



Silknet – 1Q24 update

Telecom | Georgia
July 30, 2024

Silknet's revenue was up 8.9% y/y to GEL 136.5mn in 1Q24, driven entirely by organic growth. Mobile data and fixed broadband were key contributors. The growth in operating expenses was more modest, increasing 7.0% y/y to GEL 83.7mn, mainly due to one-time consulting expenses and higher salary costs. Excluding D&A costs and non-recurring items, operating expenses grew 6.5% y/y in 1Q24. Consequently, EBITDA grew 10.3% y/y to GEL 87.0mn, improving the EBITDA margin to 63.7% in 1Q24 from 62.9% in 1Q23. For the full-year 2024, we expect Silknet's revenues to reach GEL 574.6mn, marking a 7.1% y/y increase, driven by the mobile data growth.

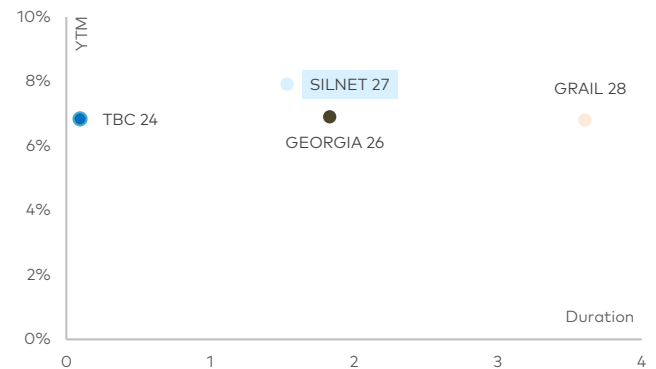
Silknet has made a strategic alliance with Orange, joining the Orange Alliance Program in June 2024. The company expects this partnership to enhance Silknet's capabilities in the B2C, B2B, and ICT sectors through access to Orange's platforms, expertise, and experience.

Financial highlights, GEL mn

Category	1Q23	1Q24	% Change y/y
Revenue	125.4	136.5	+8.9%
<i>of which:</i>			
Mobile data	33.4	38.6	+15.8%
Fixed broadband	32.5	34.8	+6.9%
Mobile callout	26.8	27.8	+3.8%
Pay-TV	13.9	14.1	+1.7%
Carrier services	10.9	11.8	+8.4%
Other	7.9	9.4	+18.7%
EBITDA*	78.9	87.0	+10.3%
<i>EBITDA margin</i>	<i>62.9%</i>	<i>63.7%</i>	<i>+0.8ppts</i>
Net income	60.1	42.3	-29.6%
<i>Net profit margin</i>	<i>47.9%</i>	<i>31.0%</i>	<i>+16.9ppts</i>
Assets	833.7	843.2	+1.1%
Liabilities	688.0	716.3	+4.1%
Equity	145.8	126.9	-13.0%
Net Debt	404.3	401.5	-0.7%

Source: Company information
*Incl IFRS 16

Figure 1: Georgian Eurobond universe



Source: Bloomberg

Favorable company credit and ESG ratings



Source: Rating agencies

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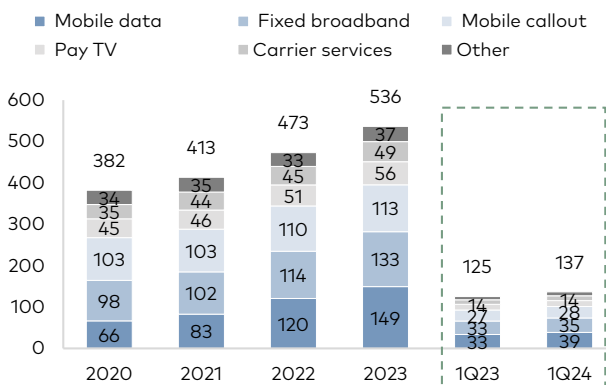
Silknet performance in 1Q24

Silknet's revenue was up 8.9% y/y to GEL 136.5mn in 1Q24.

