Telekom Austria Group

Third Quarter Results Call

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Transcript

Speakers:

Alejandro Plater

Thomas Arnoldner

Sonja Wallner

Susanne Aglas-Reindl	Good morning, everybody, and thanks for joining our Q3 results call today. As usual, I'm here with our CEO, Alejandro Plater, our deputy CEO, Thomas Arnoldner, and our CFO, Sonia Wallner. And they will lead you through the presentation now and, as just mentioned, we will follow with the Q&A session afterwards. Thank you.
Alejandro Plater	Thank you, Susanne, and welcome to our call. A quarter with mixed feelings, I would say. On one hand, we see still a strong performance of our CE operations, Bulgaria, Belarus, but also Croatia. So, most of the countries in CE doing pretty well, which mitigates the decline in Austria. We see still Austria in a very difficult situation, a combination of a very weak economy and also a regulatory environment that maybe is less than optimal. So, overall, this combination of a strong CE and a weak Austria reflects in a Group level of total revenue growth of 3.5, which is pretty much in line with our year-to-date numbers of 3.8. Service revenue a little bit lower, at close to 1%. Very good EBITDA growth, especially due to a very weak auction situation, close to 3%, with good OpEx control. Also, we have been very careful with CapEx deployment, and you see that free cash flow in the first nine months is pretty strong, with a growth of 52% to almost €530 million, which is, I think, pretty good. We see Bulgaria still delivering very good ICT projects on top of a very strong core business, so it's an excellent performance there. We see a lot of hardware revenues coming from ICT with reasonable margins, which is good to see for ICT. Austria, we see better and better customer development. We started to do investments last year, as we commented to all of you, because we saw the opportunity to get back part of the base and improve and increase the base. This has actually continued in Q3 with basically very strong numbers in all categories. We see a much better performance also in low value, since we see Spusu not that aggressive as last year. And Serbia, we expect the auction finally to happen at the end of the year. We don't know if the payment is going to happen at the end of this year or not. We have some uncertainty. The outlook Thomas will mention later, but we confirm the 2% to 3% revenue growth. Year-to-date we are 3.8%. And CapEx we adjusted to below €800 million due to primarily the weak economic situation in Austria. And overall performance of the Group, we think we can do with below €800.

We move to the next slide. You see a little bit more colour on the customer development. We managed now in Q3 to almost balance the losses of BBI in Austria, almost fully compensated by Cubes. You know that we have been trying to migrate the low-speed DSL customers in Cubes, and we are almost there, minus 2,000. So I think that the rest of the year, we will probably have some positive numbers there.

And you can see also that BBI in the rest of CE is still very strong, 120,000 customers, Bulgaria doing very well, Belarus doing very well. So we see the fixed platform in CE doing very well, especially Bulgaria. I think they are doing really, really, really well. We took the decision in Bulgaria not to do price increases. Our competitors did price increases at the beginning of the year. We decided not to. And now we see a very nice influx of new customers due to that strategy.

And on post-paid, you see also excellent performance, Austria up 37,000. I think we haven't seen those numbers in quite a while. So we are very proud of what the team has achieved in that in a very challenging market, as you know. But also, the CE market is growing post-paid customers very nicely, with more than 350,000 customers, and that is excluding IoT. IoT we reported separately, with 2.3 million new IoT customers.

That's a summary of Q3. And with that, I will hand over to Sonja to go through the financials in a little bit more detail.

Sonja Wallner

Thank you, Alejandro. [00:05:12 Unclear ?] pointed out, touching first the total revenues, where you see a solid growth of 3.5%, as already mentioned before. And here you see already the difficulties that were able to be covered by the international operations, with a nearly double-digit growth on total revenues and a decline in Austria. The total revenues were heavily supported by equipment revenues, especially there on ICT equipment revenues in Bulgaria, but also Serbia and Belarus showing nicely growing revenues in the third quarter.

Touching the service revenues, where you see decreased growth on the Group level, and still the decrease in Austria, that could be covered by international operation. And the reasons for the slightly lower increase in service revenues are the phasing out of the inflation driven benefits that were washed out, let's say, after the first quarter this year.

In EBITDA, you'll see similar growth on the Group level. And as we had some effects, [00:06:37 unclear ?] effects on one-offs and restructuring effects, you'll see a different growth therefore. We focus on the left column of the presentation, and there you'll see 2.8% growth in EBITDA. Unfortunately, despite OpEx cuts and management in Austria, a decline, and again, the CE and international operations covering the losses in Austria. What additionally I wanted to mention is that our foreign exchange effects were very low or, better said, predictable [?] on the foreign exchange rates.

Coming now to more details on the service revenue growth on the cumulative basis. And you see that we were able to grow service revenues to €3.4 billion. This is 2% revenue growth in the first three quarters of the year. And then, as before, in the Q3 was mentioned growth slowed down to 0.7%, and this is reflecting the challenging market environment in Austria and the reduction of the indexation impact after the first quarter, obviously.

We see that Austria showed an intensive competition, and the reaction that we did, as already pointed out, to use our financial flexibility to invest into the market and to grow customer base that [00:08:22 unclear ?] before.

