Belgacom Reported Improved Results; Fair Value Estimate Likely Going Higher, but Shares Overvalued; Morningstar Analyst Response

Allan Nichols, senior equity analyst at Morningstar, comments on Belgacom's second quarter results, issued today:

"Belgacom reported second quarter revenue that showed sequential improvement. Excluding numerous one-offs in the quarter and only counting one month of revenue from Telindus France, which was sold April 30, revenue was down 4% in the quarter versus our full year projection of a 7.6% drop. We're reassessing our forecast, mainly on the strength of the international carrier services division, which recovered from a disastrous first quarter to generate slight growth causing management to raise guidance for this division. Additionally, margins are holding up better than we anticipated. These tweaks to our forecast are likely to result in a slight increase to our fair value estimate, although we still believe Belgacom shares are overvalued. Our moat rating remains unchanged.

"The core business continues to see improvements in the broadband and pay television base, but weak wireless average revenue per user (ARPU). The consumer division grew its broadband base 4.3% to 1.26 million and it TV base 6.7% to 1.53 million, which was partially offset by a 4.2% decline in the fixed-line base to 2.86 million. On the wireless side, the firm lost slightly more prepaid customers than it gained in contract subscribers. However, both types of customers remain under pricing pressure, with contract ARPUs declining 4.6% to EUR 26.7 and prepaid falling 10.3% EUR 12.6. In the enterprise division, the wireless subscriber base grew 11.6% to 1.72 million, but this was offset by a 7.4% ARPU decline and a 4.2% fall in the fixed-line subscriber base. Competition in the Belgian market remains intense due to changes in the telecom laws and aggressive cable operators. We expect these difficult conditions to continue, which we think will prevent Belgacom's revenue growing through at least next year. That said, the firm has cut costs better than we expected and improved its EBITDA margin to 28.8%."

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