



Silknet – 9M23 update

Telecommunications | Georgia
January 11, 2024

Silknet's revenue was up 14.9% y/y reaching GEL 397.3mn in 9M23. Mobile data and fixed broadband revenues were primary growth drivers, up 27.6% y/y and 18.6% y/y, respectively. This strong growth in revenue, paired with a modest 4.2% y/y rise in operating expenses, led to a record-high EBITDA margin of 64.5% in 9M23 compared to 60.4% in 9M22. For full-year 2023, we expect Silknet's revenues to reach GEL 530.2mn, marking a 12.1% y/y increase.

Silknet sustained its strong market position, seeing a slight increase in subscriber market share across all key segments and an increased revenue market share within the mobile and Pay-TV segments. In the telecom sector revenue, Silknet accounted for 34.9% of mobile segment revenue, 33.6% of fixed broadband revenue and 37.3% of Pay-TV segment revenue in 9M23.

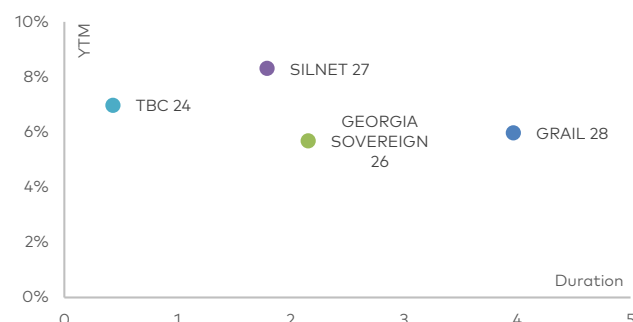
Financial highlights, GEL mn

Category	9M22	9M23	% Change y/y
Revenue	345.8	397.3	+14.9%
of which:			
Mobile data	86.4	110.3	+27.6%
Fixed broadband	83.0	98.5	+18.6%
Mobile callout	81.1	83.9	+3.5%
Pay-TV	36.9	41.9	+13.7%
Carrier services	33.7	36.3	+7.9%
Other	24.7	26.5	+7.4%
Adjusted EBITDA*	208.7	256.1	+22.7%
Adjusted EBITDA margin	60.4%	64.5%	+4.1ppts
Net income	66.8	126.7	+89.7%
Net profit margin	19.3%	31.9%	+12.6ppts
Assets	805.2	828.2	+2.9%
Liabilities	787.2	709.5	-9.9%
Equity	18.0	118.7	+5.6x
Net Debt	531.2	417.0	-21.5%
Net debt to adj. EBITDA	2.0x	1.3x	

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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How Silknet performed in 9M23

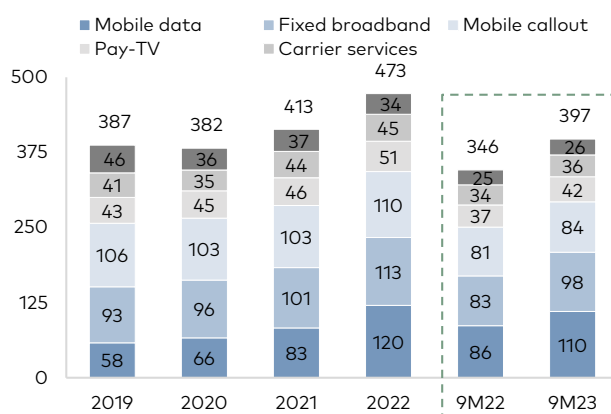
Silknet's revenue was up 14.9% y/y to GEL 397.3mn in 9M23, primarily driven by mobile data and fixed broadband revenues.

