TPG Telecom Limited Equity Research Report

Authored by FINM3422 Group 11

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Initiation of Coverage

HOLD

ASX:TPG

Price: $4.90

Target Price: $5.01

Upside: 2.2%

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Recent Transactions

EGW Asset Sale

VOCUS

New Partnership

OPTUS

Company Overview

TPG Telecom (ASX:TPG) is a leading Australian telecommunications provider offering fixed broadband, mobile, and enterprise services. Formed through the merger of TPG and Vodafone Hutchison Australia in 2020, the company operates nationally with strong infrastructure assets, including mobile spectrum and fibre networks, serving over five million mobile and broadband customers.

Recent Company Highlights

TPG Posts Solid FY24 Results, Eyes Stronger FY25 on MOCN Boost: TPG Telecom reported FY24 underlying EBITDA of A$1,988 million, broadly aligned with both management guidance and market consensus. This performance was underpinned by a solid 5% year-on-year increase in mobile service revenue, although this was partially offset by continued weakness in the Fixed segment. Recent management emphasis on cost discipline contributed to a material improvement in free cash flow, a notable positive in the result. Earnings are expected to improve in the second half of FY25, driven by the ramp-up of the MOCN agreement and increased marketing, while capital expenditure guidance has necessarily been lowered.

Mobile Growth Steady Amid Competitive Headwinds: Underlying EBITDA of A$1,988 million places it at the midpoint of its FY24 guidance and in line with broader consensus estimates. Growth in mobile service revenue (+5% YoY) was the key contributor, although this was offset by a decline in fixed-line performance. Average revenue per user (ARPU) in mobile increased by 4%, although subscriber numbers declined due to aggressive handset promotions by competitors such as Optus and Telstra and reduced international inbound migration. Looking ahead, the divestiture of Energy, Gas & Water (EG&W) assets weighed onreported top-line growth and earnings, inferring strengthened performance in FY25.

TPG Flexes Cost Control Muscle, Guides Steady for FY25: Cost containment featured prominently in TPGs FY24 results. Group level gross margins rose by 210bps year on year, although there was a slight sequential contraction of 50bps in H2, primarily due to theEG and W division. Operating expenses decelerated in H2, and management has guided for flat operating costs for FY25.

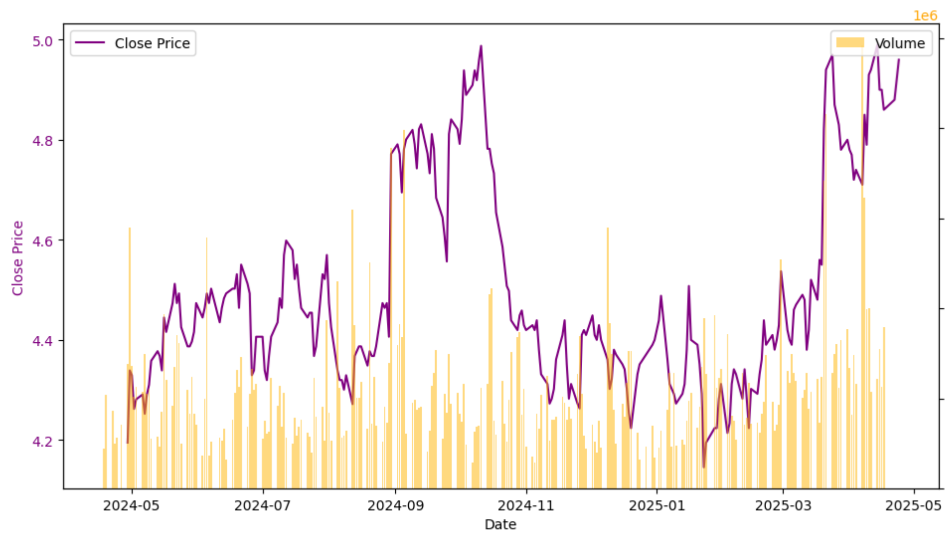


Figure 1: TPG Share Price and Volume

Financial Ratios

TPG Telecom (ASX: TPG) currently trades at $4.86 with a dividend yield of 1.85%, despite weak profitability. The company reports a negative EPS (-$0.06) and a highly negative PE ratio (-84.45), reflecting losses. Key return metrics like ROA (-0.55%) and ROE (-0.94%) are negative, while the net margin sits near zero (-0.02%), indicating minimal profitability. Liquidity is tight with a current ratio of 0.72 and a quick ratio of 0.67, both below the safe threshold of 1. However, the debt-to-equity ratio (0.55) suggests moderate leverage. Operationally, asset turnover (3.51) is strong, but inventory turnover (0.01) is very low. The interest coverage ratio (-24.17) is highly concerning, showing the company cannot cover its interest expenses from operating income.