Following the strong double-digit revenue growth seen in 2022-2023, driven by both multiple price increases and organic growth, the revenue growth in 1Q24 was entirely organic. Mobile data accounted for half of this growth, while other segments, particularly fixed broadband, also contributed to the overall growth:

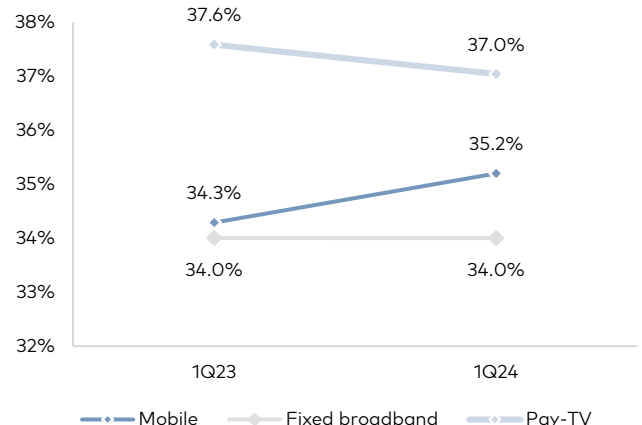
- **Mobile data** revenue (comprising 28.3% of the total) grew 15.8% y/y to GEL 38.6mn in 1Q24. The growth was largely driven by an increase in mobile data subscribers and higher mobile data traffic. The number of mobile data subscribers grew 4.9% y/y to an average monthly figure of 1.3mn in 1Q24, while mobile data traffic per user increased 26.6% y/y to 13.8 GB/month.
- **Fixed broadband** revenue (comprising 25.5% of the total) increased by 6.9% y/y reaching GEL 34.8mn in 1Q24. The growth was driven by a higher subscriber base, with a 5.1% y/y increase observed in the number of subscribers.
- **Mobile callout** revenue (20.4% of total) experienced a modest 3.8% y/y increase to GEL 27.8mn in 1Q24. This growth likely reflects a shift in user behavior towards data-driven messaging apps, limiting the potential for higher growth in traditional voice call revenue.
- **Pay-TV** revenue (10.3% of total) increased by 1.7% y/y to GEL 14.1mn in 1Q24.
- **Carrier services** revenue (8.6% of total) increased by 8.4% y/y to GEL 11.8mn in 1Q24.
- **Other** revenue (6.9% of total) was up 18.7% y/y to GEL 9.4mn in 1Q24.

Figure 2: Silknet's revenue breakdown, GEL mn



Source: Silknet

Figure 3: Silknet's revenue market shares in key segments

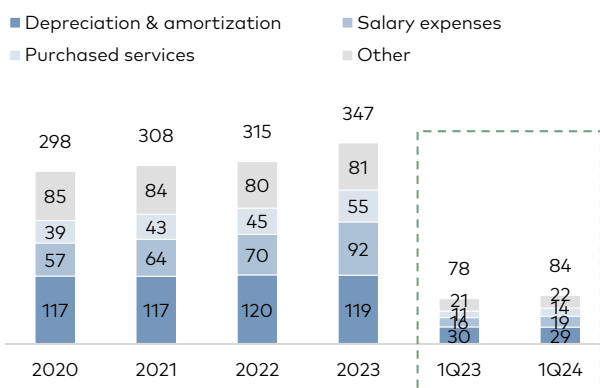


Source: GNCC



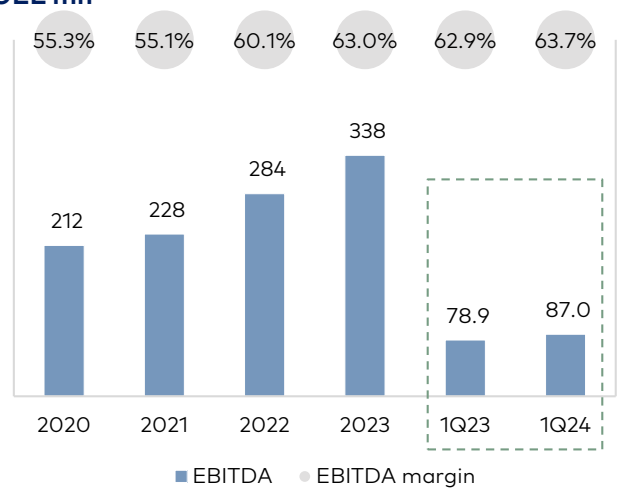
Total operating expenses were up 7.0% y/y to GEL 83.7mn in 1Q24. This increase was primarily driven by the one-time consulting expenses related to the company's long-term strategic plan and higher salary costs. Excluding D&A costs and non-recurring items, operating expenses grew 6.5% y/y in 1Q24. Since revenue growth outpaced the increase in operating expenses, **EBITDA rose 10.3% y/y to GEL 87.0mn** in 1Q24, resulting in a slight improvement in the EBITDA margin to 63.7% in 1Q24 from 62.9% in 1Q23.