Each segment revenue dynamics were as follows:

- **Mobile data** revenue (27.8% of total) remained the largest contributor to growth with a 27.6% y/y increase to GEL 110.3mn in 9M23. Surge in mobile data revenue is attributed to 1) 7.2% y/y growth in mobile data subscribers, 2) 33.4% y/y growth in mobile data usage per user to 11.6 GB/month (8.7 GB/month in 9M22) and 3) price growth in 2022.
- **Fixed broadband** revenue (24.8% of total) increased by 18.6% y/y reaching GEL 98.5mn in 9M23. The growth was propelled by 1) price growth since Aug-22 and 2) 6.6% y/y growth in subscribers in 9M23.
- **Mobile callout** revenue (21.1% of total) experienced a modest 3.5% y/y increase to GEL 83.9mn in 9M23. This moderate growth can be attributed to tariff increase, as the number of outgoing calls declined 2.0% y/y to 1.4bn calls, indicating a shift towards increased usage of messaging apps.
- **Pay-TV** revenue (10.5% of total) increased by 13.7% y/y to GEL 41.9mn in 9M23.
- **Carrier services** revenue (9.1% of total) increased by 7.9% y/y to GEL 36.3mn in 9M23.
- **Other** revenue (6.7% of total) was up 7.4% y/y to GEL 26.5mn in 9M23.

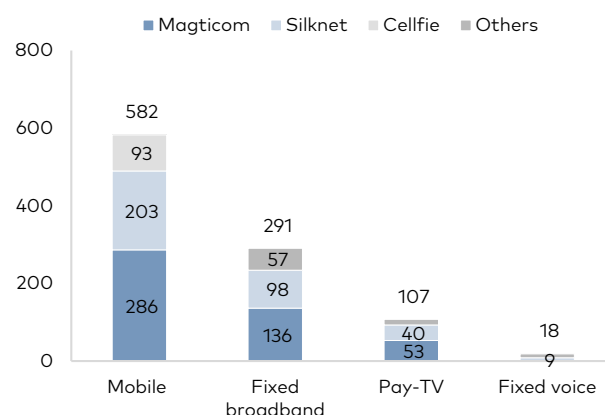
Silknet increased its market shares in 2 segments. Silknet accounted for 34.9% (vs 34.5% in 9M22) of mobile segment revenue, 37.3% (vs 35.4% in 9M22) of Pay-TV segment and 33.6% (vs 33.8% in 9M22) of fixed broadband in 9M23.

Figure 2: Silknet's revenue breakdown, GEL mn



Source: Silknet

Figure 3: Telecom sector revenue in 9M23, GEL mn



Source: GNCC

Note: Pay-TV excl. mobile streaming application subscribers

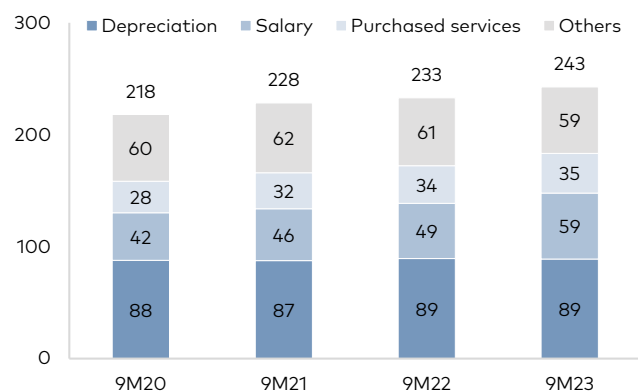


Operating expenses were up 4.2% y/y to GEL 242.7mn in 9M23.

This increase was primarily driven by a GEL 9.6mn y/y rise in salary costs, of which GEL 8.6mn was a one-time bonus allocated to the company's management. Significant share of operating expenses is fixed and does not directly align with the revenue growth. Additionally, as almost quarter of company expenses are US\$-denominated, the strengthening of GEL limited increase. The company's operating expenses are distributed across three major categories. In 9M23: 1) depreciation (36.6% of total) was down by 0.5% y/y to GEL 88.9mn, 2) salary expenses (24.3% of total) were up by 19.5% y/y to GEL 58.9mn (+2.1% y/y to GEL 50.3mn excl. the one-time management bonus), 3) purchased services (14.6% of total) were up 5.0% y/y to GEL 35.4mn.

