



Silknet – 1H24 update

Telecom | Georgia
October 21, 2024

Silknet's revenue was up 9.5% y/y to GEL 280.7mn in 1H24, fully driven by organic growth. Over half of the revenue growth was fueled by the mobile data, driven by both an expanding subscriber base and increased data traffic, while fixed broadband also contributed. Profitability improved in 1H24, with EBITDA rising 10.2% y/y to GEL 180.9mn, and the EBITDA margin increasing by 0.4ppts to 64.4%.

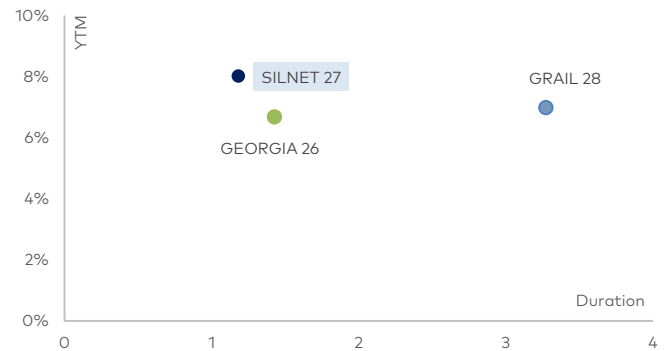
Silknet maintained a solid liquidity position in 1H24, with GEL 186.7mn (US\$ 66.4mn) in cash, primarily held in foreign currency for hedging against FX-denominated debt. While operational FX risk is fully hedged through 2025, the company remains sensitive to currency fluctuations at the net income level, with c. \$135-140mn open position remaining unhedged.

Financial highlights, GEL mn

Category	1H23	1H24	% Change y/y
Revenue	256.3	280.7	+9.5%
<i>of which:</i>			
Mobile data	68.5	81.1	+18.3%
Fixed broadband	65.4	70.3	+7.4%
Mobile callout	54.8	57.1	+4.1%
Pay-TV	27.7	28.4	+2.3%
Carrier services	22.8	24.8	+8.7%
Other	17.0	19.1	+12.4%
EBITDA*	164.1	180.9	+10.2%
<i>EBITDA margin</i>	64.0%	64.4%	+0.4ppts
Net income	92.4	74.7	-19.1%
<i>Net profit margin</i>	36.0%	26.6%	-9.4ppts
Assets	820.9	878.0	+7.0%
Liabilities	696.3	739.8	+6.2%
Equity	124.5	138.3	+11.1%
Net Debt	457.0	385.5	-15.7%

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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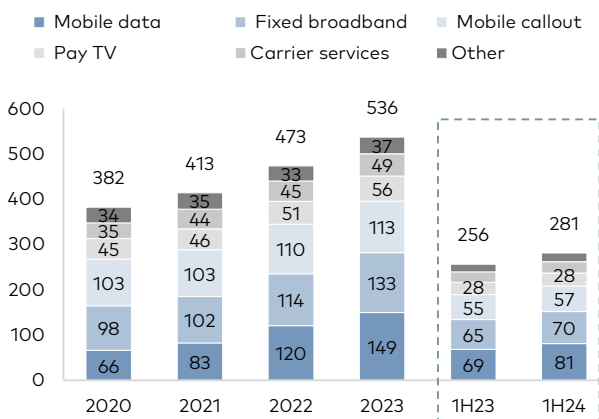


Silknet performance in 1H24

Silknet's revenue was up 9.5% y/y to GEL 280.7mn in 1H24. Unlike 2022-23, this growth was entirely organic, with no pricing adjustments contributing to the increase. Over half of the revenue growth was fueled by the mobile data, driven by both an expanding subscriber base and higher mobile data traffic. Other segments, particularly fixed broadband, also contributed to the overall growth in 1H24:

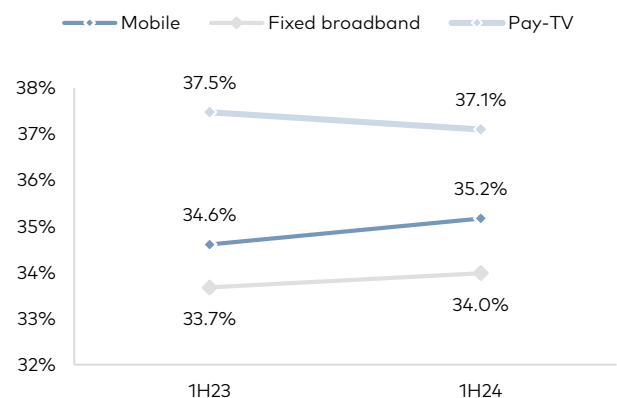
- **Mobile data** revenue (comprising 28.9% of the total) rose 18.3% y/y to GEL 81.1mn in 1H24. This was driven by a 22% y/y growth in per-user data traffic, with monthly usage per user reaching 13.5 GB in 1H24. The rising demand for online services, streaming and digital platforms, along with wider adoption of new-generation smartphones and improved user tech skills fueled mobile data traffic and subscriber growth. The number of mobile data subscribers grew 6.1% y/y to an average monthly figure of 1.4mn in 1H24.
- **Fixed broadband** revenue (comprising 25.0% of the total) increased by 7.4% y/y reaching GEL 70.3mn in 1H24. The growth was driven by a higher subscriber base, with a 5.2% y/y increase observed in the number of subscribers.
- **Mobile callout** revenue (20.3% of total) experienced a modest 4.1% y/y increase to GEL 57.1mn in 1H24. 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 (10.1% of total) increased by 2.3% y/y to GEL 28.4mn in 1H24.
- **Other** revenue (15.6% of total) was up 10.3% y/y to GEL 43.9mn in 1H24.

Figure 2: Silknet's revenue breakdown, GEL mn



Source: Silknet

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

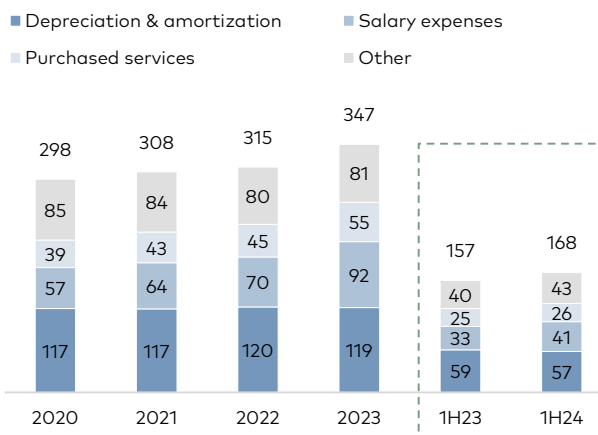


Source: GNCC



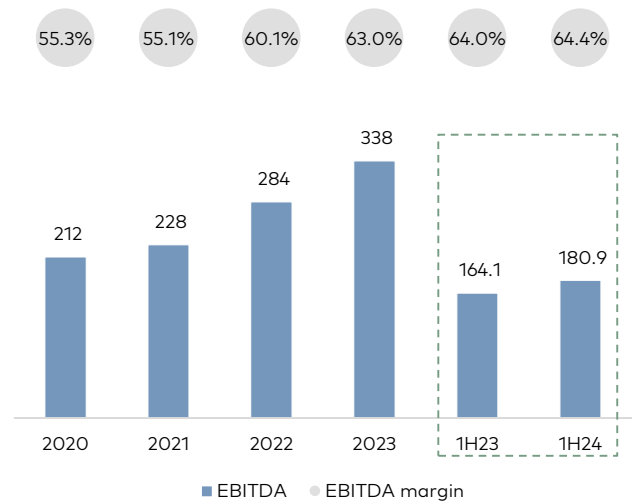
With operating expenses growing slower than revenue, the company improved its profitability. Excluding D&A and non-recurring items, operating expenses rose 8.3% y/y to GEL 99.8mn in 1H24, mainly driven by higher HR costs. This increased the company's EBITDA to GEL 180.9mn, raising the EBITDA margin by 0.4ppts to 64.4% in 1H24.