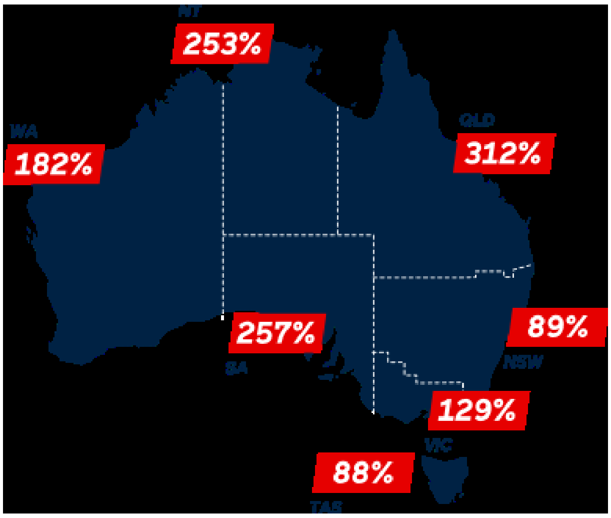


Figure 2: TPG Coverage Areas

Investment Thesis and Valuation

Investment Thesis

The wireless communicator industry is heavily characterised by its concentrated competitive landscape, placing pressure on margins and profitability. However, TPG's strategic divestiture over FY24 has ensured it is performing well operationally. While there are some risks surrounding the balance sheet health, the divestiture of the EGW assets should generate improved cash flow generation and reduce capex intensity,with management confident. Additionally, the proposed MOCN 2.0 agreement with Optus could not only materially change the company's product quality, the expanded reach will drive market-share gains in a very concentrated industry. However, it is important to note that postpaid subscriber growth has been relatively stagnant due to TPG's new prices this year, with the stock trading close to the proposed price target. This, coupled with the competitive outlook led to a hold.

Valuation Summary

The June 2025 price target of $5.01 has been drived from the DCF valuation. The DCF assumed a WACC of 7.2%, alongside an equity risk premium of 3.91%, risk-free rate of 4.29% and beta of 0.68. The terminal growth rate was derived by an average of Australia's current GDP growth rate of 2.4% and inflation of 2.6%.

DCF Output and Corresponding Football Field

FCF in final period	871.0
Terminal Growth Rate	0.025
FCF at t+1	892.8
Terminal value (TV)	17855.5
PV of TV	12437.4
PV of stage 1 FCFs	3103.8
Net debt	6262.0
Equity Value	9279.2
Shares outstanding	1853.0
Share price target (AUD)	5.01

Table 1: DCF Output

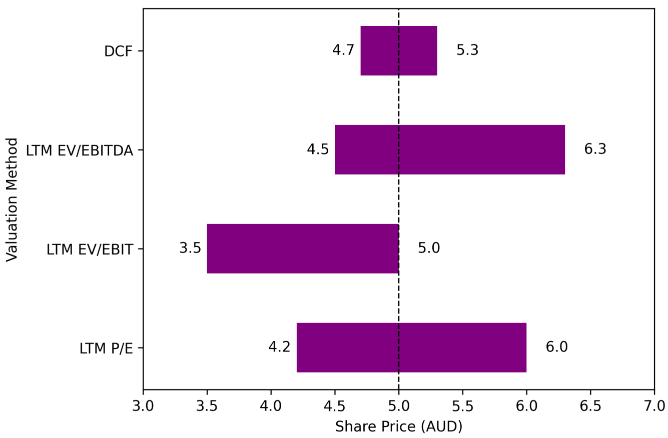


Figure 3: Football Field

Risks

Based on our hold position on TPG there are a number of key upside and downside risks that warrant consideration.

