Grameenphone Ltd.: 2nd Quarter 2015 Business Highlights

Gradual performance recovery from the challenging last quarter

GP observed gradual performance revival amidst intense competition during the quarter. Revenue grew marginally 0.4%(YoY), however QoQ growth was 4.5%. Service revenue grew by 0.1% (excl. IC) with contribution from data and VAS. Good opex management contributed to stable EBITDA. Higher depreciation impact led to earnings drop of 5.4%.

Scorecard

Revenue Growth (YoY)	0.4%
Opex to Sales	36.1%
EBITDA Margin (boi)	53.9%
Capex to Sales	24.2%
OCF Margin	29.6%
EPS (BDT)	3.80

Executive Summary

Grameenphone Ltd. reported revenue of BDT 26.3 Bn for the 2nd quarter of 2015, up 0.4% from the same period last year. Service revenue (excluding IC) grew by 0.1% (YoY) along with 1.9% de-growth in device and 13.7% (YoY) growth in other revenues mainly generated by infrastructure sharing and mobile financial services. Growth in service revenue was mainly driven by data and VAS with straining voice revenue. However, topline grew by 4.5%(QoQ) along with service revenue (excluding IC) growth of 4.2%. For the first time, quarterly data revenue crossed BDT 2 Bn mark and grew by 23% (QoQ) along with 21%(QoQ) user growth.

During the quarter GP managed to generate efficiency in opex which led to a stable level of BDT 14.2 Bn EBITDA and corresponding margin of 53.9%. Opex reduced by 1.5% (YoY) with improved margin of 36.1%. Geared up investment for strengthening network superiority and IT flexibility resulted in hiked BDT 6.4 Bn of CAPEX. This resulted in lower OCF margin of 29.6%. Higher depreciation impacted PAT to drop by 5.4% and stood at BDT 5.1 Bn. EPS for the quarter was BDT 3.80 in comparison of BDT 4.01 of last year.

With the rejuvenated acquisition drive in the market, GP acquired 1.12 million new subscriptions, taking the quarter-end subscription base to 53.1 million. This constitutes 7.9% subscription growth (YoY) with SIM market share of 41.9% (as of May'15). Data subscriber no stood at 13.4 Mn with encouraging volume growth.

2 major budgetary changes took place for the industry: a) 3% Supplementary Duty on mobile usage and b) SIM tax reduction to BDT 100. The regulator, BTRC postponed the auction process after revision of the schedule twice and awaits another schedule.

After the gradual improvement of political turmoil occurring from the later part of last quarter, Q2 has been a normal one with economic activities showing signs of improvement. World Bank declared Bangladesh a lower middle income country with per capita income at USD 1,314. June inflation was steady at 6.3% with reserve hitting a new height of USD 25 Bn.

Continuation of intense price competition in the industry

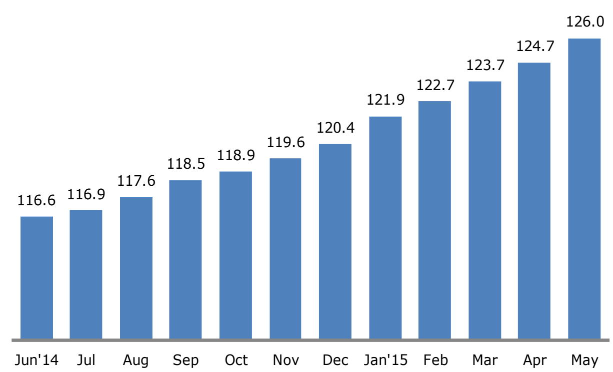
Intense price competition still continues to be the essence of the industry. All the major operators are playing with the 1paisa/sec price points in the market. This is causing slowdown of voice revenue of the industry. After the reduction of SIM tax, the industry reacted with reduced SIM price of BDT 110 during mid June 2015. This will pave the way towards a renewed subscriber addition momentum.

Industry subscriber base stood at 126 Mn on May'15 with net subscriber addition of 2.3 Mn from Q1. This represents 1.8% growth from last quarter. Net add share for 2 months by top 3 operators stood at GP (35.9%), Banglalink (7.8%) and Robi (36.9%).

