



**TBC CAPITAL**

# **SILKNET 2022 OVERVIEW**

**MAY 2023**

**Andro Tvaliashvili**  
Senior Associate, Research

**Tamta Beroshvili**  
Analyst, Research

# Silknet – 2022 overview

Silknet's revenue increased by c. GEL 59.5 mln to GEL 473 mln (+14% YoY) in 2022.

EBITDA was up by 24.8% YoY in 2022, with the EBITDA margin reaching 60%.

Revenue from mobile services constituted for 57% of total commercial revenues and grew by 22.6% YoY in 2022.

The number of subscribers for mobile services increased by +4.5% YoY by the end of 2022.

Major service categories recorded a market share increase in 2022. A marginal share decrease was observed in the relatively smaller segments - pay TV and fixed telephone.

The Eurobond remains high yielding among the comparable communications Eurobond universe.

## Silknet's key financial figures

	2021	2022	YoY change
Revenue (GEL mln)	413.4	473.0	14.40%
Revenue (USD mln)	128.4	162.2	26.38%
EBITDA (GEL mln)	227.6	284.1	24.84%
Assets (GEL mln)	847.5	820.1	-3.23%
Equity (GEL mln)	-48.8	85.7	275.53%
Total liabilities (GEL mln)	896.3	734.4	-18.06%
Net debt (GEL mln)	585	467	-20.17%
Leverage	2.6	1.6	-1.0 pp

## Silknet's key operating figures

	DEC-2021	DEC-2022	YoY change
Mobile subscribers ('000)	1,718	1,796	4.54%
Internet subscribers ('000)	300	324	7.83%
Pay TV subscribers ('000)	254	252	-0.60%
Fixed telephone subscribers ('000)	192	171	-10.69%