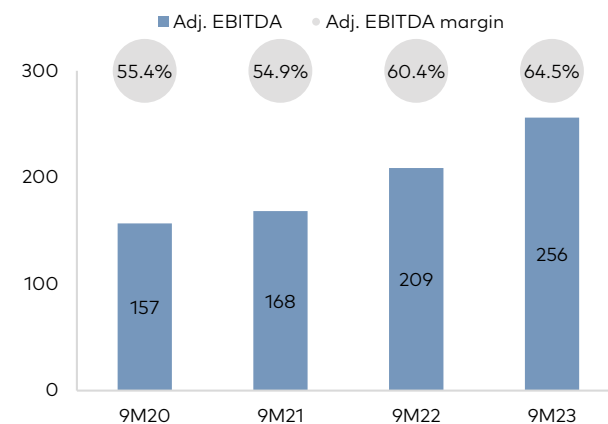
Strong revenue growth, coupled with modest operating expense increases, drove adjusted EBITDA to surge by 22.7% y/y to GEL 256.1mn in 9M23. Consequently, the adjusted EBITDA margin reached a record high 64.5% in 9M23, compared to 60.4% in 9M22.

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 almost doubled to GEL 126.7mn in 9M23. Growth mainly attributed to impressive operating performance in 9M23 and a lower base effect in 9M22 due to a one-off finance cost related to Eurobond refinancing.

Silknet's debt rating improved. Fitch upgraded Silknet's debt rating from 'B+' to 'BB-' in Aug-2023. This enhancement was primarily due to Georgia's improved Recovery Rating from Group D (RR4) to Group C (RR3) in Mar-23. Overall, company's ratings remained consistent: Fitch rated Silknet at B+/stable, Moody's at B1/stable and Sustainalytics maintained its ESG risk rating at 26.0.



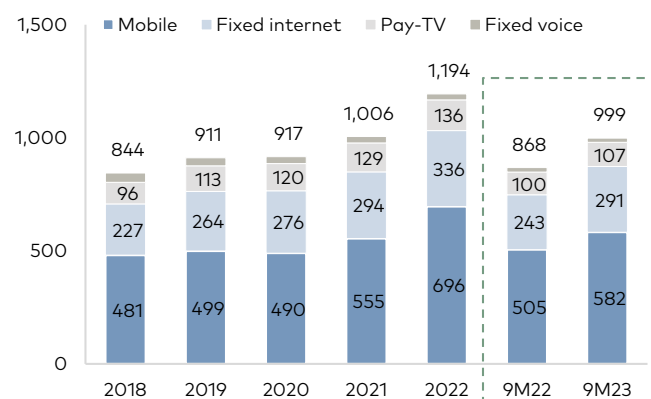
Snapshot of telecom market in Georgia

Telecom market revenue was up by 15.0% y/y to GEL 998.5mn in 9M23, primarily driven by mobile segment. Regarding each segment:

- **Mobile segment** accounted for 58.3% of total revenue and increased 15.2% y/y to GEL 582.3mn in 9M23, fueled by rise in subscriber base, tariff growth and increased mobile data usage.
- **Fixed broadband** accounted for 29.1% of total revenue and was up 19.7% y/y to GEL 290.6mn, supported by tariff growth in Aug-22.
- **Pay-TV** accounted for 10.8% of total revenue and was up by 7.0% y/y to GEL 107.4mn, driven by tariff growth.
- **Fixed voice** accounted for 1.8% of total revenue and was down by 6.8% y/y to GEL 18.2mn, attributed to the declining number of subscribers.

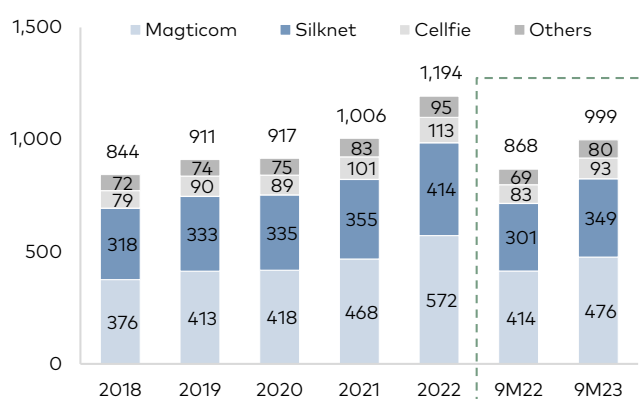
Silknet has maintained its position as 2nd largest telecom service provider. The telecom market is highly concentrated: Magticom accounted for 47.7% of telecom sector revenue in 9M23, followed by Silknet with 35.0%. Cellfie (formerly known as Beeline) accounted for 9.3% of telecom sector revenues, focusing solely on the mobile segment and other companies accounted for 8.0%.

