



Silknet – 1H23 update

Silknet continued a strong performance in 1H23. Revenue was up 16.8% y/y to GEL 256.3mn in 1H23, primarily fueled by mobile data usage growth and tariff adjustments in 2022. Operating expenses were slightly up 1.9% y/y to GEL 156.7mn, the appreciation of GEL contributed to curbing this growth, given that c. 23% of these expenses are in FX. As a result, company's adjusted EBITDA was up 26.2% y/y to GEL 164.1mn. Consequently, Silknet reached highest-ever adjusted EBITDA margin of 64.0% in 1H23 and company's net debt to adjusted EBITDA ratio reduced to 1.3x in 1H23 vs. 2.3x in 1H22.

Silknet maintained strong presence across all key segments – mobile, fixed broadband and pay-TV - in terms of subscribers and revenue in 1H23. In telecom sector revenue, Silknet's share stood at 34.7% of mobile segment, at 33.7% of fixed broadband and at 37.5% of pay-TV revenues.

Silknet and Magticom did not participate in the auction that took place in Aug-23 for the implementation of 5G technology, as announced by GNCC. This decision was made due to strict obligations for MVNO accessibility, 5G coverage, and speed. Cellfie was the sole participant in the auction for 5G implementation, however Silknet anticipates that GNCC will find a way to collaborate with other operators, on more agreeable terms.

Mobile data – key driver for revenue growth

Financial highlights, GEL mn	1H22	1H23	% Change y/y
Revenue	219.5	256.3	+16.8%
<i>of which:</i>			
Mobile data	51.8	68.5	+32.3%
Fixed broadband	53.9	65.4	+21.2%
Mobile callout	51.5	54.8	+6.6%
Pay-TV	24.1	27.7	+15.2%
<i>Other</i>	38.2	39.8	+4.0%
Adjusted EBITDA*	130.1	164.1	+26.2%
Adjusted EBITDA margin	59.3%	64.0%	+4.8ppts
Net income	15.8	92.4	4.8x
Net profit margin	7.2%	36.0%	+28.8ppts

Assets	864.4	820.9	-5.0%
Liabilities	897.4	696.5	-22.4%
Equity	-33.0	124.3	n/a
Net Debt	577.7	457.0	-20.9%
Net debt to adj. EBITDA	2.3x	1.3x	

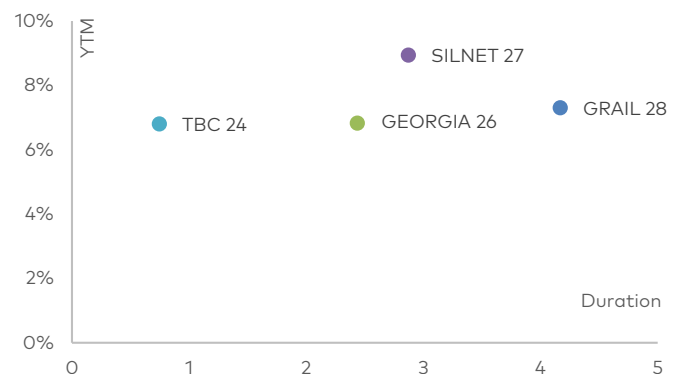
Source: Company information
*Incl IFRS 16

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Figure 1: Georgian Eurobond universe



Source: Bloomberg

Favorable company credit and ESG ratings



Source: Company information



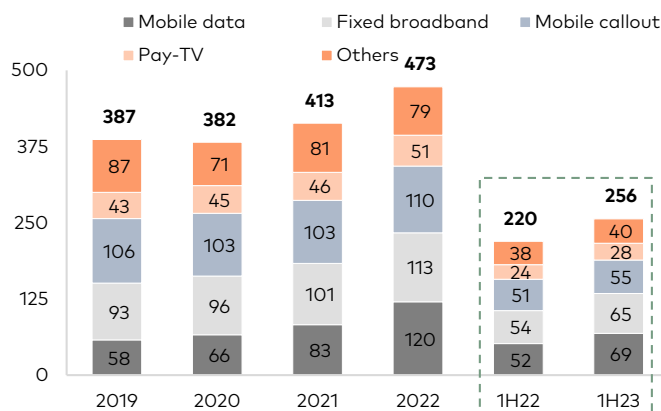
How Silknet performed in 1H23

Silknet's revenue was up 16.8% y/y to GEL 256.3mn in 1H23, primarily driven by mobile data revenue. Regarding each segment:

