TPG TELECOM LIMITED (ASX: TPM)

FINANCIAL RESULTS COMMENTARY

HALF YEAR ENDED 31 JANUARY 2019

TPG Telecom reports increased 1H19 underlying EBITDA

Reported Results

TPG Telecom Limited has today announced its results for the half-year ended 31 January 2019 ("1H19"), highlights of which include:

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") before impairment for the period of $420.0m;
- Net Profit After Tax attributable to shareholders ("NPAT") for the period of $46.9m; and
- Earnings per share ("EPS") of 5.1 cents per share.

Underlying[1] Results

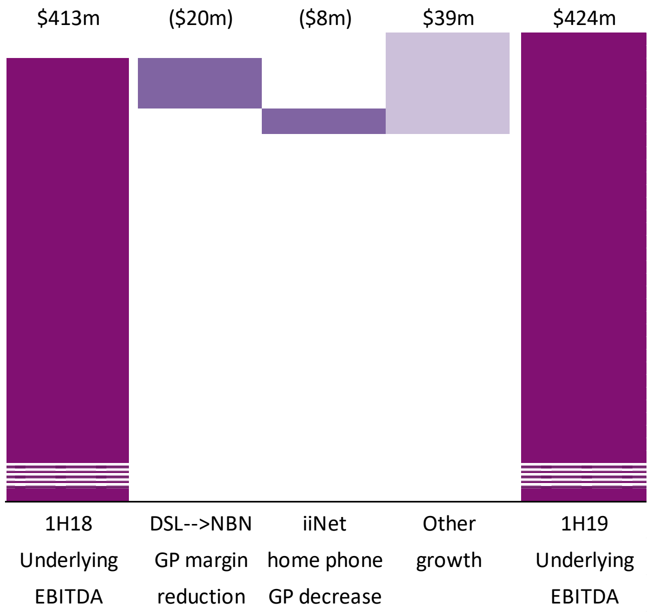
As advised to the market on 26 February, it has been necessary to recognise an impairment expense of $227.4m in the 1H19 results, arising from the Group's decision to cease the rollout of its Australian mobile network.

The 1H19 reported results also include $4.4m of one-off transaction costs relating to the planned merger with Vodafone Hutchison Australia ("VHA").

Excluding these irregular items, underlying EBITDA increased from $413.0m[2] in 1H18 to $424.4m in 1H19, underlying NPAT increased by 3.5% to $225.2m and underlying EPS increased by 3.3% to 24.3 cents per share.

As shown in the chart below, underlying EBITDA continued to be adversely impacted by the loss of margin as DSL and home phone customers migrate to low margin NBN services, but the Group was again successful in offsetting these headwinds in 1H19.

Bridge between underlying 1H18 and 1H19 EBITDA



[1] A reconciliation of reported to underlying profits is set out on page 3 of this Financial Results Commentary.
[2] Prior period comparatives have been re-stated for the effects of the adoption of AASB15.

The adverse profit impacts of the headwinds shown in the chart above were within expectations. The $39m of other EBITDA growth achieved relative to 1H18 was driven by growth in the Corporate Division (including an uplift in contribution from the VHA fibre contract) and the continued realisation of operating expense efficiencies across the Group.

Segment Results

$m		Consumer	Corporate	Other	Total
Revenue	1H19	852.6	383.2	-	1,235.8
	1H18	880.6	374.0	-	1,254.6
EBITDA	1H19	243.0	182.5	(1.1)	424.4
	1H18	255.2	158.7	(0.9)	413.0
EBITDA %	1H19	29%	48%	-	34%
	1H18	29%	42%	-	33%

The Consumer Segment's EBITDA for 1H19 was $243.0m compared to $255.2m for 1H18. This movement comprises a $24.8m decrease in gross profit, partially offset by a $12.6m 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 ongoing operating cost optimisation work.

The Corporate Segment achieved EBITDA of $182.5m for 1H19 compared to $158.7m for 1H18. This $23.8m increase was driven by a significant step up in the contribution from the contract to provide fibre services to VHA, complemented by other on-net fibre sales. The continued shift towards revenue delivered on the Group's owned fibre infrastructure helped lift the Corporate Segment EBITDA margin to 48% in 1H19 compared to 42% in 1H18.

Cashflow, Capital Expenditure and Gearing

The Group generated net operating cashflow after tax of $333.0m for the half-year.

Total capital expenditure for the half year of $556.7m included a $352.4m instalment for the 2x10MHz of 700MHz spectrum acquired at auction in 2017, $66.1m invested in the (now ceased) Australian mobile network build, and $39.8m in the Singapore mobile network build. The remaining 'business as usual' capital expenditure of $98.4m was $64.7m lower than 1H18 following substantial completion of the fibre expansion for the VHA fibre contract.

At the end of 1H19 the Group had net debt (excluding outstanding spectrum liabilities) of $1,567.6m which represents a leverage ratio of ~1.85x underlying annualised EBITDA.

Singapore Update

TPG's mobile network build in Singapore continues to progress well. The network has achieved a nationwide outdoor coverage performance result of over 99%, easily exceeding the 95% milestone it was required to meet by the end of 2018.

A service trial was launched in late December 2018 allowing customers to trial the network for free for twelve months while work continues to enhance network coverage, performance and features.

In response to positive feedback received from initial trial customers, the trial service limit has been expanded to 200,000 users so that more Singaporeans can experience the excellent service and network quality ahead of the full commercial launch.

TELECOM

Dividend

The Board of Directors has declared an interim FY19 dividend in line with last year of 2.0 cents per share (fully franked), payable on 21 May 2019 to shareholders on the register on 16 April 2019. The Dividend Reinvestment Plan remains suspended until further notice.

FY19 Guidance

The directors reaffirm the guidance provided in September 2018 for BAU[3] EBITDA for the Group for the full year FY19 to be in the range of $800-820m and BAU[3] capex to be in the range of $180-220m.

	1H19 Actual $m	FY19 Guidance* $m
BAU[3] EBITDA	424.4	800-820
BAU[3] Capex	98.4	180-220

* As originally provided in September 2018, and now reaffirmed.

David Teoh
Executive Chairman
19 March 2019

Reconciliation of Reported to Underlying Profits

	1H19		**1H18**	
$m	EBITDA	NPAT	EBITDA	NPAT
Reported	**192.6**	**46.9**	**413.0**	**198.6**
Add: Transaction costs re planned merger	4.4	3.1	-	-
Add: Impairment expense	227.4	159.2	-	-
Add: Acquired customer base intangible amortisation	-	16.0	-	19.0
Underlying	**424.4**	**225.2**	**413.0**	**217.6**

[3] In its FY18 results presentation (dated 18 September 2018) the Group provided BAU ('Business as usual') guidance and defined BAU EBITDA as relating to existing Consumer and Corporate Division operations and excluding any impact (revenue or expense) from mobile network operations in Australia or in Singapore and taking no account of any impact from the planned merger with VHA (including merger transaction costs). BAU capex was defined as excluding any expenditure in relation to the mobile network builds in Australia and Singapore and also excluding spectrum payments.