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



Source: GNCC

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



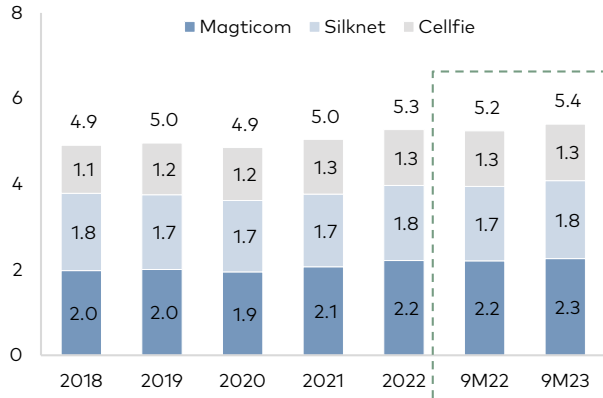
Source: GNCC

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

Mobile subscribers were up 3.0% y/y to 5.4mn subscribers in 9M23. Net additions amounted to 158K mobile subscribers, with half opting for Silknet. Consequently, Silknet's share in mobile subscribers was up by 0.5ppts to 33.7% (1.8mn subscribers) in 9M23. Meanwhile, Magticom's share reduced slightly by 0.2ppts to 41.8% (2.3mn subscribers). And Cellfie's share decreased 0.3ppts to 24.5% (1.3mn subscribers). Notably, Magticom generated 49.2% of mobile segment revenues, followed by Silknet (34.9%) and Cellfie (15.9%).



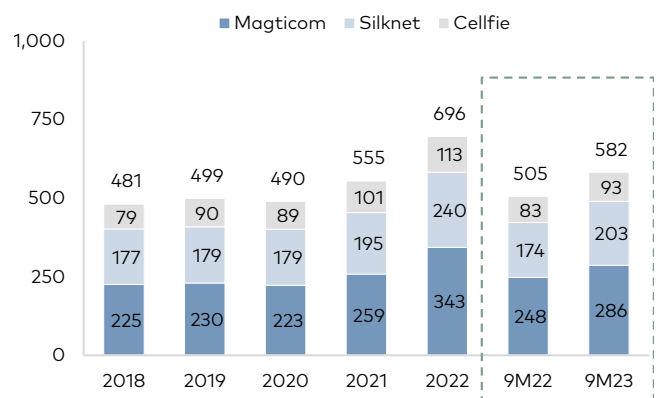
Figure 8: Mobile subscribers, mn



Source: GNCC

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

Figure 9: Mobile revenues, GEL mn

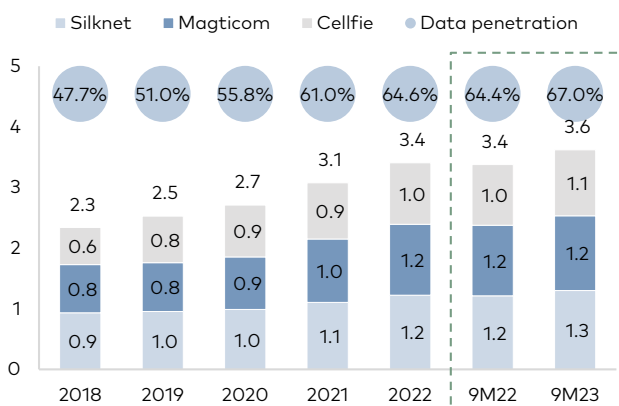


Source: GNCC

Mobile data is the primary catalyst for mobile segment growth, with subscribers up 7.2% y/y to 3.6mn in 9M23, thanks to tourism recovery and increased data penetration. Silknet maintained its leading position in terms of mobile data subscribers, with 35.9% market share and 7.2% y/y growth to 1.3mn subscribers.

Mobile data traffic was up 29.0% y/y to 412.1K TBs. Mobile data traffic growth was fueled by subscriber growth and increased usage per user. Notably, monthly mobile data usage per user increased across all providers, with market monthly average standing at 12.6GB (+20.5% y/y) in 9M23.

