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: $5.0

Upside: X%

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Company Overview

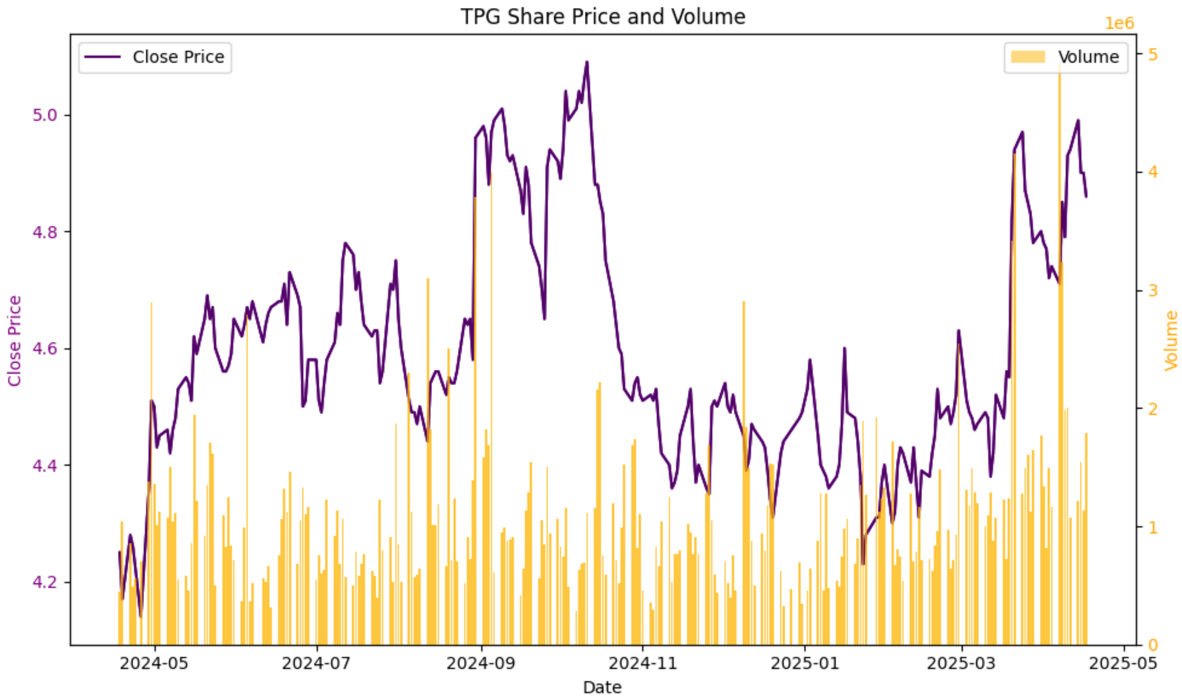
TPG Telecom (ASX:TPG) is a leading Australian telecommunications provider offering fixed broadband, mobile, and enterprise services. Formed through the merger of TPG and Vodafone Hutchison Australia in 2020, the company operates nationally with strong infrastructure assets, including mobile spectrum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

TPG delivered underlying EBITDA of A$1,988 million, placing it at the midpoint of its FY24 guidance and in line with broader consensus estimates. Growth in mobile service revenue (+5% YoY) was the keycontributor, 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.

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.



Financial Ratios

Investment Thesis and Valuation Summary

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 ___ 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 2.7%.

Risks

Based on our hold position of TPG, there are a number of upside and downside risks to consider.
Increased mobile and fixed subscribers

Upside Risks

A key source of potential upside lies in higher-than forecast growth in both mobile and fixed-line subscribers. Accelerated customer acquisition, peraticularly through TPG's increased marketing initiative coupled with its MOCN expansion could drive top-line performance. Additionally, a rebound in net migration and international arrivals may also bolster mobile prepaid and postpaid growth.
ARPU expansion exceeding expectations
If ARPU increases at a faster pace than anticipated, through effective pricing strategies, bundling or upselling of value-added services revenue and margin outcomes could materially exceed forecasts. This is particularly relevant in this competitive environment, where operators are exercising greater pricing discipline.
Investment-led market share gains
Given TPG's recent history with divestiture and partnerships, increased or more efficiently deployed investment in network infrastructure, digital platforms or customer service could yield outsized returns through enhanced customer acquisition and retention.

