



Q2 2021 Results Conference Call

Aug 11, 2021

Good afternoon everyone. I am Zoltán Pandi, Head of Investor Relations at Magyar Telekom. I would like to welcome you to our second quarter 2021 results conference call. As you will have noted, we are hosting this event via Teams for the first time. Please note that our presentation, which we're sharing, is also available in the Investor Relations section of our website. This event is recorded, the recording will not be redistributed outside Magyar Telekom. By joining the presentation, you give your consent to be recorded.

Throughout the presentation your lines will remain muted and once we have commenced the Q&A session, you will be able to ask a question using the "raise hand" function following which your microphone will be enabled and you can unmute yourself to ask a question.

Before we get started, I would also like to draw your attention to the disclaimer on the second page. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties.

With me today is Ms. Darja Dodonova, our CFO, who will take you through the presentation and answer any questions you may have.

Now, it is my pleasure to hand over to Darja to open the presentation.

Darja Dodonova

Thank you, Zoltan. Good afternoon everyone.

Starting with **slide 3**, I'm pleased to report that both revenue and EBITDA AL significantly exceeded our expectations for H1 2021. As you can see, our revenues grew by 3.8% and our EBITDA AL by 7.0% during the first half. Our investment levels



were somewhat lower, whilst free cash-flow stood at 10.3 billion forints, up by 6.9 billion forints compared to the first half of 2020. I will shortly outline the main drivers of our Q2 2021 performance that helped us deliver such a strong set of results and will also touch on what this means for our full year guidance and mid-term outlook.

Before we delve into Q2 2021 financials, let me outline some key operational achievements during the quarter, shown on slide 4.

During the second quarter, Magyar Telekom remained focused on its flagship investment: the development of the gigabit capable network. The rollout continued to plan and by the end of June we covered 2.75 million access points. This represents 63.5% of all access points on Magyar Telekom's fixed network footprint. In addition, we continued with the comprehensive radio access network modernization which was set in motion during the first half of last year. This is expected to give us more flexibility whilst optimizing our mobile network and is also expected to contribute to the achievement of our energy saving targets. As part of this initiative, the modernization of over 680 base stations was completed by the end of Q2 2021.

These improvements of our infrastructure are reflected in the continued positive momentum in our customer base: the fact that nearly one out of four broadband customers is subscribed to a Gigabit speed package shows the successful monetization of our Gigabit network rollout. On the mobile side, we recorded the highest data traffic ever, the average monthly mobile data usage per customer climbed to 7.2 GB / month in Q2 2021, representing a 25% increase year-on-year.

On the sustainability front, the results of Magyar Telekom's latest sustainability cycle spanning the 2016-2020 period were unveiled, detailing our strategy with respect to digital sustainability, climate protection, equal opportunity and diversity. In addition, very recently Magyar Telekom's position as a constituent of the FTSE4Good Index Series was confirmed following an index review. We received an outstanding 99 percentile rank in the telecommunications investment universe.



Moving on to **slide 5**, we are now looking at a time period that has been affected by COVID-19 as a whole. The Q2 2020 results were impacted by lockdowns across all our markets and other measures introduced in response to the rapid spread of the virus. Once the first wave had passed, our performance began to recover. Despite the continued macro headwinds, we are now reporting revenue growth for the 4th consecutive quarter in Q2 2021. The year-on-year revenue increase in Q2 2021 has been the strongest in the last four quarters and has also contributed to positive momentum in EBITDA AL.

Slide 6 shows our revenue performance in more detail. Favorable service revenue trends, witnessed in the previous quarters, continued with mobile data showing a particularly strong increase compared to the same period last year. In addition to continued expansion of the customer base and growth in usage levels, it was also partly driven by the absence of the unfavorable impact of mobile data allowances provided to customers on a voluntary basis during the lockdown in the second quarter of 2020 in both countries of operation. SMS revenue growth contributed to overall topline improvement, driven by higher mass SMS volumes, which was in turn partly driven by COVID-19 vaccination campaigns in Hungary.

Whilst the mandatory broadband monthly fee allowance introduced in Hungary for students and teachers during the months of online education still had some unfavorable impact on revenues, it was offset by the positive impact of the continued expansion of the broadband and TV customer bases in both Hungary and North-Macedonia, supporting the upward trend in fixed service revenues.

The moderate decline in System Integration and IT reflects some reduction in revenues from outsourcing services, mostly compensated by the increased volume of implementation projects in Hungary; whilst revenues from customized solution projects declined year-on-year from an elevated base in North Macedonia.



However, with overall performance now also supported by higher equipment sales year-on-year, reflecting some pent-up demand following a one-month lockdown at the end of the first quarter, as well as an increase in average mobile handset prices, total revenues grew by 5.7% year-on-year in the second quarter and by 3.7% in the first half of 2021.

Moving on to the performance of our different service lines, **slide 7** illustrates the key developments within our Hungarian mobile operations. The number of total SIM cards grew further with the increase coming from continued expansion of our postpaid customer base as well as higher machine-to-machine SIM card numbers.

As shown on the charts, voice and specially data usage levels continued to increase further, reflecting the growing portion of customers opting for unlimited plans. The number of mobile data SIMs has also continued to grow dynamically, by close to 10% year-on-year, with more and more of our customers appreciating the comfort of connectivity to our gigabit network, both at home and while on the move. To leverage this trend, we are speeding up our mobile network modernization program, which allows for higher capacity on the current 4G network and serves as the basis for future 5G development.

Thanks to this positive momentum, reflected in the further increase in the proportion of postpaid customers in the total base, along with strong demand for mobile data, quarterly blended ARPU grew by over 5% year-on-year.