Figure 4: Silknet's operating expense breakdown, GEL mn



Source: Silknet
Note: The company includes the revaluation of investment property in its operating income/expenses, which we exclude from our calculation

Figure 5: Silknet's EBITDA and EBITDA margin, GEL mn



Source: Silknet

The company reported GEL 68.1mn¹ in operating free cash flow, translating into a 49.9% OFCF margin in 1Q24. This compares to a margin of 50.3% in 1Q23 and 45.7% for the full 2023. The higher margin in the first quarter is largely due to a lower Capex rate, which was 11.5% of revenue in 1Q24. This is typical for the company, as Capex usually ramps up throughout the year. For 2024, the company aims to maintain a Capex rate of 16%-18%.

GEL 27mn dividends distributed in 1Q24 and GEL 22mn planned for 2Q24. There are two main constraints governing the dividend payments for the company. Firstly, the Eurobond covenant caps dividends at 50% of the consolidated net income from 2022. Secondly, under the Georgian Law on Entrepreneurs, dividends cannot exceed the positive retained earnings. Given these constraints and a GEL 43mn net income in 1Q24, the company plans to distribute GEL 22mn in dividends in 2Q24.

¹ EBITDA (excl. IFRS 16) less capital expenditures



Solid liquidity position maintained in 1Q24, with GEL 139.6mn (US\$ 51.8mn) in cash & cash equivalents. Due to significant FX exposure from FX-denominated debt, over 70% of Capex and c. 21% of Opex in FX, the company keeps the majority of its liquidity in foreign currencies for hedging purposes. In 1Q24 around 92% of Silknet's cash reserves were held in USD, EUR, or USD-equivalent instruments such as deposits secured by USD forward agreements. A small portion, 8%, was maintained in local currency for operational purposes.

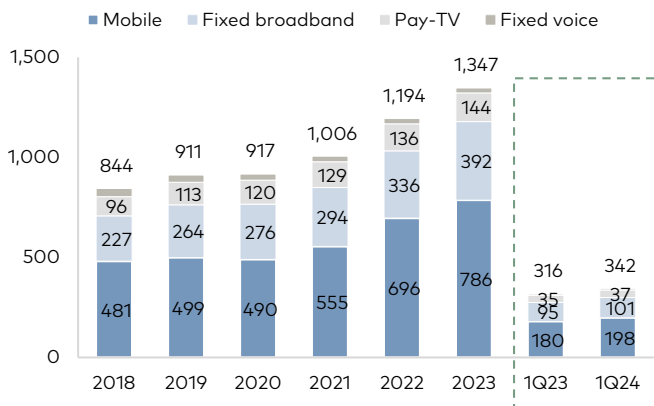
Credit ratings unchanged in 1Q24, with Moody's at B1/stable; Fitch B+/stable and a Sustainalytics ESG risk rating at 26.0.

Strategic alliance with Orange – a leading global telecom operator set to enhance Silknet's capabilities. After more than 10 years of collaboration with Orange, Silknet has joined the Orange Alliance Program in Jun-24. This program unites thousands of telecom operators worldwide, providing access to Orange's platforms, expertise, and experience. Silknet anticipates that this partnership will enable to introduce innovative solutions and products to the Georgian market, which will significantly enhance its capabilities in the B2C, B2B, and ICT sectors.

