

Proximus (PROX BB)

1Q18: Some Competitive Pressures, As Anticipated

Key Takeaway

1Q results are in-line with expectations that discounted some competitive pressures. PROX acknowledges these issues drove higher commercial expenses y/y in 1Q. KPIs look solid in fixed, but somewhat soft in b2c mobile. Management reiterates the FY outlook. We believe 1Q results from the Belgian operators, including PROX, indicate a 'market on the move' after several years of relative calm. The regulatory agenda to drive competition is unfolding.

Proximus reports 1Q18 adj. revenues of €1,440m (-0.1% vs cons), adj. EBITDA of €454m (0.0% vs cons), capex of €221m (-3.1% vs cons), and FCF (in company definition) of €78m (-47% vs cons). We focus on IAS18 results as this is how our estimates and consensus are constructed. The company separately reports a very minor effect of IFRS15 for 1Q18 (0.0% on revenue, -0.2% on EBITDA). In the revenue mix, a slight (1%) beat in the domestic business is offset by a miss in international carrier services. The company indicates 'one-off' commercial settlements in b2b mobile, which are however not quantified. In the EBITDA mix, the domestic business is very slightly (+0.7%) ahead with the group result in-line. We believe consensus reflected expectations for a quarter showing some commercial pressures, and today management explicitly acknowledges that domestic expenses are up +0.8% y/y and include "anticipated higher commercial means" but also "one-offs" (such as pylon taxes). We understand that overall domestic costs would be roughly flat or slightly down excluding one-offs, which reflects higher commercial costs mitigated by cost savings. For a detailed comparison of results to consensus and estimates, please see page 2.

2018 guidance is reiterated for 'nearly stable' underlying domestic revenue (cons implies +0.4% y/y), 'slight growth' in underlying EBITDA (cons: +1.0% y/y), and capex around €1bn excluding spectrum cost (cons: €1.01bn). Management also reiterates the commitment to pay a stable gross dividend of €1.50 over 2017-19.

Divisional comments: Mobile. Mobile retail service revenue growth across CBU and EBU softens to -1.9% y/y (4Q: -1.0% y/y; 3Q: -1.2% y/y), including the impact of roam-like-home regulation and also some one-offs in b2b ("commercial settlements"). CBU MSR declines -1.7% y/y (vs 4Q: -1.2%) and EBU -2.6% y/y (vs 4Q: -0.4%). The company discloses that the net impact of roam-like-home regulation on gross profit is -€13m (this includes the retail roaming-out revenue loss, the wholesale roaming-in revenue gain, and the roaming-out cost increase). Mobile device sales (CBU+EBU) are +€10m vs JFe (i.e., +1% at the group level). CBU mobile postpaid intake (paying subs, excluding Internet Everywhere SIMs) remains at notably lower levels at +12k (4Q: +8k; 1Q17: +29k) with further increased postpaid churn (17.3% annualised, vs 17.1% in 4Q, 16.3% in 3Q17, and 13.3% in 2Q17). This reflects an overall market development, in our view. However, PROX does again not release the mix between *Proximus*- and *Scarlet*-branded (no-frills) customers, which remains a key question in this context. EBU mobile subscriber intake (excluding m2m and Internet Everywhere SIMs) is +11k (4Q: +13k, 1Q17: +13k). CBU postpaid ARPU declines -1.9% y/y [reported growth rate, vs calculated in table on p.2] (4Q: -2.0%), which includes the effect of roam-like-home. EBU ARPU declines -7.8% y/y (4Q: -5.2% y/y), including the mentioned (unquantified) one-offs. We understand excluding these, the EBU ARPU trend might be similar to 4Q.

Divisional comments: Fixed. In CBU, voice line losses remain high at -16k as the impact of new offers fades (4Q: -12k, 1Q17: +6k). Broadband intake of +15k looks solid (4Q: +18k, 1Q17: +25k) given increased competition in the market. EBU voice lines losses accelerate to -14k (4Q: -9k, 1Q17: -11k). Broadband intake is stable at -1k (4Q: 0k, 1Q17: -1k). CBU voice ARPU declines -3.2% y/y [reported rate] (4Q: -3.9%), and broadband ARPU grows +1.8% y/y (4Q: +0.5%). EBU voice ARPU declines -0.5% y/y (4Q: -3.2%), and broadband ARPU grows +1.1% y/y (4Q: +0.1%).

UNDERPERFORM

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Price target €21.30

Price €24.89^

^Prior trading day's closing price unless otherwise noted.

