The Q1 2012 results conference call
27 April 2012 at 15:00 CET

Presenters

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Operator

Thank you for standing by and welcome to the T-HT 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 will need to press *1 on your telephone. I must advise you that this conference is being recorded today, Friday 27th April 2012. I would now like to hand the conference over to your first speaker today, Miss Erika Kaspar. Please go ahead.

Erika Kaspar

Ladies and gentlemen, good afternoon and welcome from Zagreb where today our CFO, Mr Dino Dogan is with me, while our CEO is joining over the phone from his business trip. Mr Mudrinic and with Dogan will talk you through the highlights of our business and financial performance for the three months to 31st March this year, using the 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 Mudrinic and Mr Dogan will also be available for your questions.

Before we begin, allow me to draw your attention to the harbour statements on page 2 of our presentation. Allow me now to introduce Mr Ivica Mudrinic, our CEO, who will outline our company's performance in the three months to 31st March 2012.

Ivica Mudrinic

Good afternoon everyone. Let me then start at the beginning to give an overview of the overall economic environment in which we operate. I think most of you are aware of the size of Croatia and location. I should point - out and this is why we put it in the slide - tourism is a very important part of the overall economy. 11.5 million tourists visited Croatia in 2011. 87% the tourist traffic is foreign tourists, an important part of the economy and the business important for us as well and the season is about to begin.

The second thing that I would like to highlight has to do with the economy. What we have given you here on the chart on the right bottom right of the slide is an indication of the overall GDP performance starting with 2008. What you can see here is a decline in the total GDP in comparison to 2008, -6, -7, -7 and -8%. What we are trying to say is that we have not recovered from the economic recession that hit Croatia earlier a few years back.

In addition to this, we have a relatively high unemployment rate of roughly 20% registered in March of 2012 and in addition we have a business arrears or arrears in the business segment that are a staggering HRK42.8 billion. As you can see, the total GDP in 2012 forecasted to 346, so the 42.8 is quite a significant portion. If you have questions on economic environment, I will be happy to answer any of those questions really at the end together with our CFO, Mr Dogan. I should also point out that we have a new government in place. We have just finished our first hundred days and we are very hopeful that some of the economic issues will be dealt with rapidly in the coming months and years.

On the next slide, a shorter review of the Croatian telecom and ICT market; again, on the fixed telephony side, 19 licensed operators, of those 10 are actually active. We have what is called the wholesale line rental introduced mid last year and naked bitstream as well. We are seeing usage decline in line with the industry trends. Essentially on the internet side, fixed line broadband household penetration is at 46%, which means that there is still significant room for growth and it is in fact the IC and the PayTV that we are seeing growth ourselves. So-called naked DSL has been introduced in 2011, but again as I said, significant growth opportunity.

In mobile telephony, we have three operators in the market with 7 brands. We have a new mobile brand in the market as of a month ago. We have also ourselves launched - we are the first in fact to launch the LTE services a couple of weeks ago. The mobile penetration is 117%. It is lower than the earlier figures. What we are seeing is a reading out of the market, cleaning out the unused or inactive SIMs. We have also had the regulator introduce new methodology related to the activity period, which has actually brought the mobile penetration statistically down. We're seeing significant growth in mobile broadband and in the smartphone penetration.

On the PayTV side, satellite and cable are underdeveloped and the total PayTV household penetration is only 39%, which is significantly lower than roughly the 62 or so percent that is common in most of the West European markets. MAXtv, our payTV or IPTV brand, is the most successful PayTV in our market. As a result we have some pressure to regulate this segment by our regulator. ICT is a segment that we have highlighted in the previous reports as being very significant. As you will see through a wholly-owned subsidiary called Combis and our own internal ICT theme, we have a significant position in the ICT market.

We are seeing the total market decline by 2.7% in 2011 to roughly USD1,026 billion. However, the IT services segment, which is most important for us, is 35% of total market; the decline in this segment is 4% year-on-year totalling to roughly USD355 million. We are also seeing, because of the economic situation, a continued shrinking of the Capex budget and the spend on IT has declined; however, we do see the accession to the EU on the horizon and certain moves by the new government that should stimulate the economic situation of growth in the economy, which should fuel also both in the ICT segment and the traditional telecommunications.