- **Mobile data** accounted for 26.7% of total revenue and remained largest contributor to growth with a 32.3% y/y increase to GEL 68.5mn in 1H23. Surge in mobile data revenue is attributed to 1) 7.4% y/y growth in mobile data subscribers, 2) 34.1% y/y growth in usage per user to 11.1 GB per/month (8.3 GB/month in 1H22) and 3) pricing adjustments in 2022.
- **Fixed broadband** accounted for 25.5% of total revenue and was 2nd largest contributor to growth with a 21.2% y/y increase to GEL 65.4mn in 1H23. Surge in fixed broadband revenue was propelled by 1) price adjustments since Aug-22 and 2) 6.7% y/y growth in subscribers in 1H23.
- **Mobile callout** accounted for 21.4% of total revenue and was up 6.6% y/y to GEL 54.8mn in 1H23. Mobile callout revenue was stagnant over 2019-1H23, pressured by increased usage of WhatsApp, Viber and other messenger apps.
- **Pay-TV** accounted for 10.8% of total revenue and was up 15.2% y/y to GEL 27.7mn in 1H23.
- **Other segments** accounted for 15.5% of total revenue and were up 4.0% y/y to GEL 39.8mn in 1H23.

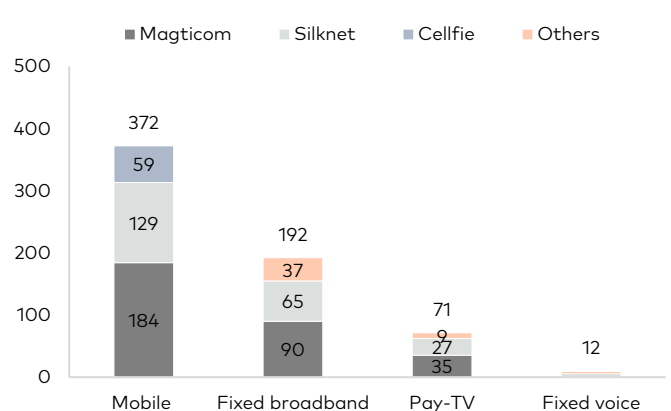
Silknet slightly improved market shares in 1H23 compared to 2022. Silknet accounted for 34.7% (vs 34.4% in 2022) of mobile segment revenue, 33.7% (vs 33.6% in 2022) of fixed broadband and 37.5% (vs 35.8% in 2022) of Pay-TV segment in 1H23.

Figure 2: Silknet's revenue breakdown, GEL mn



Source: Silknet

Figure 3: Telecom sector revenue in 1H23, GEL mn



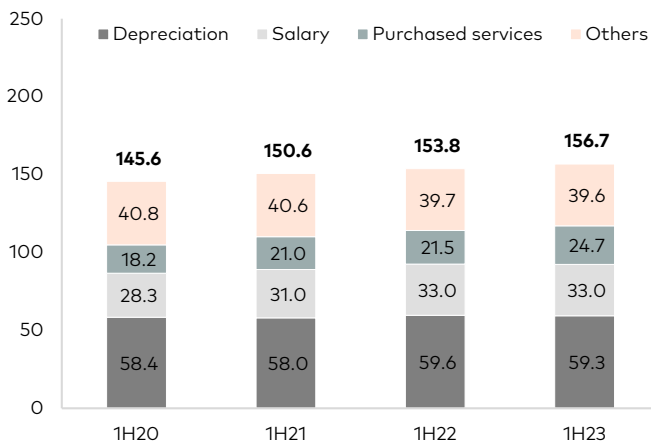
Source: GNCC



Operating expenses were slightly up to GEL 156.7mn (+1.9%/y/y) in 1H23. Significant share of operating expenses is fixed and does not directly align with the revenue growth. Additionally, as some Silknet's expenses (c. 23%) are US\$-denominated, the strengthening of GEL limited increase. The company's operating expenses are distributed across three major categories. In 1H23: 1) depreciation (37.9% of total) was down to GEL 59.3mn (-0.5% y/y), 2) salary expenses (21.1% of total) were stagnant (+0.2% y/y) and purchased service costs (15.8% of total) were up 15.0% y/y.

