

## TELSTRA CORP (TLS)

16 AUGUST 2018

| RESULTS                                     | Full Year 2018  | Full Year 2017 | CHANGE |
|---|-----------------|----------------|--------|
| Net Profit After Tax (NPAT) (\$m)           | 3,563           | 3,891          | -8.4%  |
| NPAT (\$m) Bloomberg Consensus              | 3,414           |                |        |
| Total Revenue (\$m)                         | 26,011          | 26,013         | n/a    |
| Earnings Before Interest & Tax (EBIT) (\$m) | 5,651           | 6,238          | -9.4%  |
| EBITDA (\$m)                                | 10,121          | 10,679         | -5.2%  |
| EBITDA Company Guidance (\$m)               | 10,100 – 10,600 |                |        |
| Final Dividend (\$)                         | 0.11            | 0.155          | -29%   |

### Telstra (TLS) annual profit falls but is setting course for the future

- Telstra (TLS) has reported results broadly in-line with guidance outlined at the strategy day in June this year. The group laid out a plan which includes a number of simplifications and improvements. However, the process of is expected to reduce revenues in the medium term. Although, in the broader picture, Telstra expects the new operating model to serve customers more effectively and create value over the longer term.
- Full year net profit after tax (NPAT) fell by 8.4% to \$3.56 billion, which was ahead of the average of Bloomberg forecasts. Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) fell 5.2% and at the bottom end of company guidance. The decline in both measures reflected the continued rollout of the NBN and lower average revenue per user (ARPU). A central part of the telco's Telstra2022 (T22) strategy is removing costs from the business to balance the decline in revenue. TLS highlighted a further \$1 billion annual reduction in underlying core fixed costs by 2022. This was in addition to the previously stated target of \$1.5 billion. TLS is ahead of the run rate required to meet its 2022 productivity target.
- TLS' mobile business saw the addition of 342,000 customers, in the last 12 months, bringing the total number of customers to 17.7 million. Mobile revenue increased by a modest 0.4% to \$10.1 billion, although EBITDA margins declined by 3%. Mobile hardware revenue increased by 9% to \$2.3 billion due to a higher volume of devices sold at a higher price. Revenue for the fixed voice and data segment fell by 9.2% to \$5,812 million, driven by a 15.4% fall in fixed voice revenue to \$2,642 million reflecting lower upfront costs of connecting customers to the nbn network, and increased network payments to nbn co. New nbn connections totalled 770,000 in the last 12 months, bringing the total to 1.95m connections with a 51% market share.
- Importantly, TLS' full year guidance for 2019 was unchanged from that provided at the group's strategy day. TLS expects 2019 income to be in the range of \$26.5 to \$28.4 billion; EBITDA (ex-restructuring costs) is expected to be between \$8.8 and \$9.5 billion. FY19 additional restructuring costs are expected to be around \$600 million. Capital expenditure is expected to be between \$3.9 to \$4.4 billion and approximately 16-18% of sales, and free cash flow is expected to be in the range of \$3.1 to \$3.6 billion.
- Telstra declared a fully franked \$0.11 final dividend, comprising an ordinary \$0.075 dividend and special dividend of \$0.035, payable on 27 September 2018.

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