

# TPG Telecom Limited Equity Research Report

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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.

Initiation of Coverage

**HOLD**

ASX:TPG

Price: \$4.90

**Target Price: \$5.0**

Upside: X%

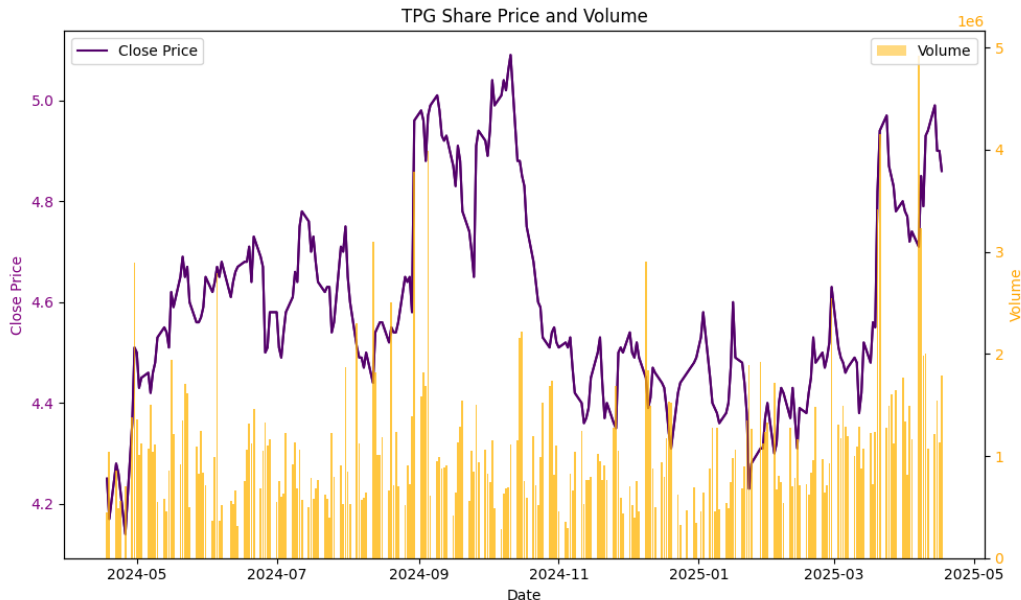
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Key Changes (FYE Dec)		
	Previous	Current
Adj. EBITDA – 25E (A\$ mn)	2,023	1,988
Adj. EBITDA – 26E (A\$ mn)	2,099	2,139



## 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 derived 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.

### Upside Risks

#### 1. Increased Mobile and Fixed Subscribers

A key source of potential upside lies in higher-than-forecast growth in both mobile and fixed-line subscribers. Accelerated customer acquisition, particularly 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.

#### 2. Increased ARPU

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.

#### 3. 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 ARPU 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

