

Results for the first half ended 30 June 2019

PERFORMANCE

The Board is pleased to announce the unaudited interim financial results for the Group for the six months period ended 30 June 2019.

In 2018, the company registered TNM Mpamba Limited as a wholly owned subsidiary of Telekom Networks Malawi Plc. TNM Mpamba Limited started its operations on 1 January 2019. The results of TNM Mpamba Limited are consolidated in the results of Telekom Networks Malawi Plc as at 30 June 2019.

The Group registered 8% growth in service revenue to MK44,064 million (2018: MK40,764 million). The EBITDA margin increased to 40% (June 2018: 38%). The increase in EBITDA was due to disciplined expenditure management initiatives taken by the Group and the effects of IFRS 16 Leases application. Net financing costs increased to MK2,180 million (June 2018: MK1,295 million) which includes foreign exchange losses of MK79 million (June 2018: MK24 million). The increase in net finance costs by 68% was due to the effects of IFRS 16 Leases application which has resulted in some operating expenses being reported under finance cost.

Profit after taxation decreased by 3% to MK6,712 million (June 2018: MK6,942 million). The decrease in net profit was due to increase in depreciation expense resulting from investments made in 4G and U900 technology over the past two years to position the Group for the future as a full ICT operator.

TNM invested MK7,372 million in capital expenditure during the period (June 2018: MK10,579 million) in network and systems catering for expansion, improvement and future use as data needs grow.

OUTLOOK

The Group continues with its strategy to become the preferred ICT provider in Malawi as it focuses on seamless customer experience, smart channel management and investment in appropriate technologies. Management will continue with cost efficient initiatives to protect margins and profitability.

DIVIDENDS

The Directors have declared a first interim dividend for the financial year ending 31 December 2019 of MK2,510 million, equivalent to 25 tambala per share, payable on 27th September 2019 to those shareholders appearing in the register of the Company as at the close of business on 13th September 2019. The register of members will be closed from 16th September 2019 to 18th September 2019 both dates inclusive.

George Partridge
Chairman

John M. O' Neill
Chairman Board Audit Committee

KEY FINANCIAL HIGHLIGHTS

SERVICE REVENUE
8%
growth in Service Revenue to

MK 44,064
Million

EBITDA
13%
increase in EBITDA to

MK 17,856
Million

NET PROFIT
3%
decrease in Profit After Taxation to

MK 6,712
Million

INFRASTRUCTURE INVESTMENT

MK 7,372
Million

ARPU
11%
growth in Average Revenue Per User (ARPU) to

MK 1,814

EARNINGS PER SHARE
3%
decrease in Earnings Per Share to

MK 0.67

STATEMENTS OF COMPREHENSIVE INCOME in millions of kwacha

	Group Unaudited Six months to 30-Jun-19	Company Unaudited Six months to 30-Jun-19	Company Unaudited Six months to 30-Jun-18	Company Audited year ended 31-Dec-18
Notes				
Service revenue	44,064	41,432	40,764	88,971
Hardware and equipment revenue	916	916	964	2,207
Total revenue	44,980	42,348	41,728	91,178
Direct operational costs	(20,192)	(19,073)	(19,072)	(41,010)
Gross profit	24,788	23,275	22,656	50,168
Other income	1,601	1,601	1,248	2,406
Selling and administration expenses	(8,533)	(8,350)	(8,108)	(16,451)
Earnings before interest, tax, depreciation & amortisation	17,856	16,526	15,796	36,123
Depreciation and amortisation	(6,075)	(5,875)	(4,384)	(9,186)
Results from operating activities	11,781	10,651	11,412	26,937
Finance income	21	21	11	26
Finance expenses	(2,201)	(2,201)	(1,306)	(2,940)
Net finance expenses	(2,180)	(2,180)	(1,295)	(2,914)
Profit before income tax	9,601	8,471	10,117	24,023
Taxation	(2,889)	(2,575)	(3,175)	(7,357)
Profit for the period	6,712	5,896	6,942	16,666
Other comprehensive income	-	-	-	-
Total comprehensive income	6,712	5,896	6,942	16,666
Basic earnings per share – MK	0.67	0.59	0.69	1.66
Number of ordinary shares in issue ('mil)	10,040	10,040	10,040	10,040

