



MTS 2Q20: high margin, better than peers

MTS IFRS RESULTS FOR 2Q20 - BETTER THAN INTERFAX CONSENSUS

- Revenue was ₺117.7 bln (+1.3% yoy; -1.6% qoq). (+2.5% vs consensus)
- OIBDA grew by 0.6% yoy (0.2% qoq), to ₺51.6 bln (+7.1% vs consensus)
- Net profit was ₺11.8 bln (-7.4% yoy; -33.1% qoq) (+15.7% vs consensus)
- Net debt/LTM OIBDA was 1.3x vs 1.4x in 2Q19 and 1.3x in 1Q20
- FCF was ₺7.3 bln against -32.9 bln in 2Q19 and 17.5 bln in 1Q20

STRONG PROFITABILITY

Stronger revenue in 2Q20 versus consensus (by ₺2.9 bln) largely explains OIBDA growth (by ₺3.4 bln). Mobile operators tariffs hikes on the back of limited market competition helped to offset lost roaming revenue (-₺1.9 bln effect on OIBDA). Margin benefited from optimization of the MTS retail network (+₺1.7 bln), adjusted provision for fine imposed by the antimonopoly watchdog over text messages tariffs (+₺0.8 bln).

EARNINGS BETTER THAN PEERS AND CONSENSUS

MTS RUSSIA RESULTS ARE BETTER THAN PEERS

MTS peers have already published 2Q20 earnings.

MTS revenue, yoy: +0.8% vs -8.3% for MegaFon and -9.7% for VEON. MTS revenue decreased by 1.6% qoq (the revenue of telecom services even increased by 0.3% qoq) vs -1.4% qoq for MegaFon and -2.9% qoq for VEON.

MTS OIBDA, yoy: +0.3% vs -8.3% for MegaFon and -3.5% for VEON. MTS OIBDA decreased by 0.5% qoq vs -1.1% qoq for MegaFon and -8.7% qoq for VEON.

2020 OUTLOOK CONFIRMED

Thus, MTS and MegaFon posted strong EBITDA margin even despite the second quarter challenges. However, while MegaFon recorded stable OIBDA margin against 1Q20 at 45.4%, MTS improved its OIBDA margin by 0.8 pt to 43.8%. Against this background, VEON weak results appear to reflect specifics of an individual company, rather than the broader mobile market. VEON's profitability rate in Russia fell by 2.5 pt qoq, to 39.3%.

MTS 2020 FORECAST CONFIRMED

The Company has confirmed its 2020 forecast released in May - which, in our view, is a sign of business stability amid the economic crisis. MTS expects the revenue to remain flat or grow 3%. The company expects OIBDA to decline by 2% or remain

flat. Capex are forecasted at ₱90 bln.

HEALTHY NET PROFIT MAY PUSH DIVIDENDS HIGHER

Sistema, the controlling shareholder, needs MTS dividends: (1) ₱23 bln and ₱10 bln of debt are due in 2020 and 2021 respectively; (2) 2019 corporate centre overheads amounted to about ₱13 bln. In 2019, MTS paid ₱29.3 dividend per share (8.5% dividend yield), a total of ₱58 bln (excluding special dividends), half of which were paid to Sistema. According to the dividend policy, MTS dividends for the year may not drop below ₱28 per share. MTS dividends for the first half of 2020 have already been accrued at ₱8.9 per share.

MTS, IFRS 2Q20 RESULTS

MTS

₱, bln	Q219	1Q20	2Q20	Change, q-o-		Consensus	Deviation from consensus
				q	Change y-o-y		
Revenue	116.2	119.6	117.7	-1.6%	1.3%	114.8	2.5%
EBITDA	51.3	51.5	51.6	0.2%	0.6%	48.2	7.1%
OIBDA norm (%)	44.1%	43.1%	43.8%	0.78 pt	-0.3 pt	42.0%	1.9 pt
Net profit	12.7	17.7	11.8	-33.1%	-7.4%	10.2	15.7%

Source: Interfax, ITI Capital

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