## Silknet's ratings

**FitchRatings**

**B+**  
Stable

Last action: Mar-2023

**MOODY'S**

**B1**  
Stable

Last action: Jan-2022

**SUSTAINALYTICS**

**26.0**  
Medium Risk

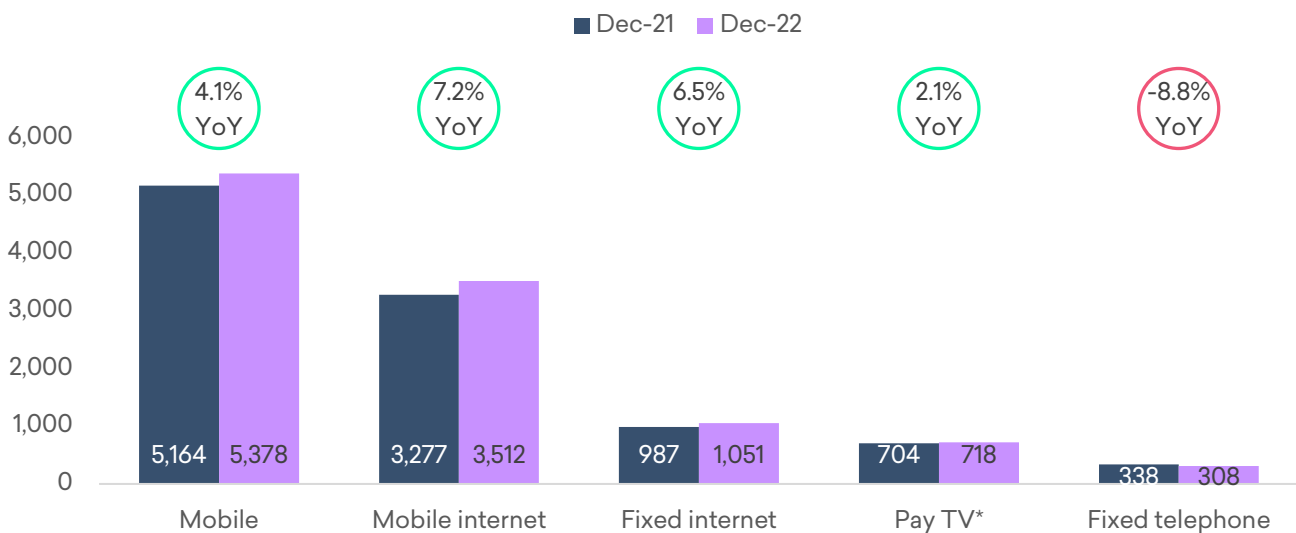
Last action: Apr-2023

# The sector: subscriber growth for major categories remained positive in 2022

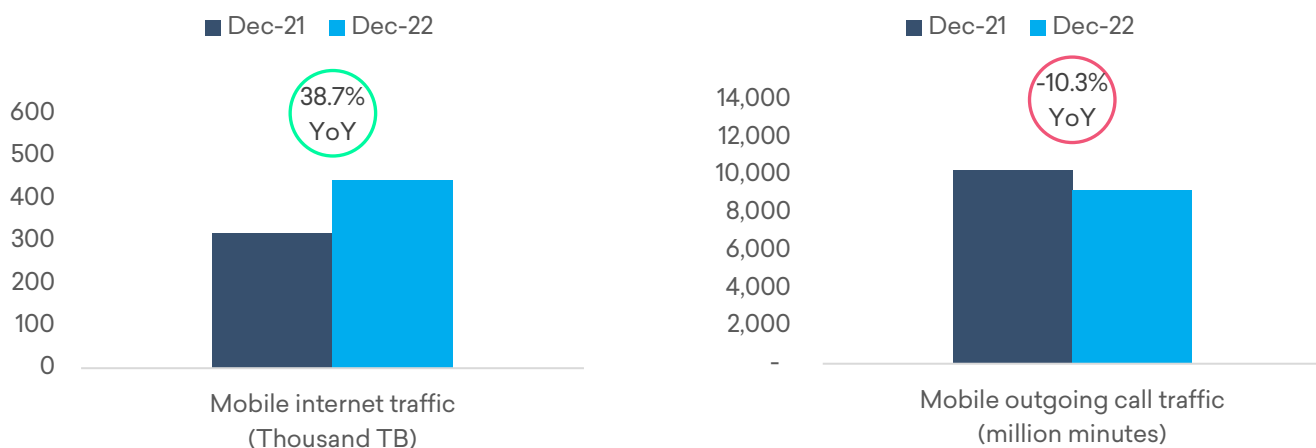
2022 continued the positive subscriber growth trend for the Georgian telecommunications market. Mobile services remained as the category with the largest number of subscribers and exhibited a 4.1% annual growth in 2022, with the mobile internet subscribers showing a more sizable, 7.2% YoY growth.

Mobile internet traffic posted a substantial increase, with the annual growth totaling 38.7%. With the growth of internet traffic, mobile outgoing call traffic decreased by 10.3%, indicating a shift from the traditional mobile services to more modern means of communication.

## Total market subscribers by categories (thousand subscribers)



## Total market traffic of mobile segments



Source: GNCC, \*Pay TV includes mobile streaming subscribers

# A 14.4% YoY stronger year in terms of revenues

Silknet's revenue increased by c. GEL 59.5 mln (+14% YoY ; +26% in USD) in 2022.

The key driver of the increase in the revenue was a 16% YoY growth in commercial revenue, particularly the improved income from the mobile services segment in 2022.

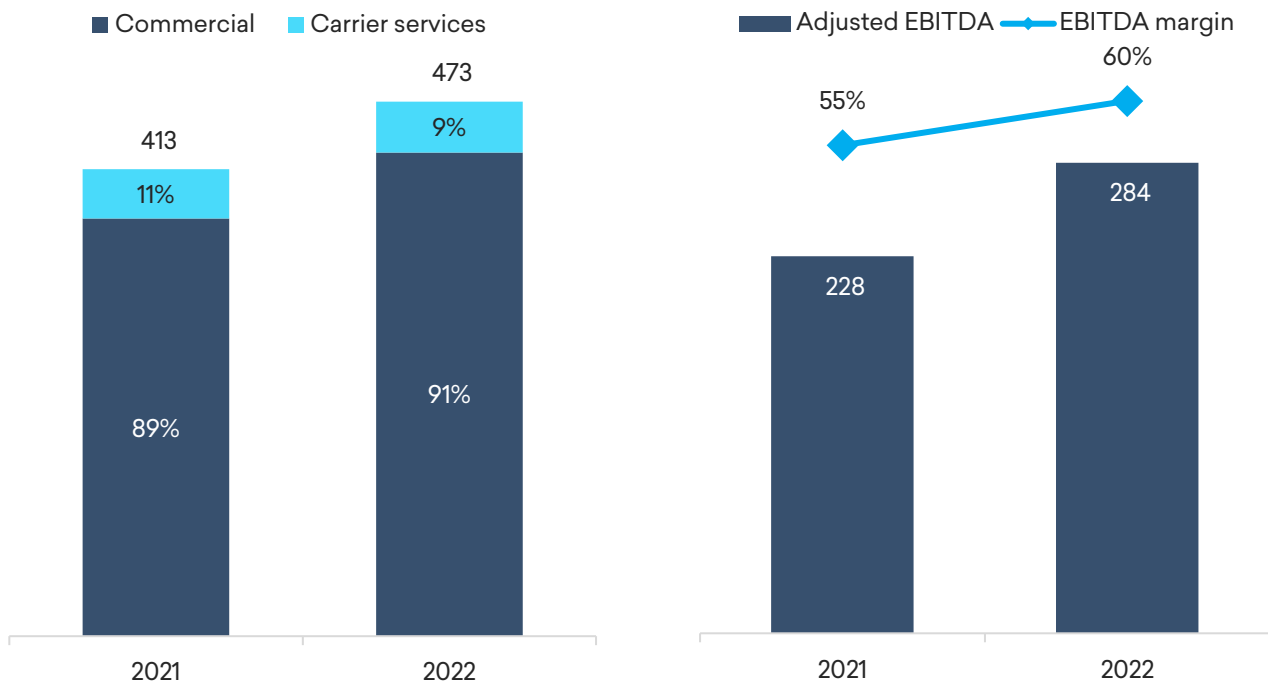
The revenue increase can be attributed to the growing subscriber base and their increasing consumption of mobile data, as well as the price changes that occurred in 2022. Silknet's mobile prices and packaging were adjusted twice – the first phase of changes came into effect in February 2022 and the second in July 2022. The fixed internet