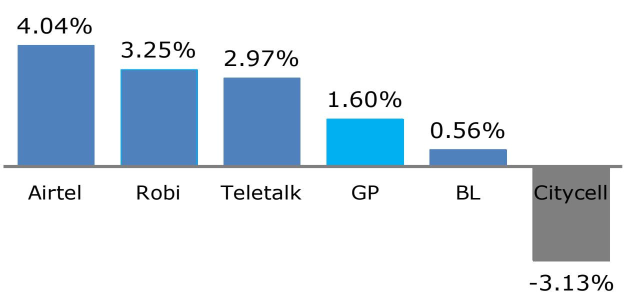
During this period, no new price point was introduced in the industry. All the players are now playing with the recharge based discount offers and lucrative churn back offers. Top 2 competitors of GP reinforced their loyalty programs. Heavy investment in rolling out 3G sites along with enabling the data regime with smartphone sales continued in Q2. Industry was also giving away free data in order to stimulate the mass adoption of internet through initial low cost experience. The enthusiastic offers on data also was directed towards winning customer loyalty in a competitive environment.

The key players in the market continued with their high investment mandate during the quarter mainly in enabling the 3G regime.

With 8.1% YoY growth in subscriber base the SIM penetration after May'15 is estimated at 74.8%. Considering multiple SIM issue, real penetration is estimated to be 48.1%.



Industry sub base (Mn)

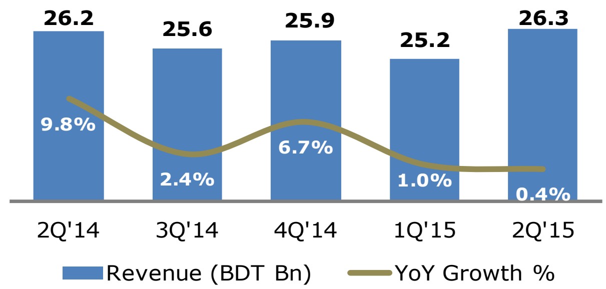


Subscriber growth Mar'15 to May'15

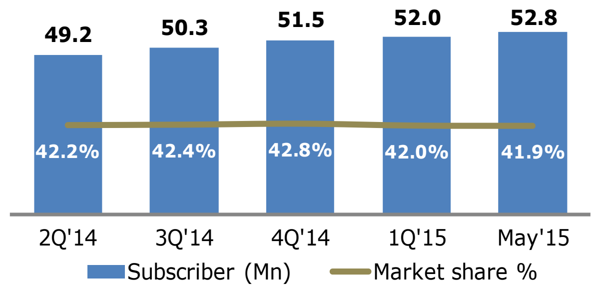
Marginal revenue growth with good opex management leading to stable EBITDA

Revenue & Subscriber

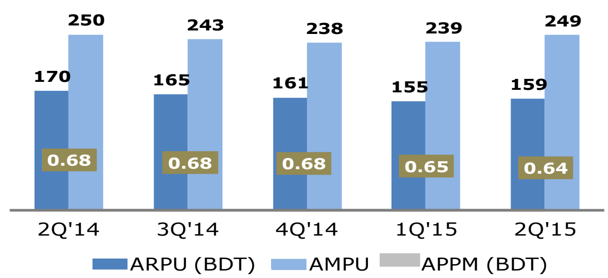
GP secured BDT 26.3 Bn revenues for the 2nd quarter of 2015. Service revenue (excl. IC) grew by 0.1% (YoY), with significant contribution from data and VAS. The segments grew by 64% and 35% respectively. Voice revenue fell by 6.3% against 3.2% growth in outgoing minutes. However, 4.5% (QoQ) growth along with 4.2% service revenue (excl. IC) growth was there.



Interconnection revenue grew by 0.6% (YoY) with contribution from increased international incoming minutes partly offset by lower local incoming minutes. The quarter experienced 1.9% (YoY) de-growth in device and 13.7% (YoY) growth in other revenues mainly generated by infrastructure sharing, mobile financial services.

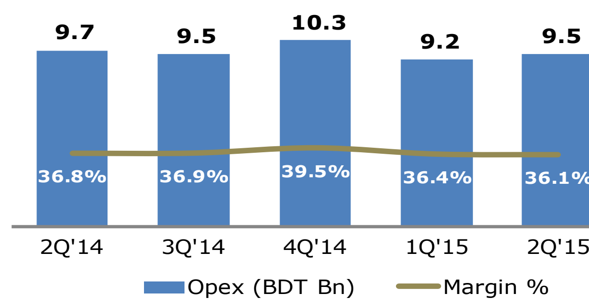


During the quarter, GP continued with its ambition of creating superior usability experience through offering simplified value for money products and services. GP extended 1paisa/sec price point with BDT 39 and 79 for weekly and monthly validity and also introduced make your own bundle offer with voice, data and SMS. GP also concentrated on strengthening its data positioning with various simplified products. Sales momentum was also created through engaging retail force with innovative trigger based activation modality.



