

Kazakhtelecom presents financial results for 2018

Aliya Assilbekova — March 29, 2019

In 2018, the Company's revenue grew by 5.95% y/y, reaching T222.7bn. Cost of sales increased by 1.54% y/y, reaching T154bn. General and administrative expenses as well as sales expenses in 2018 increased by 8.67% y/y to T23.3bn and by 15.4% y/y to T4.4bn, respectively. Operating profit of Kazakhtelecom increased by 11.5% y/y to T37.1 bn. The net profit of the Company for the reporting period amounted to T42.9bn (+73% y/y). The increase in operating and net income in 2018 was mainly contributed by the growth of revenues from services rendered to the state (+8.6% y/y) and corporate sectors (+8.2% y/y).

On 25 of December 2018, the Company paid dividends for 2018 on preferred shares totaling T79 mn, which is equivalent to T300 per share.

An increase in the Company's revenue was mainly due to the growth of income from leasing communication channels to T18.54bn (+ 0.7% y/y), from data transfer services to T113.3bn (+ 6.6% y/y) and from other revenues up to T23.2bn (+ 64% y/y). Revenue from interconnection services fell by 5.8% y/y to T14.95bn. Revenue from wired and wireless telephone services fell by 3.7% y/y to T46.6bn. Compensation by the Government of the Republic of Kazakhstan for the provision of universal services in rural areas amounted to T6.2bn (-13.7% y/y).

In 2018, the Company reduced financing costs by 6.1% y/y to T7.35bn. Over the same period, profit from revaluation of currency items in the amount of T10.6bn was recorded due to the devaluation of the tenge against the US dollar and a number of key currencies. The share of the Company's profits in affiliates amounted to T7.8bn in 2018 against T1.1bn in 2017.

The increase in cost of sales was largely due to a sharp increase in expenses for using the frequency range up to T1.3bn in 2018 against T0.2bn in 2017. The cost of leasing communication channels, the cost of interconnection services and content increased to T9.35bn (+23.5% y/y), T7.69bn (+8.7% y/y) and T5.38bn (+7.7% y/y), respectively. Other expenses increased by 59.9% y/y to T5.2bn in 2018. During the reporting period, the Company reduced its depreciation and amortization costs by 10.1% y/y to T38.6bn, materials costs by 14.9% y/y to T6.2bn and the fee for using the billing system of "Mobile Telecom-Service" LLP by 12.3% y/y to T0.22bn.

On 22 of December 2018, the Company acquired 75% of Kcell voting shares. In connection with the closing of the transaction for the acquisition of Kcell, on 28 of December 2018, Tele 2 made a decision on the early exercise of the put option, according to which Kazakhtelecom acquires all the shares of the joint venture owned by Tele 2 at market price.

Our opinion:

According to the results of 2018, the Company was able to increase its net profit by increasing revenue in the state and corporate segments, reducing financing costs and recognizing revenue from revaluation of currency items. In the results for 2018, we also note an increase in the Company's profit share in associates (T7.9bn vs T1.1bn).

In general, Kazakhtelecom's revenue for 2018 turned out to be within our expectations. The Company for the reporting period increased its income from data transfer services, while significantly reducing costs. Company's operating results in 2018 also generally correspond to our forecasts. However, given the need to update our forecast indicators, we put our recommendation under review.

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