Downside Risks

Notably, the key downside risks include weaker-than-expected subscriber growth in both mobile and fixed segments due to heightened competition, or slower recovery in international arrivals.
Additionally, if APRU growth underperforms, top-line pressure may intensify. Finally, if increased investment such as the MOCN partnership fails to yield corresponding market share gains, returns on capital may deteriorate, weighing on both margins and 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: an 11-year infrastructure-sharing deal between TPG and Optus, received ACCC approval on 5 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.

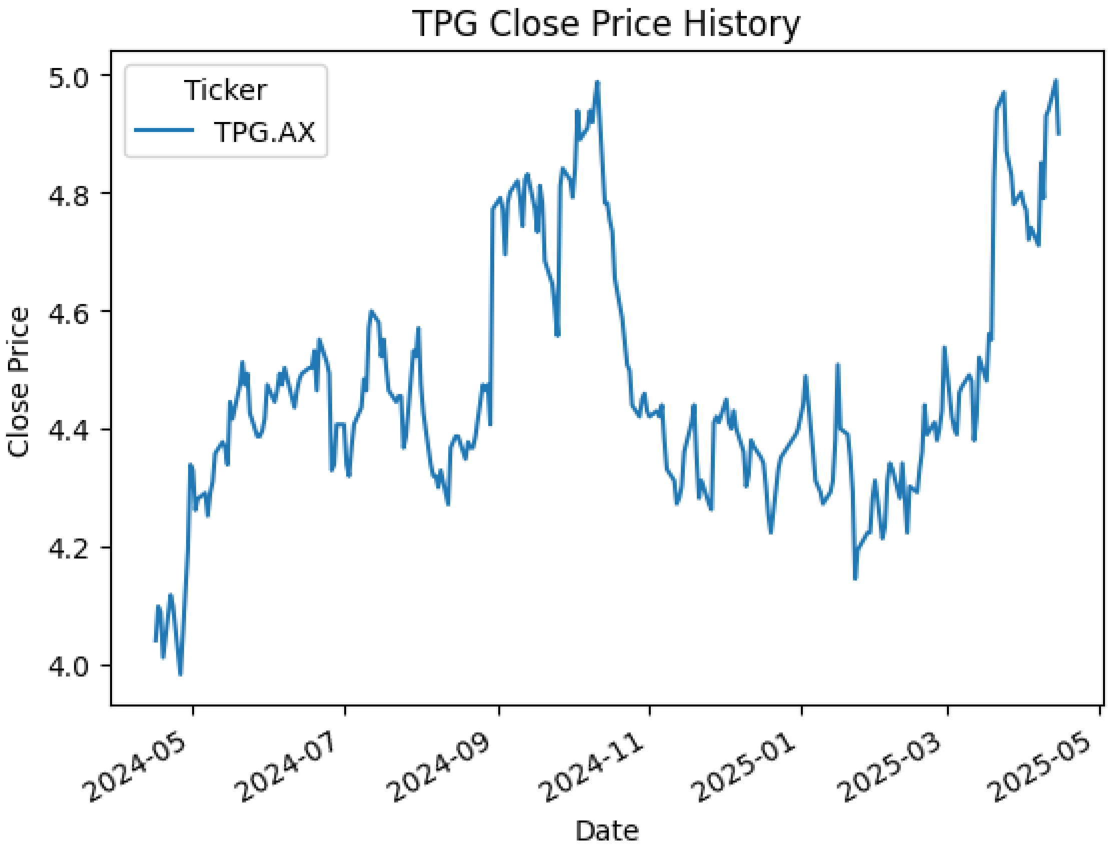
Catalyst 2: Balance Sheet Strengthening Post-EG&W Divestiture
The strategic sale of TPG's Energy, Gas & Water (EG&W) division to Shell Energy in FY24 has enabled sharper operational focus on core telecom services while removing a low-margin, highly regulated business from the portfolio. Management reported 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.