On the next slide we have given the key highlights related to this period from the regulatory framework point of view. The new government has reinstated or reintroduced a 6% fee on mobile telephony and messaging, applicable as of 26 January 2012, and it should stay effective up to 30 June 2013 or sooner. This has been covered by the press leading to the government to try to have this position changed and there is some hope that there will be a change by the government; their position may change on this point.

In January 2012 interconnection prices were amended of course, reduced as the usual customary in the telecoms sector; as we saw in the European Union, same situation is taking place here. In March 2012, we have had a decision adopted by our regulator relating to the regulation of retail broadband and IPTV markets. We also have price control obligations/promo offers regulation that has been imposed on us as well. We have been designated as SMP operator on wholesale terminating segment of leased lines market and wholesale trunk segment of leased lines market. This is not overly unusual, but is unusual in deregulation of the IPTV in our markets.

Moving on to the next slide, I would like to take you briefly through the group highlights. Of course we have retained our leading market position across all areas of business that we are engaged in. Our revenue has decreased by 4.7% to HRK1.806 million. The EBITDA, however, is down 0.7% to HRK762 million; the EBITDA margin is 42.2% in this period. The net profit increased 3.7%. Capex is lower significantly to HRK102 million, partly due to the instability caused by the regulation on fibre and partly due to certain project delays, as you will see in the outlook, where we have a stake...

Our headcount decreased to 5,686 employees in comparison to Q1 2011 when we had 6,267 employees. We have made an advance dividend payment in the amount of HRK 11.07/share on February 27 of this year. The General Assembly two days ago has approved a total dividend of HRK 22.14/share; the residual part of HRK 11.07 is to be paid on 21 May 2012 of this year. Commercial launch of LTE that I mentioned already is very important, because it has once again reconfirmed our technology as service leader in our market. We have also introduced new mobile tariffs with highest speed in the market.

On the next slide you can see the revenue development by segment, indicating of course that the fixed telephony, traditional fixed telephony, as in most markets, has decreased purely by the change of usage, but in addition fuelled in part by what is called wholesale line rental, which was introduced mid last year. The internet revenues continue to grow, internet and IPTV of course, and from this the wholly-owned subsidiary for ICP has again increased the total revenues in comparison to last year.

On the next slide we have a short overview of the mobile telephony, driven again by active technology. The market share by subscribers has increased by 0.1% roughly. The total number of subscribers, however, has declined by 3.2% to a total of 2,350,000. What's important to note is we have reported the subscribers that are using data over the mobile system or the mobile networks has risen by 8.5% to a total of 670,000 subscribers. The average revenue has increased by 0.3% and the branded non-voice revenue, also driven mostly by data usage, has increased by 8.2%. Average minutes of use have increased by 10% as well, as you can see on the bottom right.

On the next slide it shows the review of the fixed telephony part, again, by technology or access technology. This is the traditional way of presenting the data, so for comparison's sake, you have this as well. You have the number of main lines declining by 14.6%. This is mainly driven by this wholesale line rental shifts that has been mandated by the regulators. Total trafficking units have declined 11%, again a combination of the number of main lines declined and also the usage by the customers. The ARPA has also declined by 1.8%. As you can see on the bottom right of this chart, the number of ULL and wholesale line rental customers has increased and this is part of this regulatory move from last year.

In IP Services, you can see on the next slide the number of ADSL mainlines have increased at 2%. The ADSL average revenue per customer has increased by 6.1% and the number of IPTV customers has increased by 8.8%. Again, these are very important segments; these are growth segments when you look at our business in its totality.

Now I'd like to turn the microphone to our CFO, Mr Dino Dogan, who will take you through the segment that follows.

Dino Dogan

Ladies and gentlemen, good afternoon from me as well. Let's move to the next slide, number 11 and let's take a joint look at the revenues in our residential segment. As we saw in 2011, overall revenue in this segment was down, falling 5.3% in the first quarter of 2012. This is mainly due to lower voice revenues, which was 10.5% lower on the previous year, primarily linked to the tough economic climate, intense pricing pressure that is unfortunately continuing, reductions in mobile termination rates and regulatory tightening. Growth has continued in the fixed IP and in the mobile data revenue as we face that one as industry trend, however, and this has again boosted residential non-voice revenues, which rose 7.2%.