STATEMENTS OF FINANCIAL POSITION in millions of kwacha

	Group Unaudited as at 30-Jun-19	Company Unaudited as at 30-Jun-19	Company Unaudited as at 30-Jun-18	Company Audited as at 31-Dec-18
Notes				
ASSETS				
NON-CURRENT ASSETS				
Contract assets	471	471	-	303
Property, plant and equipment	55,833	53,421	49,610	52,081
Intangible assets	6,912	6,912	6,197	7,622
Equity investments	81	1,437	81	81
Right of use assets	5,594	5,594	-	-
Deferred tax assets	-	-	1,103	-
Total non-current assets	68,891	67,835	56,991	60,087
CURRENT ASSETS				
Contract assets	528	528	-	528
Inventories	2,932	2,932	3,143	3,213
Trade and other receivables	14,355	12,554	7,421	11,941
Amounts due from related parties	660	660	187	1,603
Bank and cash balances	4,356	4,356	3,021	2,267
Total current assets	22,831	21,030	13,772	19,552
TOTAL ASSETS	91,722	88,865	70,763	79,639
EQUITY AND LIABILITIES				
SHAREHOLDERS EQUITY				
Share capital	402	402	402	402
Share premium	2,347	2,347	2,347	2,347
Retained earnings	42,323	41,507	30,907	35,611
Total equity	45,072	44,256	33,656	38,360

STATEMENTS OF FINANCIAL POSITION (Continued)

NON-CURRENT LIABILITIES	Notes				
Deferred tax liabilities		678	605	1,347	683
Long-term portion of loans and borrowings	4	7,588	7,588	10,000	14,678
Long-term portion of lease liabilities		3,589	3,589	-	-
Long-term portion of deferred payment facility	5	-	-	3,212	179
Total non-current liabilities		11,855	11,782	14,559	15,540
CURRENT LIABILITIES					
Trade and other payables		12,389	10,661	11,048	11,437
Current portion of loans and borrowings	4	11,329	11,329	-	4,678
Current portion of deferred payment facility	5	-	-	2,966	573
Current portion of lease liabilities		2,005	2,005	-	-
Deferred income		3,658	3,658	2,137	3,905
Dividend payable		-	-	2,510	2,510
Current tax payable		1,575	1,334	1,837	2,137
Bank overdraft		3,280	3,280	1,923	499
Amounts due to related parties		559	560	127	-
Total current liabilities		34,795	32,827	22,548	25,739
TOTAL LIABILITIES		46,650	44,609	37,107	41,279
TOTAL EQUITY AND LIABILITIES		91,722	88,865	70,763	79,639

STATEMENTS OF CASH FLOWS in millions of kwacha

	Group Unaudited Six months to 30-Jun-19	Company Unaudited Six months to 30-Jun-19	Company Unaudited Six months to 30-Jun-18	Company Audited year ended 31-Dec-18
Notes				
Operating activities				
Cash receipts from customers	43,093	42,196	45,891	89,485
Cash paid to suppliers and employees	(26,295)	(25,298)	(29,817)	(58,139)
Cash generated from operations	16,798	16,898	16,074	31,346
Interest paid	(2,201)	(2,201)	(1,282)	(2,821)
Income tax paid	(3,493)	(3,493)	(3,108)	(6,419)
Cash generated from operating activities	11,104	11,204	11,684	22,106
Investing activities				
Interest received	21	21	11	26
Investment in mobile money company	-	(1,356)	(81)	(81)
Purchase of property, plant and equipment	6	(7,012)	(7,012)	(10,085)
Purchase of intangible assets	6	(360)	(360)	(494)
Proceeds from sale of property, plant and equipment	44	1,300	50	112
Net cash used in investing activities	(7,307)	(7,407)	(10,599)	(19,261)
Financing activities				
Proceeds from loans	4	1,432	1,432	-
Repayment of loans	4	(1,871)	(1,871)	-
Repayment of deferred payment facility	5	(752)	(752)	(3,830)
Proceeds from deferred payment facility	5	-	-	4,135
Lease liability payments		(788)	(788)	-
Payment of dividends		(2,510)	(2,510)	(2,008)
Net cash used in financing activities	(4,489)	(4,489)	(1,703)	(2,793)
Net (decrease)/increase in cash and cash equivalents	(692)	(692)	(618)	52
Cash and cash equivalents at the beginning of the period	1,768	1,768	1,716	1,716
Cash and cash equivalents at the end of the period	1,076	1,076	1,098	1,768