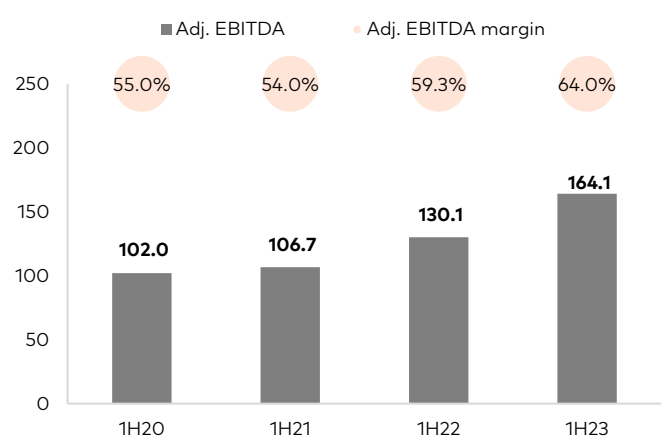
Silknet's adjusted EBITDA surged by 26.2% y/y to GEL 164.1mn in 1H23, as revenue growth outpaced increase in operating expenses. As a result, adjusted EBITDA margin was up to record high 64.0% in 1H23 compared to 59.3% in 1H22.

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



Source: Silknet

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



Source: Silknet

Net profit was up 5x to GEL 92.4mn in 1H23. Growth could be attributed to 1) impressive operating performance in 1H23; 2) low base effect in 1H22 due to the one-off finance cost on Eurobond redemption and 3) FX gain due to the revaluation of USD-denominated debt, following the appreciation of GEL.

Silknet's debt rating improved in 1H23. Fitch upgraded Silknet's debt rating from 'B+' to 'BB-' in Aug-2023, primarily attributed to Georgia's improved Recovery Rating from Group D (RR4) to Group C (RR3) in Mar-23. Company ratings remain persistent with Fitch B+/stable, Moody's B1/stable outlook and Sustainalytics maintaining 26.0 ESG risk ratings.



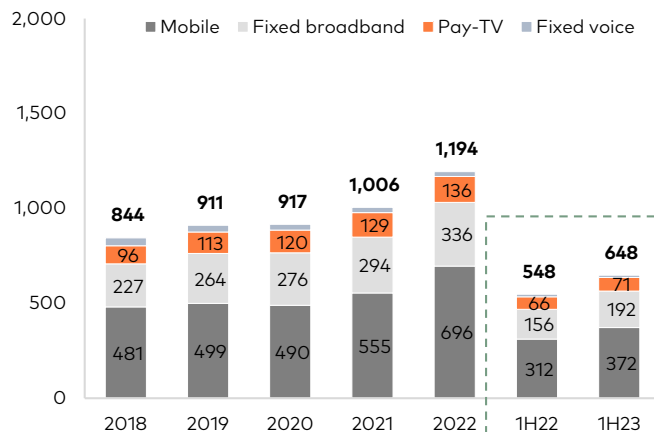
A look at telecom market in Georgia

Telecom market revenue was up by 18.4% y/y to GEL 648.4mn in 1H23, primarily driven by mobile segment. Regarding each segment:

- **Mobile segment** accounted for 57.4% of total revenue and increased 19.4% y/y to GEL 372.4mn in 1H23, fueled by tariff adjustments and increased mobile data usage.
- **Fixed broadband** accounted for 29.6% of total revenue and was up 22.9% y/y to GEL 192.2mn, supported by tariff adjustments in Aug-22.
- **Pay-TV** accounted for 11.0% of total revenue and was up by 7.8% y/y to GEL 71.7mn, driven by tariff adjustments.
- **Fixed voice** accounted for 1.9% of total revenue and was down by 7.1% y/y to GEL 12.2mn, attributed to the declining number of subscribers.

