TPG TELECOM LIMITED (ASX: TPM)

FINANCIAL RESULTS COMMENTARY

HALF YEAR ENDED 31 JANUARY 2016

TPG Telecom reports 90% increase in half year NPAT

Reported Results

TPG Telecom Limited has today announced its financial results for the half year ended 31 January 2016 ("1H16").

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the period increased by 85% to $437.3m.

- Net Profit After Tax ("NPAT") for the period was $202.5m, an increase over 1H15 of 90%.

- Earnings per share ("EPS") increased by 83% to 24.5 cents per share.

- Interim dividend per share increased by 27% to 7.0 cents per share.

Underlying Results

The 1H16 reported results include the following irregular items:

- $73.1m gain on the Group's previously held interest in iiNet ($73.1m post tax).

- $9.7m profit realised on a part-disposal of the Group's interest in Vocus ($6.8m post tax).

- $10.3m transaction fees relating to the Group's acquisition of iiNet ($10.3m post tax).

- $4.0m restructuring costs arising from iiNet integration activities ($2.8m post tax).

Excluding these irregular items, the Group's underlying EBITDA for the period is $368.8m, up by $132.6m (56%) over 1H15.

This EBITDA growth includes a maiden contribution from iiNet of $111.1m for the five and a quarter months post acquisition.

Notwithstanding the increased financing costs arising from the predominantly debt financed acquisition of iiNet, the Group's underlying NPAT[1] grew by $43.1m (36%) in 1H16 to $162.3m.

Underlying EPS[1] increased by 31% to 19.6 cents per share.

[1] Underlying NPAT and EPS incorporate the same adjustments as described for Underlying EBITDA and are also adjusted to exclude the impact of acquired customer base intangible amortisation.

TPG Consumer Division

The TPG Consumer Division's EBITDA for 1H16 was $125.6m compared to $117.0m for 1H15.

Neither period was affected by any irregular items so the $8.6m (7%) 1H16 increase reflects organic growth driven by ongoing organic broadband subscriber growth (up by 32k in the half-year) and three months of lower access costs arising from the ACCC's fixed access determination.

As at 31 January 2016 the TPG Consumer Division had 853k broadband subscribers and 297k mobile subscribers.

TPG Corporate Division

The TPG Corporate Division achieved 1H16 EBITDA of $131.9m compared to $117.7m for 1H15.

This $14.2m (12%) growth was achieved despite a negative $4.5m accounting impact on the Division's EBITDA for the period arising from the consolidation of iiNet[2], excluding which the Division's EBITDA growth would have been $18.7m (16%).

This growth reflects strong Corporate Division sales in the period accompanied by continued margin expansion.

iiNet

iiNet contributed EBITDA of $107.1m for the five and a quarter months post acquisition inclusive of $4.0m of restructuring costs arising from integration activities, without which the EBITDA result would have been $111.1m. By comparison, iiNet reported $97.0m underlying EBITDA for 1H15[3].

The principal drivers of the 1H16 EBITDA growth were (i) realisation of post-acquisition integration benefits, (ii) three months of lower access costs arising from the ACCC's fixed access determination, and (iii) an increased contribution from Tech2.

iiNet's total broadband subscribers on 31 January 2016 were 989k, in line with the 30 June 2015 number reported by iiNet, with 34k NBN growth in the period.

Cashflow and Gearing

The Group delivered another strong cashflow result in 1H16 with $339.9m cash generated from operations (pre-tax). After tax, capital expenditure and IRU lease payments, the Group had free cashflow of $130.9m.

The Group had bank debt at the end of the half year of $1460m and a net debt to annualised EBITDA leverage ratio of ~2.1x[4].

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[2] Prior to the iiNet acquisition the TPG Corporate Division earned revenue from delivery of services to iiNet, the cost of which iiNet capitalised as an intangible asset and amortised in its accounts. Therefore, when this revenue is eliminated on consolidation in the Group's post acquisition accounts there is no offsetting cost elimination within the Group's EBITDA. Instead the corresponding intangible asset has been de-recognised in iiNet's accounts resulting in a reduction in intangible amortisation.
[3] iiNet underlying 1H15 EBITDA as disclosed in iiNet's HY15 accounts.
[4] Based on annualised 1H16 underlying EBITDA and including IRU debt within net debt.

Dividend

In light of the Group's strong cashflow and earnings growth, the Board of Directors has declared an increase to the interim FY16 dividend by 27% to 7.0 cents per share (fully franked), payable on 24 May 2016 to shareholders on the register on 19 April 2016.

FY16 Guidance

The directors forecast underlying EBITDA for the Group for the full year FY16 to be in the range of $770m to $775m as reflected in the table below.

	1H16 Actual $m	FY16 Guidance $m
Underlying EBITDA	368.8	770 to 775
Acquisition/integration costs	14.3	
Non-recurring gains	82.8	
Reported EBITDA	437.3	

David Teoh
Executive Chairman
22 March 2016