packages and pricing was also changed in August 2022. The recovery of tourism and arrival of migrants were additional factors which had a positive impact on the 2022 revenue growth.

Silknet's adjusted EBITDA increased by 24.8% YoY in 2022, while the adjusted EBITDA margin improved by 5.0 pp during the same period.

The growth of the adjusted EBITDA can be explained by the price changes and the revenue increase. The improved margin was a result of the operating expenses remaining relatively stable despite the notable growth in income.

## Revenue dynamics of 2022 (GEL mln)



Source: Silknet, TBC Capital

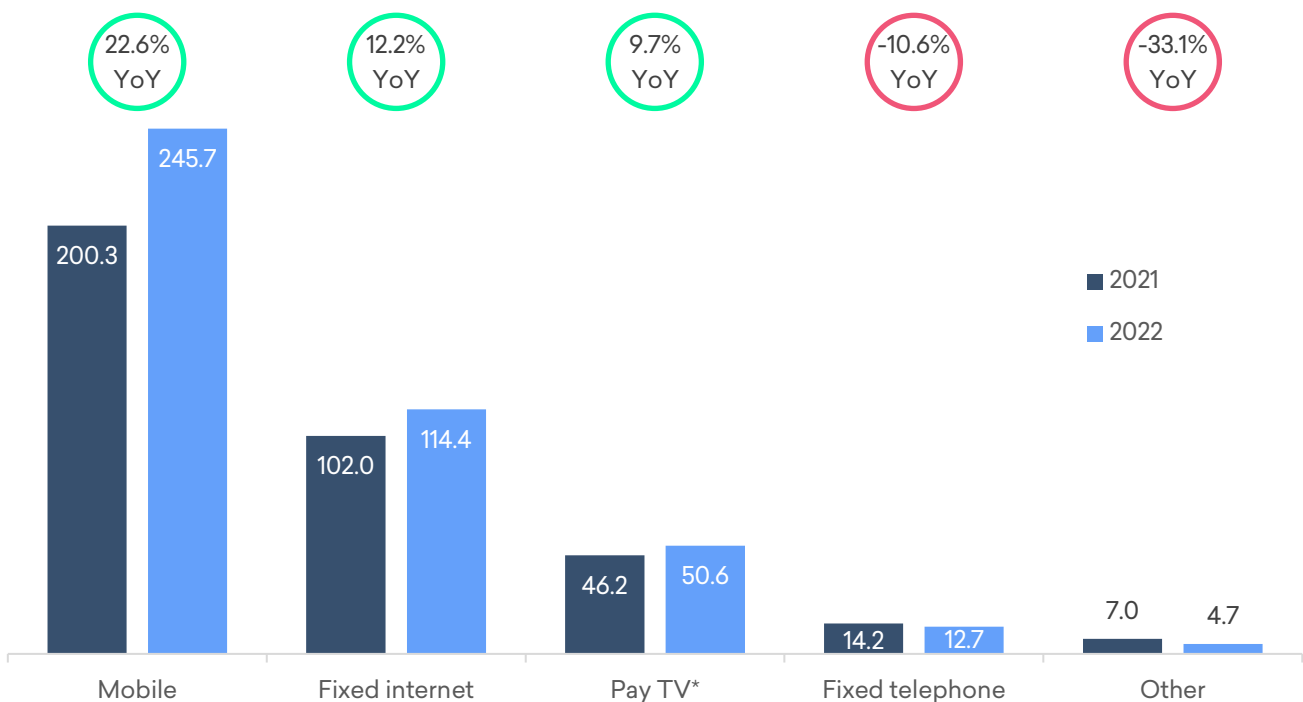
# Mobile services continue to record high growth rates and the segment remains the largest revenue generating category

Silknet's commercial revenue breakdown by segments shows that mobile services remain as the largest part of the company's business. Share of mobile services has increased and amounted to 57% of total commercial revenues in 2022. The revenue generated from mobile services increased by 22.6% YoY. The following two largest service categories - fixed internet and pay TV also recorded a positive change in revenues having increased by

12.2% and 9.7% YoY, respectively, in the same period.