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



Source: Silknet

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



Source: Silknet

The company generated GEL 146.3mn¹ in operating free cash flow, maintaining a 52.1% OFCF margin in 1H24, similar to 1H23. The OFCF margin has steadily improved from 22.0% in 2020 to 45.7% in 2023, driven by the strong cash flow generation and stabilized Capex post-Geocell acquisition. The higher OFCF margin in 1H24 is tied to the seasonal nature of Capex, which is typically lower in the first half. We expect the company to sustain its OFCF margin within 40-45% range, given its plan to keep its Capex rate at 16%-18% for the full 2024.

GEL 48mn dividends distributed in 1H24. Starting from 3Q24, the company updated its dividend policy, with two key constraints governing distributions: a leverage threshold of 1.75x and a legal limit under Georgian law that restricts dividends to positive retained earnings. Previously, dividends were capped at 50% of consolidated net income, but the revised policy enabled the company to distribute its full net income as dividends, if leverage remains below 1.75x (currently at 1.1x). In October-2024, the company paid an additional GEL 54mn in dividends.

¹ EBITDA (excl. IFRS 16) less capital expenditures



Solid liquidity position maintained in 1H24, with GEL 186.7mn (US\$ 66.4mn) in cash & cash equivalents. Due to significant FX exposure from FX-denominated debt (US\$ 200mn outstanding Eurobonds as of 1H24), the company keeps the majority of its liquidity in foreign currencies for hedging purposes. In 1H24 around 84% of Silknet's cash reserves were held in USD, EUR, or USD-equivalent instruments such as deposits secured by USD forward agreements. A smaller portion, 16%, was maintained in local currency for operational purposes.

Operational FX risk fully hedged as of Aug-24. Initially, in 1Q22 the company shifted away from traditional hedging, due to a lack of reasonable hedging options available in the market. Instead, the company began managing its FX exposure through operational strategies. With improved market conditions and upcoming elections introducing potential market uncertainty, the company has negotiated with local banks to hedge FX outflows (Opex, Capex and coupon payments) from Oct-24 through the end of 2025. This strategy secures the company's free cash flow, however Silknet still remains sensitive to currency fluctuations at the net income level, with c. \$135-140mn exposed due to the Eurobond.

Credit ratings unchanged in 1H24, with Moody's at B1/stable; Fitch B+/stable and a Sustainalytics ESG risk rating at 26.0.

Snapshot of telecom market in Georgia

In Aug-24, the GNCC launched a new public consultation regarding the auctions for 5G spectrum. The regulator modified the approach used to determine the value of the frequency bands, resulting in an increased license prices. Magticom has applied to participate in this auction, while Silknet has chosen not to. In the previous auction held by the GNCC in Aug-23, the terms were deemed commercially unappealing for both Magticom and Silknet, which led them to refrain from participating, leaving Cellfie as the sole participant among Georgia's three mobile network operators.

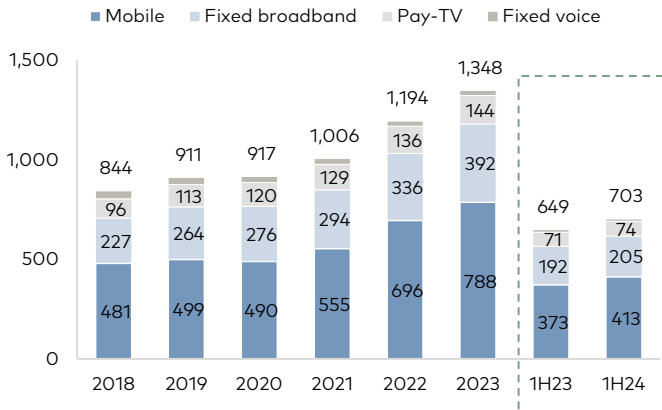
The GNCC has identified Magticom as possessing significant market power in both mobile and fixed wholesale network access. This imposes various remedies and obligations on the company, including providing access to its fixed infrastructure and offering network access to potential virtual operators in the mobile sector. Presently, there is an ongoing dispute between Magticom and the



regulator regarding tariffs, leaving the potential impact of these developments on the market uncertain.