Snapshot of telecom market in Georgia

Figure 6: Telecom sector revenue by segment, GEL mn

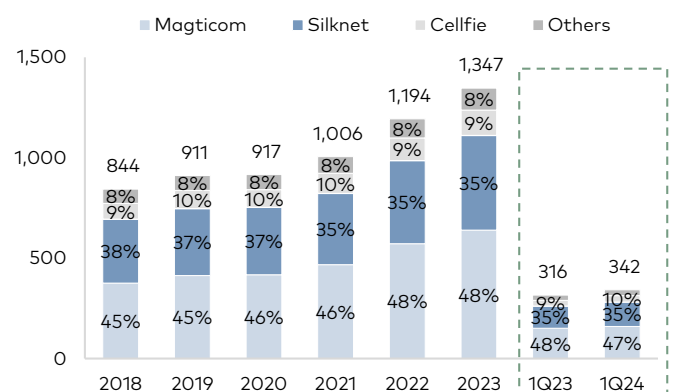
Telecom sector revenue was up 8.2% y/y to GEL 342.5mn in 1Q24, primarily driven by mobile segment.



Source: GNCC

Figure 7: Telecom sector revenue by company, GEL mn

Silknet has slightly improved its revenue market share from 34.8% in 1Q23 to 35.2% in 1Q24.



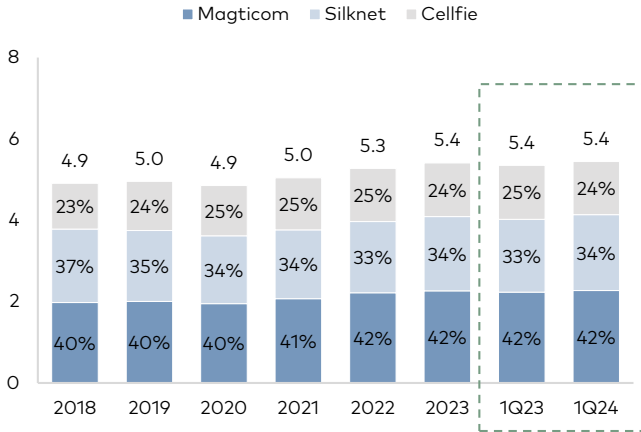
Source: GNCC

Note: GNCC doesn't include carrier service revenues in telecom market



Figure 8: Mobile subscribers, mn

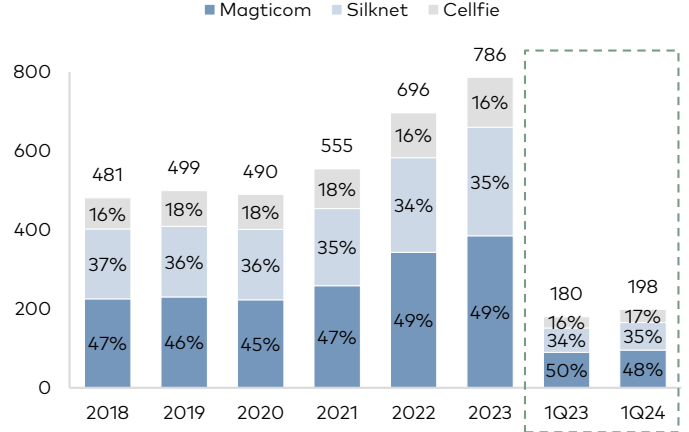
The number of mobile subscribers were up 1.8% y/y to a 5.4mn in 1Q24. Growth in mobile subscribers is limited, due to the already high mobile penetration in Georgia.



Source: GNCC
Note: Annual figures represent the average of monthly data in respective years

Figure 9: Mobile revenues, GEL mn

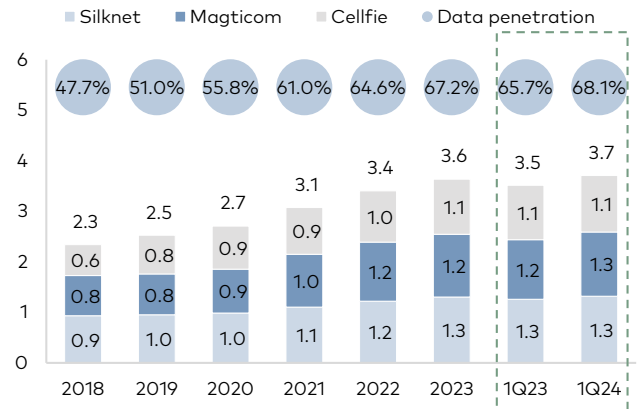
Mobile revenues are expected to rise supported by growing mobile data usage. Mobile revenues were up 10.3% y/y to GEL 198.4mn in 1Q24.