Figure 10: Mobile data subscribers, mn

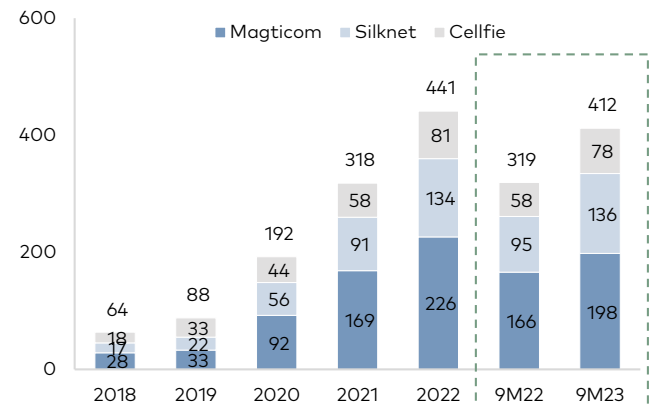


Source: GNCC

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

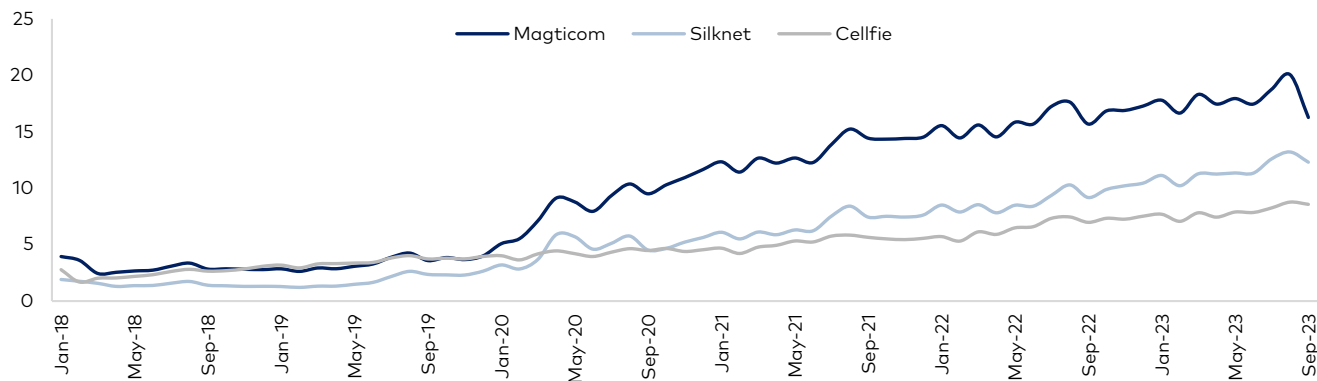
Figure 11: Mobile data traffic, TB ('000)



Source: GNCC



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



Source: GNCC

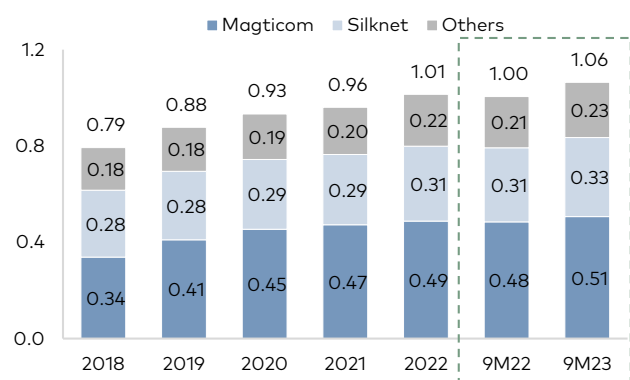
Silknet has successfully launched 5G network on December 14, 2023.

In Aug-23, GNCC concluded an auction for the implementation of 5G technology, but Silknet and Magticom chose not to participate. However, the company launched 5G network using its existing frequency resources, mainly covering Tbilisi's central districts.