The division's contribution to EBITDA rose 4.1% in the three-month period to HRK691 million as tight cost controls and related lower operating expenses continued. This division has led the market with innovative products and services with attractive tariffs and voice and data products. It also enhanced MAXtv content further, like Croatian Premier Football League matches. Prepaid mobile brand bundle achieved more than 100,000 users in 2011, has now embarked on a further push for new subscribers with a number of attractive deals. In the mobile segment, T-HT launched their new prepaid tariffs: Talk, Send and Surf and Marathon XL. Tariff Talk offers unlimited calls to T-HT fixed and mobile users, with users only paying for the first minute. Send and surf offers affordable texting within the group's network and in line with current trends in mobile data this tariff also offers mobile internet at an affordable price.

In March a new prepaid mobile brand, MultiPlus, entered the market, so this is a brand reseller concept. The first one, by the way, in Croatia, that provides one simple affordable tariff, no minimum top up conditions and an option to collect points within MultiPlus Card programme, so this offer is being offered by a major retail chain, Agricoles Konzum, and it is carried on the T-HT's group network infrastructure. Further on, the launch of MyT web portal will further assist our customers by allowing them to bring together fixed and mobile services in one online space.

Let's move to the next page referring to the business segment. The revenues here have also declined in the first quarter of this year, falling 3.9% to HRK793 million. Our voice revenues fell 12% to HRK366 million, once again as a result of a declining number of mainlines, fall in fixed network traffic and lower mobile revenue, mainly due to lower prices and a lower usage. On the non-voice revenues rose 8.4% to HRK281 million, however, driven by infrastructure revenue due to the before-mentioned wholesale line rental activations.

Other service revenue was up only slightly, showing a rise of 1.4% in the quarter. The contribution from the business segment to EBITDA was 2.3% higher, due primarily to lower merchandise costs. Also we continued to be innovative and proactive, focusing largely on ways to monetise our Cloud-based services as we actively seek ways to extend our product offering in the cloud. We also launched Max 2 Biz packages, which provide a combination of fixed call and fixed broadband traffic. There are several packages under this deal, which include flat rate deals for fixed calls and all you can eat ADSL deals.

Let's come to slide 13 which outlines our financial highlights. The revenues, as mentioned by Ivica, were down by 4.7% due to the economic and regulatory reasons within the context of a highly-competitive market. The falling EBITDA was limited, however, to just 0.7% and our EBITDA margin remained fairly stable at 42.2% as we continued to apply rigorous cost controls. Material expenses decreased 21% to HRK456 million, mainly due to lower merchandise costs compared to the first quarter of 2012. As a result, our Q1 2012 saw a reduced investment in customer acquisition and retention, a different handset mix and smart pricing management. At the same time services expenses decreased 5.7% due to lower telecommunication costs and higher copyright fees, which is a result of a larger TV customer base and more exclusive content offers.

Our net profit rose 3.7% in the first quarter of 2012 to HRK364 million, based on a strong net financial result. Capex decreased largely as a result of the slower realisation of some products as well as because of the reprioritisation and rescheduling of some projects with investment primarily targeted at revenue assurance and quality of service. In addition, in the first quarter 2011, we saw an unusual high capex, which did not occur in the first quarter of 2012. Regarding the net cash flow from operations, it rose 15.4% to HRK546 million, mainly as a result of higher profit before tax and a better current liabilities management due to a corresponding lower capex and the before-mentioned cost savings.

Now, as we had presented our results for the last quarter, we will also give you an outlook for the rest of the year. In terms of revenue, the Croatian economy continues to be sluggish with no signs of recovery since entering a recession in 2009 and (this is according to the recent forecasts), growth is unfortunately still not expected to materialise in 2012. In such an economic environment with domestic regulatory pressures and progress towards alignment with the EU regulation, as well as intensifying competition, last year's trend in Group revenue decline is expected to continue. This will be additionally impacted by the recently-introduced increase in the VAT rate and the reinstatement of the 6% fee on the mobile services.

As far as the EBITDA before exceptional items is concerned, the Group will continue its cost management programme throughout the year. Nevertheless, due to continued severe economic and market conditions in Croatia leading to lower expectations for revenue, our EBITDA expectation is to be somewhat lower than the 2011 level.

Regarding Capex, the current regulatory framework continues to deter investment in fiber infrastructure by the Group. However, we will continue investment to transform our fixed core network and enhance our infrastructure to support further growth in fixed and mobile broadband demand. As a consequence, Capex in 2012 is expected to be higher than in the previous years. Last but not least, an outlook regarding our regional expansion - the Group will continue to monitor and evaluate expansion opportunities in case this would increase the shareholder value.