International markets grew nicely, by 7.2% on a year-to-date basis, and in the quarter, as you've seen, 6.3%. And the main drivers that we saw are, again, mobile core and the Cubes, and solution connectivity, the new business that we were able to grow. And the challenging part is especially the fixed voice in Austria.

Then coming more to the EBITDA. We were growing in the first three quarters of the year to €1.562 billion, an increase of 3.7% or €56 million. We see, again, positive impact out of the revenue growing in mobile fixed and solution connectivity that we see.

And we see the heavy investments into the market and also the restructuring effort that has been taking place, especially in the Austria operation. And on the other hand, the strict OpEx focus that we employed in the entire group to save there and to contribute to the EBITDA. This will continue throughout the next period.

Coming to the free cash flow, we see nicely growing free cash flow to €529 million. It is driven on one side by the better operational performance, and on the second part, by lower CapEx and by investments or by activities, shown in a positive change in working [?] capital. Especially on the payables and on the receivable sides, that overcompensated all the investments that we did in the instalment sales.

And with that, I would hand over to Thomas to touch some focus points that will represent the activities that we do and we did to impact better OpEx performance.

Thomas Arnoldner

Thank you, Sonja. And indeed, I want to touch upon two activities which allow us and the one hand to drive transformation within the company, but also to embrace new business opportunities.

And if you move to slide number ten, you see one thing which probably sounds very familiar to you, because we have been talking about it in the past, which is our competence delivery centres, which we have started to implement two or three years ago, which is one centralised team addressing 19 different delivery centres across various domains, across the network domain, IT, HR, finance and others, which allow us to do things not seven times, but only once, and thus really seizing synergies within.

Of course, we have some labour synergies and we have some certain labour cost arbitrage effects, but most importantly, we drive simplification in these competence delivery centres, because we do things only once, we provide the service in a one-to-many mode, and we see really the results coming in. We have now around about 2,300 FTEs in this competence delivery centre.

We see the quality of the work which is being done in the centres increasing, network quality, for example, increasing. Just think about doing network optimisation and the critical skill you need to have to optimise your network, and you're being able to build on the expertise of multiple countries and multiple networks, and not only one.

And then, additionally, if you think about transforming into new technologies, think about AI, it's much easier to do this once with one team rather than six or seven times. It's a very international team. We are very proud of that. We prioritise skills and competence of the resources over their locations when we hire and when we staff.

Now, secondly, I want to talk about the B2B feature services delivery centre. You know that B2B feature services is a huge growth opportunity for us. It was also reflected in the results already of the past years. It's a huge growth engine. And now we also decided here to achieve synergies across the group to put together, at the moment, 800 FTEs addressing different focus areas in our portfolio.

At the moment, we're talking about security, network, data centre, modern workplace and cloud solutions into one team, which allows us to drive recurring revenues through managed services, especially, but also to be complemented by one-time projects. This team is customer facing. It’s supporting our local operations in the market with centralised expertise, but especially scale, in order to support our growth in the digital ICT services and to better utilise the resources which we have throughout the Group.

Of course, we are creating [?] our existing footprint in Austria and in international markets, but we also think about going beyond the footprint, especially [00:14:24 unclear ?]. We already have lots of activities in Germany and Switzerland. We did a small, but still, an acquisition in Spain recently, which will drive especially our cloud business beyond our current geographic footprint for home market.

And talking about the cloud, I would like to move to the next page. Probably you have all followed the discussions about sovereignty and strategic autonomy Europe needs to have in many areas, in defence, in energy, but now we see lots of focus also on the digital space, where policymakers, large and small companies, think about how to achieve sovereignty in the digital domain. And we do believe that we are extremely well positioned to address this.

And we want to especially point out here Exoscale, our sovereign European cloud solution. We do have lots of other solutions as well, private cloud solutions and others, but especially Exoscale is extremely powerful. It has been in the market for more than 12 years. It's getting, especially now, lots of traction. It's technology-wise extremely competitive. It's a clear differentiator versus US hyperscalers, especially because it's not subject to the US Cloud Act and other international non-European legislation, which means that customers using Exoscale avoid the risk that a non-European court or institution could access eurozone [?] customer data.

But it’s highly certified, ISO certified. We have high quality data centres throughout a large footprint. You can see it here. You can see our phones [?] on the slide, with phones [?] in Austria, Germany, Switzerland, Croatia and Bulgaria. We have a strong ecosystem now of more than 200 reseller partners.

We have, I think, very, very good references. We chose a few here, you can see the logos, and we chose them on purpose, because they represent sectors and companies with very critical needs. Think about storing health data for healthcare providers. Think about Targus [?], which helps the large European banking institutions to store the crypto assets. We have public institutions, and we have academic institutions which store or use it for critical research data. So, something which we are really proud of and which we believe is a good opportunity moving forward.

And finally, moving to our last slide, talking about our guidance for 2025. As Alejandro already said on the first slide, we confirm our revenue guidance of 2% to 3% revenue growth. As he said, yes, we already achieved a year-to-date growth of 3.8%, but we would like to remind you that our Q4 last year was very strong, with two large ICT deals in Bulgaria coming in. So we believe for the full year, we're trying to keep a 3% revenue guidance.