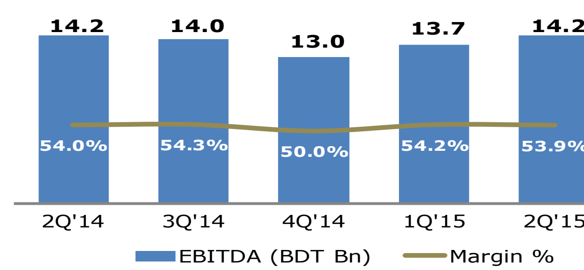
GP acquired 1.12 million new subscriptions, taking the year-end subscription base to 53.1 million. This constitutes 7.9% subscription growth (YoY) with SIM market share of 41.9% (as of May'15). Subscribers grew by 2.2% QoQ with 35.9% contribution of the 2 months industry net addition. Data subscriber no stood at 13.4 Mn with 57% (YoY) and 21%(QoQ) growth with encouraging volume growth.

AMPU decreased marginally by 0.4% from usage growth of 6.9% against 7.9% sub base growth. Service APPM fell by 6.3% resulting from product mix and competitive offers. Consequently service ARPU drop was 6.7% (YoY) while growing by 2.4% (QoQ). Competition and APPM reduction put stress on voice revenue and out played the strong growth from data and VAS in lifting the service ARPU.



Stable Opex and EBITDA margin with high Capex

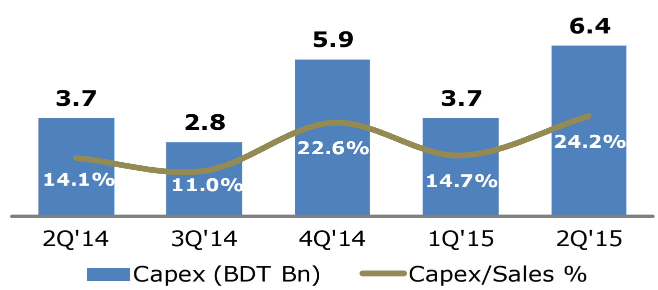
Efficiency in opex management resulted in BDT 9.5 Bn with reduction of 1.5% (YoY). With this the margin improved by 0.7 percentage points to 36.1%. Lower subsidy due to startup price revamp and SIM tax reduction to BDT 100 with effect from 4 June 2015, partly offset by higher SIM sales contributed to this. Lower advertising & promotion and trade marketing expenses resulting from efficiency and simplified market spending also contributed. On the flip side, commission was higher due to higher gross addition and distributor incentive.



Cost of material and services increased during the quarter mainly due to higher content and handset sales. Also traffic charges increased in proportionate to growth of outgoing off-net minutes.

EBITDA (before other items) increased marginally by BDT 31.8 Mn comprising of 0.2% (YoY) growth mainly due to muted revenue growth. EBITDA margin stood at 53.9%.

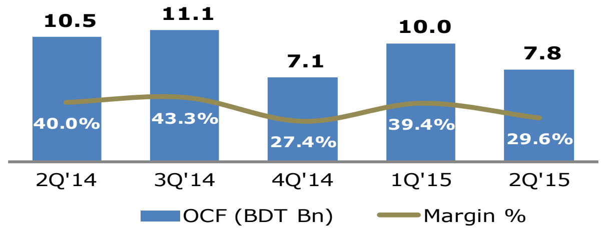
During the quarter, GP geared up its investment to BDT 6.4 Bn (CAPEX excluding license fees) mainly for expansion of both 3G and 2G coverage along with capacity enhancement for catering higher volume of data and voice. Initiatives are also ongoing to secure improvement of IT infrastructure for better product and service offerings. This has taken the Capex/sales to 24.2%. GP rolled out 3G sites extensively taking the geographical coverage to 33%.

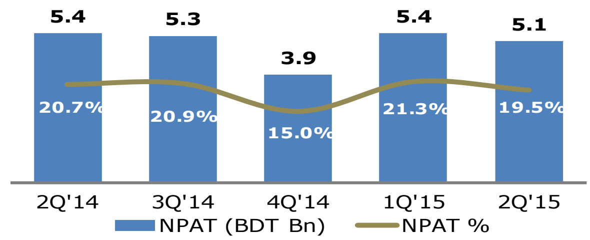


Cash flow and profitability

Operating cash flow (EBITDA minus Capex) for the quarter stood at BDT 7.8 Bn due to higher capex. OCF decreased BDT 2.7 Bn (-25.6%) YoY and the corresponding margin stood at 29.6%.