Fixed broadband subscribers were up 5.9% y/y to 1.1mn in 9M23,

mostly driven by strong real estate sales in Tbilisi and growing availability in the regions. Net additions amounted to 42.1K new subscribers (1.07mn as of Sep-23 vs 1.03mn as of Sep-22), with 47.0% opting for Silknet. Magticom accounted for 47.6% of the total subscribers, followed by Silknet with 30.9%. The notable difference in market shares is partially attributed to their distinct strategies. Silknet mainly focuses on the 10 largest cities in Georgia, while Magticom focuses on expanding its presence in rural areas. The revenue generated from fixed broadband was up 19.7% y/y to GEL 290.6mn, primarily propelled by subscriber growth and tariff growth by major providers in Aug-22.

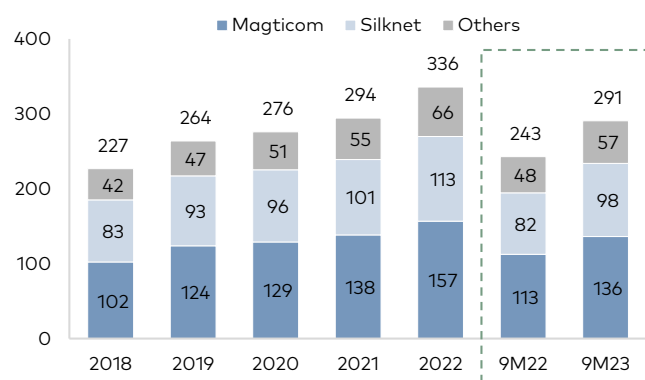
Figure 13: Fixed broadband subscribers, mn



Source: GNCC

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

Figure 14: Fixed broadband revenues, GEL mn



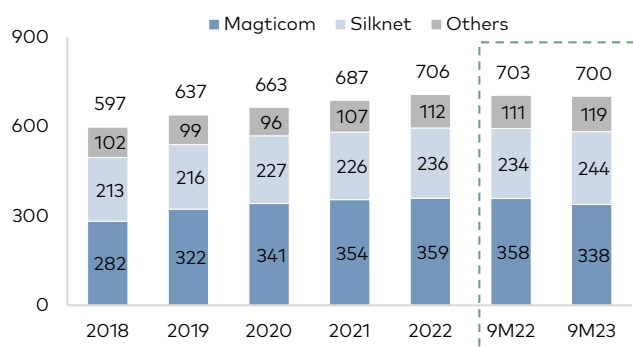
Source: GNCC



Pay-TV subscribers were down slightly -0.4% y/y to 700.5K subscribers, due to Magticom abandoning satellite TV from 2023 and increasing competition from streaming platforms. Magticom and Silknet hold 48.2% and 34.8% of total subscribers, respectively. Notably, Silknet enjoys higher bundling rate, meaning that customers who utilize Silknet's fixed broadband service often opt for its pay-TV service as well. Silknet's service bundling rate stands at 77% vs 69% for Magticom as of Sep-23.

Pay-TV segment revenue was up 7.0% y/y to GEL 107.4mn in 9M23, mostly attributed to tariff growth. 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