The downward trend in revenues from Silknet's fixed telephone service persists and the results show a YoY decrease of 10.6% in 2022. The growing use of mobile phones and their penetration in the market causes the continuous reduction of revenues in this service category.

## Commercial revenue breakdown by service category (GEL mln)



Source: Silknet, TBC Capital; \*Pay TV revenue calculated by including mobile streaming revenues



# The price and packaging changes in 2022 had a positive effect on the ARPU

The number of continuously growing subscribers is one of the main indicators to consider when discussing Silknet's revenue growth. The number of subscribers for mobile services increased (+4.5% YoY by Dec-2022) and the ARPU for the service segment notably improved, posting a 18.9% annual growth. The ARPU growth in 2022 was partly driven by the two-phase price and packaging change.

The fixed internet service, the runner-up service segment in terms of generated revenue, recorded a higher subscriber growth (+7.8% YoY), while the ARPU increased by +10.5% YoY.

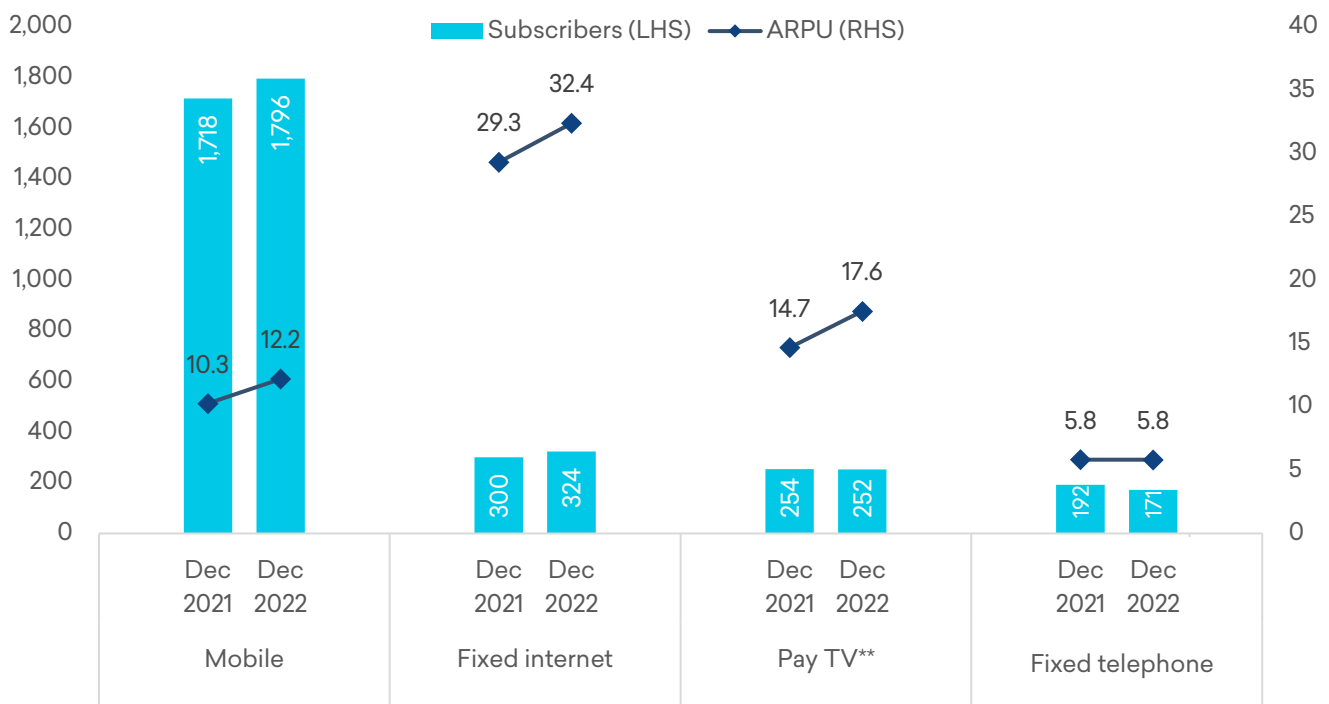
Compared to 2021, the pay TV segment operational data shows a marginal decrease of 0.6% in the number of

service subscribers. This reduction is a result of the termination of the special offer for the mobile streaming service in August 2022, after which the non-chargeable subscribers were excluded from the total subscriber figure.

Changes also included the termination of a special package which combined fixed internet with the pay TV service. While the number of subscribers slightly reduced, pay TV revenues improved and the ARPU posted a 19.16% annual increase.

As the mobile technology continues to be the preferred choice of connection for consumers, the number of fixed telephone service subscribers also keeps declining.