Figure 6: Telecom sector revenue by segment, GEL mn

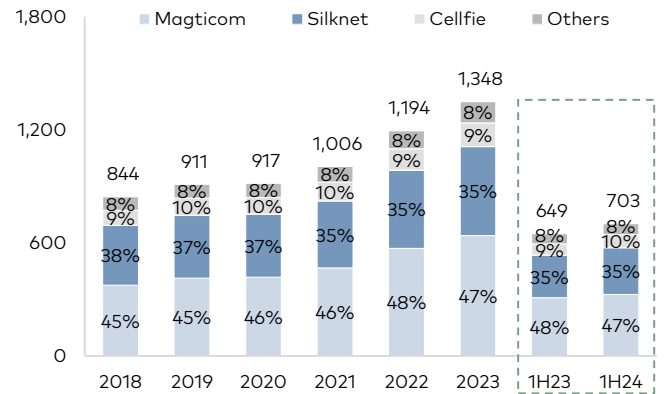
Telecom sector revenue was up 8.3% y/y to GEL 702.6mn in 1H24, primarily driven by mobile segment.



Source: GNCC

Figure 7: Telecom sector revenue by company, GEL mn

Silknet has slightly improved its revenue market share from 34.9% in 1H23 to 35.2% in 1H24.

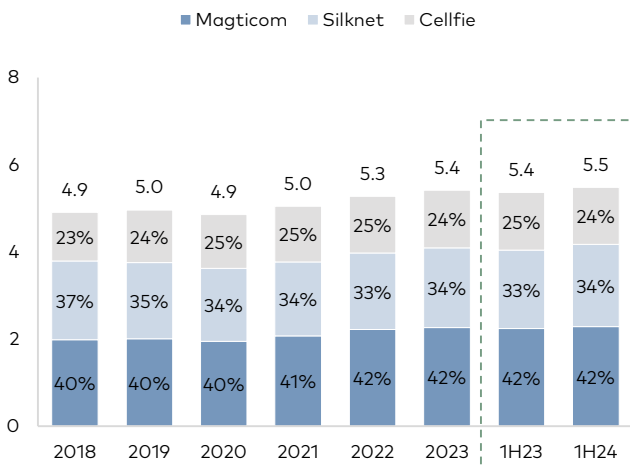


Source: GNCC

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

Figure 8: Mobile subscribers, mn

The number of mobile subscribers was up 2.3% y/y to a 5.5mn in 1H24. Growth in mobile subscribers is limited, due to the already high mobile penetration in Georgia.

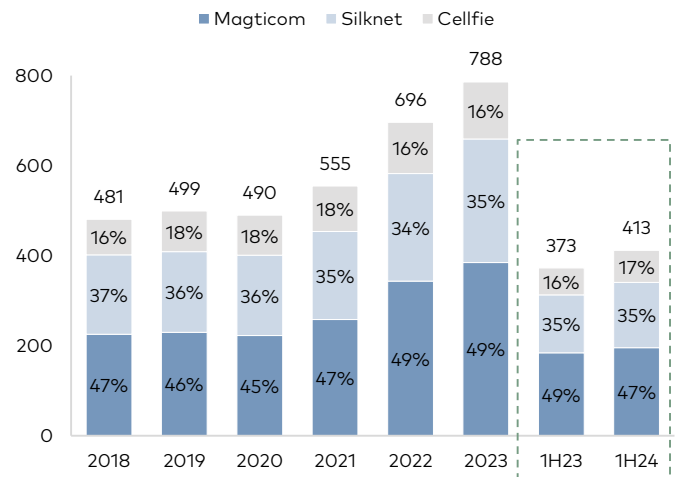


Source: GNCC

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 10.6% y/y to GEL 412.6mn in 1H24.

