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BRIEF: Optus HY results driven by cost cutting and ARPU growth

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Optus HY results driven by cost cutting and ARPU growth

Abstract: Optus half year results (April to September) were published this week. Optus mobile revenue growth is behind the market, with a strong ARPU performance being offset by slow growth in connections, possibly a delayed reaction to concerns about the Optus network post-outage. The picture for consumer fixed services is similar. The prime area of softness is the troubled enterprise segment, where lower sales of equipment and of satellite services saw a big drop in revenue. This suggests that rising satellite competition is now biting, and it is only set to get worse.

Optus Mobile, Home grow, but Enterprise slumps

Optus half year revenue was virtually flat, with only 0.1% growth year-on-year to reach $4.022bn. However, Optus experienced a 7.4% increase in EBITDA and a significant 58% rise in EBIT. This growth was largely attributed to better mobile and home segment performance offsetting losses in Enterprise, and effective cost management. Operating expenses decreased by 2.5% due to a continued focus on cost management, with staff costs reduced from a lower headcount, although repair and maintenance costs rose due to inflation and network expansion.

Mobile service revenue increased by 4.1%, driven by price hikes in postpaid plans that raised blended ARPU by 3.4%. A slightly larger (1.2%) prepaid customer base helped, but postpaid connections were stagnant at only 0.2% growth, so growth was below market par. Mobile equipment revenue saw a 5.8% rise due to higher sales of premium devices. It is notable that its great rival Telstra did better with 5.3% mobile service growth, helped by better postpaid and prepaid connection growth. TPG's mobile revenue grew at 5.5% for its half year.

Fixed home revenue grew by 3.7%, with NBN and FWA revenues increasing by 5.3% and 7.0%, respectively, thanks to ARPU growth partially driven by NBN wholesale price realignment in the wake of the Special Access Undertaking. However, NBN customers fell 2.8%, while FWA customers rose 5.9% albeit off a lower base than NBN. Like Telstra and TPG, the Optus home fixed market base is under assault from challengers Aussie Broadband, Superloop, and others.

Wholesale and Enterprise & Business Fixed revenue dropped by an astonishing 17.8%, primarily due to declines in project-based satellite revenues and Enterprise ICT equipment sales. Some of this (particularly equipment) is cyclic, but there is underlying trouble in the satellite business.

Why does this matter?

Optus is still suffering from the fallout of its major 2023 outage. Ongoing legal consequences are less important than the need to reset the relationship with customers. For now, Optus is still not performing as well as its peers on winning and keeping customers in the mobile and home markets. Incoming CEO Stephen Rue has already identified rebuilding trust as a priority. Exactly how is still unclear, but the focus must be consistent, excellent, and uneventful delivery of service.

Enterprise is a trouble spot for Optus (and not only Optus) for a different reason, as enterprise market prices have been depressed primarily as a result of competition from

NBN's Enterprise Ethernet product. In addition, Optus is uniquely exposed to rising competition in the satellite market from LEO satellite systems.

Starlink's's "consumerisation" of satellite communications is now eating away at Optus' high margin enterprise satellite revenues, which is being attacked by OneWeb as well (se our recent brief "Starlink viability will move the USO debate forward"). Satellite broadcast revenues are much less affected by LEOSats, but these services are not as profitable.

Further competition will appear when the Kuiper system gets up and running. We estimate that Optus satellite revenue of around $200m in FY20 has already fallen to around $140m in FY24.

LEOSats cannot do everything, but their impact must affect thinking about the scale of any future GEOSat replacements, and whether current capacity will remain marketable. The risk for Optus is a tipping point where falling volumes drive unit costs up, with some services becoming uneconomic. That would also have implications for some funded programs such as the VAST satellite remote FTA TV service that no Federal Government could ignore.

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