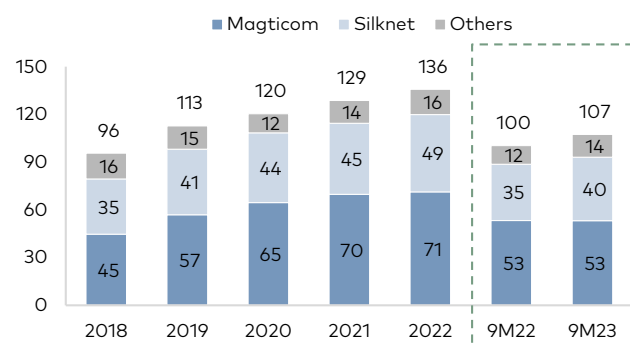


Source: GNCC

* excl. mobile streaming application subscribers

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

Figure 16: Pay-TV revenues*, GEL mn

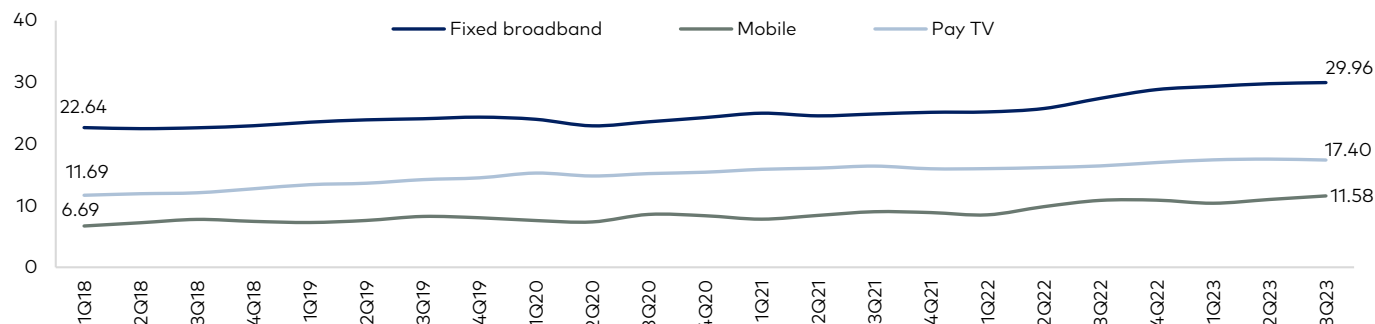


Source: GNCC

* excl. mobile streaming application subscribers

The average revenue per user (ARPU) is on the rise across all segments. Notably, fixed broadband demonstrated the highest growth in ARPU, up 13.6% y/y to GEL 31.5, attributed to the last year's low base (prices on fixed broadband increased in Aug-22, compared to Feb-22 for the mobile segment). Additionally, a 11.7% y/y growth in mobile ARPU was largely driven by the increased usage of mobile data in 9M23.

Figure 17: ARPU by segment, GEL



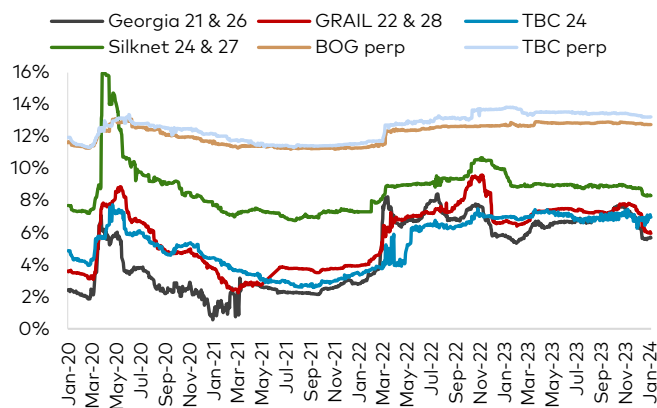
Source: GNCC, Galt and Taggart Research



Eurobond performance

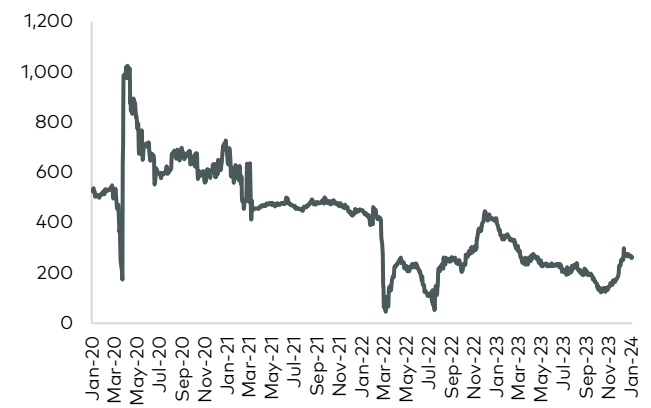
Yields on Georgian corporate Eurobonds, including SILKNET 27, experienced a slight decline in 9M23. Having peaked at 10.7% on Nov-4 2022, Silknet's yield reduced to 8.31% as of Jan-5 2024, trading at 100.2% of par value. The spread between Silknet 27 and Georgia's sovereign Eurobonds has narrowed steadily since 2023 and stood at 263.2 bps as of Jan-5, 2024.

Figure 18: YTM on selected Georgian Eurobonds



Source: Bloomberg

Figure 19: Silknet 24 & 27 spread over GEORGIA 21 & 26, bps



Source: Bloomberg



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