Upside Risks

1. Increased Mobile and Fixed Subscriber Growth
A primary source of potential upside stems from stronger than expected growth in both mobile and fixed line subscriber numbers. This could be driven by TPGs intensified marketing efforts, aimed at boosting brand visibility and customer acquisition. In particular, the continued rollout of the MOCN agreement with Optus may enhance coverage and service quality, attracting new users and supporting higher retention rates. Furthermore, a sustained recovery in international arrivals and net migration could provide a tailwind for mobile subscriber growth, especially in the prepaid and postpaid segments, which often benefit from population inflows.

2. ARPU Expansion Outpacing Expectations
Another potential driver of outperformance lies in ARPU growth exceeding forecasts. This could materialise through a combination of effective pricing strategies, bundling of services e.g. internet and mobile, and upselling of value added offerings, such as streaming services cybersecurity or cloud storage. In an environment where operators are showing greater pricing discipline, TPG could benefit from reduced churn and higher margin revenues, ultimately lifting both topline and profitability metrics beyond current projections.

3. Investment-Led Market Share Gains
TPG's ability to deploy capital efficiently into areas such as network infrastructure, digital platforms and customer service could support further market share expansion. Building on the momentum from recent divestitures and strategic partnerships, the company may be well positioned to capitalise on investments that enhance user experience, operational efficiency and service differentiation. Should these initiatives translate into tangible customer gains, the upside potential in both revenue growth and operational leverage could be significant.

Downside Risks

The key downside risks for TPG include the potential for weaker than expected subscriber growth in both mobile and fixed line segments driven by heightened competition, or a slower recovery in international arrivals and migration. Additionally, if ARPU growth underperforms due to pricing pressures or limited uptake of premium services, revenue and margin expectations may fall short. There is also a risk that increased investments, particularly in network infrastructure and the MOCN partnership, may not deliver the anticipated market share gains, leading to lower returns on capital and dampened investor sentiment.

Catalysts

Catalyst 1: Execution and Impact of the MOCN 2.0 Agreement with Optus

The Multi-Operator Core Network (MOCN) 2.0 agreement is an 11-year infrastructure-sharing deal between TPG and Optus, which received ACCC approval in September 2024. Under this arrangement, TPG will gain access to 2,444 Optus regional mobile sites, expanding its mobile coverage to 98.4% of the Australian population. In exchange, Optus will utilise certain TPG spectrum to enhance its network capacity. TPG will decommission most of its sites in the coverage area, transferring some to Optus, while both companies will maintain their own networks in metropolitan areas. The agreement is expected to enhance TPG's reach and service quality in regional markets, reduce long-term capital expenditure requirements, and support competitive positioning in areas where it previously had limited presence. Thus, the successful execution of the MOCN 2.0 agreement with Optus presents a pivotal catalyst in H2 FY25 and into FY26 that is not currently factored into the share price. As the rollout progresses, there will be improved regional coverage, user experience enhancements and market share gains. If these benefits materialise faster than expected, particularly through improved customer acquisition or churn reduction in underserved areas, this could lead to upward revisions in revenue forecasts and thus, the share price.

Catalyst 2: Balance Sheet Strengthening Post-EG&W Divestiture

The strategic sale of TPG's Energy, Gas & Water (EGW) division to Shell Energy in FY24 has enabled sharper operational focus on core telecom services while removing a low-margin, highly regulated business from the portfolio. Management reported stronger free cash flow performance post-divestiture, aided further by disciplined opex and revised FY25 capex guidance to lower levels. These developments are expected to improve the group's leverage profile (currently at net debt/EBITDA of 2.7x) and enhance its capacity to pursue value-creating initiatives or potentially return capital to shareholders. Following the EG&W asset divestiture, TPG's materially improved free cash flow profile and lower capital intensity present a clear path to deleveraging. This could result in a more resilient balance sheet, improved credit metrics, and capacity for capital returns. Market sentiment may turn more favourable if management signals a potential dividend increase, share buybacks, or reinvestment into value-accretive growth initiatives (particularly as capex trends lower than historical norms).