## Silknet's subscribers and respective blended ARPUs\* by service category ('000; GEL)



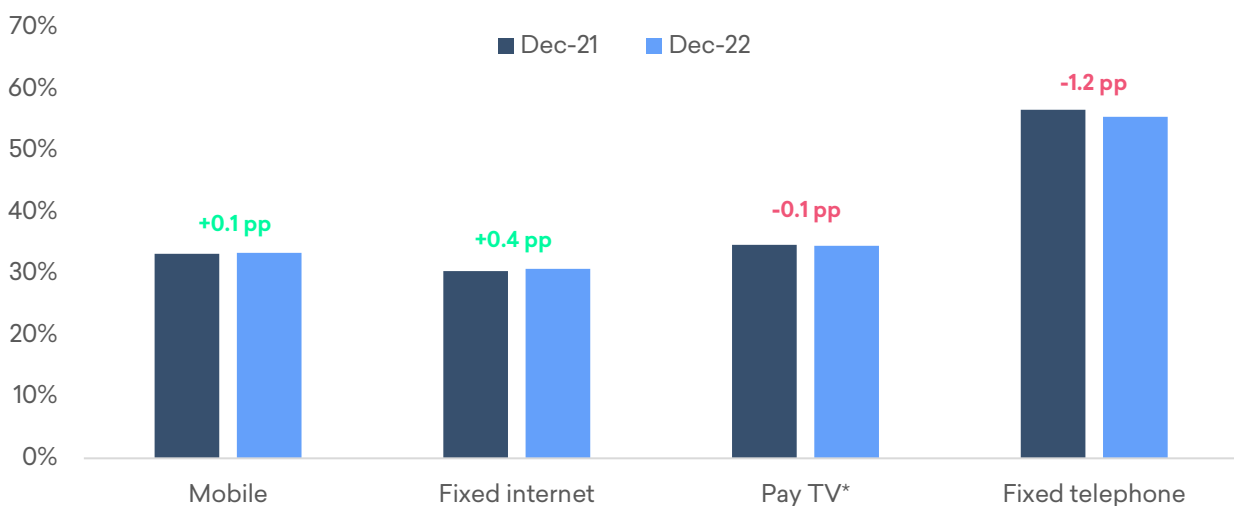
Source: GNCC, Silknet; \*Calculated using B2B and B2C subscribers; \*\*Including mobile streaming subscriber data

# Silknet has improved market shares in the major service categories in 2022

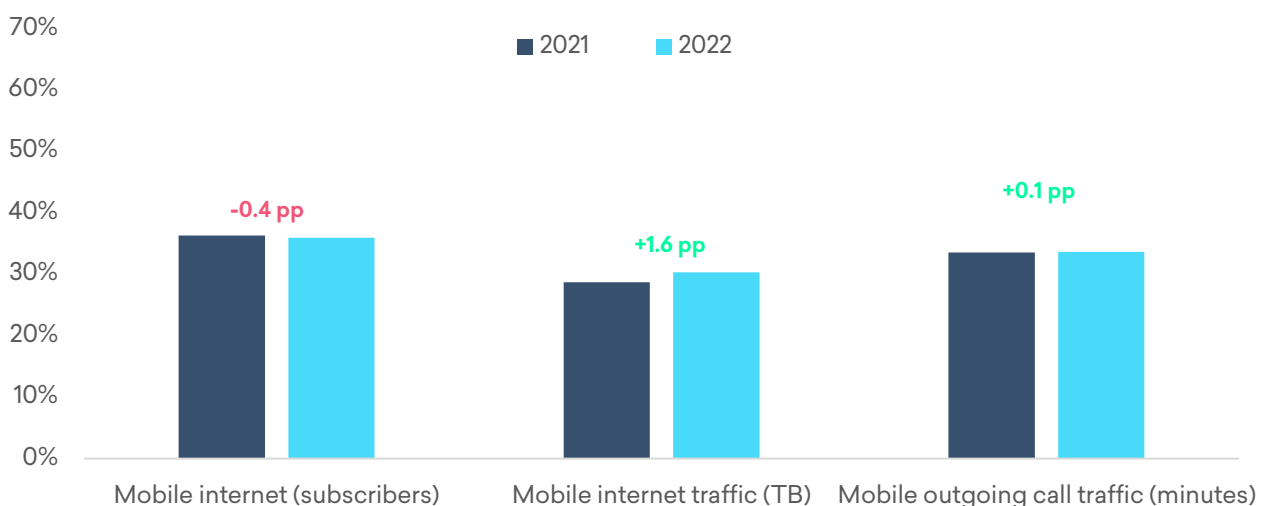
Market shares have improved in major service categories of mobile services and fixed internet in 2022. Silknet's Pay TV recorded an insignificant, 0.1 pp fall in market share. The fixed telephone service share declined by 1.2 pp. In terms of detailed segments, Silknet's share slightly reduced in terms of

mobile internet subscribers at -0.4 pp annually. The highest share increase has been recorded for mobile internet traffic, with +1.6 pp improvement in market share. Silknet also posted a minor increase of its share in terms of outgoing call traffic (minutes) at +0.1 pp YoY.