Source: GNCC

Figure 10: Mobile data subscribers, mn

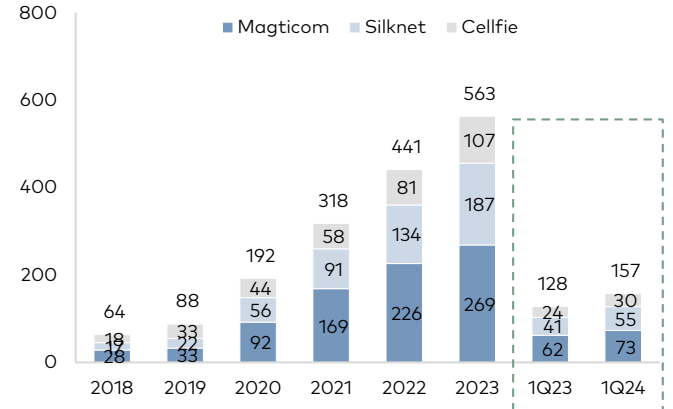
Mobile data is the primary catalyst for mobile segment growth, with subscribers up 5.5% y/y to 3.7mn in 1Q24



Source: GNCC
Note 1: Annual figures represent the average of monthly data in respective years
Note 2: Data penetration shows share of mobile data users in mobile subscribers

Figure 11: Mobile data traffic, TB ('000)

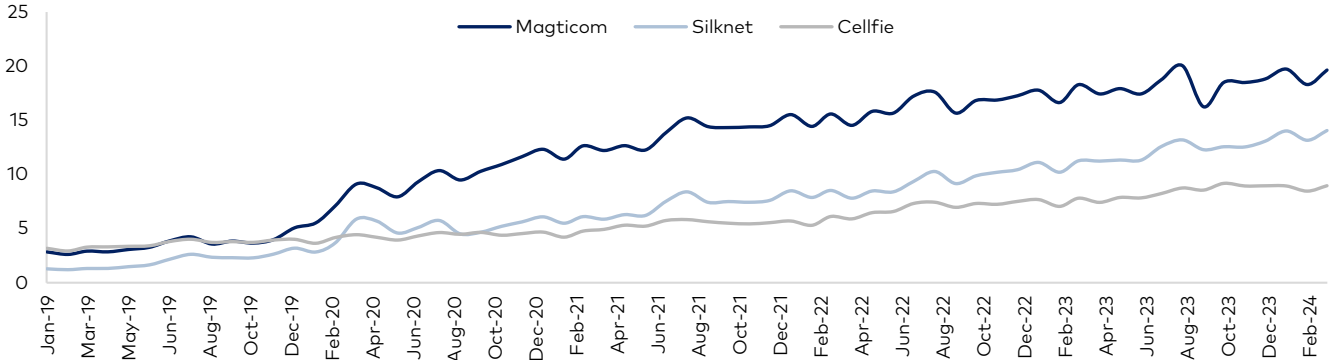
Mobile data traffic was up 23.3% y/y to 157.3K TBs in 1Q24, fueled by the subscriber growth and increased usage per user



Source: GNCC



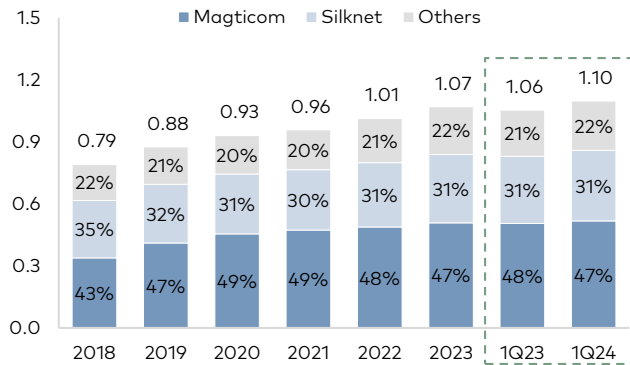
Figure 12: Monthly mobile data usage per user, GB/month



Source: GNCC

Figure 13: Fixed broadband subscribers, mn

In 1Q24, the number of fixed broadband subscribers was up 4.2% y/y to 1.1mn, with Magticom and Silknet contributing 1.2ppts and 1.6ppts to this growth, respectively.

