

Kazakhtelecom: financial results for 1Q2019

Aliya Assilbekova — June 03, 2019

Kazakhtelecom released financial results for 1Q2019, which included the results for Kcell, which affected the Company's financial indicators. In 1Q2019, the Company's total revenue amounted to T88 526 mn, an increase of 71% y/y, mainly due to an increase in revenue from data transfer services to T41 mn (+ 47% y/y), wired and wireless telephone services T23.1 mn (+ 104% y/y) and interconnection services up to T8.9mIn (+ 175% y/y). The Company also recognized revenue from the sale of equipment and mobile devices in the amount of T3 526 mn in 1Q2019. The share of revenue in the consumer (B2C) segment was 59%, and the total share in the corporate and government segments (B2B and B2G) accounted for 22% of the total revenue.

During the reporting period, Kazakhtelecom increased the cost of sales to T64 781 mn (+ 103% y/y). The cost of sales increased due to an increase in expenses for interconnection services to T6 869mIn (+ 523% y/y), payments for using the frequency range up to T1 670 mn (+ 439% y/y) and expenses for repair and maintenance up to T3 186mIn (+ 235% y/y), meanwhile, the cost of leasing communication channels decreased to T275mIn (-59% y/y). The Company's operating profit increased by 7% y/y to T14 624 mn. For 1Q2019, Kazakhtelecom made a profit in the joint venture Tele2-Altel in the amount of T3 128 mn (+ 301% y/y) against the profit in T781 mn in 1Q2018. For 1Q2019 the JV generated T32 459 mn (+ 17% y/y) with operating expenses in the amount of T23 771 mn (-0.14% y/y) and non-operating expenses in T2 528mIn (-6.85% y/y), which made it possible to profit of T3 128 mn. In 1Q2019, the total profit of Kazakhtelecom was significantly affected by the growth of financial expenses in the amount of T7 723 million (+ 604% y/y). As a result, the net profit of Kazakhtelecom for the quarter decreased by 3% y/y, reaching T9 056 mn.

On April 30, 2019 the Company declared dividends on preferred shares in the amount of T250m and dividends on ordinary shares in the amount of T8,362 mn (781,06 KZT/share).

On May 22, 2019 Kazakhtelecom has entered into an agreement with the Halyk Bank on opening a credit line in the amount of T80 818 mn in order to refinance the Mobile Telecom Service (JV Tele2-Altel) loan with an interest rate of 11.5% and with a maturity of 21 May 2027.

In April 2019, the Company repurchased 10 preferred shares and 1 222 ordinary shares from minority shareholders at T26 376 per preferred share and T66 487 per ordinary share. The total amount of the repurchase amounted to T82 mn.

Our opinion:

In general, Kazakhtelecom's revenue for 1Q2019 turned out to be in line with our expectations and increased due to growth in revenue from data transfer services, revenue from interconnection services and recognition of revenue from the sale of contract phones. An important positive moment for Kazakhtelecom in the 1Q2019 results was a positive financial performance JV Tele2-Altel. The decrease in net profit by 3% y/y was mainly due to the increase in interest expenses on loans (+ 937% y/y).

We do not see a significant change in the Company's main fundamental factors. Considering the above, as well as the full consolidation of the JV Tele2-Altel and the diversification of the Company's asset portfolio through the acquisition of Kcell, we maintain our recommendation to Buy and **30 130KZT/share 12M TP**.

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