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Table 1: Proximus 1Q18 results vs estimates and consensus

(in EUR m)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Act vs JEFe	Q1 18e	Act vs cons	Q1 18 cons
Revenue (reported)	1,444	1,417	1,463	1,478	1,441	0.3%	1,437	-0.3%	1,445
Incidentals (incl non-recurring)	-1	0	-22	-1	-1	-	0	-	0
Revenue (adjusted)	1,443	1,417	1,441	1,477	1,440	0.2%	1,437	-0.1%	1,441
Revenue growth (adjusted)	0.7%	-2.9%	-3.1%	-0.9%	-0.2%	20bp	-0.4%	-10bp	-0.1%
EBITDA (reported)	428	445	468	431	443	3.2%	429	1.1%	438
Incidentals (incl non-recurring)	21	19	-4	14	11	26.7%	15	8.3%	12
EBITDA (adjusted)	449	464	464	445	454	2.2%	444	0.0%	454
EBITDA margin (adjusted)	31.1%	32.7%	32.2%	30.1%	31.5%	60bp	30.9%	0bp	31.5%
D&A	-234	-243	-239	-247	-250	5.4%	-237	5.5%	-237
EBIT (reported)	194	202	229	184	193	0.4%	192	-3.0%	199
NI (reported)	119	126	140	137	124	-2.8%	128	-0.8%	125
Capex	221	281	205	385	221	-3.9%	230	-3.1%	228
FCF (company definition)	173	39	267	-187	78	-14.6%	91	-46.9%	147
Net debt	1,684	2,001	1,733	2,088	2,002	0.3%	1,997	2.9%	1,946

Source: Jefferies estimates, company data, company-collated consensus (as circulated on 12 April 2018). Note: Estimates, results and consensus shown are under IAS18 accounting standards.

Table 2: Proximus 1Q18 results vs estimates and consensus – adj. revenue breakdown

(in EUR m)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Act vs JEFe	Q1 18e	Act vs cons	Q1 18 cons
Consumer	720	727	729	734	731	1.3%	721	1.2%	722
Enterprise	349	343	340	369	351	2.0%	344	0.6%	349
Wholesale	52	48	56	51	48	-5.8%	51	-7.7%	52
Other	-9	-13	-20	-17	-8	-46.7%	-15	-33.3%	-12
Domestic	1,111	1,105	1,105	1,137	1,121	1.8%	1,102	1.0%	1,110
Carrier Service	332	312	336	339	319	-5.0%	336	-4.2%	333
Revenue (adjusted)	1,443	1,417	1,441	1,477	1,440	0.2%	1,437	-0.1%	1,441

Source: Jefferies estimates, company data, company-collated consensus (as circulated on 12 April 2018). Note: Estimates, results and consensus shown are under IAS18 accounting standards.

Table 3: Proximus 1Q18 results vs estimates and consensus – adj. EBITDA breakdown

(in EUR m)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Act vs JEFe	Q1 18e	Act vs cons	Q1 18 cons
Domestic	416	430	426	408	420	3.1%	407	0.7%	417
Carrier Service	33	34	38	37	35	-5.2%	37	0.0%	35
EBITDA (adjusted)	449	464	464	445	454	2.2%	444	0.0%	454

Source: Jefferies estimates, company data, company-collated consensus (as circulated on 12 April 2018). Note: Estimates, results and consensus shown are under IAS18 accounting standards.