## Silknet's market shares by categories (number of subscribers)



## Silknet's market shares by mobile segments



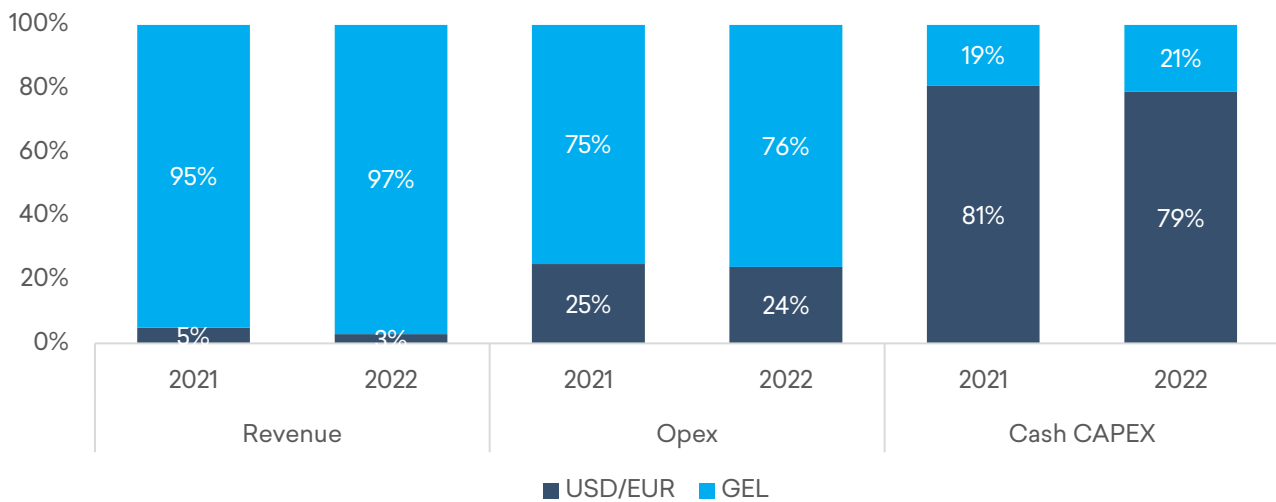
Source: GNCC, Silknet; \*Including mobile streaming subscriber

# After two years of deficit, total equity turned positive in 2022

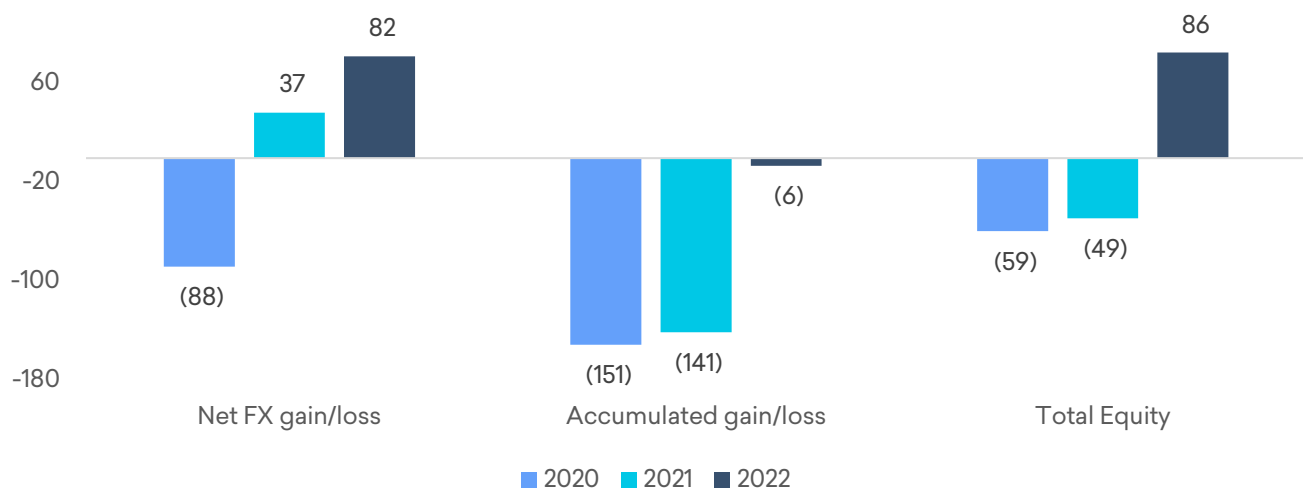
Capital expenditures and USD denominated Eurobond remained as the main exposures to currency risk for Silknet in 2022. To reduce this risk exposure the company holds most of its liquid assets in foreign currencies. Forward exchange contracts with a

short-term maturity are also used to hedge the company's currency risks. The 2022 financial statements show an improved performance as accumulated loss has significantly decreased and the total equity figure has turned positive after two years of being in deficit.