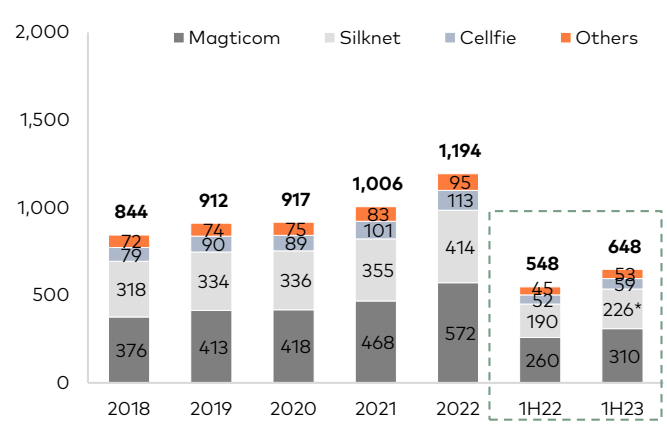
Silknet has maintained its position as 2nd largest telecom service provider. The telecom market is highly concentrated: Magticom accounted for 47.8% of telecom sector revenue in 1H23, followed by Silknet with 34.9%. Cellfie (formerly known as Veon) accounted for 9.1% of telecom sector revenues, focusing solely on the mobile segment and other companies accounted for 8.2%.

Figure 6: Telecom market turnover breakdown by segments, GEL mn



Source: GNCC

Figure 7: Telecom market turnover breakdown by company, GEL mn



Source: GNCC

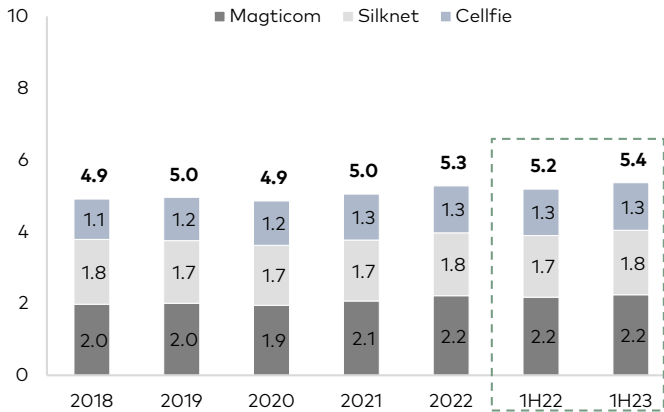
Note: GNCC doesn't include carrier service revenues in telecom market

Mobile subscribers were up 3.4% to 5.4mn subscribers in 1H23, driven by tourism recovery and migrant inflow. Silknet's share in mobile subscribers was slightly up to 33.5% in 1H23 (33.1% in 1H22). Silknet's mobile subscriber growth (+4.8% y/y to 1.8mn subscribers) outpaced Magticom's (+2.9% y/y to 2.2mn) and Cellfie's (+2.5% y/y to 1.3mn) in 1H23. Notably, Magticom



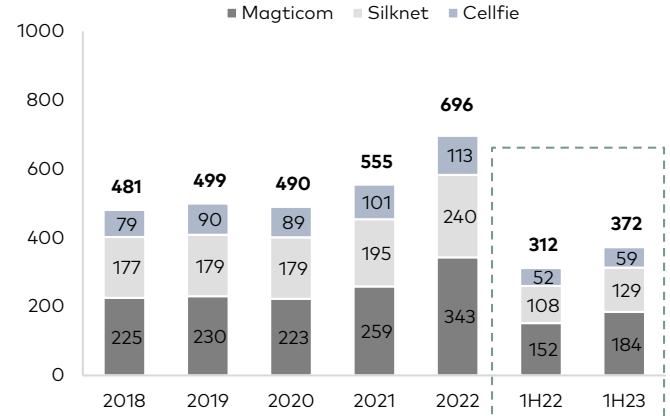
generated 49.5% of mobile segment revenues, followed by Silknet (34.7%) and Cellfie (15.9%).