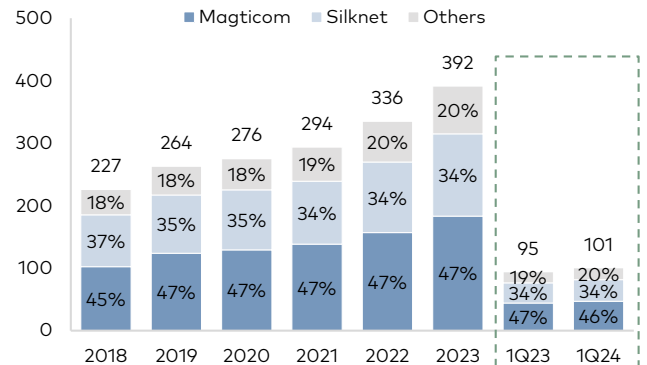


Source: GNCC

Note: Annual figures represent the average of monthly data in respective years

Figure 14: Fixed broadband revenues, GEL mn

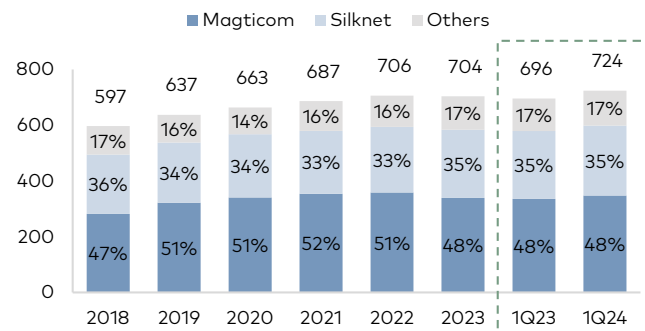
Conversely, fixed broadband revenue was up 6.8% y/y to GEL 101.4mn in 1Q24, with Magticom and Silknet contributing 2.9ppts and 2.3ppts to this growth, respectively.



Source: GNCC

Figure 15: Pay-TV subscribers*, '000

In 1Q24, the number of Pay-TV subscribers was up 4.1% y/y to 724.2K, with Magticom and Silknet contributing 1.7ppts and 1.1ppts to this growth, respectively.



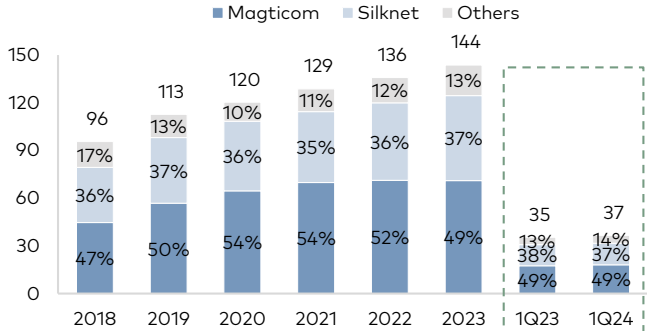
Source: GNCC

* excl. mobile streaming application subscribers

Note: Annual figures represent the average of monthly data in respective years

Figure 16: Pay-TV revenues*, GEL mn

Pay-TV revenue was up 3.4% y/y to GEL 36.7mn, with Magticom and Silknet contributing 1.6ppts and 0.7ppts to this growth, respectively.