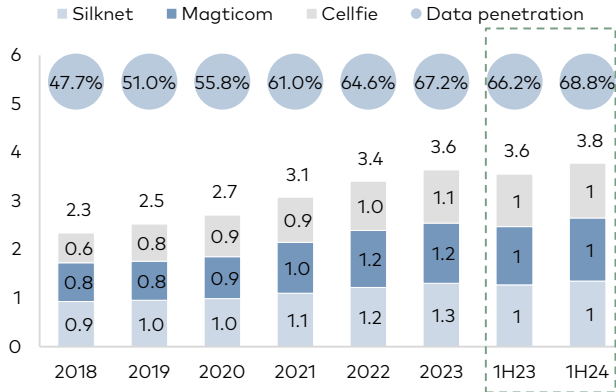


Source: GNCC



Figure 10: Mobile data subscribers, mn

Mobile data is the primary catalyst for mobile segment growth, with subscribers up 1.9% y/y to 4.0mn in 1H24

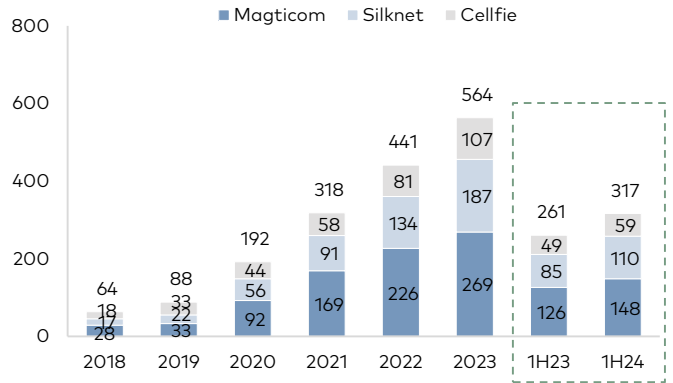


Source: GNCC

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

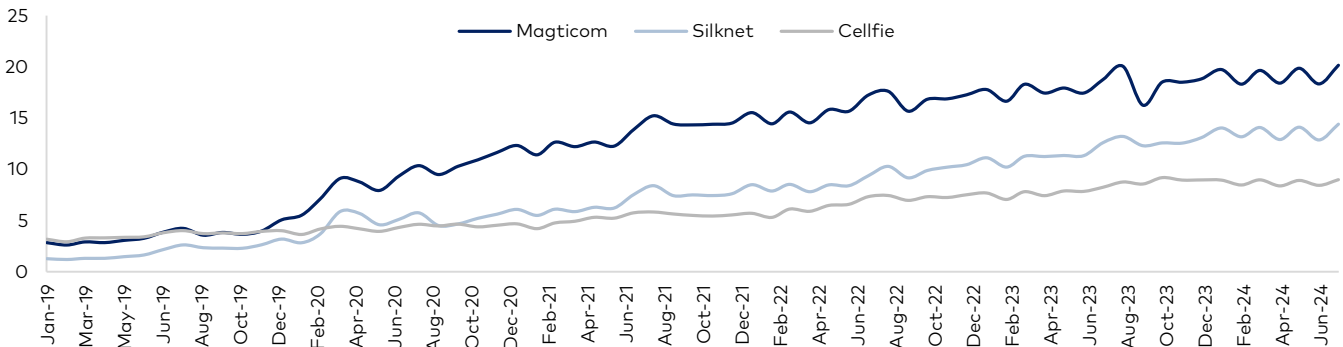
Figure 11: Mobile data traffic, TB ('000)

Mobile data traffic was up 21.7% y/y to 317.5K TBs in 1H24, fueled by the subscriber growth and increased usage per user



Source: GNCC

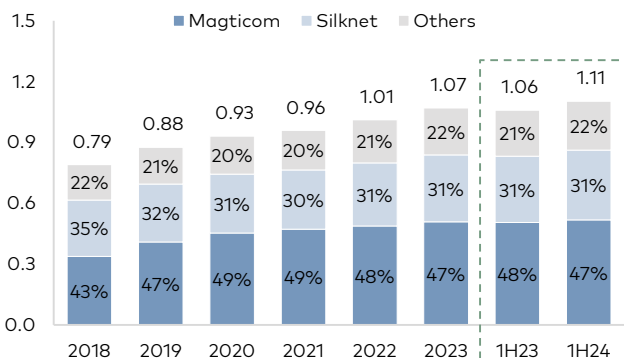
Figure 12: Monthly mobile data usage per user, GB/month



Source: GNCC

Figure 13: Fixed broadband subscribers, mn

In 1H24, 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.

