

## Vodafone Group

## New divi / buyback post Italy sale

Maintain Rating: BUY | PO: 122.00 GBp | Price: 66.09 GBp

## Breaking News

- New capital allocation: Divi cut 50% + E4bn buyback vs. our previous 45%/E3bn analysis. Final divi E4.5c is honoured.
- Italy sale confirmed at E8bn, other reshuffle sees UK CEO move to head Europe, German CEO step down indicates ongoing issues.
- Italy deal price ok, but easier completion. New VOD now defined as scale UK, Germany, Africa. 15% pa two year total returns.

## VOD reshapes capital allocation

Vodafone has announced its new capital allocation plan following the announced sale of Italy to Swisscom for E8bn, considering its portfolio restructuring mostly complete. VOD will cut dividend 50% to E4.5c into FY March 25 but supplement with E4bn buyback over an effective 2-year period (E2bn post Spain due to close anytime, E2bn post Italy est Q1 2025) with a new leverage framework of 2.25-2.75x. Vodafone will pay its final dividend for FY2024 of E4.5c with all guidance reiterated.

## Management reshuffle

VOD's head of UK will move to head Europe. But Philippe Rogge will step down as CEO of Germany after c2 years, perhaps reflecting the poor execution on the region.

## New Vodafone

We had forecast a 45% cut with E3bn buyback in our recent research (see here: [Vodafone Group: Dividend outlook: rebase, but with 'substitute' buyback 29 February 2024](#)) so this is close, with mid-term proforma cash flows post Spain, Italy and with the expected merger of the UK 35-40%. So a 50% divi cut ensures coverage at peak dilution as the UK absorbs initial restructuring costs. Then there is room to grow, potentially supported by the buyback that also enables shareholder e& to raise its stake.

The Italy deal does not look to be an optimum absolute price, nor was Spain. But this is arguably a good solution balancing regulatory risk and time to crystallise value. For instance a deal with Iliad could have faced significant regulatory delay, potential remedies and would have taken longer to realise synergies while being more complex as a potential JV, off balance sheet. The Swisscom sale is simple.

Germany remains a concern with more management change and faces a tough year with TV regulation, new housing association renegotiations and ongoing customer churn.

Maintain BUY, VOD now defined as scale UK, Germany, Africa. New profile a 5% annual divi plus 10% buyback year this year and next.

15 March 2024

## Equity

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## Stock Data

Price (Common / ADR)	66.09 GBp / 8.49 USD
Price Objective	122.00 GBp / 13.22 USD
Date Established	23-Jan-2024 / 29-Feb-2024
Investment Opinion	B-1-8 / B-1-8
52-Week Range	62.71 GBp-97.23 GBp
Market Value (mn)	17,896 GBP
Shares Outstanding (mn)	27,079.0 / 2,707.9
Average Daily Value (mn)	67.34 USD
Free Float	95.0%
BofA Ticker / Exchange	VODPF / LSE
BofA Ticker / Exchange	VOD / NAS
Bloomberg / Reuters	VOD LN / VOD.L
ROE (2024E)	2.8%
Net Dbt to Eqty (Mar-2023A)	84.8%
ESGMeter™	High

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**Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 15 March 2024 03:51AM EDT

## Price objective basis & risk

### Vodafone Group (VODPF / VOD)

Our 122p PO (US\$13.22 ADR) is based on a sum-of-the-parts analysis.

We value each of the European subsidiaries (where Vodafone discloses revenues, EBITDA and capex) via DCF and/or multiples. We apply multiples of 5.0-6.5x EBITDAaL for operations in Europe and 4.5-6.0x in emerging markets. In line with the remaining coverage, we apply a conglomerate discount of 10% for the group.

We include liabilities for future License spend and potential German capex network investment. We include assets for VOD's deferred tax asset.

Upside risks to our PO are:

1) Market consolidation leading to improved pricing power, 2) unexpected and positive macroeconomic changes, given VOD's diversified footprint.

