Conference Call Initial Remarks
Second Quarter 2023 (2Q23)

Operator:

Good morning, and welcome to Megacable's second quarter 2023 earnings conference call. With us, this morning, from Megacable, we have: Mr. Enrique Yamuni, CEO; Mr. Raymundo Fernandez, Deputy CEO; and, Mr. Luis Zetter, CFO.

Let me remind you that the information discussed in today's earnings call may include forward-looking statements on the Company's future financial performance and prospects, which are subject to risks and uncertainties. Megacable undertakes no obligation to update or revise any forward-looking statement.

I will now turn the call over to Mr. Enrique Yamuni. Sir, you may begin.

Enrique Yamuni:

Good morning, everyone, thank you for joining us today.

I would like to provide you with an overview of our company's performance and highlight the significant advances we made this quarter.

First, in terms of the expansion.

Our growth and value maximization plan is performing as it was established. The Organization has been investing not only in the network expansion but also in the evolution of the rest of the territories. During this quarter, we have added 900 thousand homes passed of new builds, which put us on track to beat our initial goal of 2.5 million households passed by the end of the year. Nevertheless, In addition, we have also converted 400 thousand new homes passed in the HFC footprint.

As a result of the before mentioned, at quarter-end, 56% of our network is already full fiber technology, not only due to the expansion but also the updates. Our building capacity is a reality.

In this quarter alone, we have entered 7 new territories, amounting to around 45 for the whole project. which presented a significant challenge for the Company. As we look ahead, we plan to reach more than 60 new cities overall by year-end.

We remain confident in realizing the expansion's full potential revenue, profitability, and shareholder value. The revenue we are generating is in line with expectations, recording double-digit growth on a year-to-year comparison, supported by subscriber growth in the legacy and expansion territories.

The invested CAPEX so far is below the estimates we had for the year, which reflects our efficiency in terms of the costs per homes passed, recording the best levels in the industry.

2023 and 2024 are expansion years with more CAPEX intensity, where the Company will have pressure in margins and leverage, but as we have mentioned before, this was expected, and continues to be within the expected ranges. Looking into the future, doubling the size of the company and maintaining the debt levels of past years is more viable than ever.

Moving into consolidated results.

Subscriber growth continues the growing trend observed since the second half of 2022, it is important to mention that we continue to see net adds in both, the expansion and the legacy territories, resulting in the highest quarterly RGU net adds figure in the history of the Company. This was also supported by a stable churn rate, despite the price adjustments we carried out last May.

In terms of ARPU, the big bulk of added subs that came from the increase of gross adds, and therefore with promotional rates, were compensated by the pricing, bundling and upgrade strategies.

Also, the corporate market is in the same line as this increases. The challenge has been enormous, but we already reached more than 30 thousand employees, more than 20% when compared to those of last year.

Now, moving to financials, revenue and EBITDA continues to grow on a year-to-year basis. We are certain that as we move ahead, higher increases will be achieved, as the operations from the expansion territories improve their profitability, coupled with the existing territories, that remain at very attractive margins.

The strength of the balance sheet has allowed us to continue growing, and remains still within reasonable levels, but this is necessary to execute the plans we have set. Despite the significant investments made since 2020, we maintain a healthy financial position that provides room to continue advancing in our modernization and expansion, keeping our leverage level at the lowest in the industry.

Our commitment to maintaining financial stability, while executing our ambitious expansion plan is reflected by Fitch Ratings, with the reaffirmation of our credit rating of AAA, which also highlights our positioning and operational performance relative to our peers, as we make use of our modern infrastructure to offer high-quality services at competitive prices, without jeopardizing our profitability and value proposal.

As we continue with the execution of our initiatives to take the Company to a nationwide footprint, we are still committed to generating value for our shareholders. In that line, during the quarter we carried out the distribution of our annual cash distribution of more than 2.5 billion pesos, with a very attractive dividend yield.

To conclude, our quarterly performance was positive, as we are achieving our goals in terms of subscriber additions, expansion and modernization at an accelerated pace, without leaving behind our legacy territories, which continue to grow and generate positive results.

The level of investments remains reasonable, and although it has led us to a more leveraged position, these resources are aimed at maximizing value for our stockholders in the periods to come.

I will turn the call over to Raymundo to discuss our operational performance, Raymundo please go ahead…

Raymundo Fernandez:

Thanks, Enrique. Good morning, everyone.

The growth of our key operating metrics remained aligned to the positive trend observed since the second half of last year, showing a sequential acceleration in subscribers to reach record figures in terms of RGUs, largely driven by the investments in infrastructure and activation of new territories, as reflected in the numbers of added kilometers and homes passed.