Results for the first half ended 30 June 2019

STATEMENTS OF CHANGES IN EQUITY in millions of kwacha

Group Unaudited	Share Capital	Share Premium	Retained earnings	TOTAL
Balance as at 1 January 2019	402	2,347	35,611	38,360
Comprehensive income for the year	-	-	6,712	6,712
Dividend declared	-	-	-	-
Balance as at 30 June 2019	402	2,347	42,323	45,072

Company Unaudited				
Balance as at 1 January 2019	402	2,347	35,611	38,360
Comprehensive income for the year	-	-	5,896	5,896
Dividend declared	-	-	-	-
Balance as at 30 June 2019	402	2,347	41,507	44,256

Company Unaudited				
Balance as at 1 January 2018	402	2,347	26,384	29,133
IFRS 9 adjustment	-	-	91	91
Balance as at 1 January 2018 - as restated*	402	2,347	26,475	29,224
Comprehensive income for the year	-	-	6,942	6,942
Dividend declared	-	-	(2,510)	(2,510)
Balance as at 30 June 2018	402	2,347	30,907	33,656

Company Audited				
Balance as at 1 January 2018	402	2,347	26,384	29,133
IFRS 9 adjustment	-	-	91	91
Balance as at 1 January 2018 - as restated*	402	2,347	26,475	29,224
Comprehensive income for the year	-	-	16,666	16,666
Dividend declared	-	-	(7,530)	(7,530)
Balance as at 31 December 2018	402	2,347	35,611	38,360

*The restatement is as a result of the initial application of IFRS9 *Financial Instruments*.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS in millions of kwacha

1. Capital commitments

	Group Unaudited as at 30-Jun-19	Company Unaudited as at 30-Jun-19	Company Unaudited as at 30-Jun-18	Company Audited as at 31-Dec-18
Authorised and contracted for	10,603	10,603	4,838	2,845
Authorised but not contracted for	4,515	4,515	19,774	11,700

The capital expenditure will be financed from internally generated resources and existing facilities.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS (Continued)

2. Contingent liabilities

	Group Unaudited as at 30-Jun-19	Company Unaudited as at 30-Jun-19	Company Unaudited as at 30-Jun-18	Company Audited as at 31-Dec-18
Legal claims	100	100	100	187

3. Interest capitalised

Deferred payment facility	-	-	215	18
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The interest capitalised relates to interest costs on borrowings to finance assets under construction during the period the interest was incurred.

4. Loans and borrowings

	Old Mutual Commercial Paper	NICO Assets Managers Commercial Paper	Standard Bank Loan	TOTAL
Opening balance - 1 January 2019	5,000	5,000	9,356	19,356
Additions	-	-	1,432	1,432
Interest charge	386	362	947	1,695
Capital repayments	-	-	(1,871)	(1,871)
Interest paid	(386)	(362)	(947)	(1,695)
Balance as at 30 June 2019	5,000	5,000	8,917	18,917
Long term portion of loans	-	5,000	2,588	7,588
Current portion of loans	5,000	-	6,329	11,329
	5,000	5,000	8,917	18,917

	Old Mutual	NICO Assets Managers	Standard Bank	TOTAL
Company Unaudited				
Opening balance - 1 January 2019	5,000	5,000	9,356	19,356
Additions	-	-	1,432	1,432
Interest charge	386	362	947	1,695
Capital repayments	-	-	(1,871)	(1,871)
Interest paid	(386)	(362)	(947)	(1,695)
Balance as at 30 June 2019	5,000	5,000	8,917	18,917
Long term portion of loans	-	5,000	2,588	7,588
Current portion of loans	5,000	-	6,329	11,329
	5,000	5,000	8,917	18,917