## Silknet's FX exposure breakdown



## Silknet's FX exposure results (GEL mln)\*



Source: Silknet; \*c. GEL 40mln expenses in connection with the Eurobond in 1H 2022



# A high yielding Eurobond in the comparable communications Eurobond universe

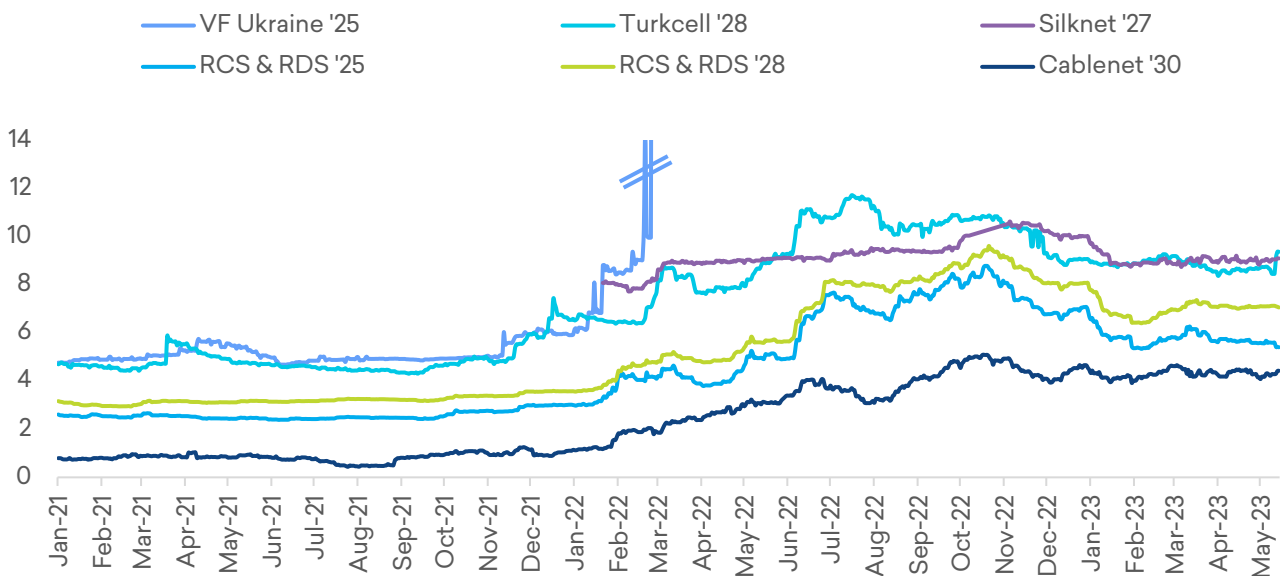
In the Eurobonds from the communications sector with similar maturity, rating, and embedded call option the Silknet Eurobond is rather high yielding, making it an attractive investment.

With a further reduction of leverage in 2022 to 1.6x, Silknet remains well below the 3.5 threshold set by the Eurobond covenant.

## Silknet Eurobond details

<b>Issuer</b>	Silknet JSC
<b>Issuer Ratings (Moody's/Fitch)</b>	B1/B
<b>Rank</b>	Direct Senior Unsecured
<b>Issued Amount</b>	USD 300 mln
<b>Settlement Date</b>	31-Jan-2022
<b>Maturity Date</b>	31-Jan-2027
<b>Coupon/Frequency</b>	8.375%/Semi-annual
<b>Callable/Price</b>	31-Jan-2024/104.190
<b>Price at Issue</b>	100.000
<b>Use of Proceeds</b>	Refinance the existing indebtedness & other corporate purposes
<b>Joint Lead Managers</b>	J.P. Morgan, TBC Capital, UBS Investment Bank

## Silknet and selected peer Eurobonds' yield to maturity (%)



Source: Bloomberg

# Annex: financial statement highlights

## Profit and loss highlights ('000 GEL)

	2021	2022
<b>Commercial revenue</b>	<b>369,681</b>	<b>428,088</b>
Carrier services	43,738	44,877
Depreciation and amortization expenses	(116,995)	(119,505)
Employee benefits expense	(64,173)	(69,946)
Purchased services	(43,057)	(45,426)
Interconnect & roaming expenses	(18,540)	(17,136)
Other expenses	(63,394)	(53,530)
<b>Profit from operating activities</b>	<b>107,260</b>	<b>167,422</b>
Finance income	4,140	4,798
Finance cost	(89,629)	(115,963)
Net change in fair value of financial instrument at FVTPL	(16,726)	(3,862)
Net FX gain/loss	36,782	82,461
<b>Net finance cost</b>	<b>(65,433)</b>	<b>(32,566)</b>
<b>Profit and total comprehensive income</b>	<b>41,827</b>	<b>134,856</b>
Adjusted EBITDA	227,591	284,124
<b>Adjusted EBITDA margin</b>	<b>55%</b>	<b>60%</b>

