Healthy growth in a challenging quarter of seasonality and competition

Grameenphone Ltd. (GP) reported a solid quarter with 8.0% (YoY) total revenue growth and 12.4% (YoY) subscription & traffic revenue (excluding interconnection) growth. This was reported in a quarter with headwinds from seasonality and ongoing competitive industry dynamics. Data revenue grew by 29.1% (YoY) and voice revenue growth continued with 9.2% (YoY) for the period. Total subscriber increased by 1.4 Mn along with 1.2 Mn addition in data users. Higher revenue and operating efficiency contributed to EBITDA of BDT 19.0 Bn. Earnings per share for the quarter was BDT 4.42 despite negative impact from one-off items.

Industry continued to be competitive with lower activity from seasonality

The quarter continued with the intensity of competition in customer acquisition and data segment. Generous free data offers on new acquisition, higher channel incentive and stand alone generous data offers continued. Offers were concentrated more towards parts of the market with low share of subscribers.

The industry added 4.4 Mn subscribers during the quarter, taking the total base to 145.1 Mn. With this, the estimated SIM penetration at the end of 2017 stands at 83%. The subscriber acquisition momentum created after the biometric verification last year increased further and during 2017 the industry added 18.6 Mn new subscribers, registering a strong growth of 14.7% (YoY).

Grameenphone Ltd.: Healthy revenue growth and subscriber acquisition

Revenue & Subscriber

GP delivered BDT 32.2 Bn revenues for the 4th quarter of 2017 with 8.0% growth from last year. Subscription and traffic revenue (excluding interconnection) grew by 12.4% (YoY), with contribution from both data and voice segment.

Data revenue grew by 29.1% (YoY), driven by 27% increase in data user and 62% growth in data volume. Data revenue contributed to 54% of incremental revenue for the quarter. Voice revenue grew by 9.2% (YoY) against 9.4% growth in outgoing minutes of usage. Improving daily revenue generating base both in voice and data, stable voice price and its corresponding usage growth in data is driving this. Device revenue declined by 51% (YoY) and Interconnection revenue by 1.5% (YoY) during the period.

The number of subscriptions increased by 1.4 million during the quarter. Total base stands at 65.3 Mn, which is 2.3% higher than last quarter. As of December 17 end SIM market share is stable at 45.0%. Data subscribers grew by 1.2 Mn mainly driven by competitive offers. With this, 47.7% of total subscribers are using Grameenphone internet services.

Service ARPU, AMPU, APPM and AMBPU

Service ARPU decreased by 3.1% (YoY) due to lower activity from seasonality. Declining interconnection minutes is also impacting lower service AMPU for the quarter. In the data segment, ARPU grew marginally by 1.6% (YoY) to BDT 60. AMBPU increased by 27.7% (YoY) to 807 megabytes despite 27% (YoY) user growth. APPMB declined by 20.4% (YoY) due to competitive offers introduced.

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Higher revenue and operating efficiency contributing to improved EBITDA. Earnings impact from negative one-off adjustments.

EBITDA growth from higher revenue and operating efficiency
Operating expenditure for the quarter was BDT 11.0 Bn, a 2.9% growth from last year. Growth in operating expenditure is mainly coming from higher revenue driven cost and higher network costs from 1,010 additional sites. This was partly offset by efficient market expenses and lower SIM sales mainly. Net one-off reversal of BDT 46 Mn was recorded in the quarter. Included here are some positive as well as negative adjustments mainly in bad-debt against receivables and review of accruals as part of regular exercise.

EBITDA (before other items) grew by BDT 2.6 Bn from higher revenue of BDT 2.4 Bn and relatively flat Opex. With this, EBITDA grew by 15.7% (YoY) against revenue growth of 8.0% (YoY). EBITDA margin for the quarter was 58.8% with 4.0 percentage points improvement.

GP invested BDT 4.7 Bn (CAPEX excluding spectrum fees) mainly for rollout of 3G sites, 2G coverage, capacity enhancement and network & IT readiness for future business. Capex to sales ratio was 11.3%. During the period, 477 2G and 491 3G sites were added in the network. 95% of company’s total sites are now 3G enabled and this covers 93% of country’s total population. YTD total number of 2G and 3G sites now stands at 12,994 and 12,332.

Cash flow and profitability
Operating cash flow (EBITDA minus Capex) for the quarter stood at BDT 14.3 Bn with margin of 44.2%. Operating cash flow as well the margin improved due to lower capex and higher EBITDA.

Net profit after tax for the quarter was BDT 6.0 Bn with profitability margin of 18.5%. The quarter reported a net negative one-off adjustment of BDT 2.0 Bn. Key elements of this includes loss on contracts, impairment of software, ACISL wind-down related costs and accelerated depreciation of core network mainly. Earnings growth reported was 11.1% (YoY) despite the impact. Normalized NPAT growth was 32.6%.

Balance Sheet & Debt
Total assets at the end of year is BDT 130.2 Bn. Net debt to EBITDA stands at 0.02 due to higher cash generation and lower debt. Debt to equity ratio is 0.40.

Dividend
The Board of Directors have recommended final dividend for the year 2017 in cash at the rate of 100% of the paid up capital. With this, the total cash dividend stands at 205% of paid up capital for 2017.

Regulatory Highlights
4G operating license and spectrum auction & technology neutrality guideline
MNOs applied for 4G operating license and spectrum auction. It is a non-binding application. Few unresolved issues are still in discussion. Bid earnest money deposit deadline is 5 Feb’18 and the scheduled auction date is on 13 Feb’18.

BTRC Audit
BTRC audit commenced on 3 Aug’2016. Received a summary of the draft audit observations on 11 Dec’17. Feedback has been duly submitted on 18 Jan’18. Waiting for further consultation with regulator.

Tower Co. licensing guideline
 Licensing guideline has been approved by the Ministry as per media reports. MNOs will not be eligible to participate. Industry holds its existing position on legal rights to build, maintain, operate and co-locate towers.

Mobile Number Portability Services (MNPS)
On 30 Nov’17 BTRC awarded MNP license to Infozillion BD Teletech Consortium Limited (IBTCL). Scheduled to be launched by Mar’18. Discussion ongoing amongst BTRC, IBTCL and MNOs for process development and system integration.

SIM tax on replacement SIMs
LTU-VAT issued a separate show-cause notice for the period of January 2012 to June 2012 amounting BDT 823 Mn. As per provision of the VAT Act-1991, LTU-VAT cannot claim any due beyond 5 years, hence the claim is time barred. GP has replied to the show cause notice accordingly.

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