TELECOM

TPG TELECOM LIMITED (ASX: TPM)

FINANCIAL RESULTS COMMENTARY

YEAR ENDED 31 JULY 2016

TPG Telecom reports 69% increase in Net Profit After Tax
- Eighth consecutive year of strong growth

Reported Results

TPG Telecom Limited has today announced its financial results for the year ended 31 July 2016 ("FY16").

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the year increased by 75% to $849.4m.
- Net Profit After Tax ("NPAT") for the period was $379.6m, an increase over FY15 of 69%.
- Earnings per share ("EPS") increased by 61% to 45.3 cents per share.
- An increased final dividend of 7.5 cents per share has been declared bringing total FY16 dividends to 14.5 cents per share (fully franked), an increase of 26% over FY15.

Underlying Results

The FY16 reported results include the following irregular items:

- $73.1m gain on the Group's previously held interest in iiNet ($73.1m post tax).
- $17.6m profit realised on a part-disposal of the Group's interest in Vocus ($12.3m post tax).
- $10.3m transaction fees relating to the Group's acquisition of iiNet ($10.3m post tax).
- $6.3m restructuring costs arising from iiNet integration activities ($4.4m post tax).

Excluding these irregular items, the Group's underlying EBITDA for the year is $775.3m, up by $290.0m (60%) over FY15.

This EBITDA growth includes a maiden contribution from iiNet of $248.9m for the eleven 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 $114.0m (46%) in FY16 to $361.0m.

Underlying EPS[1] increased by 39% to 43.1 cents per share.

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[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.

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TPG Consumer Division

The TPG Consumer Division's EBITDA for FY16 was $255.7m compared to $239.7m for FY15.

Neither period was affected by any irregular items so the $16.0m (7%) FY16 increase reflects organic growth driven by ongoing organic broadband subscriber growth (up by 64k in the year) and nine months of lower access costs arising from the ACCC's fixed line services final access determination.

As at 31 July 2016 the TPG Consumer Division had 885k broadband subscribers and 304k mobile subscribers.

TPG Corporate Division

The TPG Corporate Division achieved FY16 EBITDA of $269.3m compared to $242.3m for FY15.

This $27.0m (11%) growth was achieved despite a negative $10.1m accounting impact on the Division's EBITDA for the year arising from the consolidation of iiNet[2], excluding which the Division's EBITDA growth would have been $37.1m (15%).

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

iiNet

iiNet contributed EBITDA of $242.6m for the eleven and a quarter months post acquisition inclusive of $6.3m of restructuring costs arising from integration activities, without which the EBITDA result would have been $248.9m. By comparison, iiNet reported $201.7m underlying EBITDA for FY15[3].

The principal drivers of the FY16 EBITDA growth were (i) realisation of post-acquisition integration benefits, (ii) nine months of lower access costs arising from the ACCC's fixed line services final access determination, and (iii) an increased contribution from Tech2.

iiNet's total broadband subscribers on 31 July 2016 were 983k.

Cashflow and Gearing

The Group delivered another strong cashflow result in FY16 with $759.2m cash generated from operations (pre-tax). After tax, capital expenditure and IRU lease payments, the Group had free cashflow of $318.0m.

The Group had bank debt at the end of the year of $1,350m and a net debt to EBITDA leverage ratio of ~1.8x[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 FY15 EBITDA as disclosed in iiNet's FY15 accounts.
[4] Based on underlying FY16 EBITDA and including IRU debt within net debt.

Dividend

In light of the Group's strong FY16 cashflow and earnings growth, the Board of Directors has declared an increased final FY16 dividend of 7.5 cents per share (fully franked) payable on 22 November 2016 to shareholders on the register on 18 October 2016, bringing total FY16 dividends to 14.5 cents per share (fully franked), an increase of 26% over FY15.

FY17 Guidance

The directors forecast underlying EBITDA for the Group for FY17 to be in the range of $820m to $830m as reflected in the table below.

	FY16 Actual $m	FY17 Guidance $m
Underlying EBITDA	775.3	820 to 830
Acquisition/integration costs	(16.6)	
Non-recurring gains	90.7	
Reported EBITDA	849.4	

David Teoh
Executive Chairman
20 September 2016