## Balance sheet highlights ('000 GEL)

	2021	2022
Total Non-current assets	724,767	691,605
Total current assets	122,720	128,532
<b>Total assets</b>	<b>847,487</b>	<b>820,137</b>
<b>Total equity</b>	<b>(48,820)</b>	<b>85,696</b>
Total non-current liabilities	679,510	595,473
Total current liabilities	216,797	138,968
<b>Total liabilities</b>	<b>896,307</b>	<b>734,441</b>
<b>Total equity and liabilities</b>	<b>847,487</b>	<b>820,137</b>

## Cash flow highlights ('000 GEL)

	2021	2022
<b>Net cash from operating activities</b>	<b>229,384</b>	<b>283,736</b>
Net cash used in investing activities	(101,779)	(96,537)
Net cash used in financing activities	(134,153)	(161,501)
Net change in cash and cash equivalents	(6,252)	13,369
<b>Cash and cash equivalents</b>	<b>71,539</b>	<b>84,908</b>

## LEGAL NOTICE

This publication (the “Publication”) has been prepared and distributed by TBC Capital LLC (“TBC Capital”) member of TBC Bank Group PLC (“Group”) for informational purposes only and independently of the respective companies mentioned herein. TBC Capital is operating and performing its professional services on the territory of Georgia and is duly authorized to prepare and distribute this Publication on the territory of Georgia. Nothing in this Publication shall constitute an offer or invitation to treat to solicit buying or selling or subscribing any assets and/or securities and nothing herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions. Since distribution of this Publication may be restricted by law in certain jurisdictions, persons into whose possession this Publication comes are required by TBC Capital to inform themselves about and to observe any and all restrictions applicable to them. As this Publication is not directed to or intended for distribution, directly or indirectly, to or use by any person or entity in any jurisdiction where such distribution, publication, availability or use would be contrary to the applicable law or which would require any registration or licensing within such jurisdiction, neither TBC Capital nor any member of the Group nor any of their respective director(s), partner(s), employee(s), affiliates, adviser(s) or agent(s) (“Representatives”) accept any direct or indirect liability to any person in relation to the publication, distribution or possession of this Publication in or from any jurisdiction. This Publication is not intended to provide any investment, business, tax and/or legal advice, and credit or any other evaluation. Recipients of this Publication are strongly required to make their own independent investigation and detailed appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion and consideration. Any and all information contained in this Publication is subject to change without notice, and neither TBC Capital nor any member of the Group nor any of their Representatives are under any obligation to update or keep information contained in this Publication. Distribution of this Publication, at any time, does not imply that information herein is correct, accurate and/or complete as of any time after its preparation date or that there has been no change in business, financial condition, prospects, credit worthiness, status or affairs of the respective companies or anyone else since that date. Accordingly, this Publication should not be considered as a complete description of the markets, industries and/or companies referred to herein and no reliance should be placed on it. TBC Capital does not undertake to update this Publication or to correct any inaccuracies therein which may become apparent. The Publication may include forward-looking statements, but not limited to, statements as to future operating results. Any “forward-looking statements”, which include all statements other than statements of historical facts, involve known and unknown risks, uncertainties and other important factors beyond TBC Capital's control that could cause the actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding present and future business strategies and the environment operating in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. No assurances can be given that the forward-looking statements in this document will be realized. TBC Capital does not intend to update such forward-looking statements. Opinions, forecasts, estimates and/or statements relating to expectations regarding future events or the possible future performance of investments represent TBC Capital's own assessment and interpretation of information available to it currently from third party sources. Information obtained from the third party sources believed to be reliable, but that there is no guarantee of the accuracy and/or completeness of such information. TBC Capital does and seeks to do and any member of the Group may or seek to do business with companies covered in this Publication. Thus, investors should be aware that TBC Capital may have a potential conflict of interest that could affect the objectivity of the information contained in this Publication. This Publication may not be reproduced, redistributed or published, in whole or in part, in any form for any purpose, without the written permission of TBC Capital, and neither TBC Capital nor any member of the Group nor any of their Representatives accept any liability whatsoever for the actions of third parties in this respect. TBC Capital makes no expressed or implied representation or warranty of usefulness in predicting the future performance or in estimating the current or future value of any security or asset, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this Publication. Without limiting any of the foregoing and to the extent permitted by law, TBC Capital or any member of the Group or any of their Representatives expressly disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this Publication or its contents (including without limitation to the accuracy and/or completeness of information therein) or otherwise arising in connection with this Publication or for any act or failure to act by any party on the basis of this Publication.



**TBC CAPITAL**

[www.tbccapital.ge](http://www.tbccapital.ge)