Catalyst 3: Postpaid Subscriber Growth Reacceleration

TPG's mobile service revenue grew by 5% YoY in FY24, with ARPU increasing by 4%, but this was offset by a decline in overall subscriber numbers. Competitive dynamics, particularly aggressive promotions from Telstra and Optus, and a slowdown in international migration pressured net adds. However, management is increasing marketing activity in FY25 and stands to benefit from migration recovery and the MOCN rollout, which will boost regional appeal. A sustained improvement in postpaid subscriber growth would not only enhance revenue visibility but also improve margin profiles due to the higher lifetime value of postpaid customers. While subscriber numbers have softened amid competitive pressures and price adjustments, any sustained reversal in this trend (particularly in postpaid) would be a strong catalyst for sentiment improvement. A rebound in net migration, improved handset bundling strategies, and targeted customer incentives could all support a turnaround. If TPG demonstrates renewed momentum in net additions in upcoming quarters, especially with higher-margin postpaid customers, consensus forecasts could be revised upward.

Relevant Graphs

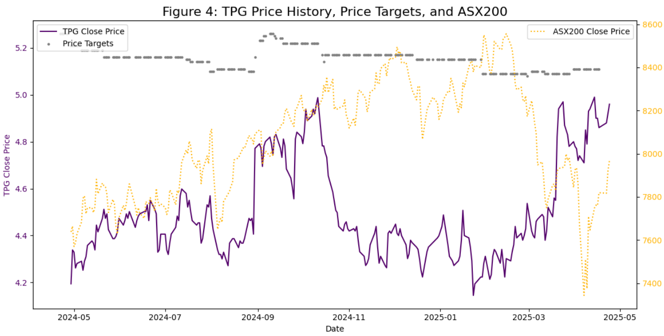
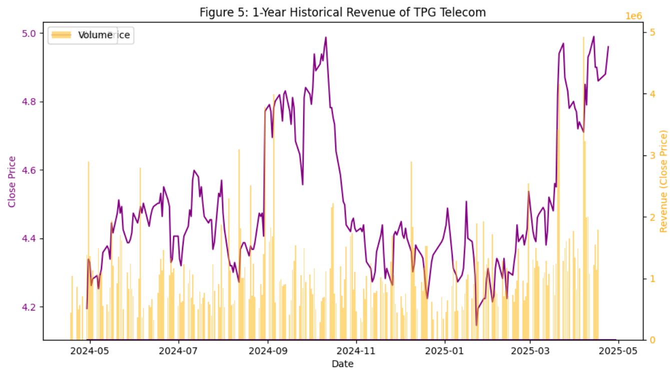


Figure 4 illustrates the close price history of TPG Telecom compared to the ASX200 Index over the past year. While TPG's share price showed some correlation with the broader market, it exhibited higher volatility, especially around late 2024 and early 2025. Notably, TPG's price resilience in March 2025 contrasts with the significant decline seen in the ASX200, suggesting stock-specific factors supporting TPG's valuation despite broader market weakness. Overall, TPG has maintained a relatively stable trading range between $4.00 and $5.00, showing moderate defensiveness relative to the broader index.

Further, the graph shows the historical price targets for TPG over the past year. Analyst expectations have gradually trended lower over time, with a brief spike in late 2024. Since then, price targets have declined steadily, reaching their lowest levels in early 2025. The consistent downward revision highlights weakening market sentiment toward TPG and reflects reduced confidence in near-term earnings growth.



TPG's revenue (proxied by close price), showed volatility throughout the year but trended upwards overall. There were sharp increases in September 2024 and early 2025, culminating in a peak by May.

Recent news

TPG Telecom Limited (ASX:TPG Get Free Report) insider Inaki Berroeta bought 335,102 shares of the firms stock in a transaction on Monday, March 31st. The shares were bought at an average price of A$4.80 ($2.96) per share. The company has a market cap of $8.01 billion, a P/E ratio of 266.56 and a beta of 0.01. TPG Telecom recently declared a Final dividend, which was paid on Thursday, April 3rd.

Singapore has one of the most mature and competitive telecommunications markets in the world. Mobile subscriptions and fixed broadband subscribers are forecast to grow during the period 2023-30. Internet user penetration will grow at an annual average rate of 1.7% in the forecast period.

TPG Telecom is one of Australias largest telcos, as a result of the 2020 merger of TPG and Vodafone Hutchison Australia. In 2024, it reported service revenues of AUS$4.7bn, up 1.5%. It ended the year with 5.51 million mobile customers.

The Labor Government is considering legislation to expand the 000 emergency service Australia-wide, using technology like direct-to-device (D2D) satellite communications. Only around 30% of our landmass is currently covered by traditional mobile networks. The opportunity to dramatically expand coverage using satellite technology is nothing short of revolutionary.

About the Authors

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