The net profit decreased by BDT 290 Mn (5.4%) from the corresponding period last year and landed at BDT 5.1 Bn. Higher depreciation & amortization impacted this earnings. Profitability margin was subdued to 19.5% with 1.2 percentage point decrease.



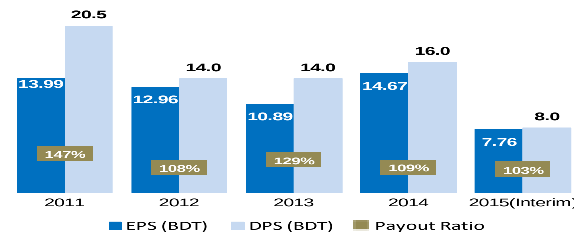


Balance Sheet & Debt

Total assets at the end of quarter stood at BDT 132.1 Bn. Net debt to EBITDA stands 0.86 and debt to equity ratio equates to 0.74.

Dividend

The Board of Directors has approved interim cash dividend for the year 2015 @ 80% of paid up capital in cash (i.e. BDT 8 per share) on 14 July 2015. The dividend was declared from provisional net profit for the first half of 2015 and retained earnings as of 31 December 2014. Interim dividend yield was 2.34% as of the closing price of 342.2 on 14 July 2015.

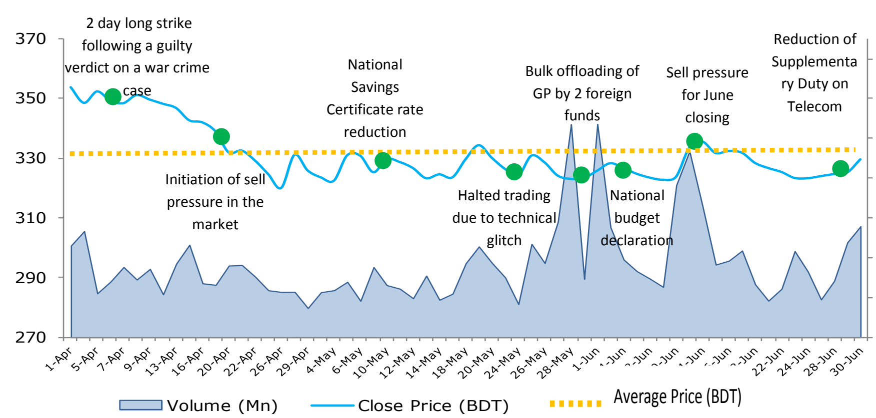


GP in Dhaka Stock Exchange

From Mar'15, GP price decreased by BDT 28.50 (-7.96%) with closing price of BDT 329.70 on 30 June 2015. Price range was (High – Low): BDT 358.9 – 317.5 & turnover volume range was (High – Low): 0.14 – 1.07 (in Mn).

Average daily turnover was BDT 122.52 Mn with last twelve months (LTM) trailing P/E (30 Jun'15): 22.47. GP's market capitalization in DSE on 30 June'15 was USD 5.7 Bn, representing 13.7% of total market.

Share register comprises of 67.5% institute and 32.5% retail.



Regulatory Highlights

Budgetary changes for 2015-1016

SIM tax has been reduced to BDT100 from BDT 300 with effect from 4 June 2015. 3% Supplementary Duty on services through SIM/RIUM card has been imposed. Withholding tax of consultancy and technical fees increased to 30% and 20% respectively from the equal previous rate of 10% as well.

NBR's claim against replacement SIM

While administrative solution procedure was ongoing, GP received a demand notice from National Board of Revenue. GP still expects a resolution through administrative process.

Spectrum auction

On 5 May'15, BTRC postponed the auction process after revision of the schedule twice. Revised guideline/schedule is expected to be published soon. MNOs are seeking acceptable resolution before the auction.

Implementation of IGW Operators Switch (IOS)

IOS is new integration hub added in between IGW and ICX to carry and terminate international traffic. 8 IGWs out of 25 obtained BTRC approval to operate as IOS. There exists a possibility of increase in illegal VOIP.

Tower company licensing

Regulator may come up with a licensing guideline of separate tower company. Consultation process is ongoing amongst Telecom Ministry and MNOs in this regard.