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STEVEN FRAZER

### Telecom Plus, both weird and wonderful

You really have to look hard, and be quite the humbug, to find anything bad to say about [full year figures](#) from **Telecom Plus (TEP)**. A real Cassandra might view a modest 6.2% increase in business club customers a little on the dull side when drawn against a rough 12% rise in residential customers. An alternative stance might be to see any business customers growth at all as pure bonus since the company puts precious little real effort in to bolstering its commercial customers base.

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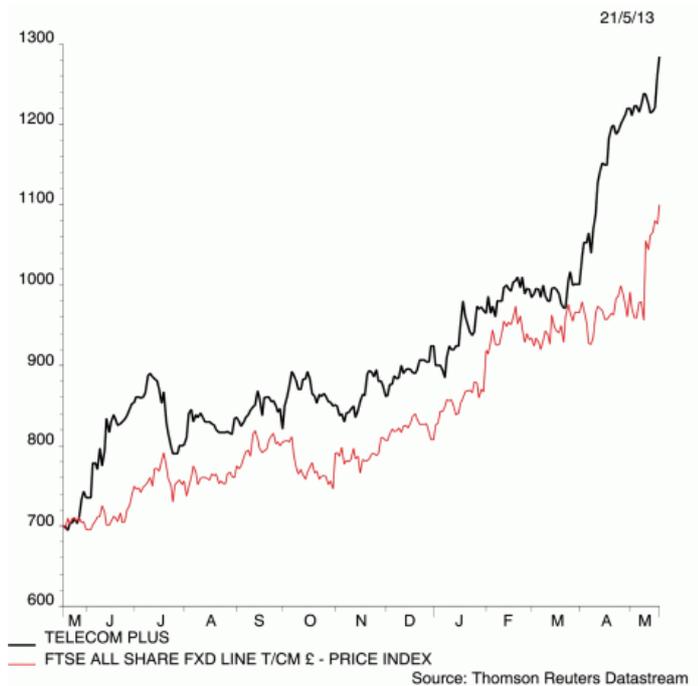
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Another issue could be the impending price war sparked by **BT (BT.A)** recently (read Shares view [here](#)). This looks a moot point since Telecom Plus pitches very much at the value end of the market, offering a relatively bells and whistles-less £6.99 service, far removed from the £30-£50 a month, content-heavy packages Britain's biggest telcos are now fighting over.

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The real challenge for new investors is getting their heads around paying a price-earnings (PE) multiple of 28-times FinnCap's 44.6p earnings per share (EPS) estimate this year. Yes, 28! That might reasonably be seen as a quite staggering multiple for what is effectively a utility supply business. The UK's gas and water sector currently trades on 15.7, and that's only after months of takeover speculation (resulting in a recent bid for **Severn Trent (SVT)**, read Shares view [here](#)) has pumped-up valuations.

Yet to look at Telecom Plus as anything close to a bog-standard utility business is really to miss its very clever story, using very little capex and an army of customers/distributors to sell its story, and services, to friends, family and anyone else that might listen down the pub or in the supermarket. Sceptics, and it's had its share in the past, have questioned just how long Telecom Plus can essentially pull-off the same old trick, and every year the £900 million-odd group keeps doing just that.

Today's record full year figures prove the point. Taxable profits hit £34.6 million on revenues of £601.5 million, up 14.5% and 12.7% respectively. Earnings rose nearly 15% to 38.7p per share, allowing the company to continue its long tradition of payout hikes, also up nearly 15% to 31p for the year, an 80% payout ratio. At the heart of these truly impressive numbers is a growing customer base of 453,431, to be precise, barely 1.5% of the estimated UK market. Yet it is the 'quality' of these customers that really bolsters the belief that Telecom Plus can repeat its growth trick for years to come. Over half of new sign-ups (55%) come in as Gold members, those taking at least four of its five services (gas, electricity, home phone, broadband, mobile), and when it gets them through the door, they tend to stick like flies to paper, churn down to just 1.2%.

What this means is that average revenue per user, or ARPU, rises on a seemingly unstoppable tide, jumping 14.5% to £1,363 last year. That's nearly 200% up in 10 years and makes the £190 ARPU in its first year back in 1999 look laughably minuscule. Under the bonnet, the ratchet effect of its deal with nPower means the more customers Telecom Plus recruits, the better its gas and electricity supply terms get. This implies relative security to future trading, the sort of visibility that the market obviously likes. For this (close on) certainty you'll have to pay a hefty premium and it could be argued that the shares remain eye-wateringly expensive.

On FinnCap's 2015 estimates (two years out) the EV/ebitda stands at about 20, with a cash flow yield of 3%, and 3.3% payout yield. But just how many other companies can go even close to this heady mix of growth, income and transparency? No, Telecom Plus isn't a normal utility, it's not even a normal growth company, it's more like a robust house plant, growing through photosynthesis and the odd sprinkling of water. And neither the sun nor rain get switched off.

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