Turning now to **slide 8**, let us look at the key developments in the fixed market in Hungary where the increasing appeal of our gigabit network is reflected in our results. The number of retail broadband customers continued to grow strongly, supporting the further growth of our residential home base and allowing us to steadily increase our market share in this segment. Among our customers, as highlighted earlier, more and more are opting for gigabit speed packages, which provides strong support for ARPU



growth and offsets most of the pressure stemming from the mandatory broadband monthly fee allowance I mentioned earlier.

Regarding customer composition, we see substantial growth in double-play customers, primarily driven by the over 25% year-on-year increase in broadband plus TV packages. The decline in the single-play base stems from the erosion of single-play voice subscribers, in line with the shrinking of the voice market where we continue to maintain a stable market share.

With the easing of the pandemic related restrictions, the temporary increases in voice usage have also reversed, however, given the very high ratio of flat package subscriptions among our users, this has only mild implications for our financials.

Turning now to profitability, starting from slide 9, I am happy to report that our strong revenue growth has translated into 7% gross profit improvement year-on-year in the second quarter of 2021. While this was partly offset by higher indirect costs, it led to an over 6% EBITDA After Lease growth in this period. The increase in indirect costs was mostly attributable to higher employee expenses as the general wage increase introduced in Hungary in July 2020, higher level of severance expenses in both countries of operation and higher level of performance bonus expenses offset the positive impacts stemming from the lower average headcount.

However, year-to-date, employee related expenses decreased moderately, as lower severance expenses coupled with lower average headcount offset the aforementioned increases. As such, EBITDA After Lease grew by 7% in the first six months of 2021 compared to the same period last year.

Slide 10 provides further detail on the Group's capital expenditure and progress of the fixed network rollout program in Hungary.



Capital expenditures were somewhat lower year-on-year in the first half, with the decline primarily coming from our North Macedonian operations, where TV content capitalization weighed on our results. This year, however, we have a more balanced investment schedule in North Macedonia, with capex focused on network investments to ensure we remain well positioned to capitalize on the rising demand for telco services, particularly data. In addition to maintaining our infrastructure, we continue to closely monitor preparation for the national 5G tender expected to take place in second half of the year.

At our Hungarian operation, the 5% decline in capex was a combined result of higher expenditures related to the mobile network modernization program and lower investments in the fixed network. The latter mostly reflects the special investments we made towards fixed network capacity extensions at the outbreak of the pandemic, in the spring of 2020, to allow us to sustain the high quality and reliability of our services at the time of substantially increased network load. Notwithstanding, we continued with our accelerated gigabit-rollout program in Hungary, with one of the highest quarterly increases in the number of our fiber access points, allowing us to provide gigabit speed on over 63% of our Hungarian fixed network. I am particularly pleased to report that we have not only kept up the pace of our sales activity with the rollout speed, but continued to increase the penetration on our fiber network.

Let me now talk you through the below EBITDA lines on [slide 11](#).

As we have seen in the past couple of quarters, depreciation and amortization remained slightly higher than in the base period at 71.8 billion forints in H1 2021. This is still mainly a function of higher investments, including the activation of acquired 5G frequency licenses in the first half of 2020.

Net financial losses amounted to 5.6 billion forints in H1 2021, a significant improvement compared to the base period. The year-to-date change was mainly attributable to positive FX impacts due to the strengthening of the forint against the



euro, whilst we saw a significant weakening during the base period in 2020, coupled with the positive effect of movements in the yield curve that led to unrealized gains on the recognition of derivatives at fair value related mainly to swap deals.

With EBITDA increasing and a significant drop in net finance costs, profit after tax reached 22.4 billion forints during the H1 2021 period, two and a half times higher than in the base period.

Moving on to cash-flow developments on slide 12, free cash-flow generation amounted to 10.3 billion forints in H1 2021, while operating cash-flow exceeded the base by 18% and was positively influenced by higher EBITDA generation.

Net debt reached 504.0 billion forints, representing a slight decrease against the Q1 2021 period. On the one hand, indebtedness decreased on the back of strong operating-cash flow generation, whilst on the other, the dividend payment and the share buy-back transaction resulted in a combined cash outflow of 25.5 billion forint.

Now let me say a few words on the 2021 outlook on slide 13. The strong momentum across our operations is reflected in our financial performance in the quarter and in the first half of 2021. Looking ahead to the second half and taking into account this strong set of results, we believe we are well positioned to outperform our initial revenue and EBITDA growth targets for 2021. At the same time, we remain cautious since the macro environment remains volatile and this may very well have implications for H2 2021. Accordingly, we have upgraded revenue growth outlook for 2021 to “around 3%” from the previous “1-2%” and EBITDA AL growth to at least 3% versus the previously guided 1-2%. As far as investments are concerned, although CAPEX spend was slightly below the base period in H1 2021, this is largely attributable to different timing and composition. As such, our expectations for the full year remain unchanged with “broadly stable” investments against 2020.



As far as the longer-term 2021-24 outlook on slide 14 is concerned, with strong performance in H1 2021, the longer-term growth trajectory now clearly looks even more front-end loaded than expected. Assuming we deliver in line with our 2021 guidance, we see possible upgrades to our revenue and EBITDA AL targets for 2024.

That concludes our presentation, I will now hand back to Zoltán.

Zoltán Pándi

Thank you very much Darja.

We are now happy to take any questions you may have. Please use the “raise hand” function following which your microphone will be enabled and you can unmute yourself to ask a question.

(Take questions)

Thank you again for joining us today. Please note that the transcript of our conference call will shortly be available on our website. If you have any follow up question, please don't hesitate to contact Rita or myself.