

PSE SPOTLIGHT

FEATURING:



The only pure-play high-speed fixed broadband provider in the Philippines, with an exclusive focus on serving with industry leading optical fiber based connectivity services.

Converge Information and Communications Technology Solutions, Inc.

Stock Code	CNVRG
Listing Board	Main Board
Sector – Subsector	Services – Information Technology
Listing Date	Oct 26, 2020
Outstanding Shares	7,266,573,061
Free Float Level	30.91%
Market Capitalization	P63,655,180,014
P/E Ratio	8.27x
Dividend Yield	0.00%

As of 03 May 2024
Source: PSE Data

[Company Profile](#)

1. What makes Converge an attractive investment for potential investors?

Converge is uniquely placed in the local broadband industry as it serves both the middle to high income class households and the broader segment of the market with high-speed fixed wired broadband connectivity. Its core brand FiberX continues to generate healthy quarterly net adds with minimal downtrading risk. Its two new brands cater to the broader household market with reliable broadband connectivity - highlighting the Company's strategic innovations in bridging the divide in broadband services to the underserved.

Converge had the highest net subscriber adds in 2023, now reaching one-third of the total industry's residential market share as of December. Converge also leads the industry in terms of profitability margins (EBITDA margin and net income margin) on the back of prudent cost management policies.

Converge is also exploring potential value-added services that it can offer on top of connectivity.

2. What challenges has Converge encountered, and what strategies were employed to overcome them effectively?

With digitalization being more prevalent, Filipino households would require better and more reliable connectivity. The upper segments of the market are catered to by our core FiberX product. So we aim to serve the segment of the market that is not already addressed. Converge launched two (2) more affordable fiber brands - BIDA and Surf2Sawa. At P888 a month for BIDA fiber, and as low as P50 a day and P900 for 30 days for S2S - customers can now experience world-class fiber connectivity at more affordable price points, without having to stretch their wallets. As of December 2023, we've already garnered a combined (BIDA + S2S) subscriber count of ~175k - signifying the strong take-up for these lower cost brands. One of the challenges is to ensure that there will be no if not minimal downgrade risk. We have placed features in FiberX that is exclusive to that brand and made some limitations on BIDA and Surf2Sawa to ensure FiberX be preferred for those who can afford it.

3. What sustainability initiatives does Converge have in place? How do they align with your long-term goals?

At Converge, we embrace our role as a collaborative force for sustainable development. Our long-term goal is to bridge the digital divide and foster economic inclusivity in response to the ever-evolving needs of our customers

and investors. In line with this, Converge set annual targets, short-term targets, and mid-term targets, encompassing various facets of Sustainability - customer privacy and data security, customer welfare, anti-corruption, and climate adaptation and resilience to name a few. These include targets such as zero incidents of corruption, 40 average training hours per employee, a 30% female-to-male employment ratio (by 2030), and reaching Net Zero GHG emissions by 2050.

4. What recent trends or external developments pose significant risks to your company and how have they specifically affected the business? What risk-mitigating measures is your company taking or planning to implement to address said risks?

We recognize that persistent inflation in the past months have taken a toll on our consumer's wallets, decreasing the level of affordability of our products and lowering gross additions. As a result, we've launched two more affordable brands – BIDA and Surf2Sawa, a lower cost post-paid fiber brand and prepaid fiber brand respectively – to cater to consumers who were adversely affected by rising prices nationwide.

Compared with FiberX at P1,500, BIDA retails for P888 a month, at a speed of 35 mbps and at no data cap. Surf2Sawa plans range from as low as P50 a day, to P900 for 30 days, at 25 mbps and also with no data cap.

As a result of the roll-out of these products, we've seen net adds from these brands grow robustly in prior quarters. In 4Q2023, BIDA grew by ~26k net adds, versus 24k, in the quarter prior. S2S grew to ~33k net adds vs. ~28k previously. As we expand the sales networks of said brands, we expect these to grow further on top of sustained demand for our core FiberX brand.

5. What are the key performance indicators (KPIs) that your company utilizes to measure its performance and track progress towards achieving its targets?

Converge currently focuses on increasing port utilization. The Company took advantage of the pandemic years and accelerated its port rollout due mainly to the low cost of financing environment and ease of navigating through cities due to minimal car traffic.

With over 8.9 million ports deployed across the country and 6.0 million fiber ports available for connection as of December, the Company's subscriber base continued to grow across all residential brands – thereby increasing port utilization to ~24% as of December 2023 from the lowest utilization of ~22% as of June of the same year.

Additionally, the Company actively works towards maintaining its industry-leading financial trifecta – Revenue growth, EBITDA margin and ROIC. As of FY2023, Converge garnered revenue growth of ~5%, higher than local incumbents. FY2023 EBITDA margin also settled at 60.9% - besting local peers, and FY2023 ROIC reached 16.3%, settling higher than not just local competitors but also regional and global broadband operators.

To maintain this, the Company actively works towards increasing both residential and enterprise revenues. Some initiatives for residential include further growing BIDA and S2S sales channels, and providing value-added services such as BlastTV (IP TV service free for Converge subs) on top of our core connectivity. On the enterprise side, the Company continues to invest in its international subsea cables Bifrost and SEA-H2X to support its foray into the international wholesale market.

Converge also has various cost management initiatives in place. As a result of the Company continuing to draw international capacity from the Telstra cable, Converge was able to decrease its bandwidth and leased line costs. This is also expected to decrease further once Bifrost and SEA-H2X become operational – resulting in less dependency on expensive short-term leased lines. Interest burden is also minimal given that a large portion of our debt obligations were priced during the pandemic.

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