Figure 8: Mobile subscribers, mn



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

Figure 9: Mobile revenues, GEL mn

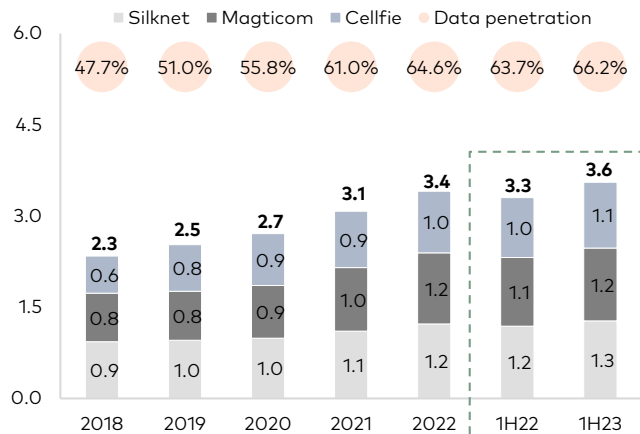


Source: GNCC

Mobile data is the primary catalyst for mobile segment growth, with subscribers up 7.6% y/y to 3.6mn in 1H23, thanks to tourism recovery, migrant inflow and increased data penetration. Silknet maintained its leading position in terms of mobile data subscribers, with 35.9% market share and 7.4% y/y growth to 1.3mn subscribers.

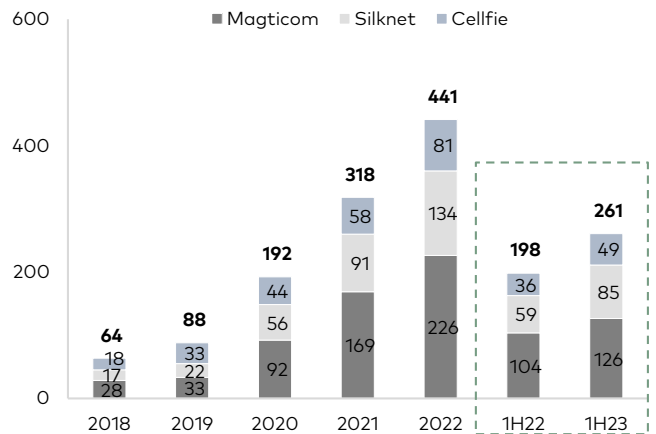
Mobile data traffic was up 31.5% y/y to 260.6K TBs. Mobile data traffic growth is fueled by subscriber growth and increased usage per user. Notably, Monthly mobile data usage per subscriber increased across all providers, with market average standing at 12.2GB/month up 22.2% y/y in 1H23.

Figure 10: Mobile data subscribers, mn



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

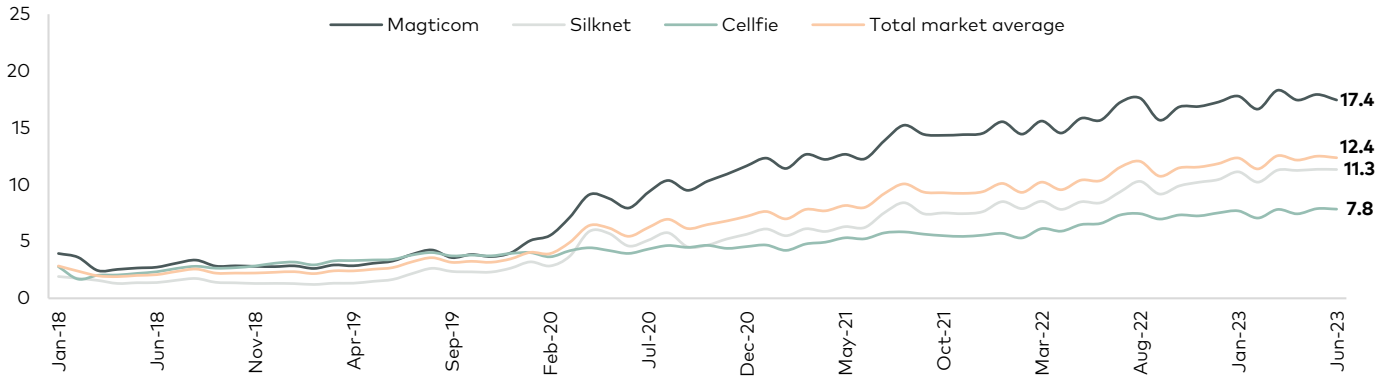
Figure 11: Mobile data traffic, TB ('000)



