBITDA result includes no material irregular items and is therefore representative of underlying EBITDA for the period. By contrast, as reported last year, the 1H17 EBITDA result benefitted from $55.8m of favourable non-recurring items (predominantly a profit realised on sale of an investment).

Therefore, although there is a $55.2m decrease in reported EBITDA between 1H17 and 1H18, underlying EBITDA in fact increased slightly in 1H18 from $417.6m to $418.2m.

As shown in the chart below, this small EBITDA increase has been achieved despite the significant headwinds that were experienced in 1H18 from the migration of DSL customers to lower margin NBN services, loss of gross profit from home phone services as customers migrate to NBN bundled services and electricity price increases.

Bridge between underlying 1H17 and 1H18 EBITDA



[1] A reconciliation of reported to underlying profits is set out on page 3 of this Financial Results Commentary.

The adverse profit impacts of the headwinds shown in the chart above were all in line with, or slightly less than, expectations, whilst the strong $33m of other EBITDA growth achieved relative to 1H17 was pleasing. The main contributors to this growth came from the Corporate Segment, TPG FTTB ('fibre to the building') services, and cost savings from the ongoing integration of iiNet.

Segment Results

The Consumer Segment's EBITDA for 1H18 was $260.2m compared to $267.8m for 1H17. As reported last year, the 1H17 result included $7.0m one-off revenue, excluding which the underlying movement is a small ($0.6m) decrease from 1H17 to 1H18. This movement comprises an $11.8m decrease in gross profit offset by an $11.2m decrease in employment and overhead costs. The gross profit decline is driven by broadband gross margin erosion and loss of home phone voice revenue, both due to the NBN rollout. The significant decrease in employment and overhead costs reflects the results of further integration of iiNet operations within the broader group.

The Corporate Segment achieved EBITDA of $158.9m for 1H18 compared to $157.2m for 1H17. It should be noted that $3.5m of EBITDA related to FTTB that was included in the Corporate Segment's 1H17 EBITDA is recognised with the Consumer Segment in 1H18. Therefore, although reported 1H18 EBITDA for the Corporate Segment is only $1.7m higher than 1H17, the comparable EBITDA growth for the segment was in fact $5.2m. This EBITDA growth has been driven by continued strong data and internet sales offsetting ongoing declines in voice revenues.

Cashflow, Capital Expenditure and Gearing

The Group delivered another strong cashflow result in 1H18 with $417.2m cash generated from operations (pre-tax).

Total capital expenditure for the half year of $791.8m included a $594.8m instalment for the 2x10MHz of 700MHz spectrum acquired at auction last year and $33.9m invested in the mobile network builds in Singapore and Australia. The remaining 'business as usual' capital expenditure of $163.1m was $59.1m lower than 1H17 as the fibre expansion for the Vodafone fibre contract neared completion.

At the end of 1H18 the Group had bank debt (net of cash) of $1,394.3m, which represents a leverage ratio of ~1.7x EBITDA, and had undrawn headroom of over $900m in its debt facilities to fund its remaining mobile network investment.

Mobile Strategy Update

The mobile network builds in Australia and Singapore continue to progress well. The projected capital expenditure on both projects remains in line with original forecasts. Small cell deployment in Australia is well underway with sites already installed in Sydney and Melbourne.

Dividend

The Board of Directors has declared an interim FY18 dividend in line with the final FY17 dividend of 2.0 cents per share (fully franked), payable on 22 May 2018 to shareholders on the register on 17 April 2018. For this dividend, the directors again invite shareholders to reinvest in the Company through its Dividend Reinvestment Plan, for which the discount will be 1.5%.

FY18 Guidance

In light of the first half performance the directors have upgraded the guidance for underlying EBITDA for the Group for the full year FY18 to now be in the range of $825-830m, as shown in the table below.

	1H18 Actual $m	FY18 Guidance Original $m	FY18 Guidance Updated $m
Underlying EBITDA	418.2	800-815	825-830
BAU Capex	163.1	270-310	270-310

David Teoh
Executive Chairman
20 March 2018

Reconciliation of Reported to Underlying Profits

	1H18		1H17	
$m	EBITDA	NPAT	EBITDA	NPAT
Reported	**418.2**	**198.7**	**473.4**	**224.0**
Less: Profit on sale of equity investments	-	-	(48.8)	(35.3)
Less: One-off Consumer Segment revenue	-	-	(7.0)	(4.9)
Add: Acquired customer base intangible amortisation	-	19.0	-	23.7
Underlying	**418.2**	**217.7**	**417.6**	**207.5**