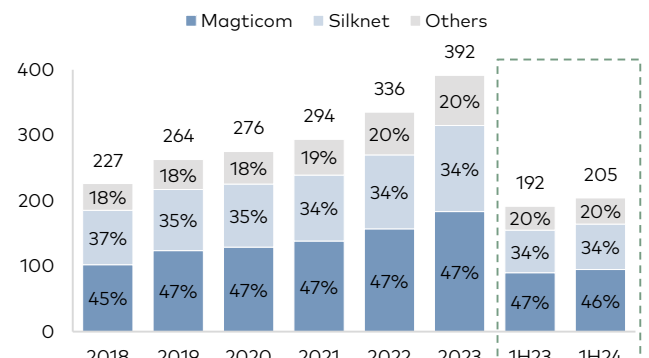


Source: GNCC

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 6.5% y/y to GEL 204.9mn in 1H24, with Magticom and Silknet contributing 2.4ppts and 2.5ppts to this growth, respectively.

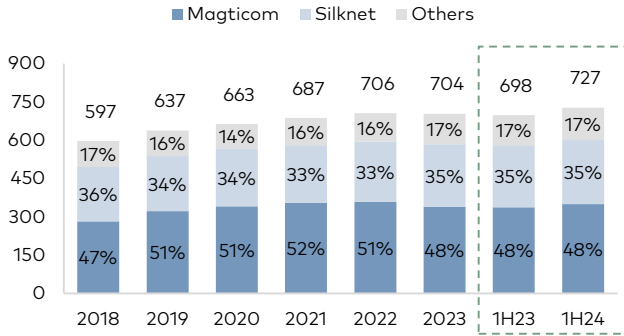


Source: GNCC



Figure 15: Pay-TV subscribers*, '000

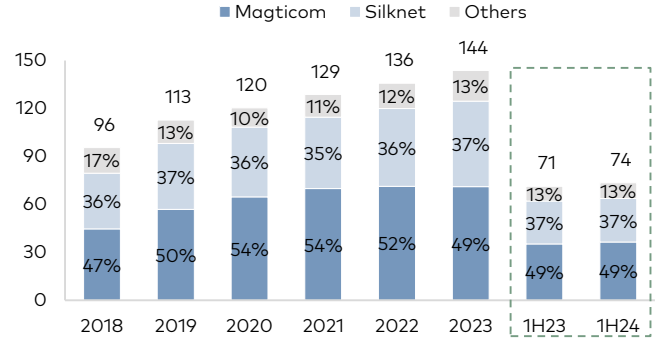
In 1H24, the number of Pay-TV subscribers was up 4.1% y/y to 726.6K, with Magticom and Silknet contributing 1.8ppts and 1.2ppts to this growth, respectively.



