Kcell results for 1Q2019

Aliya Assilbekova — April 26, 2019

According to the results of 1Q2019, the Company reduced revenue by 3.3% y/y to 35 180 mn KZT, EBITDA excluding non-recurring costs amounted to 14 024 mn KZT (+ 12.6% y/y), while EBITDA margin at 39.9% (34.2% in 1Q2018). During the reporting period, Kcell's operating loss amounted to -8 275 mn KZT (-239.5% y/y), net loss amounted to -8 751 mn KZT (-471% y/y). The Company's net financial expenses decreased to KZT 2 146 mn (-7.3% y/y). Subscriber base at the end of 1Q2019 amounted to 8 741 thousand against 9 958 thousand in 1Q2018. The Company's Board of Directors recommended dividends for 2018 at the level of 29,86KZT/share. The total amount of recommended dividends amounts to KZT 5 972 mn or 70% of the net profit for 2018.

Kcell's main revenues retained their trends in 1Q2019. With a decrease in voice traffic by 6.3% y/y, data traffic increased by 34.7% y/y, which was reflected in a decrease in revenue from voice services to KZT 17 851 mn (-5.1% y/y) and an increase in the revenue from data transfer services to KZT 11 822 mn (+ 2.7% y/y). Other income of the Company decreased by 14.8% y/y to 3 526 mn KZT due to a decline in sales of mobile phones due to insufficient inventory.

Cost of sales decreased by 2.1% to KZT 23 341 mn mainly due to lower phone sales, and also due to lower rental costs due to the application of IAS 16, which, in turn, was offset by an increase in amortization costs. Sales and marketing costs fell to KZT 2 120 mn (-10.3% y/y). General and administrative expenses increased by 295.4% y/y to KZT18 086 mn due to the recognition of a fine on termination of the Network Sharing Agreement with Kar-Tel in the amount of KZT14 552 mn, which was recorded as a one-time expense.

Capital expenditures decreased to KZT 2 132 mn in 1Q2019 versus KZT 2 642 mn in 1Q2018, the ratio of CAPEX to sales was 6.1% (7.1% in 1Q2018)

Our opinion:

As positive financial factors in the results for 1Q2019 we note a decrease in marketing and financing costs. The decrease in operating income and net profit is largely attributable to one-time expenses. The focus of the Company on quality customers led to an increase in ARPU by 9.5% compared to the same period of 2018. The company noted growth in the corporate segment, which provided a 14% increase in B2B revenue and a 33% increase in revenue from business solutions.

We expect the stabilization of the financial and operating results of the Company during the current year due to the synergistic effect of consolidation with the main shareholder of the Company. We maintain our **Buy** recommendation and **12M TP 2 225 KZT/share**.

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