	Old Mutual	NICO Assets Managers	Standard Bank	TOTAL
Company Unaudited				
Opening balance - 1 January 2018	5,000	5,000	-	10,000
Interest charge	426	413	-	839
Interest paid	(426)	(413)	-	(839)
Balance as at 30 June 2018	5,000	5,000	-	10,000
Long term portion of loans	5,000	5,000	-	10,000
	5,000	5,000	-	10,000
Company Audited				
Opening balance - 1 January 2018	5,000	5,000	-	10,000
Additions	-	-	9,356	9,356
Interest charge	854	823	246	1,923
Interest paid	(854)	(823)	(246)	(1,923)
Balance as at 31 December 2018	5,000	5,000	9,356	19,356
Long-term portion of loans	5,000	5,000	4,678	14,678
Current portion of loans	-	-	4,678	4,678
	5,000	5,000	9,356	19,356

NOTES TO THE SUMMARY FINANCIAL STATEMENTS (Continued)

Old Mutual Investment Group Limited (OMIGL)

On 26 February 2015, the company secured commercial debt paper of MK5.0 billion. The arranger and administrator is Old Mutual Investment Group Limited (OMIGL). The commercial paper is for a period of 5 years with an option of early repayment in tranches of MK1.0 billion after the third year. The coupon rate is 364 Treasury bill rate plus 200 basis points. The loan is secured with a debenture ranking behind National Bank of Malawi Plc overdraft facility and First Capital Bank Plc overdraft facility debentures and ranking pari passu with the NICO Asset Managers Limited commercial paper debenture.

NICO Asset Managers Limited

On 10 July 2017, the company secured commercial debt paper of MK5.0 billion. The arranger and administrator is Nico Asset Managers Limited. The commercial paper is for a period of 5 years with an option of early repayment in tranches of MK1.0 billion after the third year. The coupon rate is 180 Treasury bill rate plus 180 basis points. The loan is secured with a floating debenture over TNM assets ranking behind National Bank of Malawi Plc overdraft facility and First Capital Bank Plc overdraft facility debentures but ranking pari passu with the Old Mutual Investments Group Limited commercial paper debenture.

Standard Bank Dual Currency Facility

TNM entered into a Dual Currency Revolving Credit Facility (DCRCF) with Standard Bank Plc of up to USD 20 million or the Malawi Kwacha equivalent thereof. The purpose of the facility is to finance or refinance capital expenditure. The facility has a tenor of 24 months and attracts interest at a rate of 3 months LIBOR + 6% effectively 8.3% (2018: 8.8%) for the dollar exposure, and base lending rate plus 31% effectively 17% for the Malawi Kwacha exposure. TNM has covenanted to maintain a USD denominated account with Standard Bank Plc for the lifetime of the facility and to channel all its USD receivables to the said account.

5. Huawei Deferred Payment Facility

	Group Unaudited as at 30-Jun-19	Company Unaudited as at 30-Jun-19	Company Unaudited as at 30-Jun-18	Company Audited as at 31-Dec-18
Opening balance	752	752	5,873	5,873
Additions	-	-	4,135	5,220
Capital repayments	(752)	(752)	(3,830)	(10,341)
Interest charged	-	-	405	215
Interest payment	-	-	(405)	(215)
Balance at end of the year	-	-	6,178	752
Long-term portion of deferred payment facility	-	-	3,212	179
Short-term portion of deferred payment facility	-	-	2,966	573
	-	-	6,178	752

Huawei Deferred Payment Facility

In 2014, the company entered into a USD 20 million deferred payment facility with Huawei Technologies Limited for equipment purchase under projects that started in 2014. The invoices making up the facility are payable in instalments over a period of two years. The rate of interest on the facility is USD LIBOR plus 6.5% effectively 8.5% per annum (2018: 9%) payable within six months after receipt of the invoices. The facility is unsecured. The facility was fully repaid as at 30 June 2019.

6. Capital expenditure

Acquisition of property, plant and equipment	7,012	7,012	10,085	16,610
Purchase of intangible assets	360	360	494	2,707
Total	7,372	7,372	10,579	19,317