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

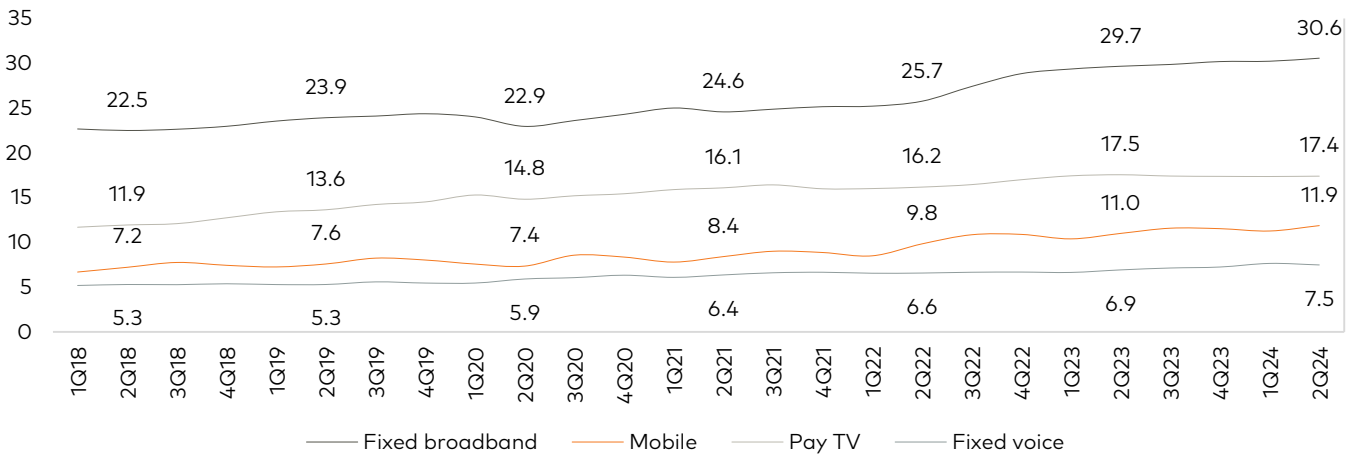
Pay-TV revenue was up 3.0% y/y to GEL 73.5mn, with Magticom and Silknet contributing 1.5ppts and 0.7ppts to this growth, respectively.



Source: GNCC
* excl. mobile streaming application subscribers

Figure 17: ARPU by segment, GEL

The average revenue per user (ARPU) increased across all segments in 1H24, with the mobile segment experiencing the highest growth mostly due to the rise in mobile data usage.



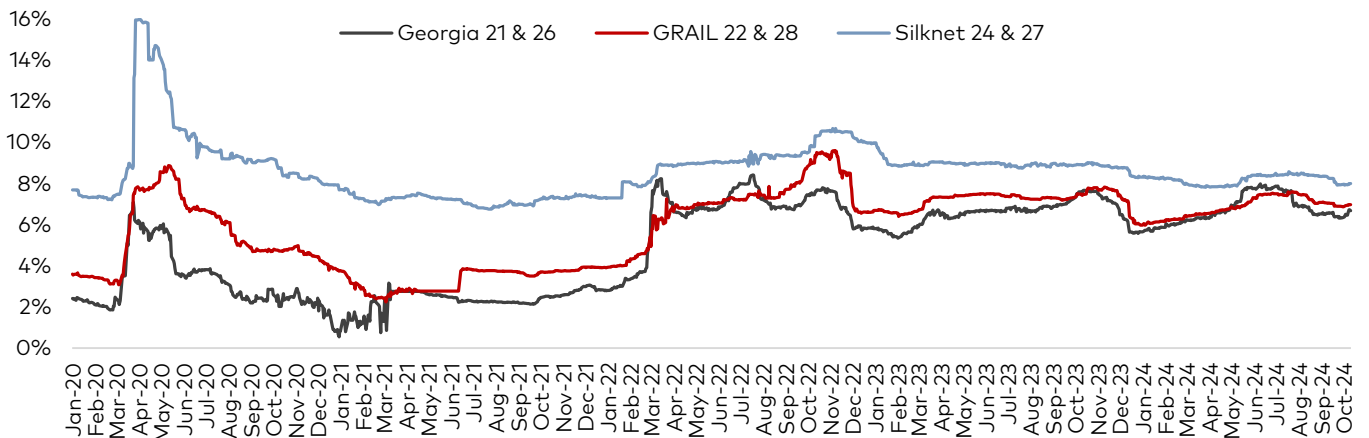
Source: GNCC, Galt and Taggart Research



Eurobond performance

US\$ 200mn Silknet Eurobonds outstanding as of 1H24. 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 8.0% as of Oct-24.

Figure 18: YTM on selected Georgian Eurobonds



Source: Bloomberg



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