In addition to these efforts, our network modernization initiatives allowed us to keep attracting and gaining customers in legacy markets.

Related to the expansion, we added 5 thousand kilometers of fiber, as well as close to 1 million homes passed in the second quarter, bringing the total to nearly 1.9 million for the year so far.

However, the efforts and investments of the Company are not only aimed at expansion, as of June, we have migrated over 2.3 thousand kilometers from HFC to FTTH technology. This represents 400 thousand additional homes passed in full fiber technology, which in addition to the over 45 thousand kilometers that we already had, accounts for the total of 56% with fiber, that Enrique mentioned.

The Company's commitment towards providing the best service through state-of-the-art technology, will continue to drive these updates, in line with the vision of becoming a full fiber player at some point.

Transitioning to our results, unique subscribers for the quarter increased 12% year-over-year, to 4.7 million, representing roughly 500 thousand net additions, of which 151 thousand corresponded to this period. This figure not only beats the record figure of the previous quarter, but also represents a faster sequential growth rate.

By segment, Internet subscribers grew 14% compared to the second quarter of 2022, totaling 4.4 million, resulting in 536 thousand net additions, of which 163 thousand corresponded to this period.

We continued to perform speed upgrades on all packages, which provides the subscribers with a pleasant navigation experience, and ultimately contributes to service differentiation. Our superior infrastructure, either state-of-the-art fiber network or enhanced HFC technology, is more than capable of handling these upgrades. It is worth noting that at the end of the quarter, over 86% of our subscriber base enjoys speeds of 50 megs or higher, compared to around 50% in the same period last year.

At the end of the quarter, our network of more than 86 thousand kilometers covered nearly 13.5 million homes passed, out of which, 56% is already FTTH technology. This compares to 69 thousand kilometers and 10.1 million homes passed a year ago.

Video subscribers reached 3.8 million, growing 9% and adding 302 thousand versus the second quarter of 2022. On a sequential basis, this segment recorded nearly 84 thousand net adds. At the end of the quarter, the subscriber base of our Xview platforms was 2.6 million, up 42% or over 786 thousand net additions compared to the same quarter of last year. In the same period, Xview set top boxes reached more than 3.9 million.

Regarding Xview, it continues to contribute to the video segment, maintaining Mega as one of the few companies that continue to add video subscribers. This is mainly because there is no other interactive TV platform that offers the same functionalities and exclusive benefits. As of June, this platform has more than 92 million interactions registered on a monthly basis.

The Telephony segment recorded 3.8 million subscribers, growing 20% compared to the second quarter 2022, representing 629 thousand net additions, of which 184 thousand belong to this period.

At the end this period, RGUs reached 12 million, up 14% against the 11 million of the second quarter 2022, the highest growth rate ever recorded, largely driven by the entrance into new markets. Consequently, RGUs per unique subscriber in the second quarter 2023 totalled 2.57, compared to 2.53 in the same period last year, which are expected to gradually climb as we progress in our expansion.

The MVNO subscribers totaled 391 thousand, decreasing 10% year-over-year but increasing 4% when compared to the previous quarter. This growth resulted in approximately 14 thousand net additions during this period, reflecting our disciplined approach in attracting and retaining high quality post-paid customers. This service, which has proven to be an added value for our fix segment subscribers, have stood as the one with the highest ARPU in the industry.

Churn Rates improved on an annual and sequential basis, with Broadband at 1.9%, Video at 2.0%, and Telephony at 2.0%. This result is more relevant when considering the price increases performed in May.

The lower churn rate is the result of our efforts towards increasing customer satisfaction, including an improved NPS, which reflects the expanded service offerings, the superior infrastructure, coupled with competitive pricing and seamless integration of our services.

ARPU per unique subscriber was 420.8 pesos, down year-over-year but remaining stable on a sequential basis. As Enrique mentioned, this performance is of great significance considering the current competitive landscape and the promotional packages, pricing strategies, and offers deployed, which were carefully implemented to tap into the comparative advantages of our portfolio.

Turning to ARPU by segment, broadband and video remained stable compared to the second quarter 2022; while Telephony decreased. On a sequential basis, Broadband increased 2%, while Telephony decreased also by 2% and Video remained at the same level.

Regarding the ARPU of the MVNO service, it increased 38% when compared to the 2Q22, as a result of our strategy to drive revenue growth by focusing on quality subscribers with revenue contribution.