And on CapEx, as Alejandro said, we previously guided around €800 million in CapEx. We now believe this is the upper threshold, and we believe that CapEx, excluding spectrum, will come in slightly below €800 million. With that, thanks for listening, and we open to take your questions.

Operator: We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Questioners on the phone are requested to disable the loudspeaker mode. Anyone who has a question may press star and one at this time. The first question comes from the line of John Karidis from Deutsche Bank. Please go ahead.

John Karidis: Thank you very much. Good morning. I just wanted to ask a few questions, please. Firstly, on Belarus and cash. How much of the Group's cash and equivalents is in Belarus today? And related to this, could you give us any update on the efforts you are making to upstream cash and likely timing?

The second question, regarding spectrum costs in Serbia, is the timing of the cash outflow likely to be 25 or 26, based on the rules as you see them right now? And then thirdly, with regard to acquisitions and deploying your very strong balance sheet, it would be great to get an update on where you are on that front and also make a distinction between in-footprint acquisitions versus out-of-footprint acquisitions. Thank you very much.

Alejandro Plater: Thank you for your questions. I will take the first two, and Thomas, you can take the third one please. Thank you. On Belarus, I was there a couple of weeks ago in Minsk, where we presented to the government our new structure, where we moved the holding company for Belarus from Cyprus to Dubai. That project is finishing as we speak. Basically, the last, final paperwork. We nominated management also for that function. This was well received by the government. And we will start paying dividends very soon, slowly, but we will start very soon. And let's hope that everything goes according to plan.

We have approximately 100 million, yes? Approximately between 100 and 150 million there invested in different instruments. And as soon as we start paying dividends, we will start repatriating that. Also, we are discussing with the government an investment plan, if there are some changes in the regulatory framework. But we cannot give you yet a final conclusion on those. Discussions are still ongoing.

On Serbia, the plan is that the auction is happening at the end of this year. There are, as far as we know, only three companies that have acquired documentation for three blocks, which gives us an indication that the auction will be probably close to the minimum price, since there are three participants for three blocks. But let's see. That we cannot know.

The auction is structuring two payments, one payment of 60 million originally in 25, and 50 million in 26. There is a possibility that the first payment is postponed to 26. I cannot tell you for sure how probable, but there is a high chance. What we don't know is that, if that happens, the second tranche will also move to 27 or we will need to pay everything in 26. That we don't know. That's basically what I can tell you. And Thomas can give you colour on M&A.

Thomas Arnoldner

Yes, happy to do so. Having said this, I can only comment on the principles, because we don't want to comment on any specific opportunities. But you are right when you differentiate between in and out of footprint. Our priority remains in bolstering our existing footprint. And here we have two main paths we follow. Number one is redefining our existing business. And in practice, this primarily means we are looking into fixed and especially fibre operators in the majority of the countries of our footprint. However, the opportunities become less and less.

We see some of the markets where the price expectations or the price levels some of our competitors are willing to pay are just way beyond what we would consider being value accretive to the company, where then we decided not to participate actively. Think about Serbia in this context. With the other countries, where now, after a phase of, I would say, phase of fibre assets, now some of the players are getting under pressure and start considering alternative paths to follow and are contacting us, so are in touch with us with regard to the disposal of the assets.

But again, here we are looking at this always from a standard valuation perspective, but also from a make-or-buy decision, where we only want to do acquisitions if we believe it really makes sense for us. So the number of, let's say,

	opportunities we turn down is for sure [00:25:14 unclear ?] we actively follow.
	And then thirdly, out of footprint. As you correctly mentioned, we do have sufficient firepower to deploy if there is an interesting out-of-footprint opportunity arising. Having said this, we don't feel pressure, and especially we will not [00:25:38 unclear ?] under pressure here, because we see the expected valuations in some cases still don't match our expectation. So we follow this actively, but we will only address it if we believe it makes sense. And I think for obvious reasons, we can only comment once it's happening, or it has happened, and not upfront.
John Karidis	Thank you. If I could ask just a couple of follow-ups please, if I may. Is it possible to be a little bit more precise about how much cash is in Belarus today? And then secondly, I just wonder essentially what the probability is, whether it's high or low, that Telekom Austria might do significant out-of-footprint acquisition any time soon. And by significant, I would sort of assume that that's, I don't know, something like at least one times EBITDA. Is this a very remote possibility, or is this a sort of high possibility that you might be able to do that?
Alejandro Plater	On Belarus, between €100 and €150 million, because we are paying fees and the gas is being used and generated all the time, just to give you a range. And the likelihood of doing off-footprint M&A is low.
John Karidis	Thank you.
Operator	As a reminder, if you wish to register for a question, please press star and one on your telephone. Ladies and gentlemen, there are no more questions at this time. I would now like to turn the conference back over to Susanne Aglas-Reindl for any closing remarks.
Susanne Aglas-Reindl	Thank you very much for joining our call. Thanks for the presentation and the questions. There are no further questions. We will conclude the call.
Alejandro Plater	Thank you. Bye.