Source: GNCC



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

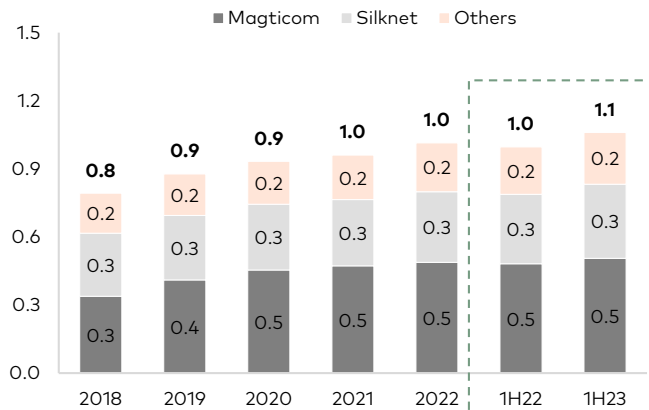


Source: GNCC

In Aug-23, GNCC concluded an auction for the implementation of 5G technology. However, Silknet and Magticom, chose not to participate in the auction, due to strict obligations for MVNO accessibility, 5G coverage, and speed. Cellfie was the sole participant in the auction for 5G implementation, however Silknet anticipates that GNCC will find a way to collaborate with other operators, on more agreeable terms.

Fixed broadband subscribers were up 6.4% y/y to 1.1mn in 1H23, mostly driven by real estate sales in Tbilisi and growing availability in the regions. Magticom accounted for 47.7% of the total subscribers, followed by Silknet with 30.8%. The revenue generated from fixed broadband was up 22.9% y/y to GEL 192.2mn, primarily propelled by price adjustments by major providers in Aug-22.

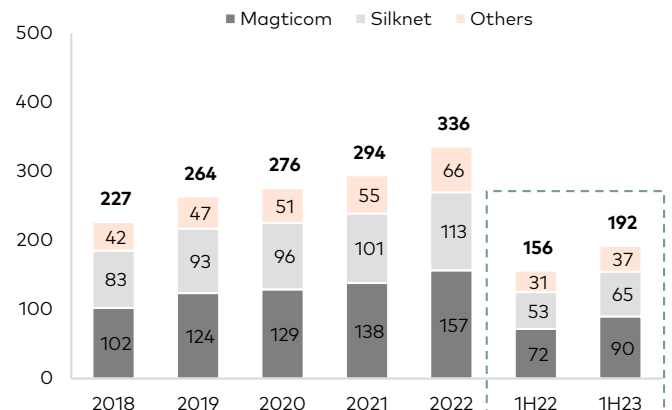
Figure 13: Fixed broadband subscribers, mn



Source: GNCC

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

Figure 14: Fixed broadband revenues, GEL mn



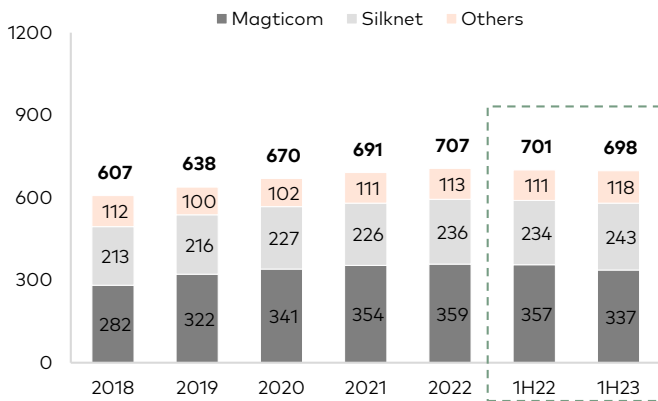
Source: GNCC



Pay-TV subscribers was down slightly -0.4% y/y to 697.9K subscribers, due to Magticom abandoning satellite TV from 2023 and increasing competition from streaming platforms. Magticom and Silknet hold 48.3% and 34.9% of total subscribers, respectively. Notably, market shares in fixed broadband and Pay-TV are almost the same for both providers, reflecting the successful service bundling strategies, however, Silknet's bundling rate is higher than Magticom's.