Catalysts Continued

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 may boost its appeal in regional areas. 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.


TPG Close Price History
Ticker
TPG.AX
Close Price
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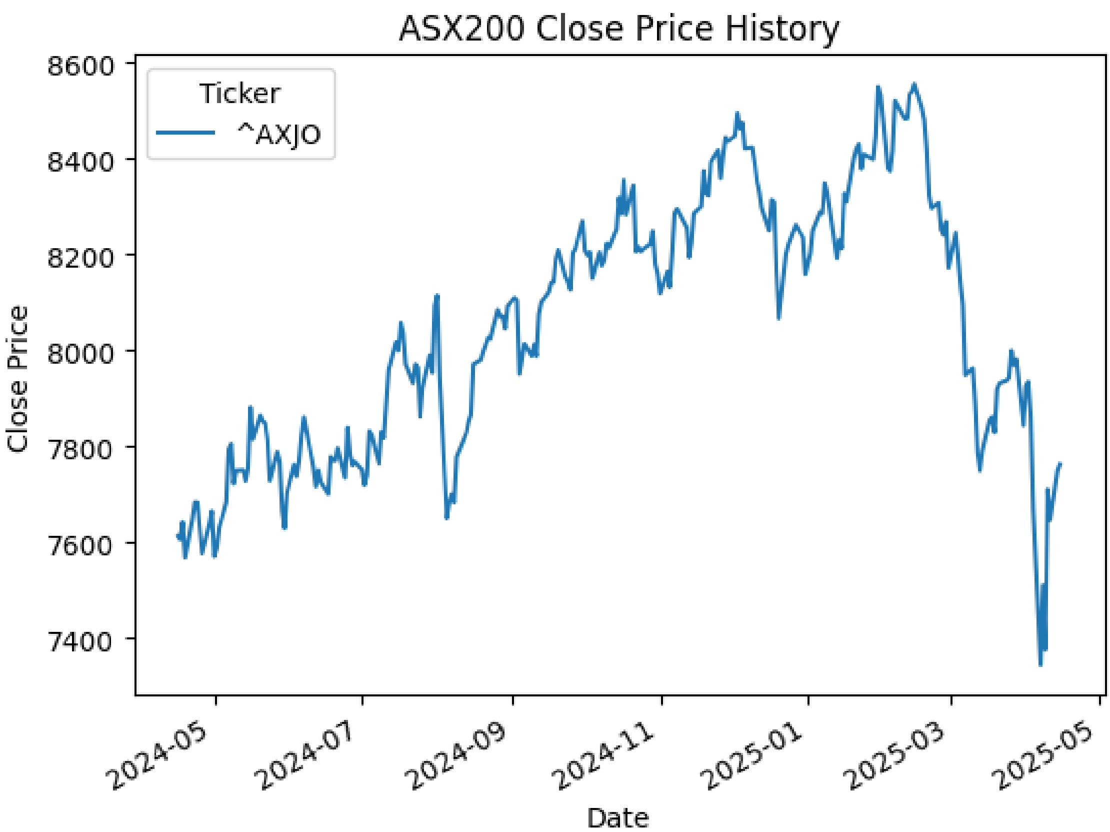
4.8
4.6
4.4
4.2
4.0
2024-05
2024-07
2024-09
2024-11
2025-01
2025-03
2025-05
Date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^AXJO
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7800
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7400
2024-05
2024-07
2024-09
2024-11
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About the Authors