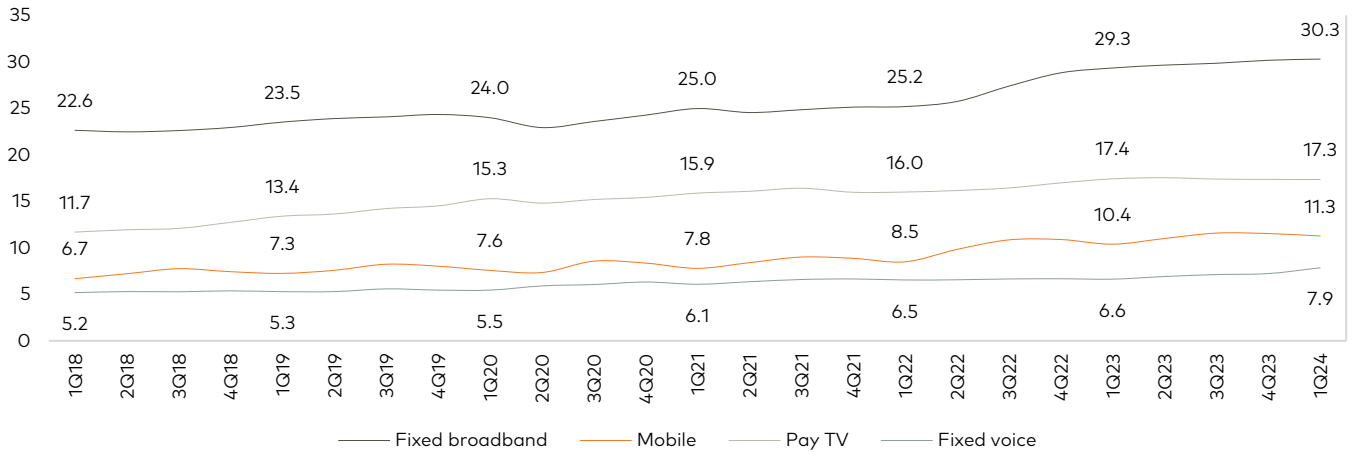
Source: GNCC

* excl. mobile streaming application subscribers



Figure 17: ARPU by segment, GEL

The average revenue per user (ARPU) increased across all segments in 1Q24, with the mobile segment experiencing the highest growth mostly due to the rise in mobile data usage.

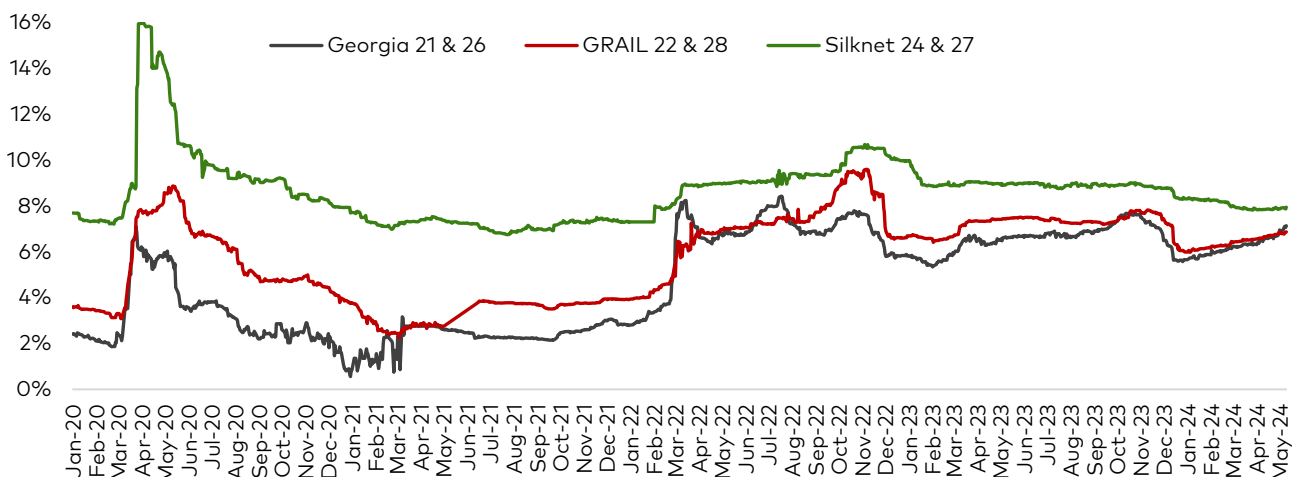


Source: GNCC, Galt and Taggart Research

Eurobond performance

US\$ 200mn Silknet Eurobonds outstanding as of 1Q24. Initially, the company issued US\$ 300mn Eurobonds at 8.375% in Jan-22 to refinance all existing debt instruments. Later, Silknet repurchased US\$ 100mn in the open market, leaving the outstanding amount at US\$ 200mn. The repurchased bonds have not been cancelled and are still held by Silknet. Silknet Eurobond remains the highest yielding corporate Eurobonds in Georgia, yielding 7.9% as of Apr-24.

Figure 18: YTM on selected Georgian Eurobonds



Source: Bloomberg



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