Table 4: Proximus 1Q18 KPI results vs estimates and consensus

(in EUR m)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Act vs JEFe	Q1 18e	Act vs cons	Q1 18 cons
Net adds ('000s)									
CBU - fixed voice	6	-3	-15	-12	-16	45.5%	-11	77.8%	-9
CBU - broadband	25	15	8	18	15	25.0%	12	36.4%	11
CBU - TV	27	17	10	17	14	7.7%	13	-12.5%	16
CBU - mobile (paying subscribers)	-33	-15	-79	0	-19	-36.7%	-30	0.0%	0
CBU - mobile postpaid (excl Internet Everywhere)	29	44	10	8	12	20.0%	10	-42.9%	21
CBU - mobile prepaid	-62	-59	-89	-8	-31	-22.5%	-40	-8.8%	-34
EBU - fixed voice	-11	-10	-10	-9	-14	40.0%	-10	40.0%	-10
EBU - broadband	-1	0	-2	0	-1	-	0	-	0
EBU - mobile (excl Internet Everywhere, excl M2M)	13	13	10	13	11	10.0%	10	10.0%	10
ARPU (€)									
CBU - fixed voice	21.0	20.4	20.1	19.9	20.4	-	-	-	-
- % y/y	-1.4%	-2.4%	-5.2%	-4.3%	-2.9%	-	-	-	-
CBU - broadband	28.4	28.3	28.4	28.4	28.9	-	-	-	-
- % y/y	0.4%	-1.7%	0.0%	0.4%	1.8%	-	-	-	-
CBU - TV	20.9	20.8	20.9	21.0	20.9	-	-	-	-
- % y/y	3.5%	3.0%	1.0%	-0.5%	0.0%	-	-	-	-
CBU - mobile	22.0	22.6	23.1	22.8	22.4	-	-	-	-
- % y/y	-0.5%	0.4%	1.8%	2.2%	1.8%	-	-	-	-
EBU - fixed voice	31.2	30.5	29.9	29.8	31.0	-	-	-	-
- % y/y	0.3%	-1.9%	-2.6%	-3.2%	-0.6%	-	-	-	-
EBU - broadband	42.8	43.3	43.2	43.4	43.3	-	-	-	-
- % y/y	-1.4%	-0.7%	-1.4%	0.2%	1.2%	-	-	-	-
EBU - mobile	26.9	26.6	26.3	26.1	24.8	-	-	-	-
- % y/y	-9.7%	-6.7%	-6.4%	-5.1%	-7.8%	-	-	-	-

Source: Jefferies estimates, company data, company-collated consensus (as circulated on 12 April 2018). Note: Estimates, results and consensus shown are under IAS18 accounting standards.

Company Description

Proximus is the Belgian telecommunication incumbent, offering a full-service portfolio in its home market. The company is also a major provider of international carrier services, in particular to mobile operators. Moreover, Proximus provides ICT services under the Telindus brand in the Benelux region and also in France, the UK and Ireland. Proximus operates in the Luxembourg mobile market through its subsidiary Tango. The Belgian state holds 53.5% of outstanding shares.

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Recommendation Published , 02:50 ET. May 4, 2018
Recommendation Distributed , 02:50 ET. May 4, 2018

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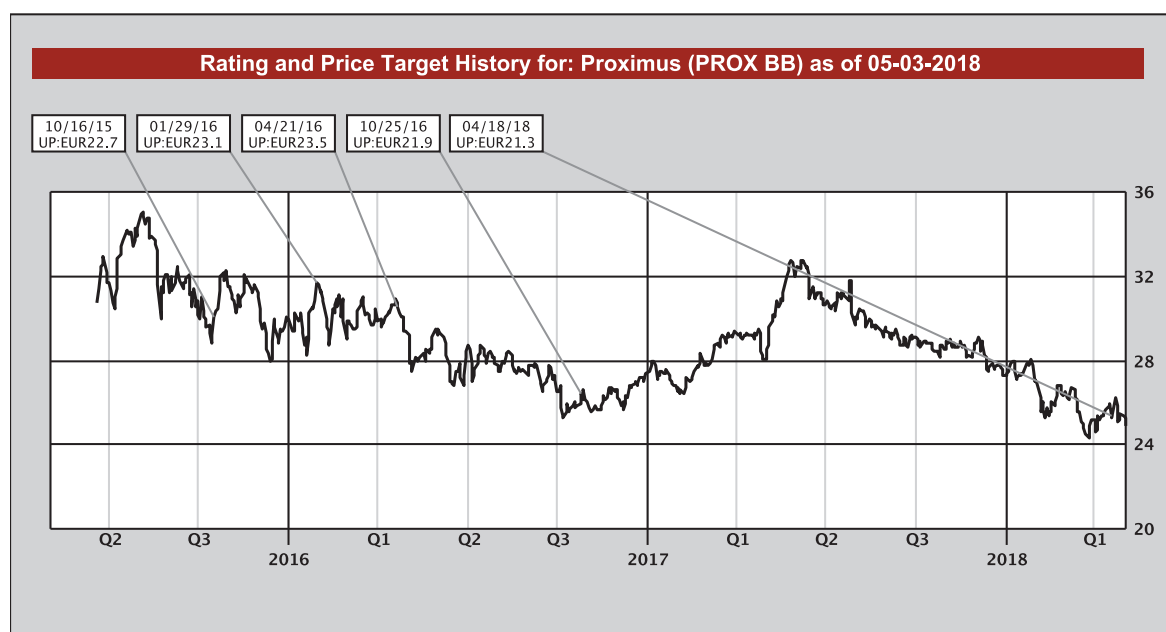
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			Count	Percent	Count	Percent
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