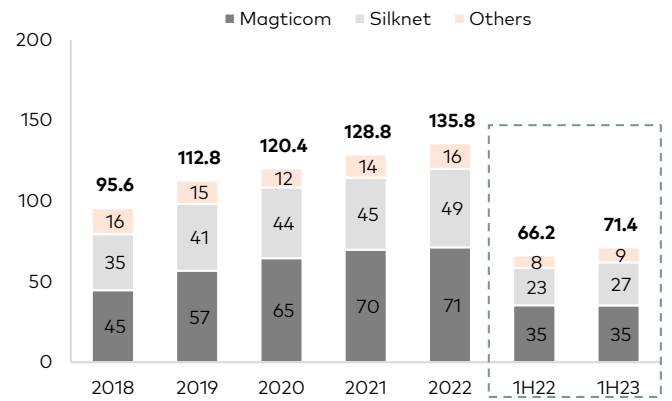
Pay-TV segment revenue was up 7.8% y/y to GEL 71.4mn, mostly attributed to tariff adjustments. Additionally, to address increasing competition from streaming platforms, Silknet strategically acquired Myvideo.ge, a digital video streaming platform with 1.6mn registered users and 2.4mn uploaded videos as of Aug-23.

Figure 15: Pay-TV subscribers*, '000



Source: GNCC
* excl. mobile streaming application subscribers
Note: Annual figures represent the average of monthly data in respective years

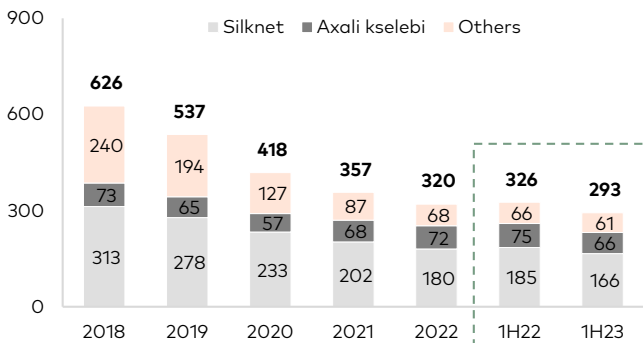
Figure 16: Pay-TV revenues, GEL mn



Source: GNCC
* excl. mobile streaming application subscribers

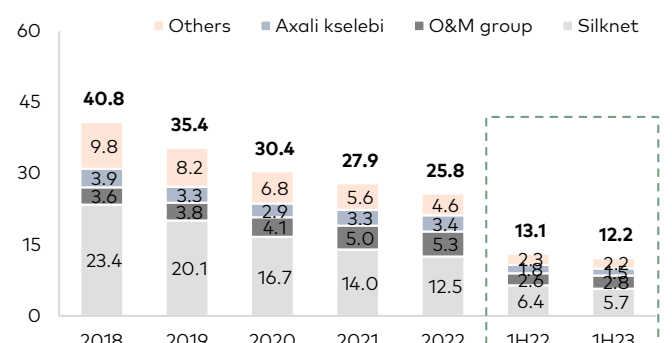
Fixed voice is gradually vanishing segment and accounts for a 1.9% share in telecom sector. Fixed voice subscribers were down 10.0% y/y to 293.3K subscribers and revenue down 7.1% y/y to GEL 12.2mn. The trend will continue with the spreading mobile services and the internet.

