

Kcell's results for 1H2019

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Following 1H2019, the Company increased revenue by 0.5% y/y to 73 049 mn KZT, EBITDA excluding non-recurring costs amounted to 30 040 mn KZT (+ 29.1% y/y), while EBITDA margin amounted to 41.1% (32% in 1H2018). During the reporting period, Kcell's operating loss amounted to KZT 2 083 mn, net profit was negative and amounted to KZT 5 881 mn (versus net profit of 3 477 mn KZT in 1H2018) due to the recognition of a penalty of KZT 14 552 mn, which was recorded as a one-time expense. Net financing costs rose by 14.5% to KZT 4 838 mn. Subscriber base at the end of 1H2019 amounted to 8 676 versus 10 062 at the end of 1H2018.

Revenue from voice services grew by 0.23% y/y and amounted to KZT 37 864 mn. Revenue from data transmission services grew by 8.4% y/y to KZT 24 265 mn, while data traffic increased by 32.7% y/y, reaching 149.1 PB. Average income per 1 MB (ARMB) decreased to 0.15 KZT. However, we note a decline in revenue from the sale of mobile devices by 14.1% to KZT 7 207 mn. The main reason was the expansion of the range of offers and the strengthening of positions in the middle price segment, compensating for the decline in demand in the premium segment. Revenue from value-added services decreased by 10% to KZT 7 207 mn.

Cost of sales decreased by 1.5% to KZT 52 783 mn, mainly due to lower phone sales and lower rental costs due to the use of IFRS16. Sales and marketing costs fell to KZT 1 189 mn (-20.2% y/y). General and administrative expenses, excluding the impairment of financial assets and the cost of paying a fine for termination of the network sharing agreement with Kar-Tel, decreased by 47.9% y / y to 3 884 mn. The latter is associated with a decrease in tax expenses in 1H2019 (Comparative data for 1H2018 included an additional reserve for tax payment in the amount of 2.3 bn KZT, as well as reduction of expenses for doubtful debts in connection with the introduction of processes to improve the quality of the receivables portfolio). In 1H2019, the Company has generated income tax savings due to the recognition of a deferred tax asset on the deferred tax loss resulting from the accrual of a fine to terminate the agreement with Kar-Tel.

Our opinion:

As positive financial factors in the 1H2019 results, we note a decrease in marketing as well as general and administrative expenses. The Company increased its net profit in 2Q2019 up to 2 870 mn KZT (+157% y/y). Kcell began successfully implementing the strategy of transition from "quantity to quality" in 1H2019, and based on the results of 2Q2019, ARPU (the number of subscribers with a higher level of profitability) increased by 21% y/y, which is due to the growing number of subscribers choosing package offers, which constitute half of the total subscriber base. The improvement in revenues is also due to the PAYG tariff in package offers, enabling unlimited access to social networks, as well as switching to tariff plans with increased content. B2B revenue showed an increase of 19.5% y/y due to an increase in revenue from business solutions.

We expect the stabilization of the Company's operating and financial indicators, an increase in revenue due to attractive tariff plans, as well as significant cost optimization. We maintain our **Buy** recommendation with **12M TP 2 225 KZT / share**.

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