Downside risks to our PO are:

1) Pressing needs to invest in cable operations in the face of fibre competition, 2) Ongoing dilutive ROCE in non-core regions, 3) unexpected and negative macroeconomic changes, given VOD's diversified footprint.

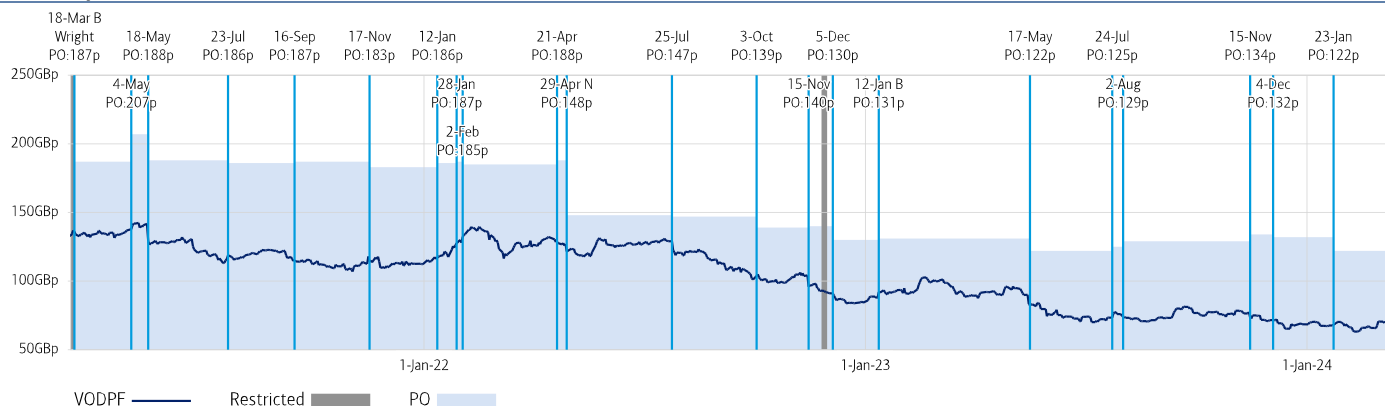
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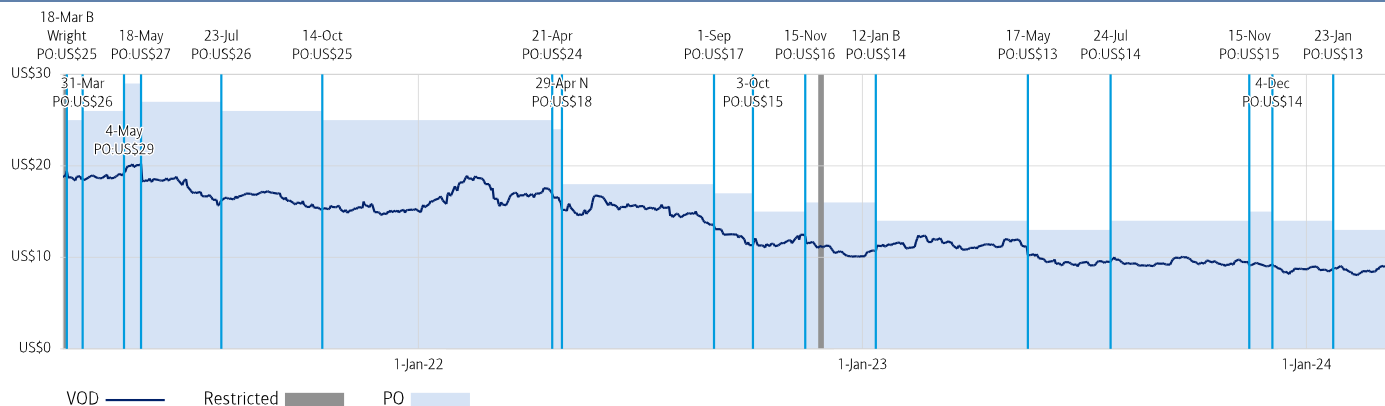
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### Vodafone Group (VODPF) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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