Figure 17: Fixed voice subscribers, '000



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

Figure 18: Fixed voice revenues, GEL mn

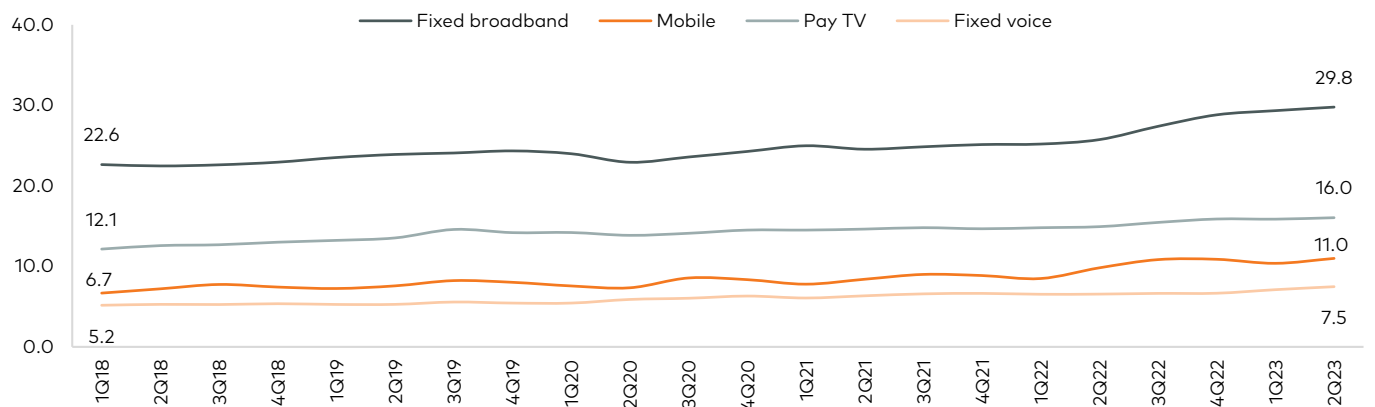


Source: GNCC



The average revenue per user (ARPU) is on the rise across all segments. Notably, fixed broadband demonstrated the highest ARPU and the highest ARPU growth rate, reaching GEL 31.4 (+16.3% y/y) in 1H23. Additionally, a 14.9% y/y surge in mobile ARPU in 1H23 was also largely supported by the increased usage of mobile data and GNCC’s decision to eliminate retail pricing regulation since Jul-21, allowing operators to adjust prices.

Figure 19: ARPU by segment, GEL

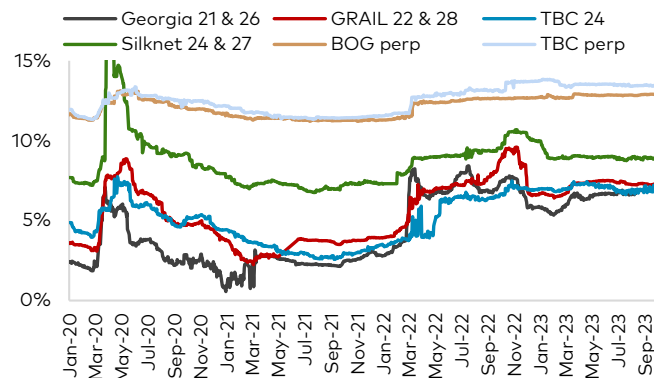


Source: GNCC, Galt and Taggart Research

Eurobond performance

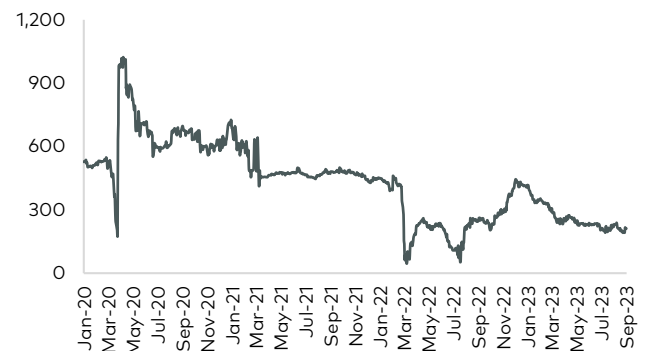
Yields on Georgian corporate Eurobonds, including SILKNET 27, experienced decline in 1H23. After reaching peak yield of 10.7% on 4 November 2022, Silknet’s yield reduced to 8.92% as of 5 October 2023, trading at 98.4% of par value. The declining yield reflected into narrowing spread between Silknet 27 and Georgia’s sovereign Eurobonds, settling at 134.0 bps as of Oct-5, 2023 from 416.5 bps seen at the beginning of the year.

Figure 20: YTM on selected Georgian Eurobonds



Source: Bloomberg

Figure 21: Silknet 24 & 27 spread over GEORGIA 21 & 26, bps



Source: Bloomberg



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