

## Kcell results for 9M2019

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Altynay Ibraimova — October 25, 2019

In the context of a declining subscriber base (-8.6% yoy) and stagnation of revenues from voice services, Kcell significantly reduced its expenses, mitigating a decrease in operating profit by 3% yoy.

Over 9M2019, sales grew by 2.4% yoy to T114bn, of which 51% was received from voice communication services and 33% from data transmission. Income from voice services for 9M2019 amounted to T59bn tenge, increasing by 1% yoy and from data transmission the company received 38bn tenge, which is 12% higher yoy.

On sales of mobile devices, there is a decrease in revenue by 12% yoy to T12bn. Just for this reason, the Company managed to reduce its total cost by 2.6% yoy to T80bn.

Costs of sales and marketing decreased significantly - by 27.4% to T1.7bn.

In the reporting period, there is a noticeable optimization of general administrative expenses, which decreased by 42.5% yoy and amounted to slightly more than T6bn. This effect was partially offset by the payment of a fine of T15bn during 9M2019, the costs of which did not arise last year. Due to the netting of fines and related charges, operating profit declined 3% to slightly above T13bn. As a result of the growth in financial expenses, the company's pre-tax profit amounted to T5.9bn, which is 23% lower than the result for 9M2018. Due to the strong reduction in tax expenses (-68% yoy), the Company managed to achieve net profit in KZT5bn, which is 3% yoy higher.

### **Our view**

In the context of a declining subscriber base (-8.6% yoy) and stagnation of revenues from voice services, Kcell significantly reduced its expenses, mitigating a decrease in operating profit by 3% yoy. At the same time, the adjusted operating profit excluding the netting of payment of fines according to our calculations is about T26bn, which is 62% higher than in the previous year. The company did a great job to reduce costs while the number of employees grew by 2.3% yoy. In the future, we expect a gradual stabilization of the financial performance of the Company due to the continuation of the policy of high-quality cost optimization.

As a result of the reduction in subscribers, we are seeing an increase in average specific revenue based on an increase in ARPU by 16.6% yoy. We maintain our recommendation to Buy with 12M TP 2 225 KZT/share.

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