As for the corporate telecom segment, revenue in the second quarter of 2023 posted an annual increase of 16%, with Metrocarrier, ho1a and MCM growing 15%, 31% and 9%, respectively. This performance was supported by special projects in both the public and private sectors. It is worth noting that we will continue to see double-digit growth in this segment due to our expansion plan and new markets.

In conclusion, our strong operational performance this quarter reflects our focused efforts on expanding our infrastructure, attracting and retaining customers, and enhancing our service offerings. The significant sequential growth in the number of subscribers, driven by intensified investments in infrastructure deployment, demonstrates the success of our expansion strategy.

As we continue to execute our expansion plan, we anticipate further growth in RGUs and sustained improvement in the key operating metrics, while remaining committed to providing a compelling value proposal that meets the needs of our customers.

With this, I conclude my remarks. Now I would like to hand the call over to Luis, who will shed broader color on the financial results.

Luis Zetter:

Thank you, Raymundo. Good morning and welcome.

During the second quarter 2023, consolidated revenue reached close to 7.4 billion pesos, up 10% when compared to the same period last year, given a strong and sustained subscriber growth recorded at all business segments, as discussed by Raymundo, but also due to the boost of a Corporate Segment that continues to grow at a double-digit rate.

The Mass Segment revenue increased 9% compared to the second quarter last year, amounting to 6 billion pesos. By segment, revenue for Broadband, Video and Mobile Services grew 12%, 9%, and 2% in a year-over-year basis, respectively, driven by a stronger subscriber growth. As for the MVNO business, revenue continued to rise, recording a 23% increase on a year-to-year basis, mainly due to a higher ARPU.

The Corporate Segment revenue climbed 15% year-over-year, totaling close to 1.4 billion pesos, with MetroCarrier, ho1a and MCM, growing at 15%, 31% and 9%, respectively. Meanwhile, revenue for PCTV decreased slightly when compared to the same period last year.

Consequently, the mass segment's contribution to the Company's revenue was 82%, while the remaining 18% came from the corporate segment.

Cost of Services rose 24% year-over-year, reaching nearly 2.2 billion pesos; while SG&A increased 15%, totaling less than 1.9 billion pesos. These variations largely reflect the Company's continued expansion, the strong growth in labor, as well as revenues coming from ho1a, with a larger component of equipment sales.

Quarterly consolidated EBITDA increased 1% year-over-year, amounting to 3.3 billion pesos. EBITDA margin for the quarter stood at 44.6%, down on a sequential and annual basis. Meanwhile, quarterly EBITDA for cable operations totaled close to 3.1 billion pesos, with a margin of 46.1%. As mentioned in the last quarter, our margins will remain pressured by cost and expenses related to our expansion, with expectations to start a gradual recovery towards 2024.

Net Income in the second quarter amounted to 868 million pesos, representing a decrease compared to the same period last year. This decline is attributed to a higher net financial expense, as a result of the higher debt, as well as the increased costs and expenses associated with the expansion.

We would like to clarify that the level of depreciations and amortizations for the quarter is lower than that of the 1Q23, mainly due to one-offs recorded in the first quarter of the year. The accrued figure of the first half is in line with what we could expect from the coming periods.

Moving into the balance sheet.

As of June 30, 2023, Net Debt was 18.3 billion pesos, compared to 7.8 billion pesos recorded at the same period last year. This variation is attributed to the issuance of long-term local notes for 7 billion pesos in July 2022 as well as additional credit facilities signed during this period to accelerate our expansion plan and refinance other maturities.

Nevertheless, net debt to EBITDA ratios stood at 1.4 times, well below other competitors and in line with our estimations. This leverage ratio provide us wide flexibility to move forward in our critical growth projects. On the other hand, interest coverage ratio for the last twelve moths reached 6 times, still at healthy levels.

As for CAPEX, the figure totaled 2.9 billion pesos during the quarter, for a total of 5.2 billion pesos during the first half of the year, representing 35.6% of the revenues for the same period, as we continue with our investments in infrastructure at a faster pace than first anticipated.

It is important to note that due to the Company's operative efficiencies in the execution of these investments, we have the lower cost per homes passed in the industry.

The investments we are doing are being reflected in the cash generation of the Company, which, during this quarter also included the dividend payment of last May. These items were almost offset by the additional debt signed during the period to refinance other maturities. The following periods should reflect less pressured figures, with no other dividend payment or maturity until next year.

In that regard, I would like to point-out that most of the CAPEX was fulfilled with our own cash generation, excluding the dividend payment, the generation of the Company could have almost offset the investments.

With this, I conclude my remarks. Now let me turn back the call to the Operator to open the line for Q&A.