

Company News

July 30, 2010

Telecommunications/Czech Republic

T-Hrvatski Telekom

Last recommend.: Hold

Last target price	HRK 281
Close (29.07.10)	HRK 257
Market Cap (EUR mn)	3380
Free float	38.4x%
Reuters	HT.CZ
Bloomberg	HTRA CZ

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2Q 10 key figures above our estimates

- Top line declined by 1.9% yoy and EBITDA dropped by 7.0% yoy in 2Q 2010
- Acquisition of IT company Combis mitigated revenue decline in 2Q 2010
- The management expects a moderate decline in revenues and erosion of EBITDA in FY2010 – in other words, the guidance is practically unchanged

The key set of figures was better than our and market estimates in 2Q 2010. The EBITDA margin deteriorated from 45.3% in 2Q 09 to 43% in 2Q 10. The figures were above our expectation due to moderately better mobile performance, higher other income and a moderately lower corporate tax rate. The bottom line declined by 13.9% yoy also due to very low financial income.

Consolidated revenues declined only by 1.9 % yoy. The recent acquisition of the IT company Combis, which contributed HRK 53 mn to the top line helped to mitigate the decline in revenues in 2Q10. The revenue decline was mainly driven by lower gross mobile revenues (6.9% yoy). However, mobile ARPU increased from HRK 87 in 1Q 10 to HRK 89.8 in 2Q 10 due to seasonality and probably due to better economic conditions. On the positive side, Internet revenues grew 20% yoy. On the other hand, broadband ARPU slipped from 130 in 1Q 10 to HRK 128 in 2Q 10. The Wireline unit lost 24k fixed lines (14k fixed lines in 1Q 10) and the mobile unit lost 20k SIM cards (61k customers in 1Q 10) in 2Q 10.

Profitability, CFO, capex, dividend: The group EBITDA margin slipped from 45.3% in 2Q 09 to 43% in 2Q 10 despite lower staff costs and material expenses. The Mobile EBITDA margin increased from 39.6% in 1Q 10 to 44.1% in 2Q 10 while the wireline EBITDA margin stood at 39% in 2Q 10 vs. 40.5% in 1Q 10. On the positive side, CFO increased by 28% yoy due to efficient working capital in 1H 2010. Capex as a % of revenues reached only 7 %.

Outlook and recommendation: Overall the key figures were better than our estimates in 1H 2010. Despite that, excluding the recent acquisition of Combis (ICT segment), we expect T-HT top line to remain under pressure this year. The management expects a moderate decline in revenues, some erosion of EBITDA and lower capex in FY 2010. In our view, the major question mark is the 6% tax on mobile revenues, which we assumed to be cancelled by the end of this year. However the cancellation of the tax has not been confirmed yet. Currently we maintain our "hold" recommendation on the stock.

T-Hrvatski Telekom 2Q 2010 results

in HRK mn	2Q09	2Q10e	+/- %	RCB est.	+/- %	Consensus	+/- %
Sales	2,140.0	2,099.0	-1.9	2,027.0	3.6	2,020.0	-3.8%
EBITDA	969.0	902.0	-6.9	846.0	6.6	866.0	-4.0%
EBIT	604.0	570.0	-5.6	504.0	13.1	526.0	-7.7%
Net profit a.m.	509.0	438.0	-13.9	402.0	9.0	416.0	-5.0%
EPS	6.2	5.3	-13.9	4.9	9.0	5.1	n.a.
EBITDA margin	45.3%	43.0%		41.7%		42.9%	
EBIT margin	28.2%	27.2%		24.9%		26.0%	
NI margin	23.8%	20.9%		19.8%		20.6%	

Source: T-HT, Raiffeisen Centrobank, consensus by Bloomberg

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